EGYÜTT. VELED

CONSOLIDATED ANNUAL REPORT

OF MAGYAR TELEKOM TELECOMMUNICATIONS PUBLIC LIMITED COMPANY

FOR THE YEAR ENDED DECEMBER 31, 2020

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CONSOLIDATED FINANCIAL STATEMENTS AND MANAGEMENT REPORT

OF MAGYAR TELEKOM TELECOMMUNICATIONS PUBLIC LIMITED COMPANY

FOR THE YEAR ENDED DECEMBER 31, 2020

INDEX TO THE CONSOLIDATED ANNUAL REPORT

CONSOLIDATED FINANCIAL STATEMENTS

OF MAGYAR TELEKOM TELECOMMUNICATIONS PUBLIC LIMITED COMPANY

FOR THE YEAR ENDED DECEMBER 31, 2020

PREPARED IN ACCORDANCE WITH

INTERNATIONAL FINANCIAL REPORTING STANDARDS

AS ENDORSED BY THE EUROPEAN UNION (EU IFRS) pwc

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Magyar Telekom Telecommunications Public Limited Company

Report on the audit of the consolidated financial statements

Opinion

We have audited the accompanying consolidated financial statements of Magyar Telekom Telecommunications Public Limited Company (the "Company") and its subsidiaries (together the "Group") which comprise the consolidated statements of financial position as at 31 December 2020 (in which the total of consolidated statements of financial position is MHUF 1 349 894), the consolidated statements of profit or loss and other comprehensive income (in which the total comprehensive income for the year is MHUF 55 314 profit), the consolidated statements of cash flows, the consolidated statements of changes in equity for the year then ended and the notes to the consolidated financial statements including a summary of the significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU and they have been prepared, in all material respects, in accordance with the supplementary requirements of Act C of 2000 on Accounting ("Accounting Act") relevant for the consolidated annual financial statements prepared in accordance with IFRS as adopted by the EU.

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

Basis for opinion

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

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

The non-audit services that we have provided to the Group, in the period from 1 January 2020 to 31 December 2020, are disclosed in note 21 to the consolidated financial statements.

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

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

Our audit approach

Overview

Overall group materiality	Materiality applied was MHUF 5 000, which is approximately 2.5% of the consolidated EBITDA AL (Earnings before Interest, Taxes, Depreciation and Amortization excluding the impact of the IFRS 16 related Depreciation, Amortization and Interest.)
Group Scoping	In addition to the parent company, Magyar Telekom Telecommunication Plc., we included two subsidiaries in our audit, Makedonski Telekom A.D. and T-Systems Magyarország Zrt., which are operating in Macedonia and Hungary respectively. These three companies represent 97% of the consolidated revenues and 97% of the consolidated EBITDA.
Key Audit Matters	• Goodwill impairment assessment • Accuracy of revenue recognition due to complex billing systems • Valuation of liabilities related to bonds issued

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

Materiality

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

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

Materiality	MHUF 5 000
Determination	Approximately 2.5% of the consolidated EBITDA AL
Rationale for the materiality benchmark applied	We chose the 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 Group. We chose 2.5%, which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.

Group audit scope

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

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

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

Key audit matters

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

Key audit matter	*How our audit addressed the key audit matter*
Goodwill impairment assessment As at 31 December 2020, goodwill relating to the Hungarian and Macedonian segments amounted to MHUF 192 938 and MHUF 20 199 respectively out of the total goodwill balance of MHUF 213 137. Impairment assessments involve significant estimates, as they are sensitive to the change in assumptions (in particular the input variables and long term growth rates, discount rates and assumptions underlying future operating cash flows).	We agreed the cash flow forecasts used in the impairment assessment to forecasts approved by the board of directors. We considered management's expectations in respect of material impacts of the external environment and planned operational improvements and whether these were appropriately reflected in the cash flow forecasts. We compared actual historical cash flow performance with previous forecasts and determined whether any differences fell within an acceptable range.

Management concluded that there was no need for impairment of goodwill. Details of the nature of the goodwill impairment assessment performed by management are given in notes 3.2 and 10.4 to the consolidated financial statements.	We independently calculated a weighted average cost of capital with reference to market data and compared the long term growth rate to market data. We assessed the sufficiency of the sensitivity analysis performed by management and performed further sensitivity analysis, primarily focusing on changes in operating cash flows. We read notes 3.2 and 10.4 of the consolidated financial statements in order to assess whether they are in line with the requirements of IAS 1 and IAS 36.
Accuracy of revenue recognition due to complex billing systems The accuracy of revenues recorded is an inherent industry risk. This is because telecommunication billing systems are complex and process large volumes of data with a combination of different products sold and price changes during the year, through a number of different systems. Total revenue of the Group was MHUF 673 048. Detailed disclosures and related accounting policies are in notes 3.4 and 18 of the consolidated financial statements.	We evaluated the relevant IT systems and the design of controls, and tested the operating effectiveness of controls over the: • Capturing and recording of revenue transactions; • Authorization of price changes and the input of those to the billing systems; • Calculation of amounts billed to the customers; and • Monitoring of assumptions and judgements related to contract assets, contract costs, and contract liabilities. We also tested a sample of items from the customer billing systems to the invoices raised and checked these to the cash received from the customers. Our testing included customer bills for consumers and corporate customers. We also utilized computer assisted auditing technique to gain comfort over the accuracy of the revenue transactions. We performed detailed testing by recalculating the contract assets, contract costs, and contract liabilities on a portfolio basis as at 31 December 2020.

Valuation of liabilities related to bonds issued

As at 31 December 2020, liabilities related to bonds amounted to a balance of MHUF 67 904.

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

As a result, in the current year liabilities related to bonds increased by MHUF 67 904 due to the issuance of bonds under the BGS. These are recognised as financial liabilities measured at amortised cost at the original effective interest rate, computed based on the bond proceeds, costs of issuance, coupon payments, redemption value and the market price of the bonds.

Due to the magnitude of the bond issuance by the Company and the change in its financing structure we have identified a key audit matter with respect to the calculation of the carrying value of the bonds.

Detailed disclosures and related accounting policies are in notes 4.4.2, 4.5.1.2 and 15 of the consolidated financial statements.

We agreed bond proceeds, issuance costs, coupon rate and redemption amounts to underlying documents.

We benchmarked the prices offered for bonds to available market prices of similar instruments.

We recalculated the effective interest rate and the carrying value of the bonds using the key inputs outlined above per the underlying documents.

We assessed the appropriateness of the accounting treatment applied for bonds including the recognition at amortised cost in line with IFRS 9 requirements.

We read the disclosures in respect to these liabilities included in the notes to the consolidated financial statements.

Other information: the consolidated business report

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

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

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

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

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

In our opinion, the 2020 consolidated business report of the Group, also including the information prepared under Paragraphs e) and f) of Subsection (2) of Section 95/B of the Accounting Act, is consistent with the 2020 consolidated financial statements in all material respects, and the consolidated business report has been prepared in accordance with the provisions of the Accounting Act. As there is no other regulation prescribing further requirements for the consolidated business report, we do not express an opinion in this respect.

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting in the consolidated financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that gives a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on other legal and regulatory requirements

We were first appointed as auditors of the Group on 31 December 1991. Our appointment has been renewed annually by shareholder resolutions representing a total period of uninterrupted engagement appointment of 29 years.

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

Budapest, 9 March 2021

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

Szilvia Szabados
Statutory auditor
Licence number: 005314

Note:

Our report has been prepared in Hungarian and in English. In all matters of interpretation of information, views or opinions, the Hungarian version of our report takes precedence over the English version.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION - ASSETS

(in HUF millions)	Note	At December 31, 2019	At December 31, 2020
ASSETS			
Current assets			
Cash and cash equivalents	4.2.1	13,398	14,689
Trade receivables	4.2.2, 18	170,503	158,857
Other assets	12.1	6,437	6,022
Other current financial assets	4.2.3.1	8,996	42,487
Contract assets	18.4	16,306	16,878
Current income tax receivable	6.1	434	473
Inventories	7	19,833	18,395
		235,907	257,801
Assets held for sale	8	659	489
Total current assets		236,566	258,290
Non-current assets			
Property, plant and equipment	9	426,826	432,436
Right-of-use assets	9, 17	106,682	121,335
Intangible assets	10	425,821	498,817
Investments in associates and joint ventures	11	1,078	–
Deferred tax assets	6.3.2	103	118
Trade receivables over one year	4.2.3.3	17,448	18,566
Other non-current financial assets	4.2.3.2 18	5,593	10,614
Contract assets	18.4	3,800	3,923
Other non-current assets	12.2	4,953	5,795
Total non-current assets		992,304	1,091,604
Total assets		1,228,870	1,349,894

Budapest, February 25, 2021

Tibor Rékasi
Chief Executive Officer, Board member

Daria Aleksandrovna Dodonova
Chief Financial Officer, Board member

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION – LIABILITIES & EQUITY

(in HUF millions)	Note	At December 31, 2019	At December 31, 2020
Current liabilities			
Financial liabilities to related parties	4.4.1	80,493	98,350
Lease liabilities	17	17,355	20,712
Trade payables	4.4.4	155,048	148,326
Other financial liabilities	4.4.3	8,633	12,204
Current income tax payable	6.1	844	432
Provisions	13	4,755	3,603
Contract liabilities	18.4	11,167	10,998
Other current liabilities	14	23,283	22,198
Total current liabilities		301,578	316,823
Non-current liabilities			
Financial liabilities to related parties	4.4.1	129,823	89,456
Lease liabilities	17	94,642	111,820
Bonds	4.4.2	-	67,904
Other financial liabilities	4.4.3	40,805	74,163
Deferred tax liabilities	6.3	19,030	18,621
Provisions	13	10,446	10,109
Contract liabilities	18.4	383	361
Other non-current liabilities	15	9	2,910
Total non-current liabilities		295,138	375,344
Total liabilities		596,716	692,167
EQUITY			
Common stock		104,275	104,275
Capital reserves		27,379	27,379
Treasury stock		(3,991)	(9,209)
Retained earnings		444,278	465,787
Accumulated other comprehensive income		25,047	30,452
Total Equity of the owners of the parent		596,988	618,684
Non-controlling interests	16	35,166	39,043
Total equity		632,154	657,727
Total liabilities and equity		1,228,870	1,349,894

Budapest, February 25, 2021

Tibor Rékasi
Chief Executive Officer, Board member

Daria Aleksandrovna Dodonova
Chief Financial Officer, Board member

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

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	For the year ended December 31, 2019	2020
		(in HUF millions, except per share amounts)	
Revenues	**18**	**666,653**	**673,048**
Direct costs	19	(292,412)	(297,488)
Employee-related expenses	20	(80,192)	(79,004)
Depreciation and amortization	9, 10	(137,382)	(141,058)
Other operating expenses	21	(81,041)	(76,516)
Operating expenses		**(591,027)**	**(594,066)**
Other operating income	22	7,554	5,842
Operating profit		**83,180**	**84,824**
Interest income	23	377	676
Interest expense	24	(14,291)	(11,319)
Other finance expense - net	25	(10,211)	(13,203)
Net financial result		**(24,125)**	**(23,846)**
Share of associates' and joint ventures' net profit	11	90	(66)
Profit before income tax		**59,145**	**60,912**
Income tax	6.2	(14,633)	(14,595)
Profit for the year		**44,512**	**46,317**
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		2,293	8,947
Items that will not be reclassified to profit or loss:			
Revaluation of financial assets at FV OCI		137	50
Other comprehensive income for the year, net of tax		**2,430**	**8,997**
Total comprehensive income for the year		**46,942**	**55,314**
Profit attributable to:			
Owners of the parent		41,157	42,364
Non-controlling interests		3,355	3,953
		44,512	**46,317**

	Note	For the year ended December 31, 2019	2020
		(in HUF millions, except per share amounts)	
Total comprehensive income attributable to:			
Owners of the parent		42,554	47,769
Non-controlling interests		4,388	7,545
		46,942	55,314
Earnings per share (EPS) information:	27		
Profit attributable to the owners of the Company		41,157	42,364
Weighted average number of common stock outstanding used for basic/diluted EPS		1,033,906,195	1,027,117,481
Basic/diluted earnings per share (HUF)		39.81	41.25

Budapest, February 25, 2021

Tibor Rékasi
Chief Executive Officer, Board member

Daria Aleksandrovna Dodonova
Chief Financial Officer, Board member

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Note	2019	2020
		For the year ended December 31, (in HUF millions)	
Cash flows from operating activities			
Profit for the year		44,512	46,317
Depreciation and amortization		137,382	141,058
Income tax expense		14,633	14,595
Net financial result		24,125	23,846
Share of associates' and joint ventures' result		(90)	66
Change in assets carried as working capital		(392)	10,535
Change in provisions		150	(536)
Change in liabilities carried as working capital		(20,107)	(13,627)
Income tax paid		(12,560)	(12,700)
Dividend received		442	52
Interest and other financial charges paid		(22,931)	(19,913)
Interest received		353	283
Other non-cash items		(3,149)	(4,021)
Net cash generated from operating activities		**162,368**	**185,955**
Cash flows from investing activities			
Purchase of property plant and equipment (PPE) and intangible assets	28	(97,657)	(153,113)
Purchase of subsidiaries and business units	29	(1,447)	(567)
Cash acquired through business combinations		-	-
Proceeds from other financial assets		6,577	459
Payments for other financial assets		(1,761)	(2,992)
Proceeds from disposal of PPE and intangible assets		9,352	7,843
Proceeds from disposal of subsidiaries and business units		-	268
Payments for interests in associates and joint ventures		-	-
Net cash used in investing activities		**(84,936)**	**(148,102)**
Cash flows from financing activities			
Dividends paid to Owners of the parent and Non-controlling interest		(29,725)	(24,516)
Proceeds from loans and other borrowings	4.4.3.2	182,315	216,127
Repayment of loans and other borrowings	4.4.3.2	(205,466)	(269,716)
Proceeds from bonds		-	70,834
Repayment of lease and other financial liabilities	4.4.3.3	(18,560)	(25,114)
Treasury share purchase		-	(5,218)
Net cash used in financing activities		**(71,436)**	**(37,603)**
Exchange differences on cash and cash equivalents		198	1,041
Change in cash and cash equivalents		**6,194**	**1,291**
Cash and cash equivalents, beginning of year		7,204	13,398
Cash and cash equivalents, end of year	4.2.1	**13,398**	**14,689**

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	pieces	In HUF millions									
			Capital reserves				Accumulated Other Comprehensive Income				
	Shares of common stock (a)	Common stock (a)	Additional paid in capital (b)	Reserve for equity settled share based transactions (c)	Treasury stock (d)	Retained earnings (e)	Cumulative translation adjustment (f)	Revaluation reserve for financial assets at FV OCI – net of tax (g)	Equity of the owners of the parent	Non-controlling interests (h)	Total Equity
Balance at January 1, 2019	1,042,742,543	104,275	27,379	(116)	(3,991)	429,294	23,547	103	580,491	34,441	614,932
Adoption of new standards (IFRS 16) (l)	–	–	–	–	–	12	–	–	12	–	12
Revised balance at January 1, 2019	1,042,742,543	104,275	27,379	(116)	(3,991)	429,306	23,547	103	580,503	34,441	614,944
Dividend declared to Owners of the parent(i)	–	–	–	–	–	(26,069)	–	–	(26,069)	–	(26,069)
Dividend declared to Non-controlling interests (j)	–	–	–	–	–	–	–	–	–	(3,663)	(3,663)
Treasury share purchase (k)	–	–	–	–	–	–	–	–	–	–	–
Transactions with owners in their capacity as owners	–	–	–	–	–	(26,069)	–	–	(26,069)	(3,663)	(29,732)
Other comprehensive income	–	–	–	–	–	–	1,316	81	1,397	1,033	2,430
Profit or loss	–	–	–	–	–	41,157	–	–	41,157	3,355	44,512
Total comprehensive Income	–	–	–	–	–	41,157	1,316	81	42,554	4,388	46,942
Transfer to retained earnings (c)	–	–	–	116	–	(116)	–	–	–	–	–
Balance at December 31, 2019	1,042,742,543	104,275	27,379	–	(3,991)	444,278	24,863	184	596,988	35,166	632,154
Dividend declared to Owners of the parent(i)	–	–	–	–	–	(20,855)	–	–	(20,855)	–	(20,855)
Dividend declared to Non-controlling interests (j)	–	–	–	–	–	–	–	–	–	(3,668)	(3,668)
Treasury share purchase (k)	–	–	–	–	(5,218)	–	–	–	(5,218)	–	(5,218)
Transactions with owners in their capacity as owners	–	–	–	–	(5,218)	(20,855)	–	–	(26,073)	(3,668)	(29,741)
Other comprehensive income	–	–	–	–	–	–	5,379	26	5,405	3,592	8,997
Profit or loss	–	–	–	–	–	42,364	–	–	42,364	3,953	46,317
Total comprehensive Income	–	–	–	–	–	42,364	5,379	26	47,769	7,545	55,314
Balance at December 31, 2020	1,042,742,543	104,275	27,379	–	(9,209)	465,787	30,242	210	618,684	39,043	657,727
Of which treasury stock	(21,982,747)										
Shares of common stock outstanding at December 31, 2020	1,020,759,796										

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

NOTES TO THE CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(a) The total amount of issued shares of common stock of 1,042,742,543 (each with nominal value of HUF 100) is fully paid as at December 31, 2020. The number of authorized ordinary shares on December 31, 2020 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 Association, which shall require at least a three-quarters majority of the votes cast. There is no limitation on the rights of non-resident or foreign shareholders to hold or exercise voting rights on the ordinary shares. There is no limitation of voting rights for ordinary shares in the Articles of Association. The Company has no shares assigned with special management rights.

Transfer of Shares

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

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

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

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

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

(e) Retained earnings include the accumulated and undistributed profit of the Group. The distributable reserves of the Company under Hungarian law (Section 5 (b) 114/B of Act C of 2000 on Accounting relating to untied retained earnings available for the payment of dividends) at December 31, 2020 amounted to approximately HUF 484 billion (HUF 464 billion at December 31, 2019).

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

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

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

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

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

(k) The Company repurchased own shares for a total value of HUF 5.2 billion through a share buyback auction on June 25 for the purpose of shareholders' remuneration as approved by the Company's Board of Directors on April 24, 2020. The Company concluded repurchase transactions for 13,146,399 Magyar Telekom ordinary shares at an average price of HUF 396.59 per share. Following execution of the transactions, Magyar Telekom holds 21,982,747 treasury shares.

(l) As of January 1, 2019 the Group adopted IFRS 16.

Together with the approval of these financial statements for issue, the Board of Directors of the Company proposes a dividend distribution in total of HUF 15,311 million to be approved by the Annual General Meeting of the Company in April 2021. In 2020 due to the situation caused by the coronavirus pandemic (COVID-19) the Board of Directors of the Magyar Telekom approved HUF 20,855 million dividend based on the authorization set out in Section 9 (2) of Government Decree no. 102/2020. (IV. 10.).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

1.1 About the Company

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

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

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

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

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

The Company's Board of Directors (the Board) accepted the submission of these consolidated financial statements of the Company on February 25, 2021 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)

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

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

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

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

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

1.2 Composition of the Group

At December 31, 2019 and 2020 the major operating subsidiaries of the Group were as follows:

Subsidiaries	Group interest in capital as at December 31, 2019	Group interest in capital as at December 31, 2020	Activity
Incorporated in Hungary:			
T-Systems Magyarország Zrt., Budapest	100.00%	100.00%	System integration and IT services
KalászNet Kft., Budapest	100.00%	100.00%	Telecom service provider
Telekom New Media Zrt., Budapest	100.00%	100.00%	Interactive service provider of telecommunications applications
Incorporated in North Macedonia:			
Makedonski Telekom A.D., Skopje (MKT)	56.67%	56.67%	Telecom service provider
Incorporated in Romania:			
Combridge S.R.L., Bucharest	100.00%	100.00%	Wholesale telecom service provider
Incorporated in Bulgaria:			
Novatel EOOD, Sofia	100.00%	100.00%	Wholesale telecom service provider

At December 31, 2019 the major operating joint venture of the Group was the following:

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

The Company lost the joint control and significant influence over it's joint venture E2 Hungary Zrt. in February 2020. See details in Note 11.3.

The Group's interest in the capital of the above subsidiaries equals the voting rights therein. There is no significant entity in the Group that is not controlled even though more than half of the voting rights are held. There is one structured entity Employee Share Ownership Program (ESOP) in the Group which is under voluntary liquidation.

All subsidiary undertakings are included in the consolidation.

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements of Magyar Telekom have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU). All standards and interpretations endorsed by the EU effective as at December 31, 2020 and applicable to Magyar Telekom had been adopted. These consolidated financial statements also comply with the Hungarian Accounting Act on consolidated financial statements, which refers to the IFRS as endorsed by the EU.

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

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

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

The table below summarizes the Standards amended and the subject of the amendments effective on or after January 1, 2020 that could have an impact on Magyar Telekom's accounting policies.

Pronouncement	Title	Applied by Magyar Telekom from	Changes	Impact on the presentation of Magyar Telekom's results of operations and financial position
Amendments to References to the Conceptual Framework	References to the Conceptual Framework	Jan 1, 2020	Updating of the cross references to the revised conceptual framework in the corresponding standards and interpretations.	No material impact.
Amendments to IAS 1 and IAS 8	Definition of Material	Jan 1, 2020	Clarification of the definition of the concept of materiality.	No material impact.
Amendments to IFRS 9, IAS 39, and IFRS 7	Interest Rate Benchmark Reform	Jan 1, 2020	Practical expedients for hedge accounting requirements that are mandatory for all hedges affected by the interest rate benchmark reform.	No material impact.
Amendments to IFRS 3	Business Combinations	Jan 1, 2020	Changes in the definition of a business to clarify whether a business or a group of assets was being acquired.	No material impact.
Amendments to IFRS 16	Leases, COVID 19 -related Rent Concessions	June 1, 2020	Practical expedients for lessees not to account revised considerations as a direct consequence of COVID-19 pandemic as lease modifications.	No material impact. See further information in the following paragraph following this table.

The amendment permits lessees, as a practical expedient, not to assess whether particular rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and instead to account for those rent concessions as if they are not lease modifications. Magyar Telekom does not apply this practical expedient of IFRS 16.

2.1.2 Standards, amendments and interpretations that are not yet effective as of December 31, 2020 and have not been adopted early by the Group and other expected changes for 2021

Pronouncement	Title	To be applied by Magyar Telekom from	Changes	Expected impact on the presentation of Magyar Telekom's results of operations and financial position
Standards endorsed by the EU				
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform – Phase 2	Jan 1,2021	Modification of financial assets, financial liabilities and lease liabilities, specific hedge accounting requirements, and disclosure requirements applying IFRS 7 to accompany the amendments regarding modifications and hedge accounting.	No material impact is expected.
Amendments to IFRS 4	Insurance Contracts – deferral of IFRS 9	Jan 1, 2021	Temporary exemption that permits insurer companies to apply IAS 39 rather than IFRS 9 for annual periods beginning before January 1, 2023.	No impact is expected.
Standards not yet endorsed by the EU*				
Amendments to IAS 1	Presentation of Financial Statements	Jan 1, 2023	Classification of Liabilities as Current or Non-current and Deferral of Effective Date	No material impact is expected.
Amendments to IFRS 3; IAS 16; IAS 37 and Annual Improvements 2018-2020	Business Combinations; Property, Plant and Equipment; Provisions; Contingent Liabilities and Contingent Assets	Jan 1, 2022	Package of narrow-scope amendments to three Standards as well as the Board's Annual Improvements, which are changes that clarify the wording or correct minor consequences, oversights or conflicts between requirements in the Standards.	No material impact is expected.
IFRS 17	Insurance Contracts	Jan 1, 2023	IFRS 17 governs the accounting for insurance contracts and replaces IFRS 4.	No material impact is expected.

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

Other expected changes for 2021:

The reform of interbank offered rates (IBORs) is currently generating uncertainty regarding the timing of implementation and the precise content of the planned changes. Magyar Telekom is affected by this uncertainty in its hedging of interest rate and currency risks in designated cash flow hedges where EURIBOR is part of the hedging relationship.The Group continuously analyzes the latest developments and takes any steps needed to transition to the new interest rate benchmarks. It is not expected that these changes in the benchmark rates will have a material impact.

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

The economic environment in 2020, was drastically impacted globally by the outbreak of the COVID-19 pandemic.

The telecommunication industry has always shown relative resilience to economic downturns. During 2020, this tendency has been even more pronounced as telecommunication services played a critical role in keeping businesses and families connected in times of lockdowns and with the spread of social distancing measures.

On the other side, the roaming and visitor revenue declined due to the underperformance of tourism and related sectors. Nevertlheless, looking at the Company performance the total revenue slightly increased in 2020, driven primarily by the growth in telecommunication services. This change resulted in the increase in the direct cost also.

The SI/IT revenues sharply declined in 2020 due to the uncertainty and lower demand in the Hungarian public and corporate sector driven by changing customer needs as a result of the COVID-19 pandemic situation.
Despite these negative effects the gross profit increased in 2020.
For more detailed analysis please see the quarterly reports and the annual Business report.
https://www.telekom.hu/about_us/investor_relations/financial

At the same time, this pandemic situation accelerated several ongoing developments, such as the need for digitalization, demand for data and the use of online, virtual channels and caused possible change in the positioning, role, and developments of the global telecommunication industry.

