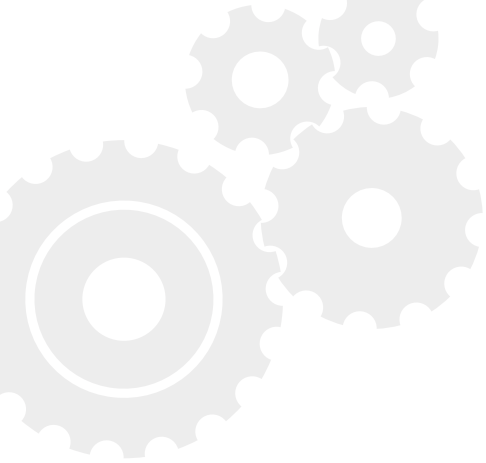


Magyar Posta Zrt. **ANNUAL REPORT**

2014



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FOREWORD BY THE CHIEF EXECUTIVE OFFICER



Radically shifting consumption patterns and changing market needs encourage Magyar Posta to renew its products and services and to respond effectively to the changes for the sake of long-term success.

ECONOMIC AND POSTAL MARKET TRENDS IN HUNGARY IN 2014

In 2014 the growth of the Hungarian economy created a favourable environment for Magyar Posta. The markets of the various services developed differently, and trends similar to those in international markets appeared.

The establishment of the single European postal market meant that Magyar Posta now operates in a fully liberalised market, however no new competitor emerged in the **letters market** in 2014 either and neither did a radical fall in the volume of traditional correspondence occur as an effect of electronic alternatives. Nevertheless, the shift from traditional products such as universal and priority letters to low-priced non-universal products such as the business letter continued.

Persistent dynamic expansion typified the **parcels market** this year too. Thanks to the explosive spread in e-commerce, the domestic CEP market grew by 7 to 8% in 2014. Apart from an increase in volume, restructuring towards 24-hour time-guaranteed products was evident. The battle for customers, which is being waged not only in the field of price competition but also in convenience services offered to addressees, is growing more and more intense. This was mainly manifest in a rise in the number of delivery methods, part of which was the appearance of the first parcel terminals in Hungary.

As regards **postal financial services**, the yellow and white postal bill payment forms continued to be the dominant product despite that the fall in volume continued in 2014. Due to new developments, consumers have an increasingly broad choice of payment options and channels. In addition to the appearance of a variety of ways to make bill payments on mobile platforms, the first bill payment terminals were installed.

In the interest of its long-term sustainable operation, **the Company had to respond to changes in the external environment and the market on the one hand and, on the other, had to develop business solutions that were able to adapt to the new opportunities which appeared in parallel with the growth of the Hungarian economy.**



MAGYAR POSTA'S GREATEST SUCCESSSES IN 2014

The developments in 2014 and the enhanced customer experience show that Magyar Posta succeeded in keeping pace with the tempo dictated by the challenges and was able to offer newer and newer solutions that ensure a secure future in the long term.

A change of rhythm effected through organisational renewal, focusing on customers and sales, and improving the efficiency of management was mainly discernible in **accelerated decision-making processes** and **responding more efficiently to customer needs**.

In this way **there was a marked improvement in the pace of the implementation of developments and investments**, which allowed Magyar Posta to launch major technological innovations during 2014.

In the spirit of breaking new ground, in 2014 the Company put **parcel terminals** into operation at 47 locations, where customers can collect and dispatch their parcels simply and conveniently 24 hours a day, seven days a week.



For customers who prefer to use online services, **bill payments were placed on a new footing**. The payment forms were given a QR code so customers could settle their bills from home on a smartphone using the iCsekk mobile payment application and their bank card.

In order to satisfy the needs of the digital world, in 2014 Magyar Posta installed a **new letter sorting machine line** that uses state-of-the-art technology and has the capacity to sort an average of 3 million letters efficiently each day, allowing the introduction of the most modern correspondence services.

The Company took part in developments realised from European Union funds, which support **electronic administration in the public sector**. This significantly simplifies and improves the effectiveness of communication and makes public administration faster and more efficient. **Magyar Posta's new hybrid printworks** is able to print administrative letters produced electronically which preserve the authenticity of their content and then deliver them to citizens and companies who are not yet prepared for electronic communication.

In addition to the above, in order to provide equal opportunities for remote communities, Magyar Posta established **electronic administrative points** (Agora Points) where customers can **arrange their official affairs** in 40 communities in underdeveloped micro-regions in 2014, thereby making services easily accessible for people who until now would have had to travel considerable distances. Another convenience function is that the descriptions of how to handle specific affairs at Agora Points are also made available to all citizens via a mobile application.

The change of rhythm is also evident in digital developments for the convenience of customers.

In 2014 the Company defined the development phases of the coming years in its digital strategy at corporate level in a holistic manner in order to digitise and satisfy changing customer needs to a high standard.



In the autumn of 2014 Magyar Posta **introduced a mobile application** to make services easier and more convenient for customers. With this application customers can track their parcels, find the nearest post office and parcel point, learn about opening hours, make an appointment, and calculate postage **from their mobile phone anywhere at any time** in the simplest way. During the first two months following the publication, more than 10,000 people installed the application which can be accessed on iOS and Android platforms.

Apart from the mobile application, **customers can also make an appointment and arrange affairs on the Internet**, being able to request the repeated delivery of mail at a time and place of their choice, to make an appointment online, and to retain or redirect mail with just a few clicks.

The success of all these developments is demonstrated by the **almost 170,000 loyal customers** participating in the Posta Hűségkártya loyalty card programme, which was renewed in July 2014.

Major advances were made in 2014 in the area of **strategic partnerships**, through which Magyar Posta intends to consolidate its future market positions.

Thanks to its strategic partnership with FHB Bank, **Magyar Posta expanded its financial services portfolio considerably**, allowing customers not only to take out insurance but also to arrange their financial matters at post offices. Deposit and current accounts can be opened safely on favourable conditions and savings handled by modern means.

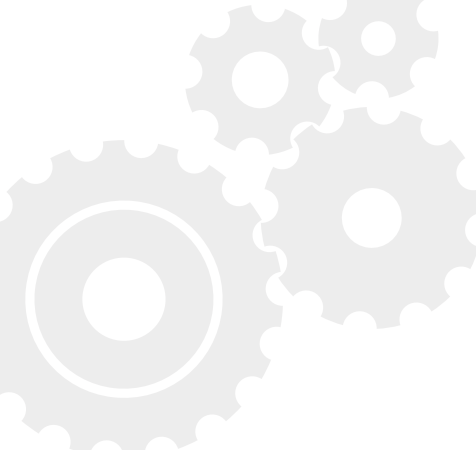
Following Magyar Posta's acquisition of the Díjbeszedő Group, **Hungary's largest personalised printing capacity** was created, which can produce 13 to 15 million bill letters and other direct marketing items per month. The acquisition has given Magyar Posta room for innovative developments which enable bills to be paid electronically and in the future Magyar Posta will have a broader scope to take part in the value-creating processes of the payment collection. Magyar Posta continues to handle customer complaints for TIGÁZ Zrt., E.ON Hungária and GDF SUEZ Zrt. as well



as the branch office activity of FŐGÁZ Zrt. and, since 2014, for TIGÁZ. It is probable that Magyar Posta will continue to play a significant role in the customer relations activity of the first national utility provider Első Nemzeti Közműszolgáltató in the future.

As a result of the above developments, Magyar Posta appears as a renewed, 21st-century postal operator whose modern services introduced in 2014 are highly popular. Customer feedback proves that a major change in rhythm and approach has taken place at the Company. I wish to express my thanks to all my 30,000 colleagues for actively taking part in this renewal and for the joint success of Magyar Posta in producing a positive result in 2014 in consequence of the aforementioned endeavours.

Zsolt Szarka
Chief Executive Officer



MAGYAR POSTA IN A NUTSHELL





Magyar Posta delivers the mail of 9.9 million residents of 4.1 million households and almost 2 million registered business organisations from the sender to the addressee each year. Magyar Posta's approximately 30,000 employees, including about 10,000 delivery workers, using a fleet of 3,000 vehicles, strive to deliver over 650 million letters and over 13 million parcels to their destinations on time. In addition, 2,700 postal outlets offer financial services. Money transfers worth more than HUF 2,000 billion are received and forwarded using the yellow and the white postal bill payment forms, and pensions to the value of HUF 1,500 billion are delivered to retired people on time. Almost 1,000 communities throughout the country are served by the mobile post service each day. The Company's vehicles cover over 200,000 km in total and its delivery personnel walk almost 12,000 km and cycle over 80,000 km every day, ensuring that 82,000 kg of mail reach addressees every day.