To reflect to these changes and to ensure the reliability and security of our networks, we continue to invest in our infrastructure. The rollout of our fiber network remained a key priority and we dedicated significant amount of capital expenditures to the expansion of our network during 2020. Since acquiring spectrum licenses related to 5G and mobile broadband services, we commenced commercial 5G services in early April and intend to steadily expand our coverage over the coming months.

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

2.2 Consolidation

2.2.1 Subsidiaries

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

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

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

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

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

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

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

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

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

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

There is one structured entity (ESOP organization) in the Group which is under liquidation.

2.3 Foreign currency translation

2.3.1 Functional and presentation currency

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

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

2.3.2 Transactions and balances

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

2.3.3 Group companies

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

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

3.1 Useful lives of assets

The determination of the useful lives of assets is based on historical experience with similar assets as well as any anticipated technological development and changes in broad economic or industry factors. The appropriateness of the estimated useful lives is reviewed annually, or whenever there is an indication of significant changes in the underlying assumptions. Management believes that this is a critical accounting estimate since it involves assumptions about technological development in an innovative industry and heavily dependent on the investment plans of the Group. Further, due to the significant weight of depreciable assets in our total assets, the impact of any changes in these assumptions can be material to our financial position, and results of operations. See Notes 9 and 10 for the changes made to useful lives in 2020.

The Group is constantly introducing a number of new services or platforms, among others the 5 G technology, in 2020. In the frame of announced group strategy, Magyar Telekom continues the acceleration of its fiber rollout, the modernization of its ED3 network, a migration to Gigabit capable networks and the retirement of its copper networks. In case of the introduction of such new services, the Group conducts a revision of useful lives of the already existing platforms, but in the vast majority of the cases these new services or assets are designed to co-exist with the existing platforms, not necessarily resulting in no change-over to the new technology. Consequently, the useful lives of the existing platforms usually do not require shortening.

3.2 Estimated impairment of goodwill

Goodwill is not amortized, but tested for impairment annually in the last quarter of the year and in the other quarters quicktests are executed. Due to COVID-19, during the preparation of our interim financial reports of 2020 the management updated its goodwill impairment test in every quarter byconsidering updated information on inputs like book values, foreign exchange rates, and weighted average cost of capital. Neverthelessno impairment needed to be recognized in 2020.

The recoverable amounts of the operating segments are calculated based on fair value less cost to sell determined by the discounted projected cash flows of the operating segments over the next ten years with a terminal value. This is highly judgmental, which carries the inherent risk of arriving at materially different recoverable amounts if estimates used in the calculations proved to be inappropriate. The Group has an implemented policy to make the impairment test based on a 10-year cash flow projection on reasonable and supportable assumptions that present the management's best estimate on market participants' assumptions and expectations. We use 10-year cash flow projections as the payback period of our investments in the telecommunications operations often exceeds five years.

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

Costs of certain central functions that are not cross charged are also considered in the fair value calculations when conducting the goodwill impairment tests. The costs of these central functions are allocated to the operating segments based on the segments' revenue share of the Group's total revenue. Goodwill is allocated to the operating segments of the Group: MT-Hungary and North Macedonia. In 2020 and 2019, no goodwill had to be impaired. Details of the carrying amounts of goodwill allocated to the segments are in Note 10.4.

The tables below show the WACCs and PGRs used in the fair value calculations of the Group's operating segments for the goodwill impairment test conducted in 2020 and 2019. The tables below also include sensitivity analyses that show how much impairment would have been recognized as at December 31, 2020 or 2019 for the goodwill allocated to the operating segments if we changed the sensitive parameters in the calculations.

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

2020	MT-Hungary	North Macedonia
WACC		
Used in the calculation............................	5.68%	4.75%
If changed to	9.68%	8.75%
Potential impairment (HUF million).......	41,909	-
PGR		
Used in the calculation............................	1.0%	1.0%
If changed to	(9.0%)	(9.0%)
Potential impairment (HUF million).......	23,476	-
Cash flow		
If changed by	(20%)	(20%)
Potential impairment (HUF million).......	-	-
If changed by	(44%)	(44%)
Potential impairment (HUF million).......	12,754	-

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

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

The table below shows what changes can be observed in the 10-year plans prepared in 2019 compared to those prepared in 2020.

	MT-Hungary	North Macedonia
Cumulative average growth rate of revenues during the 10 years compared to 2020............	0.5%	0.0%
Cumulative average growth rate of revenues during the 10 years compared to 2019............	0.4%	0.3%
Cumulative average growth rate of EBITDA during the 10 years compared to 2020............	0.6%	0.9%
Cumulative average growth rate of EBITDA during the 10 years compared to 2019............	1.0%	0.9%
Cumulative average growth rate of Capex during the 10 years compared to 2020............	(0.5%)	1.0%
Cumulative average growth rate of Capex during the 10 years compared to 2019............	(0.7%)	(0.8%)

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

3.3 Estimated impairment of trade and other receivables

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

Management paid particular attention to the solvency of customers due to COVID-19 and, as a result of such assessment, a higher bad debt expense was recognized in 2020 due to COVID-19 which was not material. However, based on experiences of last months and expectations taking into account the future COVID effects, the management concluded during the annual revision of bad debt ratios that there was no need to adjust the previously used bad debt ratios.

3.4 Contracts with customers

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

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

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

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

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

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

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

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

3.5 Annual fees of mobile licenses

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

In March, 2020 Magyar Telekom acquired frequency usage rights in 700 MHz, 2100 MHz, 3600 MHz spectrums for 5G services). The management considered that these annual fees can be reliably estimated, the present value of those are capitalized (in the amount of HUF 37.3 billion) as part of the cost of the license. For further information see Notes 4.4.3.1, 9.2, 28 and 34.2.

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

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

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

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

Magyar Telekom uses the lessee's incremental borrowing rate.

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

In 2020, the range of used discount rates is 2.87%-5.31% (3.57%-5.48% in 2019).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 borrowing rates weighted by the discounted lease liability.

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

4 FINANCIAL INSTRUMENTS

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

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

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

4.1 Financial assets – accounting policies

Group classifies its financial assets on the basis of both:

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

in the following categories:

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

For the purpose of the above classification:

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

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

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

4.1.1 Impairment of financial assets

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

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

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

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

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

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

- Simplified approach

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

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

- General approach

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

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

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

4.1.2 Financial assets measured at amortised cost

The following items are assigned to this category:

- cash and cash equivalents;

- deposits over three months;
- trade receivables;
- other receivables.

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

Cash and cash equivalents

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

Bank deposits with original maturities over 3 months

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

Trade receivables

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

4.2 Financial assets in the statement of financial position

4.2.1 Cash and cash equivalents

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

	At December 31, 2019	At December 31, 2020
Cash on hand	191	133
Cash in bank (demand deposits)	13,207	14,556
Bank deposits with original maturities less than 3 months	-	-
	13,398	14,689

Average interest rates	At December 31, 2019	At December 31, 2020
Cash on hand	0.00%	0.00%
Cash in bank (demand deposits)	0.09%	0.07%
Bank deposits with original maturities less than 3 months	0.00%	0.00%
Average interest rate	**0.09%**	**0.07%**

Cash and cash equivalents by currency	At December 31, 2019	At December 31, 2020
MKD	4,552	6,798
EUR	5,633	4,480
HUF	2,388	2,582
RON	579	655
USD	240	162
Other	6	12
	13,398	14,689

Cash and cash equivalents by country of location	At December 31, 2019	At December 31, 2020
North Macedonia	9,899	10,836
Hungary	2,866	3,082
Other countries	633	771
	13,398	14,689

4.2.2 Trade receivables

4.2.2.1 Trade receivables – carrying amounts

	At December 31, 2019	At December 31, 2020
Trade receivables from third parties	161,915	152,390
Trade receivables from Deutsche Telekom Group companies	8,110	6,465
Trade receivables from associates and joint ventures	478	2
Trade receivables	**170,503**	**158,857**

Age profile of Trade receivables

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

	Carrying amount as of Dec 31, 2020	of which not past due	of which past due by less than 30 days	30–60 days	61–90 days	91–180 days	181–360 days	over 360 days
Hungary	141,356	126,616	10,966	2,337	470	494	351	122
North Macedonia	16,117	12,788	1,801	377	112	216	255	568
Other countries	1,384	1,068	105	116	50	14	31	-
Total	**158,857**	**140,472**	**12,872**	**2,830**	**632**	**724**	**637**	**690**

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

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

4.2.2.2 Impairment losses of trade receivables and contract assets

The table below shows the impairment losses and changes of trade receivables therein for 2019 and 2020.

	At December 31, 2019	At December 31, 2020
Impairment loss, beginning of period	32,104	30,693
Charged to expense – net (included in Direct costs)	7,703	7,272
Translation difference	297	1,112
Utilized	(9,411)	(10,099)
Impairment loss, end of period	**30,693**	**28,978**

The table below shows the impairment losses and changes of contract assets therein for 2019 and 2020.

	At December 31, 2019	At December 31, 2020
Impairment loss, beginning of period	1,469	1,728
Charged to expense – net (included in Direct costs)	1,351	2,445
Translation difference	15	52
Utilized	(1,107)	(2,010)
Impairment loss, end of period	**1,728**	**2,215**

The table below includes the impairment losses and the changes therein in 2019 and 2020 for the countries of operation of the Group.

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

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

	At January 1, 2020	Charged to expense	Translation difference (and rounding)	Utilized (a)	At December 31, 2020
Hungary	20,870	8,734	5	(11,224)	18,385
North Macedonia	11,346	980	1,139	(876)	12,589
Other countries	205	3	20	(9)	219
Group	32,421	9,717	1,164	(12,109)	31,193

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

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

4.2.3 Other financial assets

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

4.2.3.1 Other current financial assets

		At December 31,	
		2019	2020
Cashpool receivables	(a)	3,563	19,768
Derivative financial instruments contracted with related parties	(b)	-	13,818
Receivables related to asset-related grants	(c)	3,870	4,794
Bank deposits with original maturities over 3 months	(d)	-	2,925
Finance lease receivable	(e)	460	315
Loans and receivables from employees	(f)	290	225
Other		813	642
Total		8,996	42,487

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

4.2.3.2 Other non-current financial assets

		At December 31,	
		2019	2020
Derivative financial instruments contracted with related parties	(b)	2,909	6,878
Equity instruments	(g)	711	2,032
Finance lease receivable	(e)	886	836
Employee loans and receivables from employees	(f)	739	562
Other		348	306
Total		5,593	10,614

(a) The aggregate balance of the cashpool is a receivable (HUF 19,768 million) as at December 31, 2020 which also included cashpool liabilities (HUF 266 million). The aggregate balance of the cashpool was a receivable (HUF 3,563 million) as at December 31, 2019 which also included cashpool liabilities (HUF 1,930 million).

December 31, 2020	Carrying amount	Borrower	Currency	Effective Interest rate	Fixed / floating
	14,480	DT AG	HUF	0.50%	floating
	5,554	DT AG	EUR	0.00%	floating
	(266)	DT AG	USD	0.34%	floating
Due within 1 year	19,768				

December 31, 2019	Carrying amount	Borrower	Currency	Effective Interest rate	Fixed / floating
	1,703	DT AG	HUF	0.00%	floating
	3,790	DT AG	EUR	0.00%	floating
	(1,930)	DT AG	USD	1.82%	floating
Due within 1 year	3,563				

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

(c) From 2016 to 2019 HUF 12.6 billion of EU funds have been granted to Magyar Telekom.The first and second rounds of a tender aimed the developing digital networks nationwide to cover households in Western and Eastern parts of Hungary with a fixed network capable of reaching a speed of at least 30 Mbps. The Company received HUF 6.8 billion grant related to EU fund in advancefrom which HUF 21 million has not been used yet. The Company accomplished a number of investments which complied with the condition of the related EU Funding Contracts. With respect to these completed investments the amount of the grant which has not been financially settled yet is presented as receivable. For those investments where the conditions have not been satisfied yet, the advances received are shown as part of Other current liabilities (Unused advance payments for asset related grants).

	2019	2020
Accumulated grant recognized in PPE..............................	10,284	11,599
Accumulated advance payments received (Note 14)..	6,823	6,826
Unused advance payments for asset-related grants (Note 14)	409	21
Receivables related to asset-related grants..................	3,870	4,794

(d) Bank deposits with original maturities over 3 months were deposited in North Macedonia predominantly in euro. They amounted to HUF 2,925 million as at December 31, 2020 (2019: HUF 0 million).
(e) See Note 17.2.1 for more information on Finance lease receivable.
(f) Employee loans and receivables from employees primarily represent the housing loans provided to the employees of the Group. There are no significant past due employee receivables, and the loans are pledged with mortgage. See also 4.1.2.
(g) In 2020 Equity instruments include investment in E2 Hungary Zrt. based on the agreement with MET Holding AG (see Note 11 for more information) as well as other insignificant investments in equity securities.

4.2.3.3 Trade receivables over one year

Trade receivables over one year include receivables from customers paying over one to two years in installments for telecommunications equipment sold. The impairment losses of trade receivables over one year amounted to HUF 1,378 million as at December 31, 2020 (2019: HUF 1,336 million).

4.3 Financial liabilities – accounting policies

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

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

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

4.3.1 Financial liabilities carried at amortized cost

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

Loans and other financial liabilities

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

Trade and other payables

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

Bonds

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

4.3.2 Financial liabilities at fair value through profit or loss

The Group currently has no intention of measuring non-derivative financial liabilities at fair value, therefore, only derivative financial instruments and call option of MET Holding AG are assigned to this category. However, contingent consideration recognized by the Group as acquirer in a business combination to which IFRS 3 applies will subsequently be measured at fair value through profit or loss. The Group does not apply hedge accounting, therefore all derivatives are measured at fair value through profit or loss.

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

4.4 Financial liabilities in the statement of financial position

4.4.1 Financial liabilities to related parties

Financial liabilities to related parties include HUF and EUR-denominated loans taken from DT Group. In addition, for the whole nominal amount and interest payment of loans denominated in EUR granted by Deutsche Telekom International Finance B.V. (DTIF) we have cross-currency interest rate swap agreements in place (with DT AG) so that Magyar Telekom's exposure in fact remains in HUF. The loans and the related swap agreements are accounted for and disclosed on a gross basis. For further information please see Note 32.1.1.

The tables below show the details of the financial liabilities towards Deutsche Telekom Group members as at December 31, 2019 and 2020.

December 31, 2020	Carrying amount	Lender	Currency	Effective Interest rate (%)	Fixed / floating	Maturity	Original Term
	47,473	DTIF	EUR	1.99	fixed	Jan 2021	6 years
	48,491	DTIF	EUR	1.60	fixed	July 2021	5 years
Due within 1 year	95,964						
Accrued interest	2,307						
Other financial liabilities	66						
Derivatives	13						
Total current	**98,350**						
	43,815	DT AG	EUR	0.41	floating	May 2024	5 years
	45,641	DT AG	EUR	0.58	floating	Jan 2025	5 years
Non current	89,456						
Derivatives	-						
Total non current	**89,456**						

As at December 31, 2020 current liabilities exceed current assets by HUF 58,859 million, primarily due to the short-term loan facilities received from DT AG that were taken to finance working capital and daily ongoing activities. Management believes that short-term liabilities from DT AG will be refinanced in a similar manner to previous years. Financing needs will also be covered by cash flows generated by operating activities and third party credit line facilities (see Note 5.1.3).

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

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

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

	At December 31,			
	2019		2020	
	Book value	Fair value	Book value	Fair value
HUF denominated loans				
At fixed rate	35,000	35,000	-	-
At floating rate	-	-	-	-
	35,000	35,000	-	-
EUR denominated loans				
At fixed rate	129,906	134,250	95,964	95,964
At floating rate	39,662	41,173	89,456	92,663
	169,568	175,423	185,420	188,627
USD denominated loans				
At fixed rate	-	-	-	-
At floating rate	-	-	-	-
	-	-	-	-
Accrued interest	3,221	3,221	2,307	2,307
Other financial liabilities	637	637	66	66
Derivatives	1,890	1,890	13	13
Total related-party financial liabilities	210,316	216,171	187,806	191,013

The weighted-average interest rate on related-party loans was 1.17% in 2020 (1.55% in 2019). Any decrease in market interest rates will result in an increase in the fair value of the fixed interest rate liabilities.

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

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

4.4.2 Bonds

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

In order to increase the liquidity of the corporate bond market, the MNB launched Scheme from July 1, 2019, supplementing its unconventional monetary policy tools and the fixed Growth Loan Program.
The proceeds of the bonds would be used to fund investments into the fixed and mobile network roll-out and modernization (including the acquisition of new frequencies).

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

The table below shows the main parameters:

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

* For further information please see Note 15

4.4.3 Other financial liabilities

4.4.3.1 Other financial liabilities - Balances

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

		At December 31,	
		2019	2020
Annual frequency fee payable	(a)	3,755	4,771
Debtor overpayment		1,324	1,309
Contingent consideration liabilities	(b)	124	177
Other		3,430	5,947
Total other financial liabilities – current		8,633	12,204

		At December 31,	
		2019	2020
Annual frequency fee payable	(a)	38,989	71,313
Contingent consideration liabilities	(b)	415	250
Other		1,401	2,600
Total other financial liabilities – non-current		40,805	74,163

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

(a) 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. In 2020 new frequency blocks were capitalized see also Notes 10.2 and 34.2.
(b) Contingent consideration liabilities are recognized by Magyar Telekom as the acquirer in a business combination to which IFRS 3 applies. They are measured at fair value through profit or loss.

4.4.3.2 Proceeds/repayments of loans and other borrowings

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

4.4.3.3 Additional disclosure about changes in liabilities arising from financing activities

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

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

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

Treasury share purchase	(5,218)
Dividends paid to Owners of the parent and Non-controlling interest..	(24,515)
Net cash used in financing activities	(37,603)

	Opening Balance at January 1, 2019	Effect of first application of IFRS 16	Changes in cash and cash equivalents	Changes affecting cash flows from operating activities	Changes in financial liabilities without cash movement	Changes affecting cash flows from investing activities	Changes affecting cash flows from financing activities: Proceeds from loans and borrowings	Repayment of loans and other borrowings	Repayment of other financial liabilities	Other	Closing Balance at December 31, 2019
Related-party loans	233,881	-	-	(11,219)	11,932	-	179,298	(205,466)	-	-	208,426
Derivatives from related parties	612	-	-	-	3,048	(1,770)	-	-	-	-	1,890
Frequency fee payable	46,115	-	-	(2,331)	2,359	-	-	-	(3,399)	-	42,744
Finance lease liabilities	3,826	103,388		(5,557)	23,024	-	-	-	(12,684)	-	111,997
Debtors overpayment	1,327	-	-	(3)	-	-	-	-	-	-	1,324
Contingent consideration	708	-	-	-	11	(180)	-	-	-	-	539
Other financial liabilities	5,171	-	-	109	2,028	-	-	-	(2,477)	-	4,831
-Less cash and cash equivalents	(7,204)	-	(6,194)	-	-	-	-	-	-	-	(13,398)
-Less other current financial assets	(11,631)	-	-	3,294	(7,151)	3,475	3,017	-	-	-	(8,996)
Net debt	**272,805**	**103,388**	**(6,194)**	**(15,707)**	**35,251**	**1,525**	**182,315**	**(205,466)**	**(18,560)**	**-**	**349,357**

Treasury share purchase	-
Dividends paid to Owners of the parent and Non-controlling interest	(29,725)
Net cash used in financing activities	**(71,436)**

4.4.4 Trade payables

	At December 31,	
	2019	2020
Payable to DT Group companies	12,060	11,032
Payable to associates and joint ventures	351	2
Other trade payables	142,637	137,292
Total	155,048	148,326

4.5 Additional disclosures on financial instruments

4.5.1 Financial assets and liabilities

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

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

The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. The significance of an input is assessed against the fair value measurement in its entirety.

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

Most of the financial assets and financial liabilities are measured at amortized cost, but fair value information is also provided for these. The fair values of these assets and liabilities were determined using Level 3 type information, except for bonds. The initial fair value of the MT2027 bond was calculated based on Level 2 information as the bonds did not have an active market. The discount rate was determined based on relevant BIRS rates and a margin estimation based on commercial bank offers during the auction.The fair value of financial instruments that are not traded on an active market is determined by using valuation techniques, mainly by applying the discounted cash flow method. The cash flow estimations are based on the relevant underlying contracts and the discount rates are calculated based on the interest rate benchmarks applicable for the relevant maturities and currencies (BUBOR, BIRS, EURIBOR, EUR IRS). Foreign exchange conversion is made based on central bank FX fixings (preferably that of the Central Bank of Hungary).

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

The following tables include the carrying amounts and fair values of the Group's financial assets and liabilities as at December 31, 2020 and 2019.

4.5.1.1 Financial assets – Carrying amounts and fair values

	Financial assets					
December 31, 2020	Amortized cost	FVOCI (Level 1)	FVTPL (Level 2)	FVTPL (Level 3)	Carrying amount	Fair value
Cash and cash equivalents	14,689	-	-	-	14,689	14,689
Bank deposits with original maturities over 3 months	2,925	-	-	-	2,925	2,925
Cashpool	19,768	-	-	-	19,768	19,768
Trade receivables	158,857	-	-	-	158,857	158,857
Trade receivables over 1 year	18,566	-	-	-	18,566	19,304
Loans and receivables from employees	784	-	-	-	784	829
Derivative financial instruments contracted with related parties	-	-	20,696	-	20,696	20,696
Finance lease receivable	1,151	-	-	-	1,151	1,041
Equity instruments	-	839	-	1,193	2,032	2,032
Other current receivables	5,439	-	-	-	5,439	5,439
Other non current receivables	306	-	-	-	306	281
Total	222,485	839	20,696	1,193	245,213	245,861

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

Loans and receivables are measured at amortized cost, while equity instruments and held-for-trading assets are measured at fair value. Fair value through profit or loss assets (Level 2) include derivatives the two classes of which are forward deals (HUF 545 million) and cross currency and interest rate swaps (HUF 20,151 million). The fair values of those instruments are based on a discounted cash flow method.The calculation is prepared by Magyar Telekom Plc. based on money market interest rate curves, basis swap points and spot FX rates from Reuters database published on the last working day of the reporting period. The present value of the expected future cash flows is discounted to the reporting date using money market interest rates and basis swap points in the specific currency from Reuters and exchanged to HUF using the spot FX rate. The difference between the HUF present value of the payable and receivable is accounted for as assets or liabilities.

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

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

4.5.1.2 Financial liabilities – Carrying amounts and fair values

December 31, 2020	Carrying amount			Total	Fair value
	Measured at amortized cost	FVTPL (Level 2)	FVTPL (Level 3)		
Financial liabilities to related parties	187,793	13	-	187,806	191,013
Trade payables	148,326	-	-	148,326	148,326
Frequency fee payable	76,084	-	-	76,084	85,202
Bonds	67,904	-	-	67,904	68,053
Lease liabilities	132,532	-	-	132,532	140,320
Debtors' overpayment	1,309	-	-	1,309	1,309
Contingent consideration liabilities	-	-	427	427	427
Other current liabilities	5,947	-	-	5,947	5,947
Other non-current liabilities	2,470	-	130	2,600	2,633
Total	622,365	13	557	622,935	643,230

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

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

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

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

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

	2019	2020
Opening balance at January 1	**708**	**539**
Increase arising on business combinations	-	-
Increase arising on asset deals	-	-
Increase arising on call option	-	139
(Gains) or losses for the period on remeasurement	-	-
- recognized in profit or loss (net financial result)	11	(1)
- recognized in other comprehensive income	-	-
Payment	(180)	(120)
Closing balance at December 31	**539**	**557**

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

The tables below include income, expense, gains and losses arising on financial instruments in 2020 and 2019.

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

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

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

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

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

4.5.3 Offsetting financial assets and financial liabilities

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

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

	At December 31, 2019		At December 31, 2020	
	Trade receivables	Trade payables	Trade receivables	Trade payables
Gross amounts of recognized financial instruments	172,767	157,312	159,876	149,345
Gross amounts of financial instruments set off	(2,264)	(2,264)	(1,019)	(1,019)
Net amounts of recognized financial instruments presented in the statement of financial position	**170, 503**	**155,048**	**158,857**	**148,326**

4.5.4 Other disclosures about financial instruments

Magyar Telekom is also exposed to risks that arise from the possible drawdown of guarantees that in aggregation amounted to a nominal amount of HUF 14.8 billion as at December 31, 2020 (2019: HUF 14.7 billion excluding the expired guarantees for spectrum tender related to 5G and mobile broadband services as the auction was successfully completed in 2020). In 2020, Magyar Telekom was registered as a participant by National Media and Infocommunications Authority for the auction procedure for the entitlements of frequency use of the 900 MHz and 1800 MHz frequency bands, 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 Group's certain contractual or tender related obligations. To date, the Group has been delivering on its contractual obligations and expects to continue doing so in thefuture. Consequently, there has been no significant drawdown of the guarantees in 2020 or 2019, and this is expected to continue being the case going forward.