Thanks to the trust placed in Magyar Posta by customers as well as the insurance intermediation activities and work of postal sales personnel, the insurance company Posta Biztosító has entered into

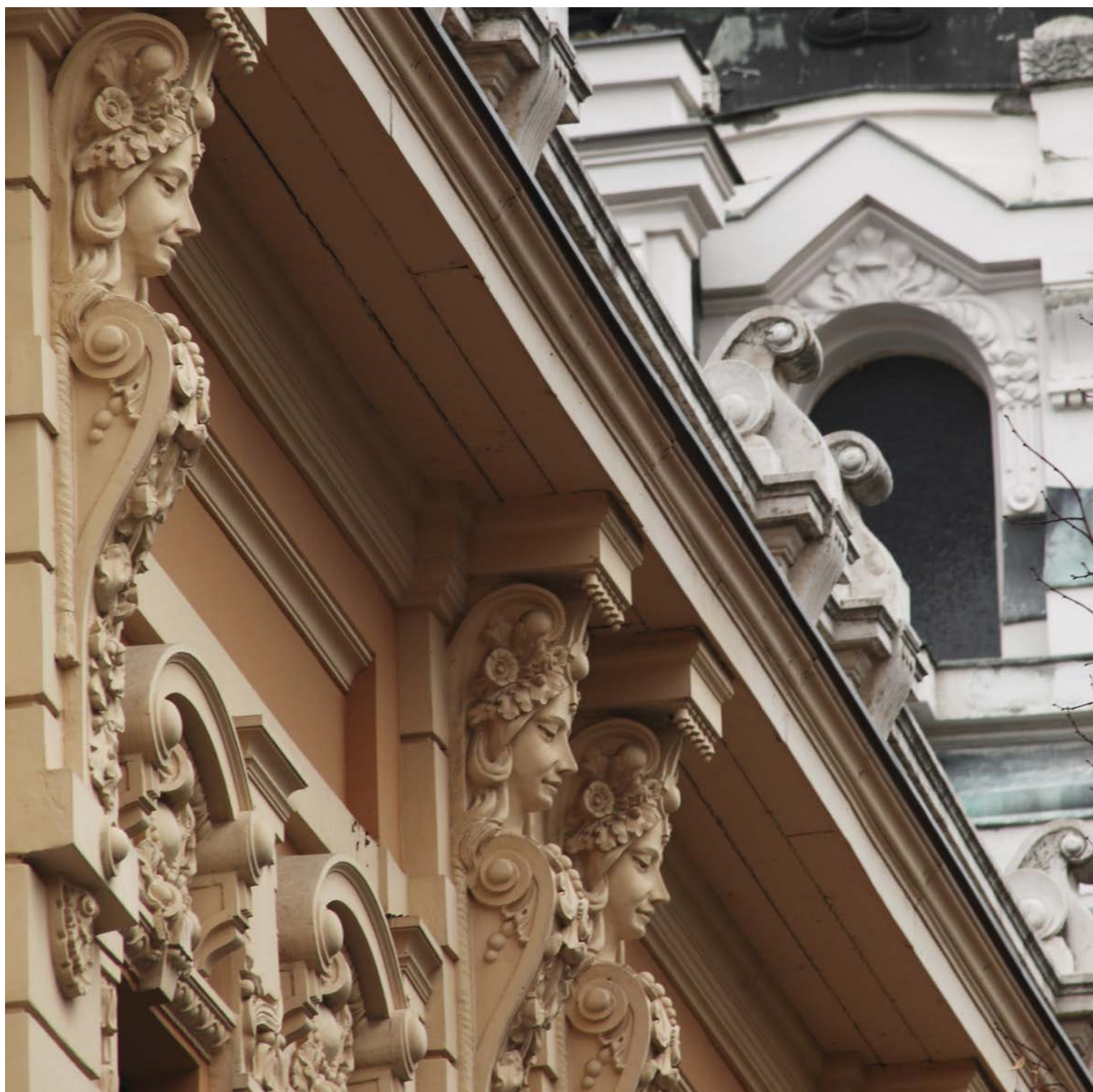
over 3 million policies since its foundation. Over 60 million dailies and periodicals are delivered to customers' letterboxes by the newspaper delivery service each year.

Magyar Posta has Hungary's largest national network and its services play a vital role in economic and business life. Its delivery personnel can reach every resident and household in all communities throughout Hungary on every working day of the week.

Magyar Posta, as a participant in global cooperation, delivers and receives mail to and from more than 200 countries around the world through its complex business solutions for international parcels and letter mail. One of its most outstanding services is the world-class International EMS Express Mail Service linking 115 countries and operating in fierce market competition. This service has been awarded a gold certificate every year since 2010 and its international customer service activity has won the distinction "Call Centre of the Year".



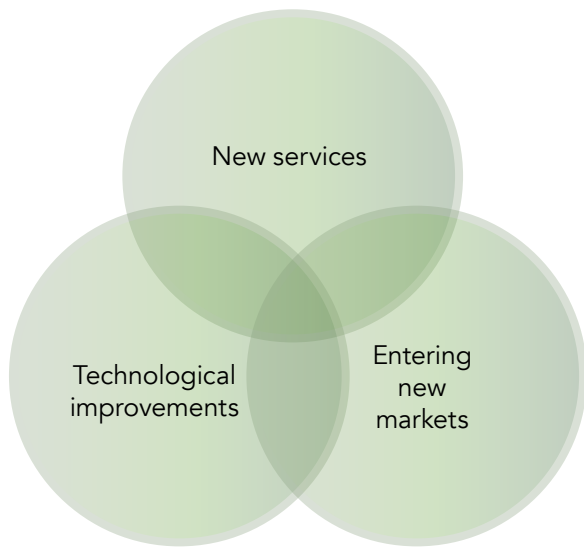
NEW BUSINESS MODEL BASED ON THREE PILLARS



In recent years market events have occurred which had major implications for Magyar Posta's future operation. In our accelerated, changed world consumption patterns have altered radically and **continuous loss of ground of the traditional postal sector** has been perceptible at an international level for years.

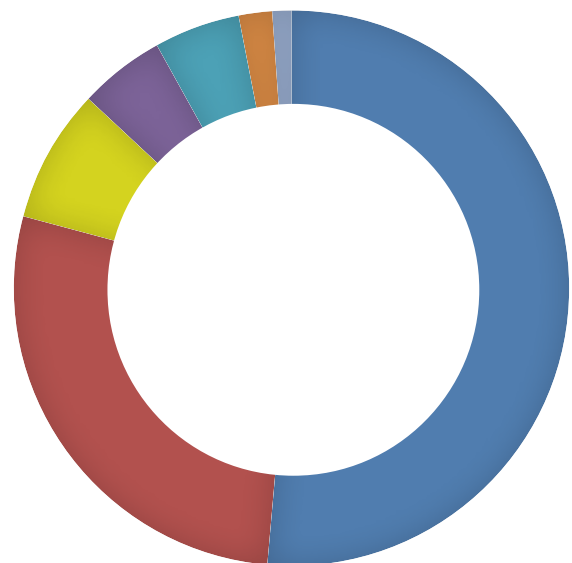
With the creation of the single European postal market, Magyar Posta has operated in a fully liberalised market since 1 January 2013. Although no new competitor entered the letters market in 2014, **the potential entry of future rivals** poses a constant challenge, which means that much attention must be paid to protecting traditional markets.

However, renewal and reacting to changed needs is indispensable to a sustained long-term successful operation. Postal operators, and thus Magyar Posta too, must find their place and role in this digitised world in order to maintain their positions.



Magyar Posta **has devised a new business model based on three pillars to retain its earning ability.** Firstly, to compensate for the eroding traditional postal market, the Company is making acquisitions and forging strategic partnerships **to enter new markets** where the synergy derived from utilising its existing infrastructure can represent a competitive advantage. Secondly, **new services are to be developed continually** to cater for customer needs. Thirdly, the Company protects its traditional postal market positions by introducing **cheaper and more efficient technology**, and extending access to services.

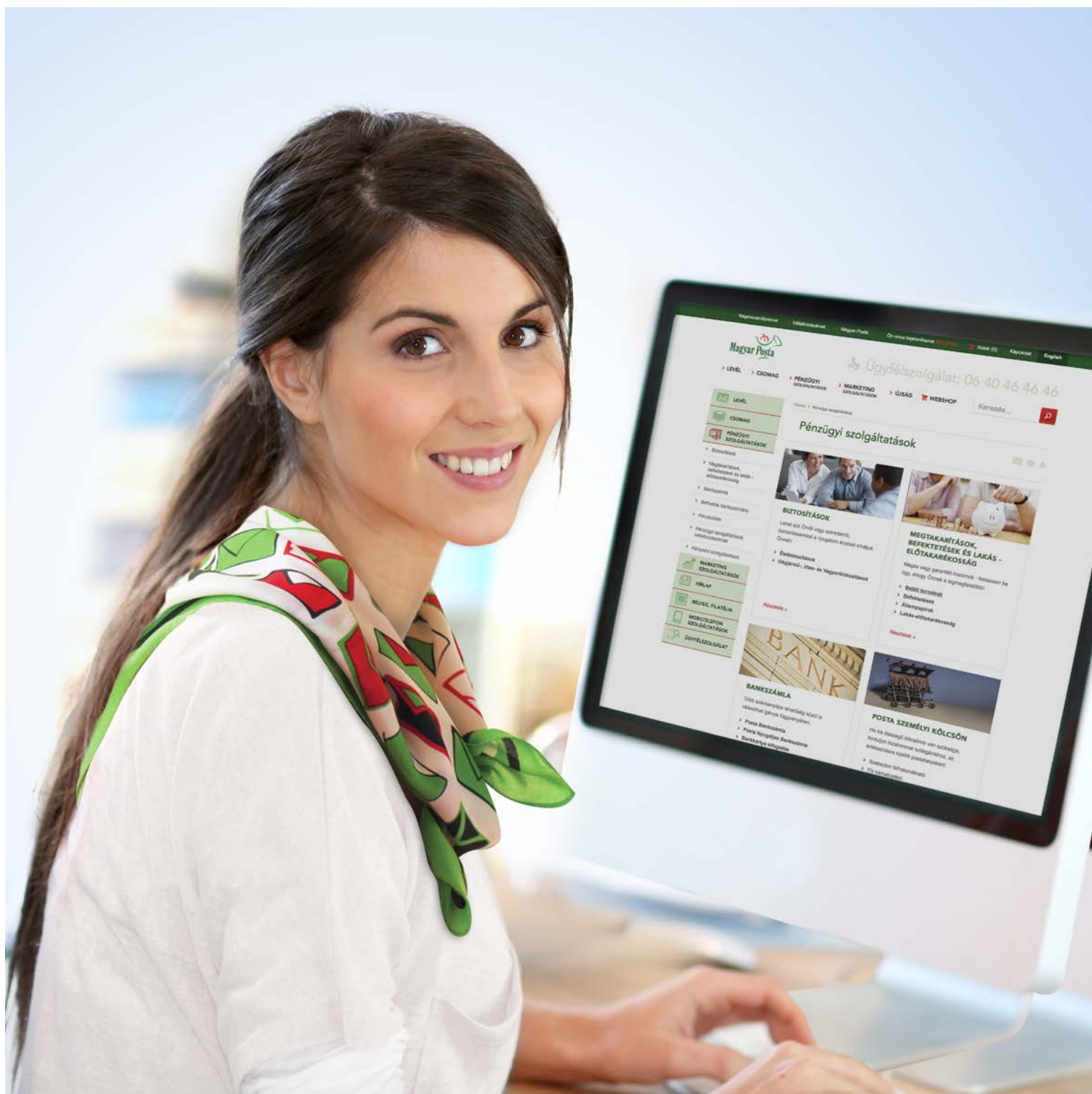
Magyar Posta has significantly improved its competitiveness over recent years, due to its investments, the efforts to modernise its internal operation and also its organisation. Concurrently, the Company has met its revenue targets set out in its strategic plan. Magyar Posta's entire business revenues in 2014 split according to its main business activities are as shown in the diagram.