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

The Company lost its joint control and significant influence over E2 Hungary Zrt. based on the agreement with MET Holding AG. Following the agreement investment in E2 Hungary Zrt. is disclosed in Other non-current financial assets.

There were no other financial assets or liabilities, which were reclassified into another financial instrument category. No financial assets were transferred in such a way that part or all of the financial assets did not qualify for derecognition. The Group does not have compound financial instruments with multiple embedded derivatives.

5 FINANCIAL RISK MANAGEMENT

5.1 Financial risk factors

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

Financial risk management aims to limit these risks through ongoing operational and finance activities. Selected derivative and non-derivative hedging instruments are also used for this purpose, depending on the risk assessment. Magyar Telekom only hedges the risks that affect the Group's cash flows, no hedges are concluded to hedge fair values. Derivatives are exclusively used as hedging instruments, i.e., not for trading or other speculative purposes. To reduce the counterparty risk, 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 tax legislations. The potential impacts disclosed (less tax) would be the same on the Group's Equity.

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

5.1.1 Market risk

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

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

The fundamentals of Magyar Telekom's financing strategy are established each year by the Board of Directors. The Group's policy is to borrow centrally using a balanced combination of medium-term and short-term loans and bonds, and fixed and floating interest rates on those liabilities.The Board of Directors has approved two debt protection ratio KPIs, and monitors their fulfillment annually. At the end of 2020 Magyar Telekom fulfilled both criteria; Total Debt to EBITDA ratio of 2.10 in 2020 (2019: 1.69), while the allowed maximum can be 2.8 and EBITDA to Net financial result ratio of 9.47 in 2020, (2019: 9.14), while the allowed minimum can be 3.0. The Group's Treasury is responsible for implementing the finance policy and for ongoing risk management. The details of foreign exchange, liquidity and counterparty risk management guidelines are determined and monitored by the Group's Treasury continuously.

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

For the presentation of market risks, we also provided sensitivity analyses that show the effects of hypothetical changes of relevant risk variables on Profit before tax. These hypothetical changes were modeled to present a reasonably possible change in the relevant risk variables. The periodic effects are determined by relating the hypothetical changes in the risk variables to the balance of financial instruments at the end of the latest reporting period (2020) and the preceding reporting period (2019). The balances at the end of the reporting period are usually representative for the year as a whole; therefore the impacts are calculated using the year end balances. The methods and assumptions used in the sensitivity calculations did not change significantly compared to the previous period. As a result of the still rather volatile international capital and securities markets, higher fluctuations of the FX and interest rates are also possible.

5.1.1.1 Foreign currency risk

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

The depreciation of the Hungarian forint continued in 2020 but compared to the previous years to a higher extent. In 2018 and 2019 the forint was fluctuating in a 7-8% range against the EUR in 2020 this range widened to approx. 12%.

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

FX risks arising on loans and related swaps with DT AG

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

Sensitivity analysis

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

	Profit or loss	
	Strengthening	Weakening
At December 31, 2020		
EUR/HUF (15% movement)		
Loan	(27,813)	27,813
Swap agreements	28,747	(28,747)
Net effect	**934**	**(934)**
At December 31, 2019		
EUR/HUF (10% movement)		
Loan	(16,957)	16,957
Swap agreements	17,550	(17,550)
Net effect	**593**	**(593)**

Other FX exposure

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

In order to reduce the above exposure, Magyar Telekom occasionally enters into derivative contracts. The positive fair value of the related open short-term forward positions was HUF 0.5 billion asset as of December 31, 2020 (2019: HUF 0.3 billion liability). These positions were opened to hedge the FX risks of future FX payments exceeding FX income.

Sensitivity analysis

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

	Profit or loss	
	Strengthening	Weakening
At December 31, 2020		
EUR/HUF (15% movement)		
Net balance of FX denominated trade payables and trade receivables plus bank balances	(4,325)	4,325
Related forward agreements	3,173	(3,173)
Net effect	**(1,152)**	**1,152**
USD/HUF (15% movement)		
Net balance of FX denominated trade payables and trade receivables plus bank balances	(148)	148
Related forward agreements	1,978	(1,978)
Net effect	**1,830**	**(1,830)**
EUR/MKD (15% movement)		
Net balance of FX denominated trade payables and trade receivables plus bank balances	47	(47)
Related forward agreements	-	-
Net effect	**47**	**(47)**
USD/MKD (15% movement)		
Net balance of FX denominated trade payables and trade receivables plus bank balances	(9)	9
Related forward agreements	-	-
Net effect	**(9)**	**9**

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

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

5.1.1.2 Interest rate risk

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

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

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

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

Financial assets

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

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

Financial liabilities

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

As the vast majority of the debt portfolio is denominated in HUF, or swap agreements are in place so that the loans payable are exposed to changes in HUF interest rates, the Group is mostly exposed to the HUF interest rate fluctuations for its financial liabilities. To control this interest rate risk, a combination of fixed and floating rate debt is used. Fixed interest-bearing debts (including loans swapped to fixed interest and excluding loans swapped to floating interest) made up 99.9% of the Group's total debt as of December 31, 2020 (2019: 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 0.1% of the Group's total debt as of December 31, 2020 (2019: 1%).

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

	Profit or loss	
	100 bp increase	100 bp decrease
At December 31, 2020		
Floating rate instrument	(897)	897
IR swap	895	(895)
Cash flow sensitivity (net)	(2)	2
At December 31, 2019		
Floating rate instrument	(416)	416
IR swap	397	(397)
Cash flow sensitivity (net)	(19)	19

5.1.2 Credit risk

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

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

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

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

Cash and cash equivalents and Bank deposits with maturities over three months held in North Macedonia are primarily denominated in MKD and EUR. Cash and cash equivalents and Bank deposits with maturities over three months deposited in North Macedonia run higher counterparty risk, due to the small amount of internationally substantial financial institutions in that country. In this way we diversify excess cash among the biggest and financially strongerst local financial institutions and decrease the maturity to a reasonable level. The total cash kept with North Macedonian banks amounted to HUF 10.8 billion as of December 31, 2020 (2019: HUF 9.8 billion).

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

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

	At December 31,	
	2019	2020
Hungary	154,942	141,356
North Macedonia	14,280	16,117
Other	1,281	1,384
	170,503	158,857

The amounts in the table above are shown net of provisions for impairment losses. The annual bad debt expense of the Group in 2020 was 1.4% (2019: 1.4%) of the consolidated revenues. Adverse changes in customer payment behavior in the future, however, may result in higher impairment losses. Each additional 1 percentage point of uncollectible revenue would result in additional impairment charges of HUF 6.7 billion in 2020 (2019: HUF 6.7 billion).

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

Hungary

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

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

North Macedonia

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

5.1.3 Liquidity risk

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

Prudent liquidity risk management implies maintaining sufficient Cash and cash equivalents and Bank deposits as well as available funding through an adequate amount of committed credit lines. The Group's Treasury management aims at maintaining flexibility in funding by keeping committed credit lines available. The undrawn credit lines amounted to HUF 41.1 billion as at December 31, 2020 (2019: HUF 17.2 billion).

The following two tables summarize the maturity structure of Magyar Telekom's financial liabilities including the interest payable on those liabilities as of December 31, 2020 and 2019. As the majority of the financial liabilities are paid from the cash generated from the ongoing operations, the maturity analysis of the financial assets as at the end of the reporting periods (in comparison with the financial liabilities) would not be useful, therefore, is not included in the tables below.

December 31, 2020		Total	within 1 year	1 to 5 years	after 5 years
Trade payables		148,326	148,326	-	-
Financial liabilities to related parties		190,877	100,119	90,758	-
Lease liabilities		162,131	26,299	73,603	62,229
Bonds		74,502	1,015	4,060	69,427
Frequency fee payable	(a)	106,631	8,145	26,704	71,782
Other financial liabilities	(a)	10,527	7,446	3,081	-
Total cash outflows		**692,994**	**291,350**	**198,206**	**203,438**
Open swap positions' cash flows					
Gross cash inflow in EUR million		520	271	249	-
Gross cash inflow in HUF million (at spot rate)		189,618	98,820	90,798	-
Gross cash outflow in HUF million		174,480	87,505	86,975	-
Net cash inflow in HUF million		**15,138**	**11,315**	**3,823**	-
Open forward positions' cash flows					
Gross cash inflow in EUR million		298	298	-	-
Gross cash inflow in USD million		15	15	-	-
Total gross cash inflow in HUF million (at spot rate)		113,337	113,337	-	-
Gross cash outflow in HUF million		110,940	110,940	-	-
Net cash inflow in HUF million		**2,397**	**2,397**	-	-

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

(a) In 2019 the frequency payables were included in Other financial liabilities, in 2020 they are presented on a separate line due to their significant amount.

The average maturity of Magyar Telekom's debt portfolio was 3.28 years as at December 31, 2020 (2019: 1.50 years). The increase was primarily due to the issuance of bonds. The floating interest payments arising from the financial instruments were calculated using the last interest rates fixed before December 31, 2020 and 2019. For further information see Note 4.4.1.

5.2 Capital risk management

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

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

In 2020 the Board of Directors of Magyar Telekom approved HUF 20,855 million dividend (HUF 26,069 million dividend in 2019), and the Company's Board recommends to declare a HUF 15,311 million dividend at the April 2021 Annual General Meeting.

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

The equity capital, which the Group manages, amounted to HUF 658 billion on December 31, 2020 (2019: HUF 632 billion).

6 INCOME TAX

6.1 Income taxes – accounting policies

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

6.1.1 Current taxes

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

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

6.1.1.1 Corporate income taxes

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

6.1.1.2 Other income taxes

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

6.1.2 Deferred taxes

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

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

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

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

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

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

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

	For the year ended December 31,	
	2019	2020
Corporate income tax	3,266	3,028
Other income taxes	9,600	9,212
Deferred income taxes	1,767	2,355
Total income tax expense	**14,633**	**14,595**

6.2.1 Tax expense reconciliation

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

		For the year ended December 31,	
		2019	2020
Consolidated IFRS profit before income tax		**59,145**	**60,912**
Tax at 9%		(5,323)	(5,482)
Impact of different tax rates	(a)	(147)	(146)
Tax shield of items not subject to income tax	(b)	611	215
Tax impact of non deductible items	(c)	(1,097)	(810)
Other income taxes	(d)	(9,600)	(9,212)
Impact of tax deductibility of other income taxes	(e)	864	829
(De)/recognized deferred tax on tax losses	(f)	(5)	(4)
Investment tax credit accretion	(g)	64	15
Income tax expense		(14,633)	(14,595)
Effective tax rate		24.74%	23.96%

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

(a) This line of the reconciliation includes the tax impacts of the different tax rates of the foreign countries where the Group is also present through its subsidiaries. The corporate tax rate is 10% in North Macedonia, 16% in Romania and

10% in Bulgaria in the reported years. This line of the reconciliation includes the tax impacts of the above differences compared to the 9% general tax rate of Hungary applied to the profit before tax of the Group.

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

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

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

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

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

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

6.3 Income taxes in the Statement of financial position

6.3.1 Current taxes in the Statement of financial position

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

6.3.2 Deferred taxes in the Statement of financial position

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

Deferred tax assets and (liabilities)	Balance at December 31, 2018	Effect on profit	Other move-ments	Balance at December 31, 2019	Effect on profit	Other move-ments	Balance at December 31, 2020
Investment tax credits (Note 6.3.2.1)	4,156	(3,327)	29	858	(3,179)	2,823	502
Net operating loss carry-forward (Note 6.4.)	148	(129)	-	19	(8)	-	11
Other financial assets	(145)	(255)	(20)	(420)	90	(44)	(374)
Impairment of receivables and inventory	1,594	(231)	-	1,363	(190)	-	1,173
Property, plant and equipment and intangible assets	(9,002)	1,724	-	(7,278)	932	-	(6,346)
Goodwill	(14,481)	-	-	(14,481)	-	-	(14,481)
Trade and other payables	-	-	-	-	224	-	224
Loans and other borrowings	1	(446)	-	(445)	(128)	-	(573)
IFRS transition	(654)	654	-	-	-	-	-
Deferred revenue	(43)	237	-	194	(194)	-	-
Provisions for liabilities and charges	1,257	6	-	1,263	98	-	1,361
Total net deferred tax liability	**(17,169)**	**(1,767)**	**9**	**(18,927)**	**(2,355)**	**2,779**	**(18,503)**
Of which deferred tax liabilities after netting by legal entity	(17,246)			(19,030)			(18,621)
Of which deferred tax assets after netting by legal entity	77			103			118
<u>Items included in other movements:</u>							
Relating to the merger of subsidiary			(20)			(44)	
Investment tax credit adjusted against P&L			29			2,752	

Items included in the Other movements column indicate the tax credit increase in 2020 (HUF 2, 823 million) and tax investment credit increase in 2019 (HUF 29 million).

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

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

Temporary differences associated with investments in subsidiaries for which deferred tax liabilities or assets have not been recognized amounted to a net liability of HUF 16,396 million at December 31, 2020 (HUF 14, 219 million at December 31, 2019).

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

6.3.2.1 Investment tax credits

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

In 2020 Magyar Telekom and T-Systems Hungary accomplished a new tax credit program in order to increase energy effectiveness. In order to utilize these tax credits, both Companies had to meet certain audit requirements set out in the relevant tax regulations and independent external auditors stated that the investments fulfill the criteria of energy effectiveness. This investment tax credit is booked as a decrease from the investment costs of the assets, as well as a deferred tax asset of the whole tax credit amount is booked accordingly. Magyar Telekom utilizes HUF 2,250 million tax credit in the 2020 corporate tax return, while the remaining HUF 502 million tax credit remains as deferred tax asset in the Company's books. The Company expects that the tax credit carried forward can be utilized in the 2021 corporate tax return. T-Systems utilizes the whole amount of its tax credit – HUF 71 million – in its 2020 corporate tax return.

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

Earned in year	Amount of qualifying investment	Amount of tax credit earned	Accretion recognized in tax expense to date	Tax credit utilized	Tax credit carried forward at December 31, 2020	Tax credit carried forward at December 31, 2019	Expires in year
2013	14,498	4,642	585	(5,227)	-	656	2023
2014	448	153	16	(169)	-	172	2023
2019	113	36	-	(36)	-	29	2022
2020	7,886	2,823	-	(2,321)	502	-	2025
Total	22,945	7,654	601	(7,753)	502	857	

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

6.4 Tax loss carry forwards

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

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

Expires in year	Tax loss carry forwards at December 31, 2019	Tax loss carry forwards at December 31, 2020
2019	89	-
2020	135	137
2022	2	2
2030	16	13
Total	242	152
Tax losses for which deferred tax is recognized	192	105
Tax losses for which deferred tax is not recognized	50	47
Total	242	152

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

6.5 Tax reviews

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

6.6 Dividends paid by Magyar Telekom Plc.

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

7 INVENTORIES

7.1 Inventories – accounting policies

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

Impairment losses on Inventories are recognized in Other operating expenses.

7.2 Inventories in the statement of financial position

	At December 31,	
	2019	2020
Inventory for resale	18,461	16,595
Other inventory	1,608	1,956
Subtotal	20,069	18,551
Less allowances	(236)	(156)
	19,833	18,395

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

The Group has no inventory pledged as security as at December 31, 2019 or December 31, 2020.

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

8.1 Non-current assets held for sale – accounting policies

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

8.2 Assets held for sale in the statement of financial position

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

	At December 31,	
	2019	2020
Property, plant and equipment	659	489
Total assets held for sale	659	489

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

9 PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

	Land and equivalent rights	Buildings	Telecom equipment	Other equipment	Total
At January 1, 2019					
Cost	7,267	147,112	1,035,352	103,904	1,293,635
Accumulated depreciation	(2,494)	(63,544)	(701,049)	(83,401)	(850,488)
Carrying amount	4,773	83,568	334,303	20,503	443,147
Of which held for sale					-
					443,147
Carrying amount – January 1, 2019	4,773	83,568	334,303	20,503	443,147
Adjustment of first time application of IFRS 16	-	(1,609)	(950)	-	(2,559)
Restated opening net book value January 1, 2019	4,773	81,959	333,353	20,503	440,588
Investments	8	2,627	58,351	5,101	66,087
Additions due to business combinations	-	-	504	360	864
Changes due to revisions of asset retirement obligations	-	80	-	-	80
Disposals	(483)	(6,143)	(451)	(354)	(7,431)
Depreciation charge	(70)	(4,685)	(61,685)	(8,068)	(74,508)
Reclassifications	200	(30)	(2,216)	2,046	-
Exchange differences	1	513	1,136	155	1,805
Carrying amount – December 31, 2019	4,429	74,321	328,992	19,743	427,485
At December 31, 2019					
Cost	6,956	135,192	1,057,803	102,063	1,302,014
Accumulated depreciation	(2,527)	(60,871)	(728,811)	(82,320)	(874,529)
Carrying amount	4,429	74,321	328,992	19,743	427,485
Of which held for sale	(111)	(543)	(5)	-	(659)
					426,826
Carrying amount – January 1, 2020	4,429	74,321	328,992	19,743	427,485
Investments	44	1,455	74,967	3,310	79,776
Additions due to business combinations	-	-	343	20	363
Disposals due to business combinations	-	(32)	-	(12)	(44)
Changes due to revisions of asset retirement obligations	-	127	-	-	127
Disposals	(751)	(4,046)	(550)	(871)	(6,218)
Depreciation charge	(70)	(4,482)	(63,046)	(7,351)	(74,949)
Reclassifications	(27)	234	(2,463)	2,256	-
Exchange differences	7	1,738	4,148	492	6,385
Carrying amount – December 31, 2020	3,632	69,315	342,391	17,587	432,925
At December 31, 2020					
Cost	6,134	129,212	1,120,458	98,483	1,354,287
Accumulated depreciation	(2,502)	(59,897)	(778,067)	(80,896)	(921,362)
Carrying amount	3,632	69,315	342,391	17,587	432,925
Of which held for sale	(18)	(467)	(4)	-	(489)
					432,436

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

	Land	Building	Telecom equipment	Other equipment	Total
Carrying amount – January 1, 2019	-	-	-	-	-
Adjustment of first time application of IFRS 16	673	74,197	29,986	3,192	108,048
Restated opening net book value January 1, 2019	673	74,197	29,986	3,192	108,048
Investments	220	13,788	6,350	2,525	22,883
Disposals	(5)	(6,297)	(469)	(137)	(6,908)
Depreciation charge	(218)	(11,972)	(3,572)	(1,653)	(17,415)
Reclassifications	-	-	-	-	-
Exchange differences	19	53	-	2	74
Carrying amount – December 31, 2019	689	69,769	32,295	3,929	106,682
At December 31, 2019					
Cost	909	81,047	35,833	5,508	123,297
Accumulated depreciation	(220)	(11,278)	(3,538)	(1,579)	(16,615)
Carrying amount	689	69,769	32,295	3,929	106,682
Carrying amount – January 1, 2020	689	69,769	32,295	3,929	106,682
Investments	283	22,659	9,793	2,356	35,091
Disposals	(7)	(861)	(1,944)	(117)	(2,929)
Depreciation charge	(225)	(11,731)	(3,890)	(2,004)	(17,850)
Reclassifications	-	-	-	-	-
Exchange differences	67	251	12	11	341
Carrying amount – December 31, 2020	807	80,087	36,266	4,175	121,335
At December 31, 2020					
Cost	1,273	102,854	42,519	7,228	153,874
Accumulated depreciation	(466)	(22,767)	(6,253)	(3,053)	(32,539)
Carrying amount	807	80,087	36,266	4,175	121,335

The closing balance of Property, plant and equipment (PPE) includes assets under construction in an amount of HUF 57,025 million as at December 31, 2020 (2019: HUF 56,959 million). In the table above, the assets under construction are shown in the categories where the asset is expected to be classified when placed into service.

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

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

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

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

No impairment was identified in 2020 and 2019.

The Group has no PPE with restricted titles or pledged as security as at December 31, 2020 or December 31, 2019.

9.3 Review of useful lives

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

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

During 2019 reviews of the useful lives (and residual values) of property, plant and equipment based on the strategic directions and accepted annual development plans affected the lives of a large number of assets primarily inhouse network. The revisions resulted in the following change in the original trend of depreciation in the current and future years.

	2019	2020	2021	2022	After 2022
Increase / (decrease) in depreciation expense	4,486	(2,07	602	399	(3,411)

10 INTANGIBLE ASSETS

10.1 Intangible assets – accounting policies

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

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

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

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

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

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

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

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

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

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

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

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

The Group establishes the segments' recoverable amounts by determining their fair value less cost to sell by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analyses and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs. The fair values determined as described above are used as a basis when establishing the need for an impairment of any goodwill allocated to the operating segments. As long as the FVLCS exceeds the carrying amount of a CGU, in this case an operating segment, then the CGU is not impaired and it is not necessary to calculate the VIU. See also Note 3.2. If the calculated fair value less cost to sell is lower than the carrying amount of the operating segment, goodwill is impaired.

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

10.2 Intangible assets in the statement of financial position

	Goodwill	Concessions and licenses	Software	Other	Total
At January 1, 2019					
Cost	213,104	200,075	333,289	26,934	773,402
Accumulated amortization	-	(77,494)	(234,444)	(13,512)	(325,450)
Carrying amount	213,104	122,581	98,845	13,422	447,952
Carrying amount – January 1, 2019	213,104	122,581	98,845	13,422	447,952
Adjustment of first time application of IFRS 16	-	-	-	(203)	(203)
Restated opening net book value January 1, 2019	213,104	122,581	98,845	13,219	447,749
Investments	-	(60)	19,565	3,964	23,469
Additions due to business combinations	3	-	-	282	285
Disposals	-	-	(623)	(2)	(625)
Amortisation charge	-	(14,937)	(26,393)	(4,129)	(45,459)
Reclassifications	-	-	(67)	67	-
Exchange differences	-	79	193	130	402
Carrying amount – December 31, 2019	213,107	107,663	91,520	13,531	425,821
At December 31, 2019					
Cost	213,107	200,244	342,321	27,460	783,132
Accumulated amortization	-	(92,581)	(250,801)	(13,929)	(357,311)
Carrying amount	213,107	107,663	91,520	13,531	425,821
Of which held for sale					-
					425,821
Carrying amount – January 1, 2020	213,107	107,663	91,520	13,531	425,821
Investment	-	92,582	19,581	7,405	119,568
Additions due to business combinations	30	-	-	242	272
Disposals due to business combinations	-	-	(1)	-	(1)
Disposals		-	(4)	-	(4)
Amortisation charge	-	(17,509)	(25,145)	(5,605)	(48,259)
Reclassifications	-	-	-	-	-
Exchange differences	-	263	677	480	1,420
Carrying amount – December 31,2020	213,137	182,999	86,628	16,053	498,817
At December 31, 2020					
Cost	213,137	291,455	356,119	33,717	894,428
Accumulated amortization	-	(108,456)	(269,491)	(17,664)	(395,611)
Carrying amount	213,137	182,999	86,628	16,053	498,817
Of which held for sale					-
					498,817

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

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

Investments represent the regular investing activity in intangible assets and the new frequencies were acquired in 2020 that significantly increased the book value of concessions and licenses. HUF 91.6 billion was capitalized consisting of a HUF 54.2 billion upfront fee and the present value of annual band fees related to 700 MHz, 2100 MHz, 3600 MHz spectrums for 5G services which is amounted to HUF 37.3 billion. The useful life of these frequencies and the present value calculations based on the term of rights of use for these frequencies. For further information see Notes 4.4.3.1, 10.5, 28 and 34.2

The amortization expense, as well as the impairment losses of intangible assets, including also goodwill, is accounted for in the Depreciation and amortization line of the Statements of profit or loss and other comprehensive income.

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

The Group has no intangible assets with restricted title or pledged as security as at December 31, 2020 or December 31, 2019.

10.3 Useful lives

The reviews of the useful lives of intangible assets based on the strategic direction and accepted annual development plans during 2019 and 2020 affected the lives of a large number of assets primarily software. The revisions resulted in the following change in the original trend of amortization in the current and future years.

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

	2019	**2020**	**2021**	**2022**	**After 2022**
Increase / (decrease) in depreciation	(531)	(1,070)	259	620	723

10.4 Goodwill

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

	As at December 31,					
	2019			2020		
	Carrying amount of			Carrying amount of		
	goodwill allocated	operating segment (incl. goodwill)	Recoverable amount of operating segment	goodwill allocated	operating segment (incl. goodwill)	Recoverable amount of operating segment
MT-Hungary .	192,908	874,916	1,783,096	192,938	957,766	1,687,521
North Macedonia ..	20,199	116,537	257,766	20,199	124,124	322,327
Total	213,107	991,453	2,040,862	213,137	1,081,890	2,009,848

The Group regularly carries out the annual impairment test on goodwill in the last quarter of the financial years, while a quick goodwill impairment test is conducted quarterly based on the main input changes. During the impairment tests conducted in 2019 and 2020 no goodwill impairment was established for any goodwill of the Group.

10.5 Significant individual other intangible assets

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

	As at December 31,			
	2019		2020	
	Carrying amount	Remaining amortization period (years)	Carrying amount	Remaining amortization period (years)
Hungarian mobile licenses acquired in 2014	72,230	14	67,248	13
Hungarian mobile licenses extended in 2018	30,842	2-7	21,824	1-6
Hungarian 3G license	1,306	2-7	807	1-6
Hungarian 5G license	-	-	89,980	19
Macedonian 4G license	2,373	14	2,423	13
Macedonian 2G/3G licenses	314	9-10	308	8-9
Other	598	2–7	408	1–6
Total concessions and licenses	107,663		182,998	

11 INVESTMENTS IN ASSOCIATES AND JOINT ARRANGEMENTS

11.1 Associates and joint arrangements – accounting policies

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

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

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

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

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

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

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

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

11.2 Associates

The Group had no significant associates at December 31, 2019 and 2020. The Group had no contingent liabilities or commitments related to its associates at December 31, 2019 and 2020.

11.3 Joint ventures

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

E2 Hungary Zrt. was established in 2015 by Magyar Telekom Plc. and MET Holding AG. It 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 was set up by the parties on a 50:50 ownership basis with balanced rights in the management structure. The investment was recognized at cost in 2015 and E2 Hungary Zrt. was accounted for using the equity method till the first quarter of 2020. Following the loss of joint control and significant influence the investment in E2 Hungary Zrt. is accounted for as an equity investment measured at fair value through Profit or Loss under IFRS 9, and disclosed in Other non-current financial asset. The transaction did not generate a cash movement (see also Note 4.2.3.3).

The operation of the company in 2019 and 2020 resulted in a HUF 20 million and HUF 66 million profit respectively, and also HUF 910 million dividend was declared in 2019. All of these items were accounted for in the value of the investment by using the equity method As a result of the above mentioned lost of control HUF 1,012 million was derecognized from the investment in joint venture on the date of the loss of the joint control and significant influence and in line with the change. HUF 1,155 million was initially recognized as a financial asset under IFRS 9, disclosed in other non-current financial asset as well as HUF 139 million was recognized as a financial liability under IFRS 9 pertaining to the call option of MET Holding AG. on this investment, disclosed in Other non-current financial liabilities (see also Note 4.4.3). The transaction had no material impact on the Consolidated Statements of Profit or Loss and other comprehensive income .

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

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

	2019
Current assets	14,921
Non-current assets	402
Current liabilities	13,303
Non-current liabilities	-
Revenues	68,595
Profit/ (Loss) for the year	20

11.4 Joint operations

Magyar Telekom and Telenor Hungary agreed in 2015 to jointly operate and develop their 800 MHz 4G mobile networks in all parts of Hungary except Budapest. The primary goal of the agreement was to accelerate 4G mobile broadband coverage rollout in the countryside and to offer higher bandwidth to the 4G customers, in line with the coverage obligations of the 800 MHz spectrum contract signed in 2014 with the NRA. Based on the agreement, Telenor Hungary maintains sites in West Hungary and Magyar Telekom operates 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 statement of profit or loss and the effect of this settlement is not significant.

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

12 OTHER ASSETS

12.1 Other current assets

	At December 31,	
	2019	2020
Prepayments and advance payments	5,494	4,581
Other taxes receivable	708	984
Other	235	457
Total	6,437	6,022

12.2 Other non-current assets

Other non-current assets mainly include assets recognized from the costs to obtain contracts with customers (amounting to HUF 5,389 million, see also Note 18.4) as at December 31, 2020.

13 PROVISIONS

13.1 Provisions – accounting policies

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

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

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

13.2 Provisions in the statement of financial position

	Severance payment	Share-based payments	Other employee related	Total Employee related	Legal cases	ARO	Other	Total
January 1, 2019	**1,597**	**1,451**	**135**	**3,183**	**2,096**	**7,772**	**1,632**	**14,683**
Amounts reversed	(385)	(161)	-	(546)	(73)	(317)	(1,564)	(2,500)
Additions	3,505	1,107	39	4,651	186	397	2,323	7,557
Interest	-	(4)	-	(4)	113	180	-	289
Exchange rate difference	(2)	1	4	3	25	1	1	30
Amounts utilized (incl. interest component)	(3,550)	(745)	(4)	(4,299)	(21)	(52)	(486)	(4,858)
December 31, 2019	**1,165**	**1,649**	**174**	**2,988**	**2,326**	**7,981**	**1,906**	**15,201**
Of which current	916	1,026	-	1,942	1,034	21	1,758	4,755
Of which non-current	249	623	174	1,046	1,292	7,960	148	10,446
January 1, 2020	**1,165**	**1,649**	**174**	**2,988**	**2,326**	**7,981**	**1,906**	**15,201**
Amounts reversed	(396)	(138)	-	(534)	(490)	(39)	(906)	(1,969)
Additions	5,178	1,770	20	6,968	22	166	1,331	8,487
Interest	-	(3)	-	(3)	(1,274)	127	-	(1,150)
Exchange rate difference	-	15	16	31	67	(1)	(1)	96
Amounts utilized (incl. interest component)	(3,930)	(1,065)	(3)	(4,998)	(70)	(26)	(1,859)	(6,953)
December 31, 2020	**2,017**	**2,228**	**207**	**4,452**	**581**	**8,208**	**471**	**13,712**
Of which current	1,801	1,330	-	3,131	127	15	330	3,603
Of which non-current	216	898	207	1,321	454	8,193	141	10,109

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, 2020 relates to the stand-by-pool and the employee terminations payable in 2021 in relation to the further efficiency improvement in Magyar Telekom Plc. The stand-by-pool of employees includes people whose legal status is an employee, however, these people do not provide services to the Company any more, but the Company provides a reduced amount of compensation and pays social security expenses for them. This is a manner of severance that is not paid in one lump sum but in monthly installments following the discontinuation of services. The majority of the provision for severance as at December 31, 2019 also related to the stand-by-pool and the employee terminations paid in 2020 in relation to the efficiency improvement in Magyar Telekom Plc.

884 employees left the Group in 2020 (2019: 1,333), related to which termination payments were made. The balance of provision as at December 31, 2020 relates to 305 employees and employees in the stand-by-pool (2019: 136).

The total payments made in relation to employee termination in 2020 amounted to HUF 4,936 million (2019: HUF 5,226 million).

13.2.2 Share-based payments

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

13.2.3 Legal cases

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

13.2.4 Asset retirement obligations (ARO)

Asset retirement obligations primarily exist in case of the telecommunications structures constructed on third parties' properties. The Group carries out a revision of the necessary provisions every year. The revisions did not result in material changes in 2020 or 2019.

13.2.5 Other provisions

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

14 OTHER CURRENT LIABILITIES

		At December 31,	
		2019	2020
Other taxes and social security		11,920	12,027
Salaries and wages		8,689	8,040
Deferred revenue and advances received		2,192	1,940
Unused advance payments for asset-related grants	(a)	409	21
Dividend payable to non-controlling interests		34	41
Other liabilities		39	129
Total		23,283	22,198

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

15 OTHER NON CURRENT LIABILITIES

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

	At December 31,	
	2019	2020
Other financial liabilities – non-current	9	2,910

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

For further information please see Note 4.4.2.

16 NON-CONTROLLING INTERESTS

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

	MKT	Other	Total
Balance at December 31, 2018	35,033	(592)	34,441
Dividend declared	(3,596)	(67)	(3,663)
Total comprehensive income	4,388	-	4,388
Balance at December 31, 2019	35,825	(659)	35,166
Dividend declared	(3,235)	(433)	(3,668)
Total comprehensive income	7,545	-	7,545
Balance at December 31, 2020	40,135	(1,092)	39,043

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

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

a) Summarized balance sheets

	MKT	
	At December 31,	
	2019	2020
Current assets	27,496	34,009
Current liabilities	(20,663)	(20,954)
Non-current assets	100,376	105,274
Non-current liabilities	(3,776)	(5,014)
Net assets	103,433	113,315

b) Summarized income statements

	MKT	
	At December 31,	
	2019	2020
Revenues	57,773	63,789
Profit before income tax	8,887	10,082
Profit for the period	7,777	9,074

c) Summarized cash flows

	MKT	
	At December 31,	
	2019	2020
Net cash generated from operating activities	22,312	22,633
Net cash from investing activities	(5,451)	(11,165)
Dividends/capital reduction paid to Controlling interests	(4,701)	(4,226)
Dividends/capital reduction paid to Non-controlling interests	(3,596)	(3,235)
Other cash flows from financing activities	(3,143)	(3,509)
Net cash used in financing activities	(11,440)	(10,970)

16.2 Transactions with non-controlling interests

There were no material transactions with non-controlling interests in 2020 or 2019 other than the dividend payments.

The only significant non-controlling interest of the Group is the Republic of North Macedonia, holding shares in MKT. MKT and Magyar Telekom did not execute as part of its normal business activities any transactions that were individually material in the 2020 or 2019 financial year with companies controlled by the Republic of North Macedonia or companies over which the Republic of North Macedonia can exercise a significant influence.

17 LEASES

17.1 Leases – Accounting policies

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

Recognition exemptions

Short-term leases, low value leases

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

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

Lease term

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

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

Options- "Reasonably certain criteria"

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

Lease payments

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

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

Reassessment of the lease liability

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

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

Accounting for lease modifications

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

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

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

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

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

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

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

Presentation and disclosures for MT Group as lessee

Statement of financial position

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

Statement of profit or loss and other comprehensive income

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

Statement of cash flows

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

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

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

Presentation and disclosures for MT Group as lessor

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

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

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

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

Other lease topics

Sale and leaseback transactions

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

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

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

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

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

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

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

Subleases

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

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

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

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

Presentation and disclosures for subleases

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

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

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

Lessor accounting

Finance lease – Definition

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

Operating lease – Definition

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

17.2 Finance leases

17.2.1 Finance lease – Group as lessor

Future lease receivables under finance leases at December 31, 2019 and 2020 are as follows:

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

	12.31.2020		
	Present value	Interest component	Minimum lease receipt
Within 1 year	315	35	350
1–2 years	293	27	320
2–3 years	184	19	203
3–4 years	103	14	117
4–5 years	67	11	78
After 5 years	190	23	213
Total	**1,152**	**129**	**1,281**

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

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

17.2.2 Lease – Group as lessee

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

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

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

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

The following are the amounts recognized in profit or loss:

	2019	2020
Depreciation expense of right-of-use assets	17,415	17,850
Interest expense on lease liabilities	5,557	5,407
Foreign exchange loss on lease liabilities	1,438	5,014
Income from subleasing right-of-use assets	220	57
Gains or losses arising from sale and leaseback transactions	275	1,984

The Group had total cash outflows for leases of HUF 18,555 million in 2020. The Company has various lease contracts that have not yet commenced as at December 31, 2020. The future lease payments for these non-cancellable lease contracts are HUF 9,227 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 13,900 million.

The Group initially estimates and recognizes amounts expected to be payable under residual value guarantees as part of the lease liability. Typically the expected residual value at lease commencement is equal to or higher than the guaranteed amount, and so the Group does not expect to pay anything under the guarantees.
At the end of each reporting period, the expected residual value is reviewed to reflect actual residual values achieved on comparable assets and expectations about future prices.
As at December 31, 2020, the amount of residual value guarantees to which the Company is potentially exposed that are not reflected in the measurement of lease liabilities is HUF 123 million, which is not expected to be payable.

17.3 Operating leases

17.3.1 Operating lease – Group as lessor

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

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

	12.31.2020
Within 1 year	3,282
1–2 years	3,071
2–3 years	2,888
3–4 years	2,729
4–5 years	2,144
After 5 years	5,225
Total	**19,339**

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

	Building	Telecom equipment	Total
At December 31, 2019			
Gross value	3,983	1,239	5,222
Accumulated depreciation	(1,734)	(684)	(2,418)
Carrying amount	**2,249**	**555**	**2,804**
Carrying amount - 01.01.2020	**2,249**	**555**	**2,804**
Additions	59	195	254
Depreciation charge	(125)	(66)	(191)
Carrying amount - 12.31.2020	**2,183**	**684**	**2,867**
At December 31, 2020			
Gross value	4,042	1,434	5,476
Accumulated depreciation	(1,859)	(750)	(2,609)
Carrying amount	**2,183**	**684**	**2,867**

18 REVENUE

18.1 Revenue – accounting policies

18.1.1 Sale of goods and Rendering of services

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

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

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

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

Main principles

- If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, the Group shall present the contract as a Contract asset, excluding any amounts presented as a receivable. A contract asset is the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer.
- In the case of multiple-element arrangements (e.g., mobile contract plus handset) with subsidized products delivered in advance, a larger portion of the total remuneration is attributable to the component delivered in advance (mobile handset), requiring earlier recognition of revenue. This leads to the recognition of what is known as a contract asset – a

receivable arising from the customer contract that has not yet legally come into existence – in the Consolidated Statement of Financial Position.
- Expenses for sales commissions (customer acquisition costs) must now be capitalized in the Contract costs line of the Consolidated Statement of Financial Position and recognized over the estimated customer retention period.
- Later recognition of revenue in cases where "material rights" are granted, such as offering additional discounts for future purchases of further products.
- Contract liabilities are netted off against the contract assets for each customer contract.
- When Magyar Telekom sells products for its own account (principal) gross revenue is recognized, while for the account of others (agent) is recognized as net revenue.
- A significant financing component is not considered for the amount and timing of revenue recognition if the period between when a promised good or service is transferred to the customer and when the customer pays for that good or service will be one year or less.
- If the promise to grant a license is distinct from the other promised goods or services in the contract then the promise to grant the license is a separate performance obligation and the Group shall determine whether the license transfers to a customer is 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 recognized as an integral part of the total rental income, over the term of the lease. Operating lease revenue is primarily recognized as System integration and IT revenue.For further information, please see Note 17.3.

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 the case of IFRS 15, usage-based consideration (e.g. airtime) is generally not part of the transaction price as the Group does not have the right to consideration at contract inception.

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

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

Revenues from premium rate services are recognized on a gross basis when the delivery of the service over Magyar Telekom's network is the responsibility of the Group, the Group determines the prices of these services and bears their substantial risks; 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 they are used by the customers or when the credits expire with unused traffic.

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

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

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

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

18.2.2 System integration (SI) and IT revenues

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

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

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

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

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

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

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

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

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

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

18.3.1 Disaggregation of revenue from contracts with customers

	2019	2020
Mobile revenues		
Voice retail	129,272	123,292
Voice wholesale	10,122	11,966
Data	91,935	101,840
SMS	20,257	20,690
Equipment	90,028	96,478
Other mobile revenues	12,748	10,323
Total Mobile revenue	**354,362**	**364,589**
Fixed line revenues		
Voice retail	41,014	39,553
Broadband retail	55,449	60,968
TV	48,857	52,355
Equipment	22,149	22,356
Data retail	8,863	8,782
Wholesale	18,735	19,355
Other fixed-line revenues	17,592	15,635
Total Fixed-line revenue	**212,659**	**219,004**
System integration and IT revenue	99,632	89,455
Total revenue	**666,653**	**673,048**
Of which:		
Revenue from contracts with customers	662,037	669,170
Other sources	4,616	3,878

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

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

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

Regarding geographical segmentation of revenue please see Note 33.

18.4 Assets and liabilities related to contracts with customers

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

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

	At December 31,	
	2019	2020
Contract assets – current	16,306	16,878
Contract assets – non-current	3,800	3,923
Contract liabilities - current	(11,167)	(10,998)
Contract liabilities – non-current	(383)	(361)
Net contract assets (liabilities)	**8,556**	**9,442**
Revenue recognized in the reporting period from amounts included in contract liability at the beginning of the period	10,128	9,066
Asset recognized from the costs to obtain contracts with customers	4,551	5,389
Amortisation recognized as cost of obtaining contracts during the period	(5,927)	(5,594)

Impairment losses recognized on contract assets are disclosed together with trade receivables in Note 4.2.2.2 and amounted to HUF 2,215 million as at December 31, 2020 (in 2019 HUF 1,728 million).

As of December 31, 2020 the aggregate amount of the transaction price allocated to the remaining performance obligation is HUF 186,845 million and the Group will recognize this revenue as services are rendered, which is expected to occur over the next 13-29 months.

19 DIRECT COSTS

		For the year ended December 31,	
		2019	2020
Interconnect costs		20,746	22,079
SI/IT service related costs		72,079	63,314
Telecom tax	(a)	24,788	27,614
Bad debt expense		9,054	9,717
Other direct costs	(b)	165,745	174,764
		292,412	297,488

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

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

20 EMPLOYEE-RELATED EXPENSES

20.1 Employee-related expenses – accounting policies

20.1.1 Short-term employee benefits

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

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

20.1.2 Share-based compensation

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

In 2020 Magyar Telekom had only cash settled share based payment programs running.

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

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

20.1.2.1 Share Matching Plan of Deutsche Telekom Group

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

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

The program initiated by DT is settled in DT shares with the participants, meanwhile Magyar Telekom has to settle it with DT AG in cash at the same time participants are granted the DT shares therefore the actual closing balance of the program is presented as a related-party financial liability in the consolidated statements of financial positions as it is settled in cash from the perspective of Magyar Telekom and is due to be paid to DT AG.
In 2020 HUF 30 million was recognized as expense for the program (2019: HUF 22 million).

20.1.2.2 Long-term incentive program (LTI)

As of January 1, 2015 Magyar Telekom Group changed its existing LTI program, turning it into a share-based compensation program. The 2020 LTI program is a global, Deutsche Telekom Group-wide incentive program.

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

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

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

In 2020 HUF 709 million was recognized as expenses for the program (2019: HUF 393 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 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 783 million (2019: HUF 550 million) was recognized as expense for the program in 2020.The amount of the bonus payout depends on Management level, target achievement of the segment and the number of years of consecutive overperformance.

20.1.3 Termination benefits

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

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

		For the year ended December 31,	
		2019	2020
Short-term benefits (Note 20.1.1)	(a)	80,821	77,940
Termination benefits (Note 20.1.3)		4,798	5,802
Equity-settled share-based compensations (Note 20.1.2.1)		22	30
Cash-settled share-based compensations (LTI) (Note 20.1.2.2)		393	709
Cash-settled share-based compensations (RPI) (Note 20.1.2.3)	(a)	550	783
Total before capitalization		86,584	85,264
Expenses capitalized		(6,392)	(6,260)
Total:		80,192	79,004
Total costs expensed in relation to defined contribution plans (including social security contribution)	(b)	13,920	12,693
Average number of employees (full time equivalent)		8,472	7,358
Closing number of employees (full time equivalent)		8,246	7,132

(a) Short-term benefits included the Repeated Performance Incentive program last year. The consistency of the note and magnitude of the amount requested to present this program on separate line in 2020.

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

21 OTHER OPERATING EXPENSES

		2019	2020
Cost of other purchased services	(a)	44,944	42,116
Marketing expenses		10,609	8,563
Utility tax		7,218	7,215
Energy costs		6,726	8,184
Other operating expenses		11,544	10,438
Total:	:	**81,041**	**76,516**

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

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

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

	2019	2020
Audit of the financial statements	386	388
Other audit-related fees	51	16
Other non audit-related fees	90	83
Total expenses payable to PwC	**527**	**487**

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

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

Other non-audit related fees are fees of PwC primarily related to consulting services and services like participation by Magyar Telekom employees in conferences and training sessions organized by PwC.

22 OTHER OPERATING INCOME

	2019	2020
Gain on the sale of PPE, Intangible assets and assets held for sale - net	2,978	2,140
Income received for the relocation and reconstruction of our own network	1,503	796
Income from leasing	16	123
Brand license fee	300	300
Income from insurance compensation	106	85
Income from intra-DT group support services	56	73
Other	2,595	2,323
Total	7,554	5,840

23 INTEREST INCOME

	2019	2020
Interest income on financial assets	318	248
Interest income from leases	16	14
Reversal of interest component of provisions	6	362
Dividend income	37	52
Total	377	676

24 INTEREST EXPENSE

	2019	2020
Interest expense payable to DT	5,689	3,144
Other interest expense	2,839	3,765
Interest expense on lease liabilities	5,557	5,407
Accretion / interest on provisions	289	(788)
less: borrowing costs capitalized	(83)	(209)
Total	14,291	11,319

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

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

Total Interest expense is shown net of borrowing costs capitalized using average borrowing rates of 0.92%-1.59% in 2020 (2019: 1.43%-3.47%). When calculating the borrowing rates, Other finance expenses (included in Note 25) are also considered.

25 OTHER FINANCE EXPENSE – NET

	2019	2020
Fee expense	4,770	5,020
Net foreign exchange losses / (gains) on financial instruments	5,789	26,423
Other net foreign exchange losses / (gains)	1,109	3,834
Losses / (gains) on the subsequent measurement of derivatives contracted with related parties	(606)	(19,669)
Losses / (gains) on the subsequent measurement of financial assets at fair value through profit or loss (other than derivatives)	-	35
Losses / (gains) on the subsequent measurement of financial liabilities at fair value through profit or loss (other than derivatives)	(11)	1
Losses / (gains) on the derecognition of derivatives contracted with related parties	(840)	(2,441)
Total	10,211	13,203

Significant increase in the amount of Losses / (gains) on the subsequent measurement of derivatives contracted with related parties in 2020 is due to the higher volatility of HUF exchange rates, increase in the volume of derivatives by cross-currency and interest rate swap and the change in maturity and volume of forwards.

26 CHANGES IN THE GROUP

26.1 Business combinations

26.1.1 Acquisition of ITgen Kft.

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

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

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

From the total purchase price HUF 799 million was paid in cash in 2018 while HUF 180 million and HUF 120 million (in 2019 and 2020 respectively) was paid from the total earnout payment of HUF 477 million remeasured at the end of 2020 depending on the 2018, 2019 and 2020 performance of the company from which the remaining HUF 177 million will be paid in 2021.

26.1.2 Cable TV network and operations

In 2020 and 2019, the Group acquired a number of cable TV businesses in individually insignificant transactions. All these acquisitions qualified as business combinations of the MT-Hungary operating segment. The vast majority of the total purchase price was paid in cash in 2020 and 2019.

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

	2019	2020
Consideration transferred	1,148	597
Less: Fair value of the net assets acquired	(1,145)	(605)
Total difference between consideration transferred and net asset acquired	3	(8)
- thereof goodwill	3	30
- thereof Negative goodwill *	-	(38)

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

26.2 Pro forma information

The pro forma information shows the most important financial data of the Group, as if the business combinations that took place in that year had been consolidated from the beginning of the year of acquisition, and also how much the business combination contributed to the reported figures since the acquisition date. Cable TV acquisitions were insignificant in 2019 and 2020 therefore their contribution to the Group's operations was also insignificant, therefore we do not present detailed pro forma information related to our acquisitions.

27 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing profit attributable to the owners of the Company for the period by the weighted average number of common stocks outstanding. All figures are presented in the Consolidated statements of profit or loss and other comprehensive income.

There was no transaction resulting dilutive shares in the reported periods therefore the presented basic and diluted EPS are equal in 2019 and 2020.

28 PURCHASE OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

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

		For the year ended December 31,	
		2019	2020
Investments in property, plant and equipment (Note 9.2)		66,087	79,776
Investments in Right-of-use assets (Note 9.2)		22,883	35,091
Investments in intangible assets (Note 10.2)		23,469	119,568
Total investments in PPE and intangible assets		**112,439**	**234,435**
Capitalized asset-related grant	(b)	5,330	1,480
Capitalized annual frequency fee payable	(a)	-	(37,343)
Change in Right-of-use assets		(22,883)	(36,930)
Recognition / (Derecognition) of investment tax credit	(d)	-	2,823
Change in trade payables relating to capital expenditures	(c)	2,771	(11,352)
Cash payments for purchases of PPE and intangible assets		**97,657**	**153,113**

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

(b) In 2020 the Company spent futher HUF 1.5 billion that is not paid by the government. It is presented in Notes 4.2.3.2 and see also Notes 9 and 14 for government grants relating to the purchase of PPE.

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

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

29 PURCHASE OF SUBSIDIARIES AND BUSINESS UNITS

	For the year ended December 31,	
	2019	2020
Acquisition of ITgen Kft. (Note 26.1.1)	180	120
Cable TV businesses (Note 26.1.2)	1,267	447
Cash payments for purchases of subsidiaries and business units	1,447	567

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

30 CONTINGENT ASSETS AND LIABILITIES

30.1 Contingent assets

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

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

30.2 Contingent liabilities

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

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

30.2.1 Hungary

30.2.1.1 Guarantees

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

30.2.2 Norh Macedonia

30.2.2.1 Contingent liabilities

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

31 PURCHASE COMMITMENTS

31.1 Purchase commitments for tangible and intangible assets

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

	At December 31,	
	2019	2020
Property, plant and equipment	4,364	4,166
Intangible assets	3,632	7,122
Total	7,996	11,288

31.2 Purchase commitments for businesses

As at December 31, 2020 and 2019 the Group had no significant committed business combinations.