- Letter products
- Postal financial services
- Logistics products
- Retail
- Financial services
- Newspaper products
- Other



SERVICES OFFERED BY MAGYAR POSTA



Magyar Posta has tailored its services to keep up with the competitive environment, changes in consumption patterns and in the digital world, customer needs and market-generated expectations.

**SPEND YOUR HOLIDAY ENVELOPED BY
CALM KNOWING YOUR MAIL WILL BE
SAFE AT THE POST OFFICE**

CONVENIENCE AND ONLINE LETTER-MAIL SERVICES

Changing communication patterns in combination with declining volumes of letter mail and increasing demand for new convenience and online solutions for both the sender and the addressee are discernible trends worldwide. Accordingly, Magyar Posta introduced new services differing from its traditional ones in 2014, and created **convenience services that can be ordered even from home.**



In order to simplify mail preparation by the sender and posting letter-mail items for both the public and the SME sector, Magyar Posta **further expanded its Prepaid product family** by introducing different sizes and types of envelopes and new window envelopes.

The Company focused on three main areas in modernising its letter-mail services:

- extending customer notifications** related to letter delivery, targeting flexibility, predictability and interactivity;
- expanding the identification and tracking** of letter-mail items to new item types; and
- the possibility of using **automated devices** in handling letter-mail items.

In order to counter the change in correspondence patterns that is negatively affecting postal operators, Magyar Posta has introduced a number of convenience services to make postal services easier and simpler to use. Customers can **arrange their postal affairs online**, request repeated delivery of their mail items

at a time and place of their choice, have the online option to make appointment to collect their mail items at the post office and, if they are away temporarily, they may ask that **their mail¹ would be retained for them or redirected to a different address.**

In 2014 Magyar Posta played a major role in delivering notices for the elections to the Hungarian and European Parliaments and local authorities. This involved delivering over 28 million election-related addressed and almost 100 million unaddressed items. One of the biggest tasks during the elections was that the Company's delivery personnel had to visit almost 4.1 million households on several occasions over a very short period of time. As a development, mobilising its international relations, Magyar Posta ensured special security for the transport and handling of the votes posted by electors living abroad who do not have an address in Hungary. The Company fulfilled this new assignment to a high standard with the involvement of international postal operators.

In 2014 the revenue from domestic and international letter-mail activity was up 1.5% year-on-year despite the downward trend in quantity.

The acceptance and delivery of official documents remained an exclusive service for the Company remaining the designated universal service provider even after the liberalisation of the market. The revenue generated by the delivery of official documents exceeded that of the previous year by 8.6%. The Company's revenue from business direct mail (DME) in 2014 rose by 5.5% compared to the income generated in the previous year. The sales revenue of special services for letters grew by 1.6%.

¹ Except official documents



Letter services revenue by type (2014)



Domestic letter portfolio revenue by type 2014 (%)



More than one third of domestic letter-mail revenues originates from non-priority letter mailings, most of which were comprised of letters under 50 grams. The turnover of non-priority letter mail in 2014 showed a 4% decline compared to the previous year. Both the number and the revenue of priority items, mainly sent by private customers, fell considerably in 2014.

The turnover figures for **international letter** services bucked the downward trend of recent years with sales revenue rising by 18% overall in 2014 compared to the 2013 turnover and showing an increase in mailings both in the business sector and among private customers. The primary users of these products continue to come from the consumers'

sector but the volume and revenue from business customers grew also over the last year.

Certified electronic correspondence for public administration

A priority strategic goal of Magyar Posta as the universal postal service provider is to serve the public administration sector and in particular to assist in the electronisation of public administration. Projects backed by European Union funds that were started in previous years were successfully concluded in 2014, enabling the Company to introduce new services.



ELECTRONIC CORRESPONDENCE SERVICES – HYBRID DELIVERY AND CONVERSION SYSTEM



In response to customer needs and to the falling volume of letters, Magyar Posta **introduced electronic correspondence services in 2014**, assuming a role in the shift towards electronic administration in the public sector. The development created **regulated delivery and conversion services for the mail of public administration**. This system allows documents to be sent, delivered or received either in an electronic or traditional paper format. This conversion guarantees that the copy has the same legal effect and the same legal status as the original document.

The trusted delivery service **aids the faster and more convenient electronic arrangement of official correspondence and affairs of the government sector**, while the hybrid service (converting electronic data into paper-based documents) and the inverse

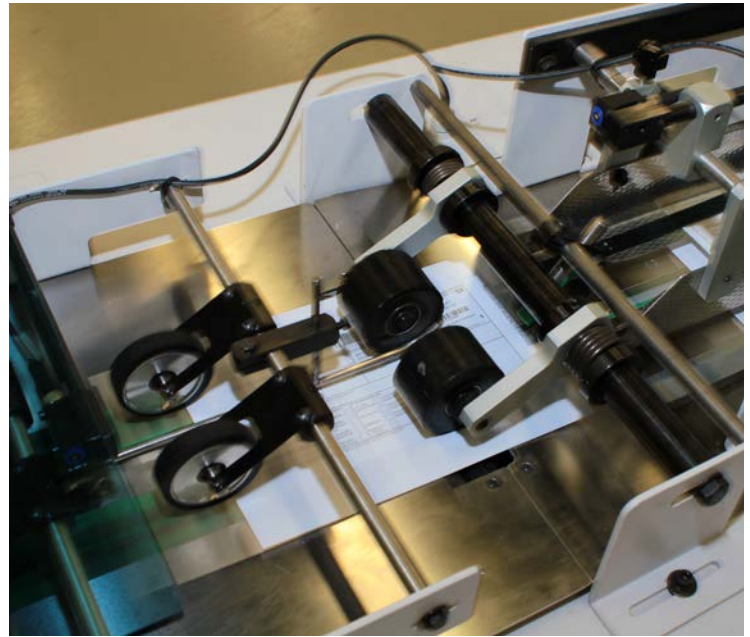
hybrid service (converting paper-based documents into electronic data) create a link between the government functioning entirely electronically and the public, which still requires paper-based communication.

Magyar Posta built the system with European Union financing under the framework of the project called **“Hybrid Delivery and Conversion System”**, which was put into use at the end of November 2014. After a six-month pilot scheme, the system will go live in 2015. The aim of the development is to reduce the amount of paper-based documents used by public administration and to build a digital bridge between state institutions and citizens. This accelerates administration on the one hand and significantly reduces the costs of maintaining public administration on the other.

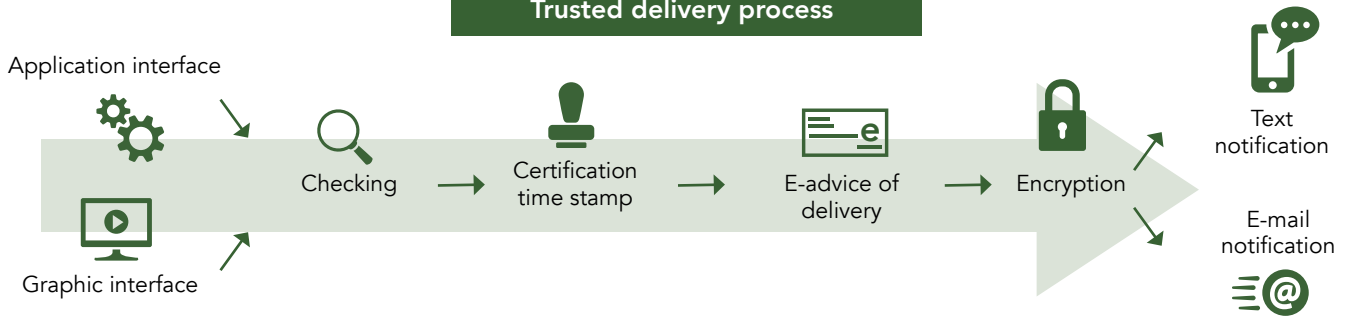
Services that must be provided by law and which Magyar Posta is obliged to provide are:

- Delivery and trusted delivery services
- Preparing a certified paper-based copy from an electronic document – hybrid conversion
- Preparing a certified electronic copy from a paper-based document – inverse hybrid conversion