32 RELATED-PARTY TRANSACTIONS

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

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

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

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

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

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

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

32.1 Deutsche Telekom Group and the Federal Republic of Germany

32.1.1 Deutsche Telekom Group

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

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

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

	2019	2020
Revenues from services provided to DT Group companies	19,068	19,316
Costs of services provided by DT Group companies	(16,908)	(16,996)
Income from support services provided to DT Group companies	56	73
Interest expense to DTIF	(1,591)	(1,706)
Interest expense to DT AG	(4,098)	(1,438)
Dividend paid to parent company	(15,566)	(12,454)
Accounts receivable from DT Group companies	8,110	6,465
Accounts payable to DT Group companies	(12,060)	(11,032)
Loans payable to DTIF	(88,591)	(95,964)
Loans payable to DT AG	(115,977)	(89,456)
Fair value of swap agreements with DT AG – asset	2,909	20,696
Fair value of swap agreements with DT AG – liability	(1,890)	(13)

32.1.2 The Federal Republic of Germany

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

DT AG and Magyar Telekom did not execute, as part of its normal business activities, any transactions that were individually material in the 2020 or 2019 financial year with companies controlled by the Federal Republic or companies over which the Federal Republic can exercise a significant influence.

32.2 E2 Hungary Zrt.

Magyar Telekom lost its joint control in E2 Hungary Zrt. upon the requisite authority clearance in February 2020. MET Group intention was to fully (100%) consolidate E2 Hungary Zrt. In order to fulfill this request and also to take into consideration the Company's future interest in this investment, the shareholders agreement was amended in line with the relevant factors that resulted in for Magyar Telekom not only losing the joint control but also losing significant influence.

32.3 Board and Supervisory Board members

	For the year ended December 31,	
	2019	2020
Remuneration of the members of the Board of Directors	11	28
Remuneration of the members of the Supervisory Board	54	44
Loans granted to the members of the Board of Directors	-	-
Loans granted to the members of the Supervisory Board	-	-

32.4 Key management

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

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

	For the year ended December 31,	
	2019	2020
Salaries and other employee benefits	627	712
Contractual termination expense	-	150
Share-based compensation (Note 20.1)	9	24
	636	886
Of which costs expensed in relation to defined contribution plans (including social security contribution)	128	152

The Group does not provide loans to its key management.

33 REPORTABLE SEGMENTS AND INFORMATION ABOUT GEOGRAPHICAL AREAS

33.1 Segment information

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

In 2019 the Management Committee (MC) of Magyar Telekom Plc was responsible for allocating resources to, and assessing the performance of, the operating segments on a monthly basis.

As a result of the change in the Magyar Telekom's management structure, the Management Committee ceased to exist as a formal corporate decision-making body as of January 1, 2020. The Company has subsequently initiated an assessment of the potential consequences of this change on corporate disclosure. Following the change in decision – making mechanism, the Chief Executive Officer (CEO) and the other Chief Officers (Chief Officers) together fulfill the chief operating decision maker (CODM) function in the Group. The Chief Officers assess the performance of the Company and make their decisions. Along with this change the management had a reassessment of the composition of operating segments and reporting segments of the Group which resulted in that the operating and reporting segments' structure remained unchanged in 2020:

The CEO and the Chief Officers are responsible for allocating resources to, and assessing the performance of, the operating segments on a monthly basis. The accounting policies and measurement principles of the operating segments are very similar to those applied for the Group described in Note 2. The differences primarily originate from the fact that the operating segments' annual results are determined and closed at an earlier stage, around January 8–10 each year, than these Financial statements. Any items discovered and requiring adjustment between the closing date of the segment results and the approval date of the Financial statements are reflected in the next year's segment results.

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

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

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

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

33.2 Reportable segments

In 2020, Magyar Telekom's operating segments are: MT-Hungary and North Macedonia.

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

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

33.2.1 Information regularly provided to the CODM

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

Revenues	For the year ended December 31, 2019	2020
Total MT-Hungary revenues	609,079	609,292
Less: MT-Hungary revenues from other segments	(118)	(135)
MT-Hungary revenues from external customers	608,961	609,157
Total North Macedonia revenues	57,773	63,789
Less: North Macedonia revenues from other segments	(68)	(71)
North Macedonia revenues from external customers	57,705	63,718
Total consolidated revenue of the segments	666,666	672,875
Measurement differences / rounding between segment and Group revenue	(13)	173
Total revenue of the Group from continuing operations	666,653	673,048

MT-Hungary revenues	For the year ended December 31, 2019	2020
Voice	123,686	119,035
Non-voice	102,399	112,091
Equipment	81,818	86,930
Other	11,100	8,941
Total mobile revenue	319,003	326,997
Voice retail	36,168	34,488
Broadband - retail	49,940	54,858
TV	44,375	47,175
Equipment	21,841	22,042
Other	40,428	38,341
Total fixed-line revenue	192,752	196,904
SI/IT revenue	97,324	85,391
Total revenue of the MT-Hungary segment	609,079	609,292

North Macedonia revenues	For the year ended December 31, 2019	2020
Voice	15,708	16,223
Non-voice	9,793	10,439
Equipment	8,210	9,548
Other	1,651	1,383
Total mobile revenue	35,362	37,593

	2019	2020
Voice retail	4,846	5,065
Broadband - retail	5,509	6,110
TV	4,482	5,180
Equipment	308	314
Other	4,958	5,452
Total fixed-line revenue	20,103	22,121
SI/IT revenue	2,308	4,075
Total revenue of the North Macedonia segment	57,773	63,789

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

Segment results (EBITDA)	For the year ended December 31,	
	2019	2020
MT-Hungary	197,178	200,260
North Macedonia	23,747	25,589
Total EBITDA of the segments from continuing operations	220,925	225,849
Measurement differences / rounding between segment and Group EBITDA	(363)	33
Total EBITDA of the Group	220,562	225,882
MT-Hungary	175,012	177,794
North Macedonia	22,941	24,798
Total EBITDA AL of the segments from continuing operations	197,953	202,592
Measurement differences / rounding between segment and Group EBITDA AL	(363)	33
Total EBITDA AL of the Group	197,590	202,625

Capital expenditure (Capex) on PPE, Intangible assets and Right-of-use assets	As at December 31,	
	2019	2020
MT-Hungary	100,483	129,110
North Macedonia	12,097	13,076
Total capital expenditure of the segments	112,580	142,186
Acquisition of mobile licenses (Note 10)	(60)	92,375
Other measurement differences between segment and Group Capex	(81)	(126)
Total investments of the Group in PPE and Intangible assets	112,439	234,435

Capex AL	As at December 31, 2019	As at December 31, 2020
MT-Hungary	78,386	185,307
North Macedonia	11,249	12,324
Total Capex AL of the segments	89,635	197,631
Measurement differences to Capex AL of the Group	2	-
Total Capex AL of the Group	89,637	197,631

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

33.3 Information about geographical areas

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

Revenues	For the year ended December 31, 2019	For the year ended December 31, 2020
Hungary	602,270	601,608
North Macedonia	57,705	63,718
Romania	4,036	4,563
Bulgaria	2,642	3,159
Total revenue of the Group	666,653	673,048

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

Non-current assets	As at December 31, 2019	As at December 31, 2020
Hungary	863,786	952,996
North Macedonia	98,229	102,395
Bulgaria	3,659	3,967
Romania	2,408	2,948
Total excluding Other non-current financial assets, Investments in associates and joint ventures and Deferred tax assets	**968,082**	**1,062,306**
Other non-current financial assets (Note 4.2.3.3)	23,041	29180
Investments in associates and joint ventures (Note 11)	1,078	-
Deferred tax assets (Note 6.3.2)	103	118
Total Non-current assets of the Group	992,304	1,091,604

34 REGULATED MARKETS AND PROCEDURES

Magyar Telekom's primary activities are the fixed-line and mobile operations in Hungary. These services are partially regulated by Hungary' laws or other legislations. These services in most cases require a 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 implemented Directive 1972/2018 / EU (EECC) partially by December 21, 2020 (with Section 16 of the Electronic Communications Act being applicable June 30, 2021). The EECC will regulate fixed line and mobile call termination rates in the whole EU/EEA by a Delegated Act, but the legal framework for formerly regulated markets remains largely unaffected.

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

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

M2: The Company is designated as an SMP operator (a service provider with significant market power) in the mobile wholesale call termination market (new M2, old M7 market) and subject to regulatory obligations regarding the termination charge of calls into its network, mobile termination rate (MTR). The last mobile market resolution was published on January 13, 2021, however, this resolution only contains the SMP designation, with the obligations, such as the n MTR of 1.71 HUF/min net cost-based fee remaining untouched. With regards to obligations, the NRA will deliver a separate resolution.

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

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

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

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

34.2 Spectrum procedures

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

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

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

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

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

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

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

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

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

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

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

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

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

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

On October 16, 2020, the NRA published the “Documentation for the auction announced in the subject of spectrum licenses for 900 MHz and 1800 MHz bands”. Usage rights shall be valid for 15 years starting from April 2022 and might be extended another five years if all requirements defined in the documentation are met. Magyar Telekom submitted its participation request on November 10, 2020. Six lots of 2x5 MHz blocks are being sold in the 900 MHz band, and 12 lots of 2x5 MHz blocks are being sold in the 1800 MHz band. The auction has already closed succesfully in January of 2021, for further information see Note 35.1.

34.3. Universal services

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

The EECC will bring a new framework in universal services as well – MT will likely be able to let go of some of the obscure obligations of the past, while Hungary will have to ensure affordable and available internet access to consumers. This obligation will be investigated by the NRA until August 31, 2021.

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 regulation 1211/2009/EC regulation, the reduction of charges for international calls and SMSs to member states of the European Union.

The EECC will likely affect all customer relations of MT – the implementation work has begun in the third quarter of 2020, with the major NRA regulations are still in draft. We expect serious IT-developments as well as changes in our processes in order to comply with the new regulations.

34.5 Macedonian Mobile

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

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

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

An auction procedure concluded in August 2013 awarded the whole 790 – 862 MHz band together with the unassigned spectrum in the 1740–1880 MHz band for Long Term Evolution (LTE) technology in a public tender. Each of the 3 North Macedonian mobile operators, at that time, obtained an LTE radiofrequency license of 1x10 MHz in the 800 MHz band and 2x15 MHz in the 1800 MHz band. Each license was acquired for a one-off fee of EUR 10.3 million (approximately HUF 3.2 billion). The license is for 20 years, until December 1, 2033, with an extension option for 20 years, in accordance with the ECL.

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

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

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

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

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

Telekabel offering fixed services, in January 2019 started operating as MVNO hosted on Makedonski Telekom mobile network under regulated wholesale conditions.

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

Based on public debate at the beginning of 2017 NRA adopted changes in the Rulebook on Radiofrequencies fees:

- Decrease of RF fees from 2.3 GHz to 3 GHz for 43% (from 16,800 EUR/MHz to 9,600 EUR/MHz)
- Decrease of RF fees above 3 GHz for 76 % (from 16,800 EUR/MHz to 4,000 EUR/MHz)
- Decrease of RF fees above 55 GHz (E band RF links) for 50% (from 8,000 EUR/250 MHz to 4,000 EUR/250 MHz)

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

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

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

NRA announced in their 2020 working program preparation of tender for 700 MHz band. They also announced release of Digital dividend 2 radiofrequencies and repositioning of the broadcasters in the lower part of the UHF band.

In April 2019, Ministry of information society issued National Broadband strategy which sets the following targets:

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

5G public tender is expected to be published By NRA in February 2021 for the following radiofrequency bands 700 MHz, 3.X GHz and 26 GHz. Ending of the procedure could be expected in second or third quarter of 2021.

34.6 Macedonian Fixed line

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

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

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

According to the Rulebook for technical conditions and building infrastructure (from July 15, 2014), Makedonski Telekom AD is obliged to build its infrastructure underground in urban areas with over 15,000 citizens for buildings for collective living with more than eight apartments. MKT has a Digital Agenda obligation for coverage of 100% and 50% of all

Macedonian households with 30 Mbps and 100 Mbps broadband speed respectively, with a technology neutral basis until the end of 2020.

Changes of the rulebook were initiated in April 2020 with proposal for withdrawing of the Digital Agenda obligation. Changes are still not enacted, expecting to be valid from 2021.

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

NRA published tender for USO provider at the end of 2016, and one of the main criteria is the required amount for a refund.

According to the results from the last tender, Makedonski Telekom is universal service provider until 2021 for the following services:

- Fixed access and access to disabled users (voice and internet of minimum 2Mbit/s download)
- Public payphones

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

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

In the middle of 2019 NRA implemented ERT testing to NGA based broadband wholesale services supplied by the two dominant operators (MKT and A1Macedonia – former One.Vip). The developed ERT model will test the economic replicability of the retail bundles including broadband services with access speed higher than 30 Mb/s. Ministry for information society and administration completed National Broadband Plan and 5G strategy for fulfillment of the Digital Agenda and is in the process of implementation.

35 EVENTS AFTER THE REPORTING PERIOD

35.1 Acquisition of frequency usage rights

The Company won the rights of use of 8 MHz and 20 MHz duplexes on the 900 MHz and 1800 MHz frequency bands respectively in the auction procedure for the entitlements of frequency use of the 900 MHz and the 1800 MHz frequency bands in January, 2021. Entitlement of the currently used 10 MHz and 15 MHz duplexes on the 900 MHz and 1800 MHz frequency bands respectively are due to expire in April, 2022. As a result of the auction Magyar Telekom will be entitled for the usage of the now acquired frequency blocks until 2042 provided that by fulfilling the respective conditions, the term of rights of use for frequencies is extended by five years. The Company is required to pay a total price of HUF 44.28 billion for these frequency blocks and this payment is expected to be due in the first quarter of 2022. The present value of the future frequency fees related to the acquisition of the frequency blocks is approximately HUF 39.5 billion.

Budapest, February 25, 2021

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

CONSOLIDATED BUSINESS REPORT

MAGYAR TELEKOM TELECOMMUNICATIONS PUBLIC LIMITED COMPANY

FOR THE YEAR ENDED DECEMBER 31, 2020

INTRODUCTION

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

- SUMMARY ON 2020 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
- RESEARCH AND DEVELOPMENT
- REAL ESTATE, SITES OF OPERATION
- SUSTAINABILITY
- ENVIRONMENT PROTECTION
- CORPORATE COMPLIANCE
- ECONOMIC ENVIRONMENT, OUTLOOK AND TARGETS
- INTERNAL CONTROLS, RISKS AND UNCERTAINTIES
- ANALYSIS OF FINANCIAL RESULTS FOR 2020
- SUBSEQUENT EVENTS BETWEEN THE END OF THE YEAR AND THE RELEASE OF THE REPORT

SUMMARY ON 2020 OPERATIONS

Financials

Magyar Telekom delivered financial results such as revenues, EBITDA AL and FCF excluding spectrum licenses in line with the targets communicated for 2020. This is a very significant achievement in the wake of the COVID-19 pandemic affecting 2020. The pandemic posed previously unforeseen challenges not only from a financial perspective, but also on how we operate. Despite such headwinds our profitability increased in line with our targets: EBITDA AL reached HUF 202.6 billion representing a 2.5% increase year-on-year. Thanks to the strong B2C market momentum and our continued strive for efficiency improvement we managed to off-set the negative impact of COVID-19 and continued to deliver rising EBITDA again.

We recorded a 18.3% rise in our investments in 2020, CAPEX after lease and excluding spectrum licenses grew to HUF 106.1 billion. As a result, cash-flows excluding spectrum licenses amounted to HUF 69.5 billion in 2020, while cash flow after spectrum license payments reached HUF 15.3 billion.

Network

Our high quality fixed and mobile networks have never played a more essential role than this year enabling us to provide seamless services to the wider society and our business customers.

As a result of previous years' network development, the gigabit capable network covers over close to 2.5 million access points in Hungary representing 58% of the total.

As far as the mobile network is concerned a clear highlight of the year was the launch of commercial 5G services in April. Shortly after the frequency auction Magyar Telekom commenced providing 5G services on the 3.6 Ghz band. Since then the service was gradually extended and it covered 28 cities in Hungary. Magyar Telekom remains committed to the development of the legacy network, as well. A major upgrade of the radio access network started in the first half of 2020.

Customers

We are proud that Magyar Telekom stepped up to the challenge and catered for the surging demand for telecommunication services during the most testing period of the COVID-19 pandemic. We have recorded a boost in both voice and data traffic during the peaks of the pandemic. We have seen similar patterns across other European markets and such developments prove that our convergent Magenta offer and our more-for-more approach is more relevant than ever. Accordingly, we have seen a strong response from our customers to our upgraded service portfolio and we successfully leveraged those market trends.

Efficiency

Successful efficiency improvement efforts played a vital role and contributed significantly to the achievement of our 2020 targets. While the total number of employees decreased to around 7100 by more than 13% together with a further decrease in other indirect expenses efficiencies supported the bottom line by HUF 5.7 billion in 2020.

Sustainability

Sustainability has played an integral part when amongst strategic priorities of Magyar Telekom even in the past couple of years, yet COVID-19 had a profound impact to our priorities in this regard in 2020. First and foremost, we are proud of how we have supported communities during these challenging times. Over the last couple of months, Magyar Telekom proved that the Company is much more than a telecommunications service provider and we consider ourselves a trusted partner of the society. As far as our customers are concerned, we have introduced a wide range of tailored solutions supporting enhanced connectivity. Furthermore, we stepped up our efforts to ensure safe work environment for our employees wherever possible.

Further to COVID-19 related initiatives Magyar Telekom's ESG efforts remain highly regarded by ESG (Environmental, Social and Governance) rating agencies and alike. Magyar Telekom has been confirmed as a constituent of the FTSE4Good emerging index for the fifth consecutive year, while MSCI confirmed the company's AA rating this year. Meanwhile ISS's ESG responsible investment assessment named Magyar Telekom as a top-3 company within telecommunications sector with a B Prime rating.

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

As of December 31, 2020, the share capital of Magyar Telekom Plc. was HUF 104,274,254,300, consisting of 1,042,742,543 Series "A" dematerialized ordinary shares. All Series "A" ordinary shares have a nominal value of HUF 100. Rights and obligations related to Series "A" ordinary shares are described in detail in Section 4 of the Articles of Association (http://www.telekom.hu/about_us/investor_relations/corporate_governance/corporate_governance_documents). Information concerning our ownership structure as of December 31, 2020 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	403,323,037	38.68
Treasury shares	21,982,747	2.11
	1,042,742,543	100.00

Deutsche Telekom Europe B.V. owning 60.49% of the Company's voting rights is a member of the Deutsche Telekom Group. The ultimate controlling parent of Magyar Telekom is Deutsche Telekom AG (DT or DT AG).

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

1.1 Voting Rights and Voting

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

1.2 Transfer of Shares

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

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

2 CORPORATE GOVERNANCE

2.1 Annual General Meeting

The General Meeting has the exclusive right to approve and amend the Articles of Association (section 5.2. (a)) unless otherwise provided by law or the Articles of Association. According to the Articles of Association, the Board of Directors is entitled to make decisions regarding any change in the registered seat, sites, branch offices and – except for the main activity – the scope of activities of the Company and in relation to this, to modify the Articles of Association (section 6.4.(p)).

2.2 Board of Directors

The Board of Directors operates based on its Rules of Procedure. (https://www.telekom.hu/about_us/investor_relations/corporate_governance/board_of_directors).

The rules of competence regarding the capital increase and purchase of treasury shares are detailed in Sections 5.2 (b) and (p) as well as 6.4. (l) and (m) of the Articles of Association. The Board of Directors[1] by its Resolution No. 4/5 (04.24.2020) adopted an authorization 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 five and a maximum of eleven members elected by the General Meeting for a term of three years, unless otherwise provided by the General Meeting. On December 31, 2020, there were eight members of the Board of Directors.

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

On December 31, 2020, members of the Board of Directors, their principal occupation and the years of their original election were as follows:

Name	Born	Principal Occupation	Member since
Dr. Robert Hauber........................	1971	Senior Vice President Finance & Performance Management Europe, DT AG, Chairperson of the Board of Directors of Magyar Telekom Plc.	2017
Daria Aleksandrovna Dodonova............................	1976	Chief Financial Officer of Magyar Telekom Nyrt.	2020
Gábor Fekete................................	1950	Consultant	2020
Ralf Nejedl....................................	1970	Senior Vice President B2B Europe, Deutsche Telekom AG	2016
Frank Odzuck	1959	Chief Executive Officer of Zwack Unicum Plc.	2006
Péter Ratatics	1982	Chief Operating Officer of MOL	2019
Tibor Rékasi..................................	1973	Chief Executive Officer of Magyar Telekom Plc.	2018
Éva Somorjai-Tamássy................	1966	Chief Human Resources Officer of European Center, Deutsche Telekom AG	2019

The members' assignment lasts until May 31, 2022.

[1] Due to the situation caused by the coronavirus epidemic (Covid-19) the Annual General Meeting was not held on its scheduled date. Based on Section 9 (2) of Government Decree no. 102/2020. (IV. 10.) the Board of Directors of the Company decided in the matters set on the published agenda of the Annual General Meeting.

2.3 Management

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

On December 31, 2020, the members of the Management and the years of their original election were as follows:

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

2.4 Supervisory Board

The Supervisory Board carries out its activities based on its Rules of Procedure (https://www.telekom.hu/about_us/investor_relations/corporate_governance/supervisory_board).
The Supervisory Board shall examine all submissions to be submitted to the General Meeting and present its opinion thereof at the General Meeting. The General Meeting may pass a resolution on a report pursuant to the Accounting Act and the use of the profit after income tax only upon receipt of the written report of the Supervisory Board. The Supervisory Board makes a proposal directly to the General Meeting regarding the election, remuneration and removal of the Statutory Auditor.

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

On December 31, 2020, the members of the Supervisory Board, their principal occupation and the years of their original election were as follows:

Name	Born	Principal Occupation	Member since
Dr. Attila Borbély.........................	1951	Full Professor of University of Debrecen, Faculty of Economics and Business, Chairperson of the Supervisory Board of Magyar Telekom Plc.	2020
Krisztina Dorogházi......................	1972	Senior Vice President Chief Accounting Officer and Controller, TechnipFMC	2020
Tamás Lichnovszky......................	1962	Chairman of the Central Workers' Council, Magyar Telekom Plc.	2010
András Szakonyi...........................	1973	Senior Vice President - Europe, Middle East and Africa, Iron Mountain	2020
Zsoltné Varga...............................	1969	Chairwoman of the Central Functions Workers Council, Magyar Telekom Plc.	2008

The members' assignment lasts until May 31, 2022.

2.5 Audit Committee

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

The members of the Audit Committee have been elected by the General Meeting from the independent members of the Supervisory Board for the same period as their membership in the Supervisory Board.

On December 31, 2020, the members of the Audit Committee were as follows:

- Dr. Attila Borbély
- Krisztina Dorogházi
- András Szakonyi

2.6 Remuneration and Nomination Committee

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

The Remuneration and Nomination Committee, among others, makes recommendations to the Board of Directors on the establishment and/or termination of employment, and the modification of the employment contract of the Chief Executive Officer and the Chief Officers, and defines the remuneration of the Chief Executive Officer and the Chief Officers of the Company.

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

On December 31, 2020, the members of the Remuneration and Nomination Committee were as follows:

- Dr. Robert Hauber
- Ralf Nejedl
- Frank Odzuck

2.7 Corporate Governance and Management Report

Magyar Telekom Plc. is a public limited company listed on the Budapest Stock Exchange. In 2004, the Budapest Stock Exchange issued its Corporate Governance Recommendations (the Recommendations) containing recommendations related to the corporate governance practice of companies listed on the Budapest Stock Exchange, taking account of the most commonly used international principles, of experiences gathered in Hungary, and of the characteristics of the Hungarian market as well as the Companies Act. The Recommendations were updated in 2007, 2008, 2012, 2018 and in 2021. The Recommendations effective from time to time is available at the website of the Budapest Stock Exchange: https://www.bse.hu/Products-and-Services/Rules-and-Regulations/BSE-Rules

In line with the current regulations, the Board of Directors of Magyar Telekom approved the Corporate Governance and Management Report of the Company (report) prepared in accordance with the Corporate Governance Recommendations and submitted it to the General Meeting. The report – along with other corporate governance related documents - is published in the Corporate Governance section of the website of the Company:

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

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

Sections 1 to 5 of the above report include the description and operation of the Board of Directors, the Supervisory Board, the relevant committees and executive management. Section 6 of the report includes a description of the internal controls and risk management procedures, while Section 8 of the report describes the disclosure policies and insider trading guidelines. In Sections 9 to 10 the method of excercising shareholders' right and the rules on conducting the General Meeting is summarized, while Section 11 contains the Remuneration Policy. The Company complies with the vast majority of the 72 recommendations and proposals, however in the business year of 2020 in case of one recommendations and one proposal it has not or not completely complied with due to the organizational structure or processes of the Company.

In 2020, the Magyar Telekom's disclosure processes were evaluated in the ICS (Internal Control System) by the relevant organizational units and were tested by the internal audit area. The disclosure controls and procedures of Magyar Telekom were effective and designed to ensure a proper basis for the timely and accurate disclosures to the market participants required under the respective accounting, capital markets and company law regulations.

3 SOCIAL COMMITMENTS, LABOUR STANDARDS, HUMAN RIGHTS

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

3.1 People strategy

The business strategy of Magyar Telekom is centered around the realization of a digital business model that is based on utilizing new technologies in service of consumer relationship management in order to build trust and drive value creation. To achieve this goal, the human resources organization has been transformed to an even more efficient, agile, customer-focused People Unit in support of the corporate business strategy. in 2020, existing people strategy priorities were complemented by addressing the new challenges posed by the pandemic. A key priority was to react quickly and safely, protecting the health of our clients and employees, and support the new way of work for all.

Key objectives and key results of people services in 2020:

Become the Most Attractive Company

The percentage of new entrants choosing Telekom on the recommendation of our employees has increased substantially. We have improved our candidate experience and managed to achieve that every second piece of positive industry news referenced Telekom. We have also managed to improve employee satisfaction regarding the compensation and benefit scheme.

Transform Work to Real Employee Experience

Digital experience has increased, and our feedback culture has also improved. Transparent internal communication helped raising the level of understanding the business strategy and changes within the company.

Upgrade our Structure & Culture

We continue with the agile transformation of Magyar Telekom integrating further units under the umbrella of agile way of work. Along with this process the agile maturity of agile and non-agile unit employees has significantly increased.

Upgrade our Skillset

All agile teams are using the Competence Model as a common platform for development and career planning. The average time to hire in recruitment has further decreased allowing qualified candidates enter more quickly and we have also increased internal career moves supporting the filling of particular vacancies with internal talents. We have upskilled servant leaders and executed overall strategic skill development throughout the company units.

+1 Tackling issues caused by COVID-19 pandemic

Since the beginning of the first wave of the epidemic, about 80% of our employees have switched to 100% telework. Positions that did not allow remote working, such as network establishment or troubleshooting technology unit colleagues and front-end customer service professionals, we have secured uninterrupted service providing our employees with equipment and working conditions meeting the requirements of the imposed health and safety rules.

Working parent colleagues with children under 14, who were unable to provide sufficient daycare after the closing of education institutions were provided an absence fee, and we speeded up the processing of corporate emergency assistance and salary advance request applications. At the beginning of April 2020, at the initiative, personal responsibility and financial contributions of the Leadership Squad, Tibor Rékasi, CEO funded the Magenta Alliance Foundation in support of employees facing financial insecurities due to the pandemic crisis. The Foundation is open for applications and accepts donations from all Magyar Telekom and T-Systems employees. By the end of 2020, nearly HUF 5.7 million in donations had been raised through employee donations.

In addition to the above, the following people management perspectives continued to be emphasized in 2020:

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.

3.1.1 Headcount

The following table provides information on the closing number of employees of Magyar Telekom Plc. and its consolidated subsidiaries:

	2019	2020
Magyar Telekom Plc. (full time equivalent)	5,501	5,149
Magyar Telekom Plc. and its consolidated subsidiaries (full time equivalent)	8,246	7,132

	2019	2020
MT-Hungary /Telekom Hungary (full time equivalent)	7,178	6,187
North Macedonia (full time equivalent)	1,068	945
Total (full time equivalent)	8,246	7,132

From 2017, the operating segments of the Group: MT-Hungary and North-Macedonia. Please refer to the Note 33. to Consolidated financial statement for further details.

3.2 Policies

3.2.1 Policies and agreements

Code of Conduct: https://www.telekom.hu/static-tr/sw/file/mt-code-of-conduct.pdf

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

Code of Human Rights and Social Principles:

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

Equal Opportunities Plan: https://www.telekom.hu/static-tr/sw/file/Magyar_Telekom_Eselyegyenlosegi_Terv_2016_2020_en.pdf

The Code of Human Rights and Social Principles and the Equal Opportunities Plan of Magyar Telekom set the general human rights principles of the group and guidance to their group-wide implementation. Magyar Telekom Group recognizes and respects the fact that the cultural, social and legal diversity of its employees provide the foundations of operations based on equal opportunities. It is also a competitive advantage that leads to business success.

Diversity Policy - https://www.telekom.hu/static-tr/sw/file/Diversity_Policy.pdf

The Diversity Policy of Magyar Telekom Group underscores our commitment to consistently identify and utilize potential for improvement.

Group Policy on Employee Relations - https://www.telekom.hu/static-tr/sw/file/Employee-relations-policy.pdf

The policy is present as an internal corporate directive since 2011 and was published as a public corporate policy in 2018. Based on our shared values and Guiding Principles, this policy offers a framework that enables the entire workforce to strengthen business performance, contribute individually to business objectives and increase shareholder value. Employee relations cover all aspects of the work life cycle that are relevant to the employment relationship.

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

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

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

Equal Opportunities Plan: https://www.telekom.hu/static-tr/sw/file/Magyar_Telekom_Eselyegyenlosegi_Terv_2016_2020_en.pdf

Anti-discrimination and the safeguarding of equal opportunities is a key priority to Magyar Telekom Group. According to the act CXXV of 2003 on Equal Treatment and Promotion of Equal Opportunities, and the corporate protocol in place since 2010 Magyar Telekom Group has accepted its 4th Equal Opportunities Plan in order to secure the practices of equal treatment, the advancement of equal opportunities and the monitoring an improvement of the labor positions of particular disadvantaged employee groups. The Equal Opportunities plan currently in force is valid between 2016 and 2020 and has been developed in close cooperation with the employee representative bodies. The report on the results of the Plan was accepted by the Central Workers Council at the end of 2020.

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 2020.

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

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

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

3.2.2 Monitoring and auditing practices

The group-level coordination of corporate sustainability operations that also incorporate labor standards, social issues and the protection of human rights is being coordinated by the Group Sustainability Coordination Council (GSCC). The levels of development and management of the corporate sustainability strategy are separated from the operative implementation level within the operation of the GSCC, thus the process of implementing sustainability activities is divided to the level of strategy development and management, and the level of operative implementation.

According to the relevant group directive the strategic tasks are allocated to the respective Chief Officers. 50% of the bonuses of Chief Officers depend on the performance of collective objectives. More detailed information about the actual operation of the GSCC and its reporting obligations towards the Management could be found in the Sustainability chapter of this document and in the annual Sustainability Report.

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

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

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

3.3 Results of Policies

3.3.1 Diversity and Equal Opportunities

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

The corporate Equal Opportunities Plan of 2016-2020 addresses actions and procedures to improve the labor conditions and career perspectives of vulnerable employee 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 4th Equal Opportunities Plan of the company covers the guidelines, policies and actions for the period 2016-2020. The report on the results of the Plan was accepted by the Central Workers Council at the end of 2020.

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

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

Our 2016-2020 Sustainability strategy was supplemented with a Diversity and Inclusion plan in 2018 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. Based on the results of a survey repeated in early 2020, our colleagues consider Telekom to be a more open, safer and inclusive workplace. In 2020, Telekom's public e-learning curriculum, which supports the awareness of unconscious bias, was integrated into the cultural development process of many Hungarian companies, with the help of Telekom's experts. In May 2020, we introduced our colleagues on parental leave about their new contact and training / development opportunities.

3.3.2 Anti-discrimination and labor-market integration actions

As an employer, Magyar Telekom has issued the following actions in 2020 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.

In parallel with the Budapest Pride Festival, Telekom created its LGBTQI Safe Space employee community, having its first event online. During the Festival Telekom Video Library offered a selection of thematic motion pictures.

In order to secure the equal opportunities of our current and future colleagues living with disabilities, we are using a special module on our online job-application site (http://www.telekom.hu/rolunk/ karrier) since 2010, where our applicants are encouraged to state any accessibility requests they might have in order to attend the selection process. Apart from workplace accessibility we support the workplace integration and enablement of our entrants and their welcoming teams by education materials with modules for basic attitudes and inclusive behavior with colleagues with visual or hearing impairments, colleagues facing physical or mental difficulties to work independently within the team. We also provide workshops on demand.

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

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

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

In line with the Code of Human Rights and Social Principles, all Magyar Telekom Group employees and all partners closely related to our brand representation attended compulsory trainings regarding human rights in 2018. 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 “Mondd el!” “Tell me!” whistleblower portal of Magyar Telekom and the “Tell me!” whistleblower portal of Deutsche Telekom AG of has been been established. The main principles and the detailed description of the internal inspection process is detailed in employee directives available on all employees on the shared intranet platform. Throughout the inspection process the whistleblowers’ anonymity, personal and data privacy are guaranteed and handled with utmost discretion.

3.3.4 Relationship of management and employees

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

Trade union and the workers’ council (Central Workers Council) must be consulted and their opinion solicited on significant decisions resulting in organizational changes or changes affecting a large group of employees. In organization restructuring decisions the collective bargaining bodies have seven 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 must 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, 2020, two members of the Supervisory Board were employee representatives. These members were Tamás Lichnovszky and Zsoltné Varga.

3.3.5 Freedom of organization and collective bargaining

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

The Social Charter together with the long history of mutual respect and cooperation of the management and employee representative councils are the guarantees that these rights are being fully and thoroughly respected. 100% of the employment contracts of Magyar Telekom Group employees operating in Hungary fall under collective bargaining agreements developed with the Hungarian Telecommunications Trade Unions (Távközlési Szakszervezet, TÁVSZAK). 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 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 2020 on headcount reduction and wage increase measures for 2021.

According to the terms of the agreement, the Company plans to make ca. 100 parent company employees redundant. Majority of employees affected are to be made redundant are expected to have left the Company by January 1, 2021. The company provides active job search, labor market training and one-on-one counselling to the colleagues laid off, in the framework of Program Chance, which has proven its success in the past years, and trusts that the above support these highly-trained employees of up-to-date professional expertise in finding employment elsewhere as soon as possible.

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

3.3.7 Benefit Programs

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

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

3.4 Risk management

3.4.1 Providing educational and professional background

The educational pillar of Magyar Telekom's Sustainability Strategy aims to improve the digital competencies of the clients and the wider public. It also aims to contribute to the development of industrial succession knowing that a potential throwback in the amount of available highly qualified professionals in the industry could mean a serious risk to maintaining, improvement and development of the quality of our services. In order to secure the highest quality service to our clients we need to 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's role is to support educational and research activities.

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 institutions and we help the universities with consultancy for writing theses, expert education and giving lectures.

As part of the 2020 framework agreement between the Institute of Economics of the Corvinus University of Budapest and Magyar Telekom, Telekom participated in inspiration lectures and recruitment consulting at the university's Own Your Career Day career orientation day. A joint action learning course was launched and along two Intensive Weeks, a total of 70 students attended the online lectures Telekom experts of different business areas throughout the weekdays, helping students in solving cross-functional agile project task.

20 selected university students have joined the first year of Telekom's Kickstart program. During the one-year program, the trainees received professional, soft-skill and design thinking trainings. Kickstart trainees, who work in a variety of areas throughout the company gather up for a half term agile project assignment strengthening their ability to work in a cross-functional team. The joint project task is based on real business needs, thus strengthening the importance of the program in parallel with the development of MT.

Launched in March 2020, MagentaKraft helps young visionaries with trainings and events on their journey to develop their inventions and projects. As soon as the epidemic situation allows, the Debrecen Kraft Space is going to open its doors, where various devices support the birth of innovations such as a professional video studio, a podcast studio, a programmable robot arm and many others.

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 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 a responsible company, we are aware of the social phenomenon of the gender pay gap and are committed to eliminating its root causes within our own business environment. In July 2020, we conducted a complex gender pay gap analysis, during which we defined an equal opportunities action plan to reduce the possibilities of inequalitites such as the 'motherhood penalty' and the female career gap.

As an employer dedicated to diversity as a core value, Magyar Telekom finds it important to raise the number 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 with 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. From May 2020, for the first time in the company's history, we have achieved a balanced 50% gender ratio in our senior management. As we have not reached the 30% target for total management, we will continue to work towards the increase of female representation in management positions.

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 (e.g. illness or the longer term domestic care of a relative) a longer period of unpaid leave is also available. In the changed situation caused by the pandemic, we also supported the physical and mental health of our employees by providing online gym exercise sessions and coaching opportunities.

3.5 Performance indicators

Education results of the 2016-2020 Sustainability Strategy:
- Between 2016 and 2020 we have managed to develop nearly 100.000 smarter brains with the help of digital inclusion programs e.g. Digital Bridge, LTI, LTMG

Non-typical employment at Magyar Telekom Group
- No. of Part-time employees in 2020: 119
- No. of Flexi-time employees in 2020: 1,240
- No. of Teleworking employees in 2020: 4,255

More women in leadership positions at Magyar Telekom Plc.
- Percentage of women in overall workforce: 35.7%
- Percentage of women in senior management: 27.2%
- Percentage of women in Leadership Squad: 50%

Volunteer work benefits at Magyar Telekom Group
- No. of volunteer working hours: 3,270
- No. of supported people by the projects: 8,400

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

The aggregate compensation of the members of the Board of Directors in their capacity as Board members was HUF 28 million in 2020.

The aggregate compensation of the members of the Supervisory Board in their capacity as Supervisory Board members was HUF 44 million in 2020.

The total compensation expenses (including social security and other payroll-related taxes as well as contractual termination expenses) of the members of the Management was HUF 1038 million in 2020.

On December 31, 2020, four Management members have an employment contract with indefinite and two members with definite duration. The notice period is two months for all four of the indefinite contracts. 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.

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

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

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

5 RESEARCH AND DEVELOPMENT

Hungary

In addition to innovative Hungarian SMEs, the research and development tasks are performed by the internal researchers as well as the product and services development staff of Magyar Telekom Group. In addition, the Company also takes advantage of the synergistic effect of the internal and external knowledge base and seeks partnerships with well-known innovation centers and higher education institutions. Our main partners are well-known Hungarian universities and research institutes such as the Budapest University of Technology and Economics, Eötvös Loránd University, Corvinus University of Budapest, Óbuda University and the Hungarian Academy of Sciences, University of Szeged and Szent István University.

Exploiting the potential of new technologies, including research and development of the fifth-generation mobile technology, is crucial for the Company group. To this end:

- One of the most significant results is that after many years of preparatory work, the company group launched its 5G commercial service in 2020, and after 2 years of successful development work and piloting, the productization of the 5G-based private network also took place.
- Magyar Telekom, the Budapest University of Technology and Economics (BME) and Ericsson Hungary started a research and development cooperation in the field of fifth generation mobile technology, i.e. 5G.
- T-Systems Hungary is a member of the Horizon 2020 EU-funded R&D consortium researching the application possibilities of 5G technology in Industry 4.0, in which the project researches the benefits of 5G in the industrial ecosystem of the future, presenting, validating and evaluating its potentials in a real production environment.
- Our cooperation continued with BME- and several industrial partners in the field of development and testing of connected and automated vehicles, originally started in 2019, focusing primarily on the development, test and utilization of 5G-based C-V2X technologies.
- MagentaKraft is Telekom's innovative youth platform, which aims at providing new value for the young generations. MagentaKraft provides an opportunity for those who already have a big or little idea in their mind, but don't have the necessary tools (infrastructure, environment, team). In 2020, 15 projects with 30 Krafters were selected to be part of the program and to work with us on the idea development road that is based on design thinking methodology. Beside this MagentaKraft helps the young startups to possibly receive investments from different funds. In 2020, 10 projects reached the final destination of the road and could therefore present their conception to investors in December on pitch days, where all of them got positive feedback.

As a member of the Magyar Telekom Group, in 2020 T-Systems Hungary was an active participant in the AI Coalition, established by the Ministry of Innovation and Technology, where the Company will act as the leader of the technology and security working group.

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

North Macedonia

Makedonski Telekom (MKT) continues with its determination and its work to be innovation and technology leader on the market. Among the main focuses, as a continuation to the previous years, are the projects in the area of the Smart City. Year 2020 was breakthrough in the area of Smart City. MKT has won 3 Smart Light reconstruction projects for smaller municipalities, and at the end of the year we have signed the contract for the Capital of North Macedonia, Skopje, with smart lighting, parking, air quality, citizen engagement, water metering and mayors' dashboard. As several tender procedures are already open, MKT has the possibility of winning further contracts with municipalities at the start of 2021. From society digitalization perspective, support activities for e-health and e-education strategy preparation are ongoing.

Other important segment that was covered in 2020 I SW development. The MNAV Rostering system, developed by internal and external resources, for Macedonian Navigation provides active roster planning for all flight controllers at the Skopje Airport. In the security and cybersecurity area, we have successfully tested Cisco Umbrella, and we are in the phase of creating a product.

Moreover, collaborating with our partners MKT established a (web-based) integrated communication and data management system for documents and workflows – DX Office. Using DX Office, customers will digitize and automate the existing work processes and documents in order to have a digital office where they will gain speed, control and easier operation. The process of cloudification is finished successfully as the system is hosted on our own virtual private servers.

Moreover, we investigated the potential market and we made cost analysis for implementation of Narrowband for Internet of Things (NB-IoT). Furthermore, utilizing the potential coming out from the EU funded projects in smart Digitalization, IoT solutions, e-government, etc., was also under close loop.

In addition to the business development activities given above, in 2020 we put the focus on the development of the projects and products for digitalization and smart working for the business segment, which we believe are growing market potentials in the forthcoming years, expected to be driven by the advantages of the efficiency of ICT in daily workflows systems and networks, as well as by the transparency and accountability of such solutions.

Under the motto - INNOVATION SYNERGIES – WIN WITH PARTNER, we keep further on our strategic technology partnerships-Cisco Gold, EMC Cloud solution provider, as well as Microsoft Partnership. We started the process for potential cooperation with SAP, also. We started offering SAP Business One exclusively on our market, completely localized in Macedonian language, covering all business processes in an organization. These partnerships are confirmations of MKT's competences in the areas of enterprise networks, cloud, collaborations, network securities, and Data Center technologies. Such competences are deemed to be crucial assets on which we can leverage further in our ICT business development activities.

Driven by the impact of COVID 19, and the increased need for remote working while maintaining the efficiency, Makedonski Telekom exclusively started offering Time Tracking service on our market. It is useful tool for modernizing the work environment and increasing the efficiency by smooth organization of the time and work tasks of the employees.

Having in mind the fact that the company's network is one of the essential resources enabling smooth business operations, Makedonski Telekom started offering the new service intended for efficient management of customers' corporate network and IT infrastructure - mNMS (Managed Network Management System). The service is based on a software solution hosted in our own cloud and provides broad set of tools for network management and monitoring.

Competitive pressure in conjunction with saturated Telco market, COVID 19 challenges, complexity of business environment with multiple and more sophisticated customer segments, multiple vendors and complex service offerings, fast changes in the technology with new technology paradigm targeting for one universal IP network and cloud-based service delivery platform, as well as changes in the regulations, are only part of the challenges that MKT will face in the next few years.

In order to keep sustainable business and major revenue streams in very complex telecommunication environment, as well as proactively influence the market trends with new business opportunities, MKT is aiming to keep its technology leadership position and ensure growth through service improvement and innovation by continuous development of its infrastructure.

Development of infrastructure and investment in Technology should encompass the following objectives/trends: broadband performance, integrated service delivery platforms, efficiency and quality leadership, self-service enablers, cloud concept and "virtual" infrastructure, cost efficiency, flexibility and responsiveness – reduced time-to-market, as well as competence development.

Despite Corona crises, in order to keep sustainable business and major revenue streams in very complex telecommunication environment, MKT has continued to massively expand in the fixed network and mobile communications during 2020.

Telekom's fixed network has proven to be a strong backbone. Home office and homeschooling have led to an increase in usage for telephony and data. The network was able to handle this volume at all times without any problems. Data throughput in the fixed network increased by an average 18 to 25 percent and mobile voice traffic increased by approx. 6 percent.

In terms of fixed-network expansion, the focus was on fiber optics. The fast connection for households and businesses and the rollout strategy of recent years have paid off in terms of working and learning from home. At the end of 2020, there are more than 221,000 FTTH accesses passed which means that around 31.65% of flats already have the option of booking a fiber-optic connection. Regarding the VDSL rollout, there are more than 204,000 VDSL CO accesses passed and 23,660 VDSL FTTC accesses passed in the fixed network. In the 2nd half of 2020, Cu2F project was initiated in order to speed up the retirement of copper technology and optimize cost. Significant attention to this project will be paid during 2021 as well. Deployment of Hybrid Access and LTE box solutions were used where fixed BB is unavailable or with low quality thus improving user experience through higher QoS. At the end of 2020, the number of LTE box users is 4,143 and there are more than 4,550 hybrid users.

The LTE network also continued to grow in 2020 and now covers 99.9% population outdoor. More than 99% of the total sites provided LTE services, 66% of all BTSs are connected via optic. Data volume via 4G is also increasing month by month during the Corona crisis. In order to provide more efficient spectrum usage and optimization of complex 4RATs (2G/3G/4G/5G) mobile network, activities for retirement of 3G Technology were boost in the 2nd half of 2020. The whole project is planned to be completed till the end of 2022 which will result to implementation of new NT production model based on virtualized, cloudified and disaggregated RAN. During 2020, much of the development activities were devoted to further RAN and MW modernization for the introduction of the 5G technology which start is planned for 2021.

In the core domain, the emphasis was placed on the voice network modernization. Several projects were initiated and successfully completed. For example: migration of IMS MRFP to MRS nodes, replacement of the old IMS Extreme switches, deployment of new ENM node and decommissioning of existing OSS/ENIQ, upgrade of the Oracle Performance Management (OCSDM) tool, etc. It is also important to mentioned that in the Q3 2020, the project for virtualization of the native IMS nodes started in parallel with project for migration of the residential users from fix SBC nodes toward VoLTE SBC nodes. Both of them are planned to be completed till the end of 2021. After VoLTE service implementation in 2019, MKT continued to develop this service in 2020. More than 150 k VoLTE users were provisioned till the end of 2020. MKT provided the first commercial VoLTE roaming with Telekom Germany in its network starting from December 2020. With this service (Voice over LTE), the calls are set up over the 4G (LTE) network that until that time has not been used for mobile calls – the smartphones were automatically switched to the 3G network. In everyday life, it means call set up with the speed of lighting, better sound quality, wider range of sounds and reduced background noise.

The growth of BB access and continuous traffic increase were supported with further development of the IP Core and transport network as cornerstone of all services. In ePC domain, HW and SW upgrade on SGSN/MMEs and PGWs was performed in order to cope with increased traffic demand. No major issues during the Corona crisis period were noticed. Activities for NG Aggregation Network modernization were being executed as per plan for 2020. Modernization of the SPNI segment of the network started during 2019, continuing during 2020. Scope of the SPNI project is integration of the main DCs into one geographically distributed network layer, providing network connectivity to all IT and NT services as well as laying down the foundation for Cloudification of the NT and IT production are started. Project finalization is planned in Q2 2021.

The video and high-speed data services are expected to be the main driver and main potential for further market differentiation as well as main opportunity for business growth. In order to improve the quality of the IPTV service and to maintain the position of #1 TV provider on the Macedonian market, upgrade of IPTV video/audio subsystem to Backend 3.0 and Client 2.6 was performed during 2020 MKT. In parallel, TV Strategy document was prepared based on which further development of IPTV and OTT platforms as well as Headend will be done in the next period. Introduction of NPVR, Recommendation engine and UI 2.0 on OTT clients are planned for the next short-term period of two years. Project for replacement of the existing messaging services like Voice Mail, SSMS, MMS, Call Completion, SMSGW and USSD started in 2020 and it is planned to be completed till the end of 2021.

Information technology

During 2020, Makedonski Telekom executed significant IT Transformation.

- Main objective of IT transformation was execution of a sustainable and feasible concept for the IT Operating Model, that enables implementation of DT and MKT digital strategy, financially most efficient option within the budget
- IT transformation model is combination of outsourcing legacy systems (Billing, CRM and Infrastructure domains) and insourcing new employees that will cover the missing skillset
- Inhouse IT is transformed into Agile setup
- Dedicated cross-functional teams are built, unifying IT, Business and Operation for improved and flexible delivery.
- Company focused on Digitalization and building EIRA
- Transformation allows MKT to become competitive employer, leveraging from employee performance

The first project in Agile setup were started and delivered. Further activities are ongoing and will continue in a stronger manner, which will fulfill the plan and enable the realization of the strategic focuses.

6 REAL ESTATE, SITES OF OPERATION

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

Headquarters of major member companies of the Group:

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

Hungary

Out of the 1,636 buildings on the 1,463 sites of Magyar Telekom Plc, 44% are owned by the company, 5% are jointly owned and the rest 51% are leased. These figures do not contain the technology sites, of these types of sites we have 6,235.

The total area of properties used by Magyar Telekom Plc. as of December 31, 2020 was 609,421 m^2. The majority of sites used in our operations are smaller than 100 m^2. The largest site is our headquarters building (leased) located at Könyves Kálmán krt. 36 in Budapest, with floor space of over 55,000 m^2

North Macedonia

At the end of December 2020, MKT radio access network consisted of 883 physical sites on which there are 725 2G base stations, 877 3G base stations and 867 4G base stations. 91% of the site infrastructure (towers) is in possession of MKT and 9% is leased.

The total area that is used by MKT is around 109,029 m2 as of December 2020, out of which around 44,530 m2 are in sole possession of MKT and in great part (53 %) is attributable to 2 major buildings, the headquarters and the main technical building. The remaining 64,499 m2 are in joint possession with Macedonian Post.

7 SUSTAINABILITY

Magyar Telekom has been addressing the sustainability implications of its operations for close to twenty years, and for 15 years its sustainability activities are characterized by comprehensive, long-term plans, and the Company implemented its fourth five-year sustainability strategy in 2020.