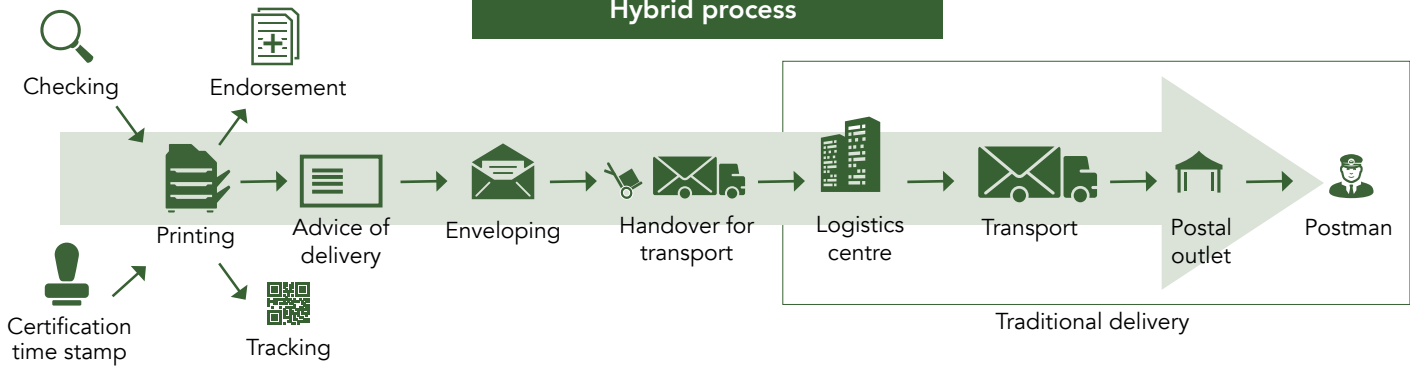
The service provides an automatic link for institutions with a high volume of documents, and thus electronic documents can be dispatched and received directly by the document management system used by the institution.



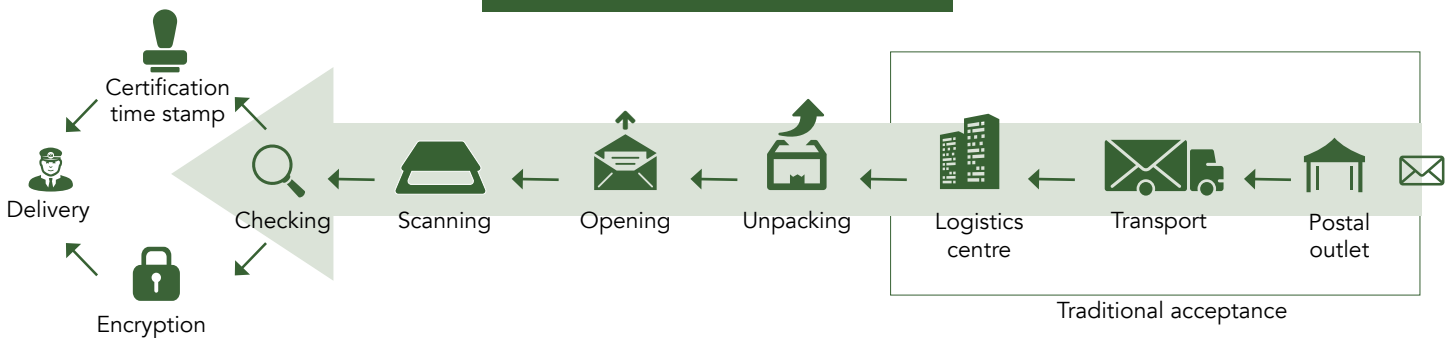
Trusted delivery process



Hybrid process



Inverse hybrid process



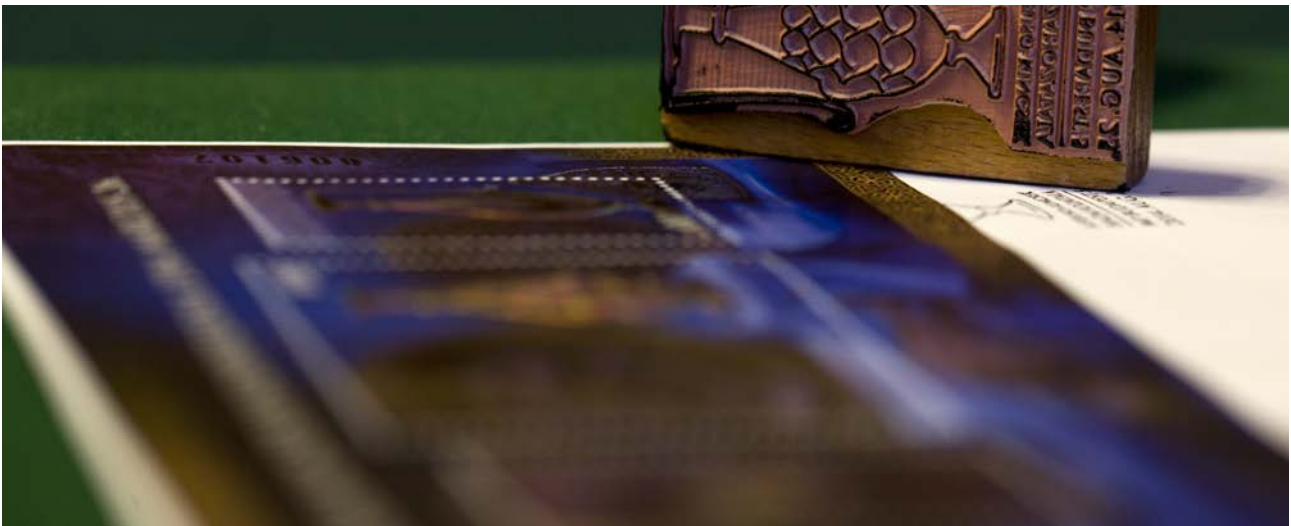
PHILATELY

Not simply stamp collecting – exclusive product portfolio and expanding the sales partner network in the field of philately

The postage stamp is a traditional means of communicating culture and illustrating history, the past and sometimes the future. There has been a steady downturn in the volume of products sold to classic stamp collectors in Magyar Posta's philatelic stamp sales. The Company responded to this challenge by the scheduled release of an **exclusive product portfolio** and **expansion of the sales**

partner network, thereby attracting a new range of customers. Due to its active market role, the Company returned an increase in net turnover of over 10% year-on-year in this area.

The high point of the Company's stamp issuance in 2014 and one of its most beautiful stamps was the SEUSO STAMP SET, which was released to mark the repatriation of the Seuso treasure. This special block, which was produced using embossed and diffraction film printing and UV ink, won the Hungarian Quality Product Award in 2014.





PARCEL LOGISTICS – FLEXIBLE PARCEL DISPATCH AND COLLECTION

Magyar Posta further expanded its share of the parcel logistics market in 2014, thus **the Company was able to keep the leading position in the domestic CEP² market, delivering a record 13.3 million parcels in 2014**. The driving force of the growth of the parcel logistics market is mainly attributable to online trade, which surpassed initial market expectations in 2014.

The key to Magyar Posta's success is improvement in service and logistics infrastructure. Customer demand for home delivery during the day fell, while flexible delivery methods to replace this came to the fore. In Hungary the rate of delivery via parcel collection points grew significantly. Such points are at well-frequented places which can be easily fitted into a daily route and offer a broader time slot for picking up parcels.

Complex parcel delivery network – parcel terminals and parcel delivery points

In the domestic market Magyar Posta was the first to start operating parcel terminals 24 hours a day seven days a week offering the option to collect and dispatch parcels, thus addressing the young generation and satisfying changed consumer demand. By the end of 2014, 47 parcel terminals had been installed in well-frequented places in cities across Hungary, 15 in Budapest and 32 in other major provincial cities. Customers may order merchandise addressed to a parcel terminal from over 150 web stores and business partners. The payment for postage or the price of the ordered goods can be paid conveniently by bank card. More web stores are steadily being drawn into the service and the number of terminals is likely to increase in 2015.

² CEP: acronym for Courier, Express, Parcel

Responding to the growing popularity of the parcel collection points, the Company **cooperated with MOL petrol stations in establishing a partner network at a total of 125 places**, and at the same time introduced the parcel pick up service at **2,500 Postal Points**. As a result of these developments, there are more than 2,600 fixed delivery points³ nationwide.

The popularity of the fixed point delivery network is steadily growing among Magyar Posta's customer base as is the number of parcels delivered to the alternative collection points.



Convenient parcel logistics services

Concurrently, the **Prepaid product family** was introduced for the convenience of customers. Using a packaging box ready for posting with postage paid in advance makes sending parcels easy and simple. Similarly, the **address label completion application** available online helps customers wishing to send a parcel, simplifying the process. For contracted partners the **business address label completion program** with a number of functions and convenience solutions aids easier parcel dispatch.

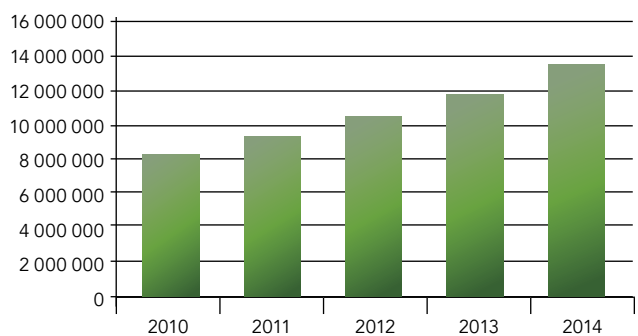
Through these developments and modernising the parcel service, the number of contracted partners grew by 6.4% in a year. Among web stores, which are a highly important segment for the logistics clientele and from the aspect of the dynamics of development, MPL's share as a logistics provider approached 26.5% in the spring of 2014.

Turnover from parcel logistics services in 2014 was up 15% on the previous year's revenue results and the **quantity of parcels achieved a record high of 13.3 million**. As regards the percentages within the parcel portfolio, this was due to a rise in the use of business parcels and a decline of universal



services. The rate of use of the courier and complex logistics services stagnated within the portfolio, which corresponds with the market trends for these segments.