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

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

Magyar Telekom's sustainability activities and achievements are comprehensively discussed in the annual Sustainability Reports, which aim to make the Group's environmental, social and economic activities transparent to everyone.

The present report includes reference only to certain key topics of our sustainability approach, namely human rights, employees, environment protection and compliance.

7.1 Sustainability strategy

In 2016, Magyar Telekom Group started its current five-year sustainability strategic cycle, 2016-2020.

In addition to the results of our Sustainability Strategy 2011-2015, the goals and tasks defined for the period through the end of 2020 have been determined by the goals and directions applied internationally in terms of sustainable development (SDG, CDP, GeSI SMARTer2030, EU2020 climate package). When identifying the priorities, the company has focused on the expectations of the responsible investors monitoring our company and the current corporate trends. Of course, local market conditions, as well as consumer behavior and demand have also been taken into account, with a proactive and awareness raising attitude.

When identifying strategic goals, it was kept in mind that the Group's sustainable operation has a significant impact on the society, the economy and the environment. In addition to playing an important role for the livable future of several million customers and more than 8 000 employees, as a market leading ICT provider and a large enterprise of regional proportions, Magyar Telekom is aware that our business and operational decisions influence the economy and the society of the future, too. It is its firm belief that Telekom, as a company, is responsible for all the groups of people whom it can enable by ICT solutions, and that it is inevitable to engrain social, economic and environmental responsibility as part of its corporate DNA thus promote sustainable development and opportunities for future generations.

The main objective set forth by the fourth Sustainability strategy was to make sustainability part of Magyar Telekom's business. Such goal can only be achieved if considering all three pillars of sustainability such as social, economic and environmental dimensions are the company approached these factors in a comprehensive, credible and innovative manner. Until the end of 2020, climate protection, education, digitally enabled sustainability and diversity and inclusion have been in the focal point of the strategy.

Climate protection

The goal was to make customers climate-conscious, too, and to be an authentic and responsible company that helps them along that journey. It was the ambitious objective to generate revenue from the climate protection activities, as the ICT world offers especially great potential for that, at the same time to push Magyar Telekom Group's actual CO2 emission below 100,000 tons. In order to achieve the above, in addition to the emission decreasing initiatives, the company had 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 was 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 primarily focused these trainings on the areas: programs aimed at eliminating the digital gap and the succession pool of the industry beside highlighting the development of its edutainment/inspitainment contents. Every program, activity and campaign are considered as SMART that make customers more sustainable, more responsible, more aware and more educated digitally.

Digitally enabled sustainability

Being a sustainable digital company, Magyar Telekom's clear expectation is 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 policies 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.

The achievements of the Sustainability strategy 2016-2020 is going to be presented in detail in the Sustainability report being published in first half of 2021.

Awards and sustainability recognitions achieved in 2020 and continuously relevant recognitions:

- FTSE4Good Index membership
- CECE SRI sustainability index membership
- MSCI ESG rating AA
- ISS ESG B Prime rating
- Disability-friendly Workplace title
- Family-friendly Workplace certificate, bronze grade – initiating organization: Családbarát Ország Nonprofit Közhasznú Kft.
- Family-friendly Mentor Company – initiating organization: Három Királyfi, Három Királylány Mozgalom

7.2 Initiatives concerning stakeholders

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

- Investors – investor (and responsible investor) assessment
- Customers – sustainable products and services, 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
- Non-profit organizations – Magenta 1 Business/Nonprofit
- Suppliers – sustainable supply chain management
- Media
- Future generations – Become an IT expert!, Become! part of generation NOW, Forum "Most", Magenta Podcast, InternetMOST research

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

Activities related to more stakeholder groups

As part of our 2018 Diversity&Inclusion plan, Magyar Telekom is striving towards an inclusive, open and safe working environment for employees from all backgrounds. In order to promote a working culture of inclusion and non-discrimination, the company has developed the first Hungarian language unconscious bias e-learning material and launched it as a mandatory course for all employees, 92% of whom have successfully completed it by the end of October, 2019. The e-learning is now part of the onboarding curriculum and is mandatory for all new entrants. The aim was not only to support the development of its own working culture but to provide accessible and easily adaptable learning material for all Hungarian enterprises and thus contribute to the promotion of anti-discrimination in the society at large. That is why Magyar Telekom has made the e-learning material publicly available to everyone and published it on the Magyar Telekom website (available only in Hungarian). A number of Hungarian companies have integrated the e-Learning material to their own corporate culture development curriculum. Telekom has provided substantial assistance and guidance to this work along cooperation platforms such as the Egyenlítő Foundation, HBLF and MEF and professional conferences like Forbes Women's Summit and HR Fest.

Recognizing the importance of plastic pollution, Magyar Telekom set a new goal to significantly reducing the amount of single-used plastics generated during our operations. Within the Plastic Free Telekom initiative, first we removed these plastics from the headquarters operation in 2019. We provided our colleagues filtered water and jugs to reduce the amount of PET bottles. In 2020, the company introduced additional plastic removal steps, however, at the time of the pandemic, it was not possible to assess plastic use and remove PET bottles. By the end of the Sustainability Strategic Period, we aimed to reduce the volume of PET bottles by 80% and completely eliminate disposable plastics. This required strong cooperation with suppliers and partners and customers were affected to through the T-shops.

Investors

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

Customers

In 2020, the revenue of Magyar Telekom from sustainable products and services reached a 35.6% 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 in 2019. In 2020, by choosing the ExtraNet Green 1 GB data extension option, Magyar Telekom guarantees to generate the same amount of energy as the one required to transmit 1GB data using our solar power plants installed on the top of the Kékvirág street facility and on the top of two facilities in Szeged.

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

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

Employees

In March, 2020 Magyar Telekom announced again its community solar project. During the program employees had the opportunity to adopt a solar panel. 100 solar panels had been adopted in less than an hour.

According to the findings of our second survey on corporate diversity culture in 2020, our work towards a more inclusive and diverse corporate culture has proven to be successful. Telekom employees consider the company to be a more inclusive, open and diverse workplace pointing out that the corporate efforts towards the reducing of identity based discrimination are exemplary. The results of the survey were also used by Telekom in 2020 to identify further focus points for its diversity activities. In May 2020, the company continued with its project to renew its parental leave and return scheme, which began in 2019. Colleagues currently on leave were being reached out to informing them about the available training and development opportunities and the new ways of staying in touch. 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.

For the first time in the history of the company, gender ratio in Magyar Telekom's top management became balanced in 2020 and a number of measures were taken to further improve the proportion of female executives in the entire management team. Based on the results of the annual Gender Pay Gap analysis of Magyar Telekom Group, completed in July, the company adopted an action plan to help eliminate the root causes. In particular to improve its parental leave and return scheme, management succession planning, recruitment and corporate culture development. The analysis is also used annually as a benchmark for the company's compensation and benefit planning work.

The sustainability strategic target of corporate volunteering was 50,000 hours of voluntary work by Magyar Telekom employees by the end of 2020. Over the past 5 years, nearly 6,000 Telekom colleagues worked a total of 46,202 hours of volunteer work. In 2020, due to the pandemic, it was not possible to perform previous voluntary activities that required personal participation, but despite the restrictions, 222 Telekom colleagues worked 3,270 hours of volunteer work (including blood donation), by means of which a theoretical amount of HUF 9,957,150 was thus donated to the society.

In July, the management of Magyar Telekom set up the Magenta Alliance Foundation to help colleagues in a difficult situation due to the pandemic. By the end of December 2020, nearly HUF 6 million was donated by employees. The company's board of trustees provided support to employees in 100 cases distributing more than HUF 15,5 million.

Local communities

Magyar Telekom and the Hungarian Contemporary Architecture Centre continued to run community gardens in 2020, 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 important that no one is left behind without accessing the opportunities and benefits of the digital world. Within the framework of the Digital Welfare Program, Magyar Telekom has launched its fixed and mobile Digital Welfare Program package providing quality internet service for users seeking to subscribe at most affordable rates, furthermore by introducing the Digital First Aid Program providing free of charge internet access for several hospitals pediatric ward nationwide. Where the fixed internet network is not yet available, the SZIP Mobile internet tariff package can be ordered for the addresses defined in the SuperFast Internet Program (SZIP).

Non-profit organizations

In 2020 Magyar Telekom announced a tender among non-governmental organizations. As part of the Magenta 1 Business / Nonprofit offer, the company provides mobile and fixed services to 38 organizations free of charge for 12 months.

Suppliers

In the framework of the sustainable supply chain management process Magyar Telekom assesses the sustainability performance of its suppliers each year. In 2020 through completing a web audit questionnaire – that contains questions on general, environmental, social and business ethical topics – 17 suppliers were assessed and so 57,98% of the total purchase value has been covered by valid web audit assessments.

Future generations

One of the main objectives set forth by Magyar Telekom's Sustainability Strategy launched in 2016 is to achieve improvement of qualification of 1 million people in Hungary by 2020. The target has been achieved, among other things, by industry-specific succession development programs like Be an IT Professional! , educational events like the NOW Forum and digital education programs like Be a Member of the NOW Generation! In view of the COVID-19 virus and the changes in the education system and communication habits, Magyar Telekom's programs have also been renewed and moved to a new interface.

On The "LEGYÉLTEIS!" site, the company shared information about internet security which are understandable and followable for both children and parents.

The digital education of the older generation continued, and the company started a representative research to explore the internet-using habits of the under-18s. The research was launched in the professional partnership of the Hintalovon Children's Rights Foundation.

The company also appealed to the younger age group with the launch of the Magenta Podcast channel in March 2020, which covers media consumption, diversity, online education, mental health, technological innovation, cultural and economic topics, but expert guests will also speak on topics such as like the home office, digital family or just the covid-19 pandemic.

Charters and initiatives of cooperation accepted and signed by Magyar Telekom Group

Besides professional challenges, the Group also seeks cooperation opportunities for the solution of social and environmental problems.

Magyar Telekom has been an active member of ETNO's (European Telecommunications Network Operators Association) Sustainability Workgroup for years. The members work closely towards solving all kinds of sustainability-related programs.

Magyar Telekom has been the first among the Hungarian companies to accept OECD Guidelines for Multinational Enterprises and set them up as mandatory guidelines for its operations.

European Union's Diversity Charter has been signed by the company and considered as a mandatory guideline.

UN Global Compact has been signed by the company and the "Communication on progress" report on achievements in the 10 principles is published yearly.

Magyar Telekom has acknowledged the UN Sustainable Development Goals (SDG) and through incorporating the priority ones in its Sustainability strategy 2016-2020 the company finds the contribution to the goals a mandatory element of its operations.

Magyar Telekom discloses data and information on its climate related activities through the CDP (Carbon Disclosure Project) platform.

Magyar Telekom has been the first Hungarian company to join the Science Based Target Initiative (SBTi) and has emission reduction targets approved by SBTi.

Magyar Telekom has joined the UNFCCC Climate Neutral Now initiative.

Thanks to the United Nations Global Compact and emission reduction targets approved by the Science Based Target Initiative - by achieving the latter, the company can contribute to keep the global temperature rise of the Earth below 1.5 ° C – Magyar Telekom became the only Hungarian participant in the UNFCCC Race to Zero campaign in 2020.

The Group is a member of several working groups of the Hungarian Business Leaders Forum (HBLF).

https://www.telekom.hu/about_us/society_and_environment/ cooperation

Quality guarantees in the Magyar Telekom Group can be found:

https://www.telekom.hu/about_us/about_magyar_telekom/principles/quality_guarantees

7.3 Annual Sustainability Report

Magyar Telekom Group has committed, among other things, to publish reports about its sustainability performance annually. When the reports are compiled the GRI (Global Reporting Initiative) guidelines and standards are applied, thus ensuring compliance with the principle that the reports have to be the cornerstones ensuring transparency and international comparability. The Sustainability report about 2007 was the first report in Hungary which was prepared according to the GRI G3 A+ compliance level, this meant the highest level of application of the GRI G3 guidelines at the time. Since then, Magyar Telekom has produced an annual report with the highest compliance with international guidelines, the 2013 Sustainability Report was the seventh to meet the requirements of the GRI A+ application level.

The 2014 and 2015 Sustainability Report was compiled along the Fourth-Generation Principles set forth by the Global Reporting Initiative (GRI G4), while since 2016 Sustainability reports have been compiled along the newest requirement, the GRI Standard on “Comprehensive” level. The independent assurance and certification of compliance with the GRI Standard criteria was conducted by PricewaterhouseCoopers along the ISAE 3000 international standard. Further details on the sustainability performance of the Company can be found in the annual reports available on:

https://www.telekom.hu/about_us/society_and_environment/sustainability_reports

The 2020 Sustainability Report is going to be published in the first half of 2021.

8 ENVIRONMENT PROTECTION

8.1 Policies

Magyar Telekom Group upholds its commitment to sustainable development and environment protection in the environmental policy. The policy contains obligations for the members of Magyar Telekom Group both individually and as a Group:
https://www.telekom.hu/static-tr/sw/file/Magyar_Telekom_environmental_policy.pdf

The Group-level coordination is continued to be implemented under the auspices of the Sustainability Committee (SC). The levels of development and management of the corporate sustainability strategy are separated from the operative implementation level within the operation of the SC, thus the process of implementing sustainability activities is divided to the following levels:

1. Strategy development and strategy management level operating under the auspices of the SC: development of strategic concepts, implementation of the strategy, relevant communication with national and international organizations.

2. Operative implementation level managed by relevant organisations of the governance areas and business units, actual operative activities, task management, data provision etc.

The SC’s operation is regulated by a group level directive: on the regulation of Magyar Telekom Group’s sustainability operation and the responsibilities and competence of stakeholders.

The operative management of Magyar Telekom Group, the Management receives at least once a year a report on the implementation of the tasks of the Group Sustainability Strategy and other ongoing significant sustainability activities, results, potential exposures and opportunities.

The Management is informed on the latest sustainability trends and may respond to the feedback from stakeholders through the annual report and based on the report may decide on the amendment of the strategy. The Management keeps contact with the stakeholders through the SC. Incoming inquiries are received by the respective professional areas and critical comments regarding sustainability are transferred to the responsible staff members by the SC members. According to the relevant group directive the strategic tasks are allocated to the respective Chief Officers.

8.2 Results of the policies

As a leading provider of info-communications services in the region, Magyar Telekom's commitment to sustainable development with a focus on preserving the environment lies at the 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). In 2019, in response to the IPCC 1.5°C Report, Magyar Telekom set more ambitious targets, which were also approved by SBTi. By 2030, Magyar Telekom Plc. will work to achieve the following goals:

- reduce absolute scope 1 and 2 GHG emissions 84% from a 2015 base year;
- reduce absolute Scope 3 GHG emissions 30% from a 2017 base year.

In 2020 Magyar Telekom continued its carbon neutral[2] project. The company spent half of the income of the company car policy regulated bonus-malus system to financial implementation of the project. To achieve the carbon neutrality in 2020 - for the sixth year in a row - Magyar Telekom Group used 100% renewable energy for electricity consumption and offset the rest of its emissions, by purchasing and retiring 24,434 CER (Certified Emission Reduction) units from a Chinese green project. In 2020 Magyar Telekom Plc. has purchased 165 GWh of renewable energy with Guarantee of Origin that is equal with 100% of the total amount of electricity used by the Company.

Our highlighted environmental and operational ecoefficiency goals are:

- Reducing CO_2 emissions (target set below 100,000 tons of CO_2 by 2020)
- Energy consumption: saving energy (reduce consumption), increase of energy efficiency levels, using green energy
- Increase the energy efficiency of buildings
- Decrease fleet consumption, promotion travel replacement solutions, and dematerialization solutions
- Introduction of sustainable and climate-friendly products and services
- Waste management: reduction of waste (increased recycling-rate)
- Measure the climate footprint of customers and suppliers

8.3 Risks

Based on the Business Continuity Management System (BCM) the company has identified the critical climate risks (floods, heat waves) that might affect our operations and we have prepared action plans for possible risk management. According to the annual assessment the rate of climate damage in the network did not reach the level of intervention (HUF 50 million damage/ month). In 2020 74 climate related cases (storm damage) have been identified with the costs of 7.6 million HUF. During heatwaves, the company allows its colleagues to work remotely and increases the core temperature of datacenters and base stations in order to reduce the energy consumption.

In setting the emission reduction targets, Magyar Telekom has considered the current Paris Climate Agreement and EU standards, as well as the IPCC's 1.5 °C goals, but it is assumed that regulators will set stronger emission reduction targets in the future, which may involve financial risks. On the other hand, thanks to the company's forward-looking climate strategy, Magyar Telekom has an advantage over its competitors, along with rigorous regulations.

[2] carbon neutral means net zero GHG emissions

Opportunities

In addition to its energy efficiency investments and carbon neutral operations, the company considers the use of renewable energies to be one of the most effective tools for combating climate change. Its long-term goal is to ensure the supply of electricity to the network as much as possible from renewable energy sources, therefore it has implemented the installation of solar systems in its own buildings in several stages. Magyar Telekom also provides an opportunity for its customers, who also consider combating climate change, to be able to choose a service that contributes to climate protection. That's why in 2019 Magyar Telekom created the world's unique ExtraNet Green 1GB 30-day option. Although the measures taken during the pandemic in 2020 reduced turnover after its success in 2019, the company still retains the option for its customers.

In 2020, the European Union created the Taxonomy Regulation, which lists environmentally sustainable economic activities. It is an important tool for increasing sustainable investment and implementing the European Green Deal, in particular by providing companies, investors and decision-makers with appropriate definitions of the economic activities that can be considered environmentally sustainable. The purpose of the Regulation is to create security for investors, protect private investors from greenwashing, help companies plan for the green transition, and alleviate market fragmentation. Implementation acts of the Regulation, which will also affect the ICT sector, have not yet been completed, but it is expected that the Magyar Telekom Group's sustainability strategy and its implementation may improve the Company's perception among investors factoring in sustainable investing considerations.

8.4 Performance indicators

Cumulated CO_2 emission – 85,400 tons CO_2

Group CO_2 emission by categories – Scope1: 13,898 tons CO_2, Scope2: 71,502 tons CO_2

Energy efficiency – bits transmitted / energy consumption – 219,05 Gbit/kWh

The average CO_2 emission of the fleet – 110 g/km CO_2

9 CORPORATE COMPLIANCE

When shaping the compliance program of Magyar Telekom Group, the goal was to ensure that Magyar Telekom Group pursues its business activity with maximum awareness of and commitment to compliance with the applicable laws and legal provisions, in accordance with the strictest norms of ethical business conduct. To this end, we issued policy statements addressing the potentially arising compliance-related risks, and we apply the procedures set out in these policy statements and arrange continuous training courses for our employees related to these procedures. We established clear concise processes to report, examine, follow up and correct suspected cases of non-compliance.

The Corporate compliance program is supervised by the Group compliance officer. The Group compliance officer reports directly to the Audit Committee, and cooperates with the Board of Directors, the Supervisory Board and the management. The Corporate compliance program focuses on the Code of Conduct.

The Code of Conduct of Magyar Telekom Group contains the summary of the compliance requirement within the company, sets common values of the Group and is a key to the strong position, reputation and successful future of Telekom. The Code of Conduct applies to everyone within the Magyar Telekom Group from the employees to the members of the Board. In addition, contracted partners of the Magyar Telekom Group also have to know and accept these values, when registering on the procurement website.

In the year 2010, an external independent party audited the implementation of the Compliance program, and we were awarded a certificate of compliance with the external expectations and of the implementation of the system. The program was revised in 2013, including other related areas as well – such as procurement, internal audit, HR, sales. The audit was not aimed only at the implementation and control of the system in the different areas, but it measured the operational efficiency of the control system. We met the expectations and were awarded by a certificate issued by Ernst&Young as independent external party.

In 2017, again an external auditor (KPMG) evaluated the effectiveness of the compliance management system of Magyar Telekom, and issued a certification that the program complies with the requirements of the new anti-corruption ISO standard. 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, 89 943 distance learning courses were completed by the employees on group level, related to topics, such as compliance awareness, supplier due diligence, anti-corruption measures, incompatibility or insider trading.

On the top of that, our company has arranged personal training sessions for employees working in professional areas exposed to compliance and abuse related risks – both within the parent company and Hungarian and international subsidiaries – in the topics of organized anti-corruption behavior, screening of contracted partners and rules of giving and accepting gifts.

In 2020 – similarly to the practice of the previous years – risk analyses were conducted with the participation of organizations and subsidiaries of Magyar Telekom Nyrt. Based on the results of the survey, a comprehensive audit was prepared for the potential compliance and abuse risks, the result of which was submitted to the Audit Committee of the Company.

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

9.1 Fight against bribery and corruption

9.1.1 Policies

Magyar Telekom does not tolerate any attempts of corruption, so numerous procedures and policies were introduced to prevent and fight corruption. Magyar Telekom complies with the anti-corruption rules of the Group, and expects its business partners not to engage in unlawful activities (including breaching the anti-corruption laws) such as utilize any money or other services provided by Magyar Telekom for unlawful purposes. This also includes direct or indirect payments to individual(s) to improve the perception of Magyar Telekom (or any parties acting for Magyar Telekom) or to influence any business decision. Magyar Telekom strictly prohibits any form of corruption including (but not only), receiving personal advantages or monetary gains, accepting or providing bribes or promising facilitating payments. The Group also prohibits employees from making beneficial decisions towards family, friends or close or distant acquaintances. It is not allowed to provide any gift or invitation to an event to third parties if it could potentially influence any business transaction. Magyar Telekom Group does not support morally or financially any political parties, organizations or representatives of these. Magyar Telekom will not start business relations with third parties that violate the anti-corruption clauses of the Compliance Program or the basic principles of the Code of Conduct.

Due Diligence procedures: There are no fixed procedures on how thorough due diligence should be to avoid legal responsibility or any investigation as per the anti-corruption laws. The aim of these procedures is to identify high-risk areas, and to provide indication when further due diligence or review is required.

9.1.2 Result of the policies

During the year, we have verified the plausibility of any complaints we have received about unethical 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 registering and analysis of compliance risks and identifying other compliance relevant cases at Magyar Telekom. The yearly Compliance Risk Assessment (CRA) handles active and passive corruption separately. The risk assessment always includes Magyar Telekom, T-Systems and Makedonski Telekom. Other subsidiaries can be included on a case-by-case basis, based on information originating from internal investigations. The CRA fully covers the abovementioned companies. The Group Compliance Officer informs the Audit Committee, the Board of Directors, and the management about the result of the risk assessment and gives an update about the status of the measures in every quarter.

10 ECONOMIC ENVIRONMENTS, OUTLOOK AND TARGETS

The economic environment in 2020, has been drastically impacted globally by the outbreak of the COVID-19 pandemic. Economies moved into recession worldwide and government focus was turned towards measures fostering employment and supporting both households and businesses under pressure.

The telecommunication industry has always shown relative resilience to economic downturns. During 2020, this tendency has been even more pronounced as telecommunication played a critical role in keeping businesses and families connected in times of lockdowns and with the spread of social distancing measures. At the same time, several ongoing developments, such as the need for digitalization, demand for data and the use of online, virtual channels have been accelerated by the outbreak of the pandemic and has possibly changed the positioning, role and developments of the global telecommunication industry.

10.1 Economic environments and outlooks

Hungary

In 2020, similarly to the global developments, the Hungarian economic performance was heavily impacted by the outbreak and spreading of the COVID-19 pandemic. As first lockdown measures to contain the pandemic began in mid-March, it had a smaller impact on economic data in the first quarter, however, the second quarter saw a sharp decline in GDP reflecting the contraction in household spending coupled with strong decline in export activities. As the physical distancing measures have been gradually lifted from the beginning of May, retail sales rebounded but the deteriorating labor market situation continued to moderate household purchasing power. Tourism and related sectors also came under pressure and only a temporal and partial recovery was witnessed during the summer and early autumn period. The second wave of the pandemic brought along some further restrictions that again limited economic performance in several sectors leading to an overall GDP contraction of 5.2% for full year 2020.

In 2021, GDP is expected to recover from the pandemic's fallout as private spending rebounds, external demand returns on the back of a reopening of the global economy and inflows of EU funding provide further support. However, this projection is highly dependent on the evolution of the pandemic and as such it poses a downside risk to the outlook.

With regards to the Hungarian telecommunication sector, several different implications have been witnessed. On one hand, demand for telecommunication services surged, especially in the initial phase of the spread of the pandemic. Voice and data usage rose significantly across both fixed and mobile networks during the months of the lockdowns and the latter remained on this elevated level ever since. Demand for IT services has been shaped by social distancing measures with projects facilitating digitalization of businesses among the most sought-after. On the other hand, visitor revenues declined considerably reflecting lower tourism whereas the weakening of the forint-euro exchange rate also impacted unfavorably the results in 2020.

Looking ahead, while the precise development of the current pandemic situation remains uncertain, demand for telecommunications services expected to remain strong with digitalization continuing to be of vital importance. To ensure the reliability and security of our networks, the management remains committed to invest in our fixed and mobile infrastructure going forward.

North Macedonia

The COVID-19 pandemic hit North Macedonia significantly, with restricting measures negatively impacting economic performance. Travel restrictions and social distancing measures also impacted the economy negatively as it is strongly reliant on tourism. As a result, the country suffered from its deepest recession in two decade. Although government support programs were introduced, pressure on labor markets and incomes was still prevalent. Similarly to the global situation, the speed of recovery in North Macedonia is highly dependent on how the pandemic evolves, and when can a sustained recovery both in the region and in the European Union be witnessed.

In North Macedonia, the lack of tourism has had a more adverse impact on the performance of telecommunication operators as visitor revenues represent higher share from the annual results whereas the pressure on household income became visible in the spending power of the prepaid customer base. Looking forward, it is expected, that though with a delay, but with the recovery of the economy the telecommunication spending of the customers will also improve and the Group will be able to further leverage its strong market positions.

10.2 Revenue, EBITDA AL and Capex AL targets

Despite the negative impact of the COVID-19 pandemic Magyar Telekom has sustained its momentum in 2020, thanks to continued focus on executing commercial and strategic priorities, and delivered a performance ahead of its 2020 public targets.

Group revenues grew by 1.0% reflecting primarily the growth in telecommunication service revenues fuelled by strong demand for fixed and mobile data services. EBITDA AL reached an annual increase of 2.5% as increases in revenues were coupled with significant indirect cost savings.

Digitalization has been of vital importance with the outbreak of the pandemic and networks were playing a critical role in keeping businesses and families connected. To ensure the reliability and security of its networks, the Company continued to invest in its infrastructure. Annual Capex AL (excluding spectrum licenses) reached 106 billion forint as fiber network roll-out gathered pace with overall development exceeding previous years' levels while the Company also commenced a comprehensive mobile network modernization program. Furthermore, thanks to the acquisition of mobile spectrum licenses related to 5G and mobile broadband services, the Company commenced commercial 5G services in early April and steadily expanded its coverage throughout the year.

Looking ahead to 2021, it is expected that the Company can keep its strong market positions and capitalize on its network quality and customer centric approach. Consequently, both revenues and EBITDA AL are expected to increase further with a rate of 1% to 2% whereas reflecting the Company's commitment to further network developments, Capex AL (excluding spectrum licenses) is foreseen to remain broadly stable, all compared to 2020 results.

Looking further ahead until 2024, revenues are forecasted to continue to grow by a compounded average growth potential of 1% which coupled with further savings in indirect costs are expected to lead to a compounded average annual growth potential for EBITDA AL of 1%. Such an increase in underlying profitability may be supportive for free cash flows (excluding spectrum licenses) too allowing for an average annual 1%-2% uplift potential over the same period.

11 INTERNAL CONTROLS, RISKS AND UNCERTAINTIES

11.1 The presentation of the systems of internal controls and the evaluation of the activity in the relevant period

Magyar Telekom's management is committed to establishing and maintaining an adequate internal control system to ensure the reliability of the financial reports, and minimize operating and compliance risks. Our internal control system is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in conformity with International Financial Reporting Standards (IFRS) as adopted by the European Union.

For the business year 2020 we accomplished control documentation and evaluation in the IT supported ICS-Tool[i] system. . Transaction Level Controls describe the controls built into our business processes that have been designed and operated to ensure that material misstatements in each significant financial account and disclosure within the financial statements are prevented or detected in a timely manner.

Complete evaluation of our internal control system is based on the method established in "Internal Control—Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The operation of the internal control system is supported also by the independent internal audit function. Beyond tasks regarding the risk based internal audit work plan, contributes to the enhancement of the internal control processes and to the reduction of existing risks through ad-hoc audits and ICS testing. The Internal Audit area follows up the implementation of the measures defined on the basis of the audits. The Supervisory Board and the Audit Committee inter alia also receive regular reports on the findings of the audits; measures, based on the findings and fulfilment of tasks.

In line with the criteria of the adopted internal control framework, management evaluates the effectiveness of internal control system within each financial year. Management's assessment for 2020 is finished, and based on the collected information internal control system has been operating effectively to prevent potential material misstatements in the financial statements, and minimize operating and compliance risks.

The Company's shareholders are being informed about the operation of our internal control system through our public reports.

The management and Board of Directors of Magyar Telekom are committed to conducting all business activities of Magyar Telekom Group according to the highest legal and ethical standards. Based on this commitment, the Board of Directors established the Corporate compliance program of Magyar Telekom.

The Corporate compliance program is applicable to all bodies, organizations, employees of Magyar Telekom Group, and advisors, agents, representatives as well as to all persons and organizations that work on behalf of the Company or its subsidiary.

The Corporate compliance program of Magyar Telekom ensures that the business activities of the Group are conducted observing and in compliance with the relevant laws to the utmost extent, according to the highest standards of training and commitment. It requires the realization of guidelines and processes that manage potential compliance risks and implement specific processes in order to report, investigate, monitor and correct suspected or actual lack of compliance.

11.2 The utilization of financial instruments, risk management and hedging policies

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

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

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

All risks related to material internal and external operations, financial and legal compliance and certain other risks are

[i] Internal Control System

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 implemented the new EU regulatory framework (1972/2018/EU) by end of 2020. Non-compliance of elements of this framework might have negative effect on our operations (e.g. consumer protection).
- In some areas, NRA practice is quite strict (e.g. 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;
- We are subject to more intense competition in SI/IT segment, especially on public sector tenders.
- Adaption to new trends and technological changes in the telecommunications market (IoT, Big Data, AI, 5G) might be a serious challenge;
- 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, and unsubstantiated and rapidly spreading news about new technologies;
- System failures could result in reduced user traffic and revenue and could harm our reputation;
- Loss of key personnel could weaken our business;
- The regulatory environment in North Macedonia is expected to remain strict, since the Regulatory Body's aim is at widening the scope of wholesale regulation;
- More intense competition in North Macedonia driven by A1 (formerly VIP) as well as Telekabel being integrated players;
- Our share price may be volatile, and the ability to sell our shares may be adversely affected due to the relatively illiquid market for our shares and ADSs;
- The value of our investments, results of operations and financial condition could be adversely affected by economic developments in Hungary and other countries;
- Unpredictable changes in the Hungarian tax regulations may have an adverse effect on our results;
- Fluctuations in the currency exchanges rate could have an adverse effect on our results of operations;
- Disputes and litigation with regulators, competitors and other parties could have an adverse effect on our results of operations.
- The number of cyber attacks have been evolving at an exponential rate recently worldwide. Although Magyar Telekom provides services with highest security-standards and constantly tests and updates its cyber security countermeasures, it cannot be fully excluded that the Company will be subject of a cyber attack.
- The largest data protection (GDPR) fine so far was imposed in Hungary in June 2020. In order to avoid fines, Magyar Telekom pays special attention to purpose limitation, built-in and default data protection and data security measures, as well as to avoid system-wide failures that could affect a large number of subscribers or employees.

- The coronavirus pandemic has significantly worsened our economic environment. After lifting strict restrictive measures, we can expect a slow improvement in our economic environment.

11.4 Financial risk management

The classification of the group's financial instruments is described in detail in Note 4 and the financial risk management of the Group is described in detail in Note 5 of the Consolidated Financial Statements.

12 ANALYSIS OF FINANCIAL RESULTS FOR 2020

Key Performance Indicators	At December 31, 2019	2020
Revenue (HUF million)	666,653	673,048
Mobile revenues	354,362	364,589
Fixed line revenues	212,659	219,004
System Integration/Information Technology revenues	99,632	89,455
EBITDA (HUF million)	220,562	225,844
EBITDA margin	33.1%	33.6%
Operating margin	12.5%	12.6%
Capex after lease (HUF million)	89,637	197,631
Net debt (HUF million)	349,357	417,436
Net debt ratio (net debt to total capital)	35.6%	38.8%

12.1 Revenues

Total revenues increased from HUF 666.7 billion in 2019 to HUF 673.0 billion in 2020, driven primarily by the growth in telecommunication service revenues in Hungary that was coupled with a moderately improving revenue performance in North Macedonia amplified by the strengthening of the denar against the forint.

Mobile revenues increased to HUF 364.6 billion in 2020 compared to HUF 354.4 billion in 2019, reflecting the continued positive momentum in mobile data usage.

- Voice retail revenues declined 4.6% to HUF 123.3 billion in 2020, as tariff pressure across both operations was coupled with the sharp reduction in roaming revenues as a consequence of the global pandemic environment.
- Voice wholesale revenues rose by 18.2% to HUF 12.0 billion in 2020, reflecting a strong increase in incoming mobile traffic in Hungary along with higher machine-to-machine traffic in North Macedonia.
- Data revenues grew by 10.8% to HUF 101.8 billion in 2020, as the continued growth in subscriber numbers and strong demand for mobile data usage that was amplified by the lockdowns and the social distancing measures compensated for the fallout in data roaming revenues.
- SMS revenues increased by 2.1% to HUF 20.7 billion in 2020, primarily as a result of further growth in mass messaging revenues in Hungary coupled with increasing retail postpaid customer bases in both countries that could offset the decline in SMS revenues from roaming.
- Mobile equipment revenues increased by 7.2% to HUF 96.5 billion in 2020, driven primarily by higher volume of export sales at the Hungarian operation coupled with increased sales volume in retention transactions in North Macedonia.

Fixed line revenues increased to HUF 219.0 billion in 2020, up from HUF 212.7 billion in the previous year. The continued decline in voice revenues was fully offset by improvements in broadband and TV revenues at both operations.

- Voice retail revenues decreased by 3.6% to HUF 39.6 billion in 2020, primarily due to a further reduction in average tariff levels in both countries, and a lower customer base in Hungary.

- Broadband retail revenues increased by 10.0% to HUF 61.0 billion in 2020, thanks to further growth of the customer bases in both countries that was coupled with an acceleration in the bandwidth upgrade transactions in Hungary.
- TV revenues increased by 7.2% to HUF 52.4 billion in 2020, thanks to higher revenues in both Hungary and North Macedonia reflecting the continued expansion of the IPTV customer bases.
- Fixed equipment revenues rose moderately by 0.9% to HUF 22.4 billion in 2020, reflecting higher volume of the equipment sold at the Hungarian operation.
- Data retail revenues declined moderately by 0.9% to HUF 8.8 billion in 2020 due to the competition driven price erosion in this segment across the Group.
- Wholesale revenues were up by 3.3% to HUF 19.4 billion in 2020 driven by higher wholesale data revenues.

System Integration (SI) and IT revenues recorded a decline of 10.2% to HUF 89.5 billion in 2020, compared to HUF 99.6 billion in 2019, driven by lower project volumes in Hungary. In Hungary, the decline was attributable to lower volumes of implementation projects delivered primarily to the public sector. In North Macedonia, the recorded growth was driven by improved demand for customized solution projects.

12.2 Direct costs

Direct costs increased from HUF 292.4 billion in 2019 to HUF 297.5 billion in 2020, as the decline in SI/IT related expenses were counterbalanced by higher interconnect and equipment costs and an increase in Hungarian telecom tax and TV content fees.

- Interconnect costs grew by 6.4% to HUF 22.1 billion in 2020, as increased off-network mobile voice traffic led to higher payments to domestic mobile operators in both countries of operation.
- SI/IT service related costs declined by 12.2% to HUF 63.3 billion in 2020, reflecting lower volume of related projects in Hungary during the year.
- Bad debt expenses were up by 7.3% to HUF 9.7 billion in 2020 reflecting the absence of a one-off favourable impact resulting from a reduction of the impairment rates applied to the Hungarian fixed and mobile operations during 2019. This was partially offset by the favourable aging of mobile receivables at the Hungarian operation and the absence of one-off impairments in North Macedonia.
- Telecom tax increased by 11.4% to HUF 27.6 billion in 2020, as increases in mobile voice traffic in the business and residential segments and higher residential landline usage triggered by the social distancing measures were coupled with a one-off non-recurring adjustment.
- Other direct costs increased by 5.4% to HUF 174.8 billion in 2020, driven primarily by higher equipment costs coupled with an increase in the Hungarian TV content outpayments (further amplified by the weakening of the forint against the euro). These could only be partially offset by lower roaming outpayments.

12.3 Gross profit

Gross profit increased to HUF 375.6 billion in 2020, from HUF 374.2 billion in 2019, reflecting the increase in revenues.

12.4 Employee-related expenses

Employee-related expenses improved by 1.5% year-on-year to HUF 79.0 billion in 2020, reflecting a reduction in headcount partly offset by the combined impacts of the general wage increase, a rise in bonus payments and higher severance expenses.

12.5 Other operating expenses

Other operating expenses declined from HUF 81.0 billion in 2019 to HUF 76.6 billion in 2020 thanks to broad based cost saving measures implemented during the year that resulted in lower marketing, advisory and maintenance costs. Hungarian utility tax was broadly unchanged at HUF 7.2 billion.

12.6 Other operating income

Other operating income decreased to HUF 5.8 billion in 2020 from HUF 7.6 billion 2019, reflecting primarily lower one-off profits realised from the sale of real estate in Hungary.

12.7 EBITDA

EBITDA grew to HUF 225.8 billion in 2020 versus HUF 220.6 billion in 2019, thanks primarily to indirect cost savings in both countries of operation.

12.8 Depreciation and amortization

Depreciation and amortization (D&A) expenses rose to HUF 141.1 billion in 2020 from HUF 137.4 billion in 2019. In Hungary, higher D&A expenses were attributable to the frequency licenses acquired in March 2020, while in North Macedonia the increase reflected higher amortization expenses in relation to content rights, software and licenses.

12.9 Operating profit

Operating profit rose from HUF 83.2 billion in 2019 to HUF 84.8 billion in 2020 as higher D&A expenses did not fully offset the growth in EBITDA.

12.10 Net financial result

Net financial expenses declined moderately from HUF 24.1 billion loss in 2019 to HUF 23.8 billion loss in 2020, thanks to more favourable average interest level on the loans, that despite the higher average debt levels, led to a decline in related interest expenses. The lower interest expense could also offset the negative impacts stemming from the significant weakening of the forint against the euro during 2020 on the overall net financial results.

12.11 Income tax

Income tax expense remained broadly stable compared to 2019 at HUF 14.6 billion in 2020. Although profit before tax increased, lower local business tax expense, driven by the decline of the relevant tax base, led to an overall decrease in income tax expenses.

12.12 Profit attributable to non-controlling interests

Profit attributable to non-controlling interests increased from HUF 3.4 billion in 2019 to HUF 4.0 billion in 2020, reflecting the higher annual profit level at the North Macedonian subsidiary.

12.13 Cash flows

HUF millions	1- 12 months 2019	1- 12 months 2020	Change
Operating cash flow	162,368	185,955	23,587
Investing cash-flow	(84,936)	(148,102)	(63,166)
Less: Payments for / Proceeds from other financial assets - net	(4,816)	2,533	7,349
Investing cash flow excluding Payments for / Proceeds from other financial assets - net	(89,752)	(145,569)	(55,817)
Repayment of lease and other financial liabilities	(18,560)	(25,114)	(6,554)
Total free cash flow	**54,056**	**15,272**	**(38,784)**
Payments for / Proceeds from other financial assets - net	4,816	(2,533)	(7,349)
Proceeds from / Repayment of loans and other borrowings - net	(23,151)	(53,589)	(30,438)
Dividends paid to Owners of the parent and Non-controlling interests	(29,725)	(24,516)	5,209
Proceeds from bonds	0	70,834	70,834
Repurchase of treasury shares	0	(5,218)	(5,218)
Exchange differences on cash and cash equivalents	198	1,041	843
Change in cash and cash equivalents	**6,194**	**1,291**	**(4,903)**

Free cash flow (FCF) deteriorated to HUF 15.3 billion cash inflow in 2020 (2019: HUF 54.1 billion cash inflow), mainly due to the reasons described below.

Operating cash flow

Net cash generated from operating activities amounted to a cash inflow of HUF 186.0 billion in 2020, compared to cash inflow of HUF 162.4 billion in 2019, attributable to the reasons outlined below:

- HUF 5.3 billion **positive impact due to higher EBITDA** in 2020 versus 2019

- HUF 10.9 billion **positive change in active working capital**, mainly as a result of the following factors:
  - higher decrease in SI/IT receivables in 2020 compared to 2019 due to different project seasonality (positive impact: ca. HUF 12.9 billion)
  - favorable change in installment receivables due to different volume of sales increase and seasonality (positive impact: ca. HUF 2.0 billion)
  - insignificant change in advance payment balances in 2020 compared to the higher advance payment settlement in 2019 (negative impact: ca. HUF 1.6 billion)
  - unfavorable change in receivables from taxes not related to income taxes mainly due to a one-off tax refund in 2019 (negative impact: ca. HUF 1.7 billion)

- HUF 6.5 billion **positive change in passive working capital**, primarily driven by the following factors:
  - lower decline in the balances of invoiced and non-invoiced creditors due to timing differences of payments in 2020 versus 2019 (positive impact: HUF 11.2 billion)
  - lower HR-related personnel expense payments driven by changes in the terms of the bonus payments in 2020 compared to 2019 (positive impact: HUF 3.6 billion)
  - lower decrease in the balance of creditors in relation to the new headquarters building in 2020, due to fit-out costs outpayment relating to the new building for the Company's headquarters in 2019 (positive impact: HUF 1.7 billion)
  - higher decrease in the balance of DT Group suppliers due to the timing differences in 2020 versus 2019 (negative impact: HUF 2.2 billion)
  - higher payment in the handset suppliers in 2020 versus 2019 (negative impact: HUF 2.6 billion)
  - higher payment related to SI/IT services in 2020 compared to 2019 due to different project seasonality (negative impact: HUF 5.0 billion)

- HUF 3.0 billion **positive change of interest paid** in 2020 compared to 2019, reflecting the combined effect of more favorable average interest rates on the loans in 2020 compared to 2019 and higher interest payment related to frequency fee related liabilities in 2020

Investing cash flow excluding proceeds from other financial assets – net

Net cash used in investing activities amounted to HUF 145.6 billion in 2020, compared to HUF 89.8 billion 2019, with the higher cash outflow driven mainly by the following:

- HUF 122.0 billion **negative effect** due to higher **Capex** in 2020 versus 2019 owing to the combined effect of increase in spectrum license fees and content rights capitalization coupled with higher investment in gigabit access, radio network modernization and right-of-use assets. For further information please see in section 2.2 Segment reports.
- HUF 66.6 billion **positive change** due to the combined effect of higher **capitalization of the present value of spectrum license fees** (net cash flow effect is amounted to HUF 54.2 billion) and **content right capitalization to be paid in the future**, lower payments to **Capex creditors** and the effect of higher **capitalization of right-of-use assets** in 2020 compared to 2019.
- HUF 1.5 billion **negative change** related to the **disposal of PPE**, mainly reflecting a reduction in proceeds from real estate sales in 2020 compared to 2019.

Repayment of lease and other financial liabilities

Repayment of lease and other financial liabilities increased to HUF 25.1 billion in 2020 from HUF 18.6 billion in 2019, mainly due to higher lease payments in 2020 versus 2019 accompanied by higher frequency fee and content right payments in 2020 compared to 2019.

In 2020 **Cash and cash equivalents** amounted to a HUF 1.3 billion positive change compared to a HUF 6.2 billion positive change in 2019. Besides the changes in FCF the deterioration is attributed to the followings:

- **Payments for other financial assets - net** deteriorated by HUF 7.3 billion, primarily due to higher amounts of cash invested as bank deposits over 3 months in North Macedonia in 2020 in net terms compared to 2019.

- **Repayment of loans and other borrowings – net** deteriorated by HUF 30.4 billion due to the higher repayment of DT Group loans as well as the unfavorable change of inhouse Group funds in 2020 compared to 2019.

- **Dividends paid to Owners of the parent and Non-controlling interests** declined by HUF 5.2 billion mainly due to the lower dividend payment from Magyar Telekom as the dividend per share ('DPS') was reduced from HUF 25 in 2019 to HUF 20 in 2020.

- **Proceeds from bonds** increased by HUF 70.8 billion due to the bond issue in 2020.

- **Repurchase of treasury shares** increased by HUF 5.2 billion due to the repurchase transaction in 2020.

- **Exchange differences on cash and cash equivalents** improved by HUF 0.8 billion due to the higher MKD/HUF foreign exchange rate movement during 2020.

The financial and operating statistics are available on the following website:

http://www.telekom.hu/about_us/investor_relations/financial

12.14 Statements of Financial Position

The most significant changes in the balances of the Consolidated Statements of Financial Position from December 31, 2019 to December 31, 2020 (see Appendix 3.4) can be observed in the following lines:

- Trade receivables
- Other financial assets (current and non-current combined)
- Right-of-use assets
- Intangible assets
- Investments in associates and joint ventures
- Financial liabilities to related parties (current and non-current combined)
- Lease liabilities (current and non-current combined)
- Other financial liabilities (current and non-current combined)
- Bonds
- Treasury stock

Trade receivables decreased by HUF 11.6 billion from December 31, 2019 to December 31, 2020 mainly driven by the HUF 10.6 billion decrease in SI/IT receivables.

Other financial assets (current and non-current combined) increased by HUF 38.5 billion from December 31, 2019 to December 31, 2020 mainly as a result of a HUF 17.8 billion increase in derivative financial instruments contracted with related parties principally due to weakening of forint in 2020 supplemented by an increase in the portfolio of derivatives as well by HUF 16.2 billion increase in cash pool receivables.

Right-of-use assets increased by HUF 14.7 billion from December 31, 2019 to December 31, 2020 mainly due to the prolongation of expiring base station and new network lease related contracts.

Intangible assets increased by HUF 73.0 billion from December 31, 2019 to December 31, 2020 reflecting the acquisition of spectrum licenses related to 5G and mobile broadband services. The present value of the future annual frequency fees to be paid by Magyar Telekom until 2040 and the one-time spectrum fee were capitalized in April 2020 in the amount of HUF 91.6 billion. For further information please see in section 2.1.2 Group Cash Flows.

Investments in associates and joint ventures decreased by HUF 1.1 billion from December 31, 2019 to December 31, 2020. The decline reflects that the Company lost its joint control and significant influence over E2 Hungary Zrt. based on the agreement with MET Holding AG. Following the agreement investment in E2 Hungary Zrt. is disclosed in Other non-current financial assets.

Financial liabilities to related parties (current and non-current combined) decreased by HUF 22.5 billion from December 31, 2019 to December 31, 2020 as repayments outweighed drawdowns of short and long-term DT Group loans.

Lease liabilities (current and non-current combined) increased by HUF 20.5 billion from December 31, 2019 to December 31, 2020, mainly due to the prolongation of expiring base station and new network related lease contracts.

Other financial liabilities (current and non-current combined) increased by HUF 36.9 billion from December 31, 2019 to December 31, 2020, mainly due to the recognition of present value of the future annual frequency fees for spectrum licenses related to 5G and mobile broadband services.

Bonds increased by HUF 67.9 billion from December 31, 2019 to December 31, 2020, as a result of a closed bond auction on November 24, 2020. The issued bonds with HUF 70.0 billion face value were purchased for a total purchase price of HUF 70.83 billion. Bonds are initially recognized at fair value (HUF 67,9 billion) net of transaction costs incurred and increased by premium received (HUF 2.9 billion, presented on line Other non-current liabilities). The bond is subsequently measured at amortized cost under IFRS 9.

Treasury stock increased by HUF 5.2 billion from December 31, 2019 to December 31, 2020 as a result of a repurchase transaction of own shares.

There have not been any other material changes in the items of the Consolidated Statement of Financial Position in the period from December 31, 2019 to December 31, 2020. Less significant changes in balances of the Consolidated Statements of Financial Position are largely explained by the items of the Consolidated Statement of Cash Flows for 2020 and the related explanations provided above in section 12.13 Group Cash Flows.

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

13.1 Acquisition of frequency usage rights

The Company won the rights of use of 8 MHz and 20 MHz duplexes on the 900 MHz and 1800 MHz frequency bands respectively in the auction procedure for the entitlements of frequency use of the 900 MHz and the 1800 MHz frequency bands in January, 2021. Entitlement of the currently used 10 MHz and 15 MHz duplexes on the 900 MHz and 1800 MHz frequency bands respectively are due to expire in April, 2022. As a result of the auction Magyar Telekom will be entitled for the usage of the now acquired frequency blocks until 2042 provided that by fulfilling the respective conditions, the term of rights of use for frequencies is extended by five years. The Company is required to pay a total price of HUF 44.28 billion for these frequency blocks and this payment is expected to be due in the first quarter of 2022. The present value of the future frequency fees related to the acquisition of the frequency blocks is approximately HUF 39.5 billion.

Budapest, February 25, 2021.

Tibor Rékasi
Chief Executive Officer, Board member

Daria Aleksandrovna Dodonova
Chief Financial Officer, Board member

Declaration

We the undersigned declare that

- the attached annual financial statements which have been prepared in accordance with the applicable set of accounting standards and to the best of our knowledge, gives a true and fair view of the assets, liabilities, financial position and profit or loss of Magyar Telekom Plc. and the undertakings included in the consolidation as a whole, and
- the business report gives a fair view of the position, development and performance of Magyar Telekom Plc. and the undertakings included in the consolidation as a whole, together with a description of the principal risks and uncertainties of its business.

Budapest, April 16, 2021

Tibor Rékasi
Chief Executive Officer,
Member of the Board

Daria Aleksandrovna Dodonova
Chief Financial Officer,
Member of the Board