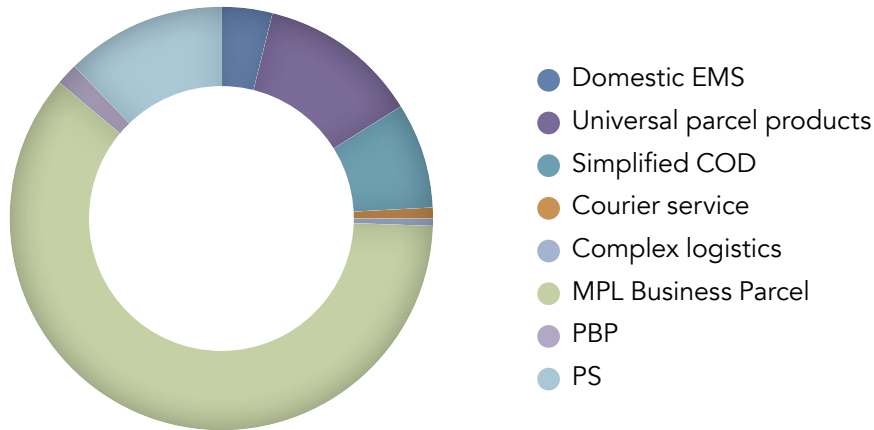
Number of parcels handled by Magyar Posta



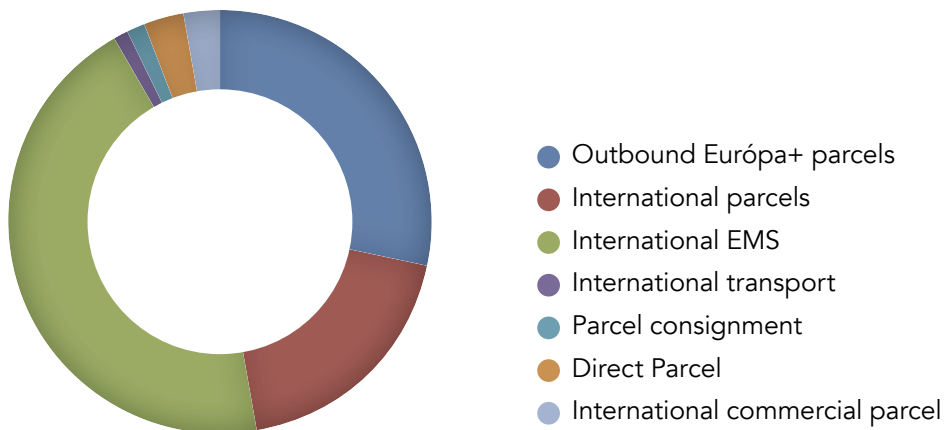
³ Parcel terminals, Postal Points, MOL Postal Points



Domestic parcels by type



International parcels by type



Due to intense competition in the **international parcel logistics** market, Magyar Posta launched numerous developments aimed at preserving its market position and acquiring new business mailers during the year. The number of inbound parcels from abroad increased sharply due to online purchasers. Thanks to the development of international e-commerce, revenue from Magyar Posta's customs agency activity grew considerably, rising by almost 50% year-on-year. The trend of recent years continued in the areas of time-guaranteed and tracked Európa+ parcels and international EMS express mail products, and the rate of growth exceeded the level of previous years for both services.

In order to enhance the quality of international parcel delivery, **in 2014 Magyar Posta joined the Interconnect Programme**, teaming up with over thirty foreign postal operators to coordinate internationally. The aim of the programme is to exploit the business opportunities in the booming international e-commerce by setting up an **integrated international delivery network and a uniform service structure**.

FINANCIAL AND POSTAL FINANCIAL SERVICES AT MAGYAR POSTA

Postal financial services⁴ – the yellow and the white bill payment forms

In Hungary settling bills in cash using the yellow and the white postal payment forms plays a major role among the forms of payment. Some 220 million such transactions are made at postal outlets every year. Due to the change in customer needs, electronic payment methods are gradually gaining more and more ground in the financial sector too as a result of technological development. Postal financial services account for 27% of Magyar Posta's turnover so **modernising postal financial services** is in the focus of developments alongside letter and parcel market innovations. In 2014 the Company launched several developments and projects promoting **non-cash electronic payment** to strengthen its role in the electronic payment segment as well.

As in previous years, the **postal financial services** market was defined by fierce competition, innovative payment methods based on new technologies, the spread of new payment channels and their increasing popularity. The beneficiaries of payments continued promoting the transfer of retail payments to banking payment services, innovative means of payment and new payment channels through powerful marketing activity, continuous campaigns and offering discounts.

Several competitors also entered the market with mobile-based payment solutions, and new market entrants appeared with regard to the acceptance of yellow and white bill payment forms in the commercial networks as service providers enable customers to pay utility bills at the cash desk while shopping.

In order to maintain its market positions and increase revenues, the Company **launched new technological developments related to payment services:**

⁴ Inpayment through a bank to payment account, Outpayment from payment account (Outpayment order), Pension order, Domestic postal money order, International financial intermediation, Other postal financial services.



- **introduction of bill payment terminals**, preparations for the public launch. During the introduction, only card payments can be made at the terminal,
- **introduction of the iCsekk service**, payment by card of bill payment forms with a postal QR code using a mobile application,
- **creating card payment option for settling bills at postal outlets** in conjunction with the replacement of the POS terminal network.

In 2014 Magyar Posta **began putting bill payment terminals into service** to modernise yellow and white bill payments. These will be accessible to the public at several well-frequented post offices and shopping centres from 2015. The purpose of introducing bill payment terminals is to enable customers to pay their bills quickly and conveniently. Payment by bank card at the terminals is classified as a card purchase transaction and Magyar Posta does not charge customers a fee for this bill payment service. In the first phase 20 terminals were located in Budapest and its agglomeration as well as in other major cities, and this number may increase dependent on demand.



As an effect of the constantly changing market conditions and to respond to consumer demand, **bill payment by postal QR code** was introduced in 2014. From January 2015 it will be obligatory for all fully completed yellow and white bill payment forms to have QR codes. Bill payment forms with QR codes offer customers a convenient non-cash way of paying bills by reading the QR code with their mobile phone and using the newly introduced **iCsekk mobile payment application**. The essence of the new payment solution is to allow customers to pay their bills quickly and conveniently with a bank card suitable for making online purchases by using the **iCsekk mobile payment application**, which can be downloaded from mobile application marketplaces. Transactions made in this way will be debited from the bank account on which the card is issued.

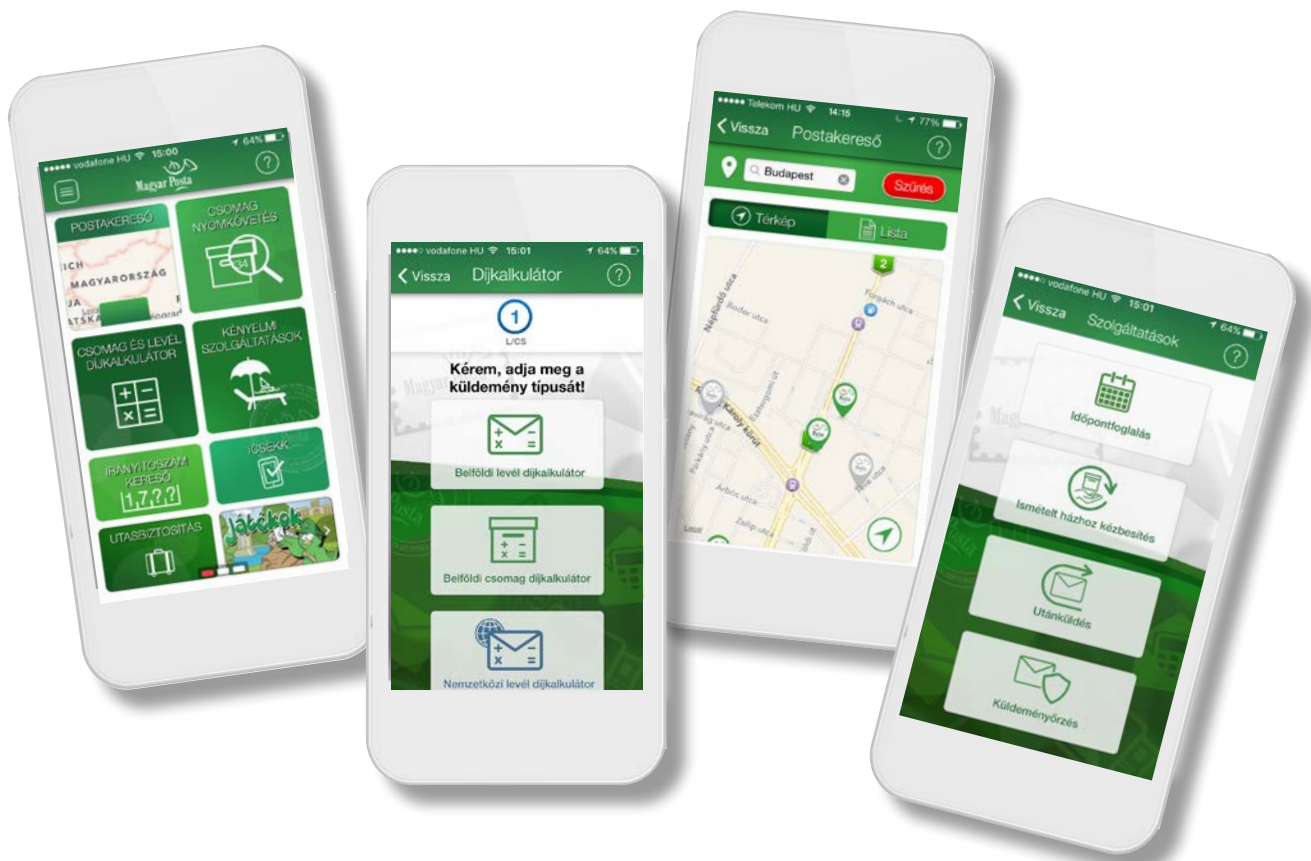
The general reduction in the households' utility cost had a major bearing on the trend of yellow and white bill payment turnover in 2014 and produced a marked fallback in the value of utility providers' bills. The turnover of payment services was also affected by the obligation to pay charges on them and the increased costs of banking as well as changing consumption patterns in response to these costs. The rate of use

of these services fell by almost 3.3% compared to the previous year resulting in a fall in the value of turnover of 8.3%.

The fall in the use of 'cash withdrawal from payment accounts' services was minimal, which was reflected by the impact on the revenues of the services. The number of outpayment orders compared to the base increased by 2.2%, producing an 8.2% rise in revenue. The number of pension orders fell by 3.3% compared to the previous year. The number of transactions and the revenue of domestic money remittance services declined to a lesser extent than the 10 to 15% typical of recent years.

There was a significant decrease in international transfers compared to the previous year, the outbound quantity dropping by 5% and inbound quantity by 14%.

The expansion in the range of aid provided in the form of payment orders under the social benefits system as well as the compensation related to the cooperative banks and the additional disbursements due to benefit rises as a result of a change in the law positively influenced the outpayments market.



Financial services⁵

– Cooperation with FHB Bank

Magyar Posta intends to bolster its market positions in the area of financial services through strategic alliances and acquisitions, and thus **acquired** a 49% **share in FHB Kereskedelmi Bank Zrt** (FHB Commercial Bank Ltd.) in September 2014. The FHB Bank's strategic goal is in synchrony with Magyar Posta's network competences and ability to reach a broad section of society. This cooperation expands the range of financial products Magyar Posta offers to the public without threatening the loss of its clientele or its managed portfolio. Through the investment the Company **placed the intermediation of banking services, in addition to insurance intermediation, on a sound and predictable footing.**

The change in banking partner relations, the involvement of new partners and the introduction and integration of their services in the postal network had a significant impact on Magyar Posta's banking service activities:

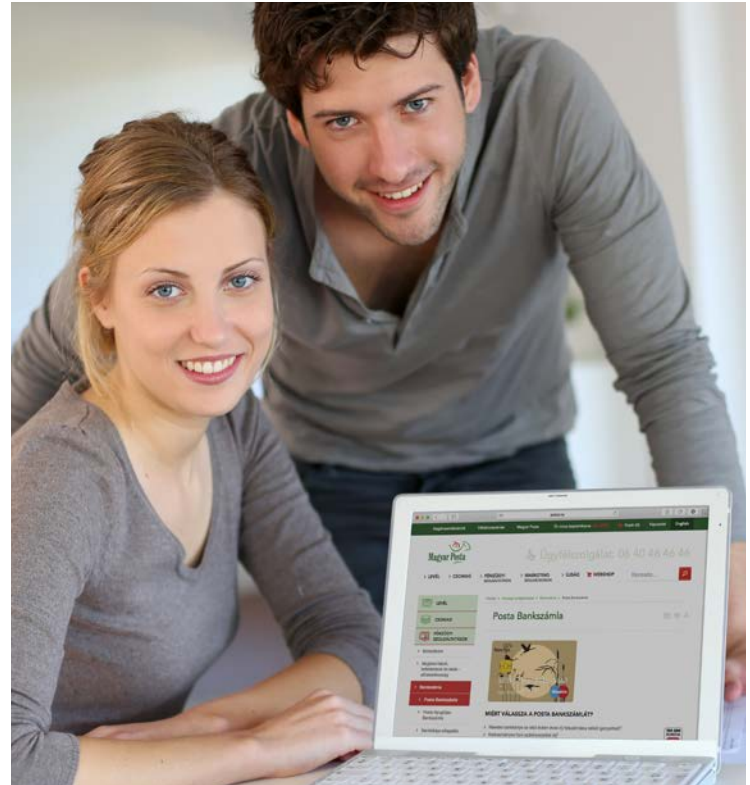
- The sale of the Fixed Deposit and Prize Draw Deposit products marketed on behalf of the **FHB Bank Zrt.** as well as the sale of the Posta Bank Account, Posta Retirement Account and Posta Flotta Bank Account products, likewise marketed on behalf of the FHB Bank, was started in the postal network in 2014.

Banking and investment services

Magyar Posta's largest income from its banking and investment services in 2014 was derived from the sale of the paper-based Treasury Savings Bills although overall it can be stated that market effects were not optimal for retail deposit products. As regards investment products, a significant increase in the portfolio was typical of the whole Hungarian market in 2014 for both government securities and investment funds.

Linked to the securities account, marketing the investment fund (Money Market Fund) and the Treasury Savings Bill Plus (dematerialised security) on behalf of **Magyar Posta Befektetési Zrt.** began in 2013, which continued in 2014 with a significant expansion of the portfolio on sale and the network used to this end.

⁵ Savings intermediation, Banking services, Insurance intermediation, Other financial services.



The **sale of active investment products at 346 selected post offices**, which began in 2014, can be regarded as a success. In order to achieve the expected business growth, the range on offer was expanded in 2014 by two new investment funds (Short-Term Bond and Property Funds), two new government securities (Bonus and Premium Government Bonds), and two new FHB bonds (No. 15 and Optimum). The introduction of the e-Investment Service (netbroker) also deserves mention.

During the year there were numerous customer and postal sales campaigns, some of which were accompanied by a major marketing campaign. Simultaneously, campaigns were organised among sales personnel. The success of the campaigns is reflected by the fact that 20,000 new customer accounts were opened in this period.

In order to better serve customers, in the framework of the new strategic partnership, the phased introduction of the sale of the Posta Bank Account and Posta Retirement Bank Account on behalf of the FHB Bank began on 14 April 2014 and marketing the Posta Flotta Bank Account for postal employees began on 12 May 2014.



In 2014 more than 23,000 bank accounts were opened at 363 postal outlets. **Modern bank account packages** with full service content and **related electronic services** ensured the continuity of serving customers. The electronic services meet today's customer expectations and make online and telephone banking possible also for postal customers.

The trend in the acceptance of bank cards at postal outlets was influenced by the introduction of the transaction tax in 2013, which significantly reduced the volume of cash withdrawals. In 2014 changes in the law again caused a distinct fallback in the development of the turnover of cash withdrawals. The number of cash withdrawals declined considerably for the above reason as well as due to charges related to postal cash withdrawals. As a consequence, the annual number of cash withdrawal transactions dropped to the volume of 2001.

In 2014 Magyar Posta made preparations to ensure a broad range of **card payment solutions**. The gradual introduction of payment by card started in 2014 through the parcel terminals and the use of the mobile application for bill payments, which will be followed by the placement into service of bill payment terminals and the option to settle bills and postal services by card payment at postal outlets to be introduced in 2015.



The annual performance of the **building savings marketing** by Magyar Posta approached the value laid down in the business plan, falling marginally short of the set target.

Insurance intermediation

Magyar Posta's insurance intermediation activity has been developing steadily for years. In 2014 Magyar Posta's insurance revenue grew by almost 10% year-on-year.

The combined premium revenue of the domestic insurance sector rose by 4.1% compared to the same period in the previous year to HUF 844 billion in 2014. The life insurance business's contribution to this was HUF 452 billion and that of the non-life insurance areas was HUF 392 billion, a 4.4% and 3.9% growth year-on-year respectively.

As regards third party motor insurance, the number of policies grew by over 142,000 compared to the same period in the previous year. This reflects the number of new and used cars that were put onto the road over the last year. The premium revenue from third party motor insurance increased by 8.3%, while average premiums in effect remained at the 2013 level.

The growth in the number of vehicles had a lesser impact on the number of comprehensive motor insurance policies because statistics show that considerably more cars are put onto the road than the number for which comprehensive insurance is taken out on. The revenue from comprehensive motor insurance grew by 1 percentage point in the last year.

Possible points for growth in the insurance market in the near future are health, old age and liability insurance. The small rise in the life and old age insurance markets gives rise to cautious optimism, and further improvement is expected in the area of old age products supported by tax incentives.

In 2014 the insurance company Magyar Posta Biztosító and the life insurance company Magyar Posta Életbiztosító again performed better than average in the insurance market. **Magyar Posta Biztosító increased its market share once more and was in 5th position in the composite ranking list with a market share of 9.1%.**

NEWSPAPER DISTRIBUTION, BUILDING THE RETAIL NETWORK



Business events with a long-term impact typified the newspaper distribution market in Hungary in 2014. The changes that occurred in the publishing environment had a significant effect on Magyar Posta's newspaper distribution service as regards both subscriptions and sales.

Similarly to previous years, the printed press market continued to shrink last year, the main reasons for which are digitisation, that is the increasingly frequent publication of online versions of newspapers, and the possibility of accessing information quickly on the Internet. For this reason the Company set as targets charting further potential business options and the maximisation of the advantages derived from this both in the subscription and the wholesale distribution segments.

The fact that **the number of communities where Magyar Posta delivers newspapers and collects subscriptions was expanded by over 40** favourably influenced newspaper activity.

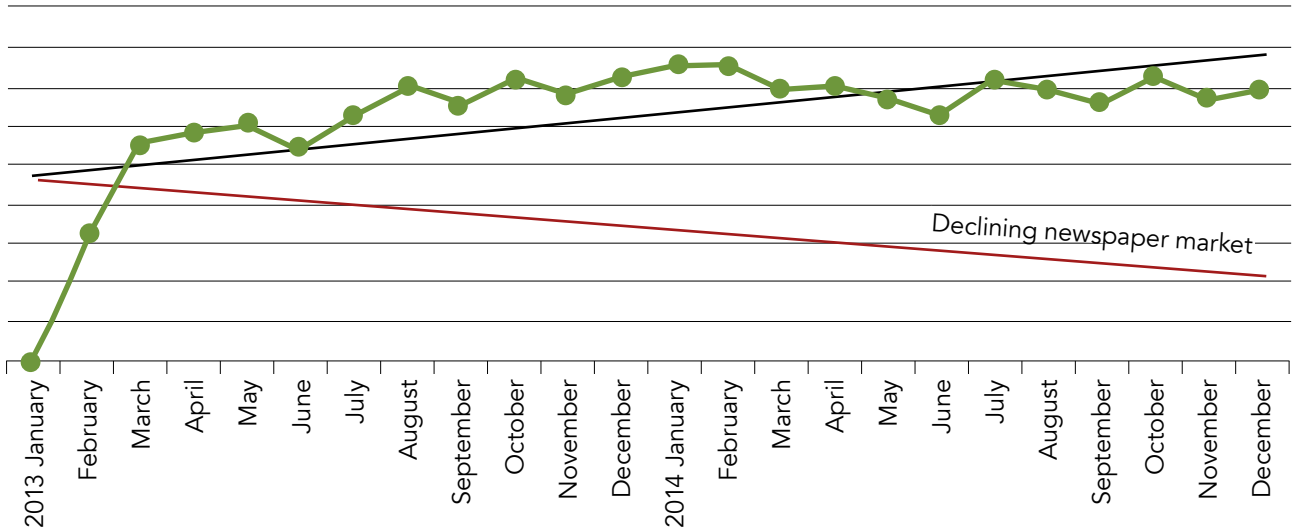
During the year the **newspaper wholesale activity** and the **choice of papers adjusted to customer needs** were optimised. In addition to supplying its own sales network, Magyar Posta, entering the retail newspaper sales market, began building its **retail network**.

The range of market participants for the Insert Pack product did not change considerably compared to recent years and the previously experienced trend of orders continued with a slight fall in the volume.



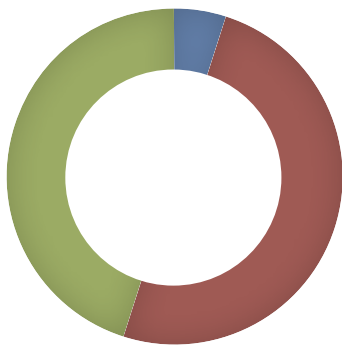
Considering the entire postal newspaper activity, the Company's newspaper revenue in 2014 grew by 3% year-on-year mainly due to a rise in newspaper sales.

Rise in newspaper sales 2013-2014



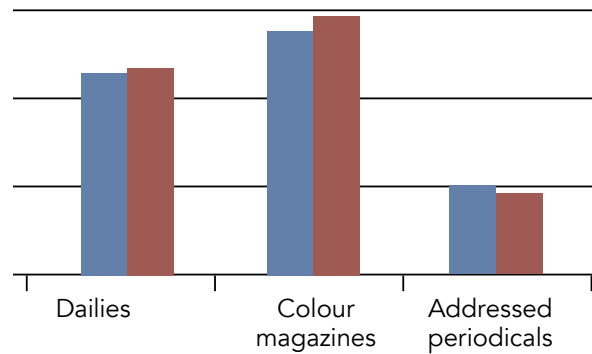
Within subscriptions the popularity of colour magazines increased in parallel with the decline in addressed periodicals and, from the point of view of the delivered number of copies, mainly dailies and colour magazines dominated as in the previous year.

Newspaper subscriptions by type 2013-2014



● Dailies ● Colour magazines ● Addressed periodicals

Breakdown of number of copies delivered 2013-2014



● 2013 (no. of copies) ● 2014 (no. of copies)

RENEWAL OF THE RETAIL ACTIVITY

For Magyar Posta retail trade is a supplementary activity that is mainly intended to fully exploit the benefits offered by its extensive network and nationwide logistics activity.

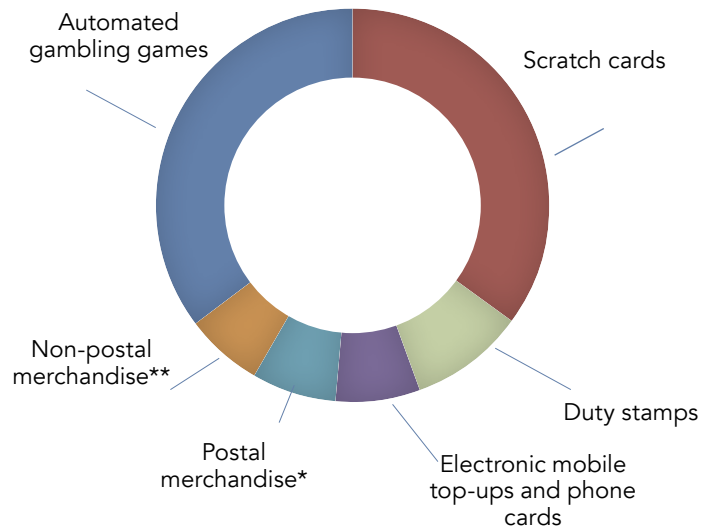
In the area of retail trade the conditions for displaying goods and the **appropriate placement of merchandise** in line with professional criteria (optimisation of self-service sales, unified shelf image) improved significantly. **The new goods portfolio** and incentive scheme support the renewal of direct postal sales.

In 2014 in accordance with the legal requirement to give a computer receipt for certain products, **the switch-over to online cash registers was made**, and a third of the almost 8,000 cash registers were replaced.

At the same time, in order to improve the efficiency of the supply system, the **number of retail warehouses was reduced** in the course of the year, which will result in significant cost savings for the Company in the long term as well as improved service.

The increase in the quantity of and revenues from **gambling games** was primarily due to the combined

Retail revenue 2014



* postcards, paper goods, printed forms, transport tickets
 ** food, toys and gifts, books, other retail goods

effect of conscious sales efforts, the gaming company Szerencsejáték Zrt.'s scratch card portfolio being adjusted to demand, the introduction of the new EuroJackpot automated gambling service and **sales promotion campaigns**.



HUNGARY'S LARGEST PERSONALISED PRINTING CAPACITY

The digital opportunities afforded by the Posta Group's DBH and its subsidiaries together with the effective use of the human resources within the Group represented a **clear opening** for the Company **to have an active and sustained presence in the field of e-business and electronic business management, and for the innovative development of services.**

Magyar Posta's management scrutinised the Posta Group's **printing activities**, and decided to create a more rational operating structure that was better adapted to serving customer needs. In order to provide a reliable and efficient service, **Magyar Posta concentrated its printing activity in a newly established subsidiary company with a clean profile that only performs mail production activities.** By combining resources an opportunity arose to rationalise processes and optimise both the machinery and human resources. After this had been effected, Magyar Posta's printing centre became a front runner both as regards the capacity of its machinery and the quality of customer service even in European terms.

Magyar Posta's future goals are to maintain its market leading role and to gradually establish its presence in the area of document management (digitisation). Magyar Posta's acquisition of DBH further strengthens the endeavours to reach its strategic targets to this end, placing the integration into the value-generating processes of utility companies on a new platform. As a result of the new acquisition the printing centre EPDB Nyomtatási Központ Zrt. was founded, creating Hungary's largest capacity for the production of personalised mail. Similarly, the meter reading service was re-examined to make the activity more effective.

EPDB CAPACITIES

Total daily printing capacity:

8,114,000 A4 sheets per day

Total daily enveloping capacity:

4,032,000 items per day

Monthly average of 28 to 35 million **printed sheets**

Monthly average of 13 to 15 million **finished items**



UTILITY CUSTOMER SERVICE

The activity of providing a customer service for utility companies expanded in 2014 to include performing such tasks for TIGÁZ Zrt. at 77 postal outlets. Providing a customer service for FŐGÁZ Zrt. also continued, and complaints were managed for TIGÁZ Zrt., E.ON Hungária and GDF SUEZ Zrt. Utility related affairs are handled at 207 postal outlets across Hungary but in the coming years this number is likely to grow as strategic cooperation strengthens.

TECHNOLOGICAL DEVELOPMENTS



DIGITAL POST

Appearance of mobile applications

A major innovation in 2014 was that at Magyar Posta, **matching the expectations of the age, access to certain services was made possible for customers via a mobile platform.** The postal mobile application (Magyar Posta Business Application) can be accessed on iOS and Android platforms. In addition to **iCsekk (bill) payments**, the application's functions include **a parcel and letter postage calculator, making an appointment** for collecting mail items as a convenience service, and **tracking parcels**, which can also be integrated with the biggest social networking website, Facebook.

Among its other functions are two services available at most postal outlets, the **postcode finder** and the **postal outlet locator**. The latter also provides information to customers about the opening hours and services offered at the selected post office. The postal outlet locator function uses the current GPS position of the mobile device to show the nearest service point and can also be used to find parcel terminals and MOL Postal Points. Furthermore, Agora Points providing administrative services can be sought on a map or as a list.

The application also contains a quiz and a geo-location game for young people and users who like games.

Arranging postal affairs online

New convenience services were introduced for private customers. Addressees can request repeated delivery of their mail items at a time and place of their choice using the Internet and can make an appointment online to collect their letters or parcels from the post office or to ask for their mail to be retained or redirected.

Administrative affairs – AGORA Points

In the framework of a project backed by European Union funds, the Company has set up **administrative customer service points** in small communities. In April 2014 it became possible to arrange administrative and official affairs electronically at service points in 40 small communities by using **touch screen terminals (kiosks)**.



Magyar Posta increased the range of services offered to customers **by establishing Postal Agora Points to provide electronic administrative and community information in 40 small communities** in underdeveloped micro-regions most threatened with falling behind from the viewpoint of information communication. Residents and businesses in these communities can obtain information about arranging affairs electronically, use e-public administration services, and in some cases start administrative procedures at postal outlets.

Thanks to the functions of the community space created and free access to the KIOSKS located in the customer area and WI-FI, customers can arrange their affairs and obtain information either guided by postal staff or independently without having to make costly and time-consuming journeys. A further development of this service is the Postal Agora mobile application, which allows users access to the information available at Agora Points irrespective of location. The Postal Agora mobile application has been available since 31 October 2014 also on devices using iOS, Android and Windows Phone platforms.





Agora Points in Hungary (2014)

**Agora Points – 9 months and more than 1,700 enquiries dealt with,
Online Agora – 4,000 downloads and over 540,000 URL connections in 9 months**

At AGORA Points customers can deal with administrative and community affairs related to 12 different aspects of life in person or even use the government's client gateway. By providing general open WI-FI access, Magyar Posta ensures equal opportunities for people living in the smallest communities.

Compiling the Public Register of Addresses

Under the State Reform Operational Programme, Magyar Posta participated **as part of a consortium**

in a project called **Compiling the Public Register of Addresses**, which was **funded by the European Union** with the aim of creating a single, full public register of addresses in Hungary. The newly devised single register due to be completed in 2015 will replace the multiple, often overlapping address databases in current use in public administration, ensuring practical benefits in administration at a day-to-day level. **As a result the first database register that can be considered a standard in Hungary, the central address register, will be created.**



MODERN LETTER SORTING

To maintain the Company's competitiveness and to satisfy customer needs to a high standard, Magyar Posta **modernised letter processing and put a modern letter sorting machine line into service in December 2014** at the National Logistics Centre. The machines with state-of-the-art technology are able not only to sort letters into delivery routes but also to arrange the mail in sequence by address within each delivery route, thus allowing Magyar Posta to restructure its delivery system to ensure higher efficiency and greater accuracy. The new sorting system is at the forefront in international terms and its capabilities are paired with cutting-edge technology, which means that Magyar Posta will be able to expand its portfolio with numerous new services in the coming years.

The new machine line is more than simply a higher capacity "conveyor belt" supplemented by an IT system. New additional services are included in its range of options which customers will experience personally in ACCURACY, QUALITY and RELIABILITY, and in NEW MODERN SERVICES **that combine traditional postal services and opportunities created by the digital world.**

What can the new sorting system do?

- *Intelligent sequencing by address*
The Selex letter sorting machines are able to automatically process over 3 million letters a day, not only sorting letters into delivery routes but also sequencing the mail by address within each delivery route. This provides new opportunities for Magyar Posta to structure and maintain its delivery system so that it operates more efficiently and with greater accuracy.
- *Intelligent text and image recognition*
The machine line with the latest technology is able to read information on the full surface of the letter including postmarks, franking indicia, customer identifiers and other bar or matrix codes.
- *Modern solutions based on the new letter sorting machine line – electronic administration*
The new machine line's capabilities make possible the introduction of hybrid services for electronic public administration, enabling the automatic selection of mail items to be delivered by hybrid means.

At present, in the National Logistics Centre, covering an area of some 23,000 m², on average 3 million letters are processed each day, as well as 80% of all parcels accepted nationwide or a daily average of 40,000 parcels.

MODERNISING LOGISTICS



Modernisation typified Magyar Posta as regards logistics services in 2014. In line with strategic goals, a giant stride was taken in the development of modern logistics technology. Preparations were made to improve the efficiency of the logistics system and transport subsystem, whose implementation is a future task.

The Company was able to sustain development that was above the market average for logistics services in 2014 as well. Its logistics capacities adapted flexibly to customer requirements, product development and new innovative services as well as novel business solutions. In addition to the increase in volume of logistics operations, there was a positive response to the challenges arising from the shift towards 24-hour time-guaranteed services.

*Magyar Posta's logistics services have at their disposal **more than 3,000 vehicles, which travel on average 270,000 km per day** to ensure that the mail is forwarded by delivery personnel and reaches customers on time and reliably.*

During the year 186 vans were added to Magyar Posta's fleet. Apart from **modernising the vehicle fleet, handling equipment and processes were also updated**, which supports higher quality of service for customers.

The development will continue in the coming year, thus effecting the creation of a modern, internationally competitive Magyar Posta offering the latest services to the standard of Western Europe's postal operators.



NATIONAL NETWORK – MAGYAR POSTA IS PRESENT IN EVERY COMMUNITY IN HUNGARY ON EVERY WORKING DAY OF THE WEEK

Magyar Posta provides postal services with a personal presence **in every community in Hungary on every working day of the week** and also on Saturdays in towns with high business potential. In these places with more potential, by developing the additional capacity to expand the physical network and continually expanding the number of different kinds of **automated postal solutions**, such as parcel terminals and bill payment terminals, customers are given the option to use services **outside opening hours**.

*The Company has **about 10,000 delivery workers**, who deliver to addressees in every community in Hungary on every working day of the week. They carry out their daily jobs **on foot, by bike, motorcycle and car**. The total distance covered **each day** in order to deliver the mail **exceeds 300,000 km**.*

As in previous years, in 2014 the Company gave special priority to developing the network of postal outlets and the **modernisation of the service environment of busy post offices**. The two main thrusts of this development in postal outlets with the highest business value are converting service points to have an open-counter arrangement and installing customer queuing systems. Under this investment in 2014 **the number of open-counter post offices rose to 236** and the number of postal outlets with queuing systems grew to 126.

Developing queuing systems allows the quality of customer service to be enhanced, queuing times optimised, and automatic prioritisation. These support the division of tasks in response to traffic in customer service workplaces, the efficient handling of peak periods and smooth customer service. Another innovation serving customer satisfaction was the introduction of a **new customer information tool**, which gives customers visual information about busy and less busy periods in a particular post office. This additional information allows customers to plan visits to the post office at the most convenient time.

Magyar Posta created a **single reference address database** for the purpose of standardising address management and increasing processing capacities. The development provides a sound foundation for more accurate, deeper processing capabilities.

In 2014 Magyar Posta fulfilled its legal obligation to give computer receipts for products in the manner required by law. In 2014 a total of 2,465 standard online cash registers came into service in addition to the 480 PC-based online cash registers, which are integrated into workstations.



PROPERTY INVESTMENTS

More attractive communities – better places to live

In 2014 Magyar Posta **completed investments** worth more than **HUF 15 billion**. Of these, information technology and letter sorting investments ensuring competitiveness in the long term stand out. Over HUF 1 billion was devoted to improving and maintaining the condition of postal properties, thereby contributing to creating a more attractive environment in every community affected.

The above mentioned investments were mainly renovations of large post offices that improve service conditions for customers. Within this, acting on preliminary expert opinions, 28 postal buildings had structural problems rectified in 2014.

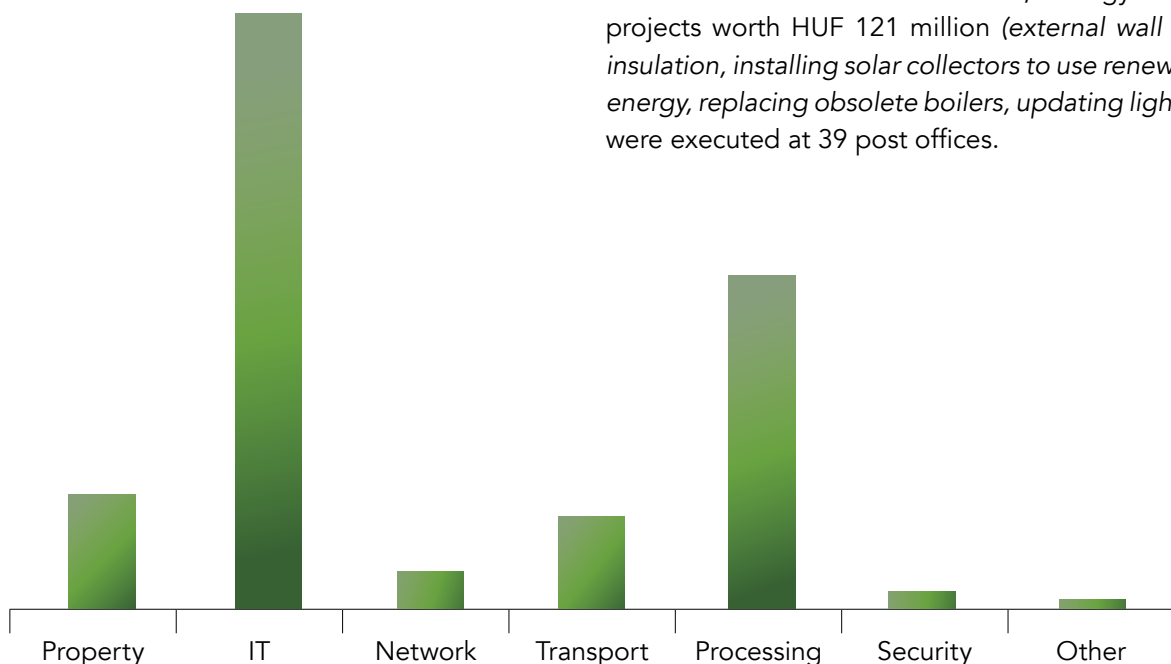
Magyar Posta pays great attention to the equal treatment of people with disabilities. Investments to provide **disabled access** to post offices worth HUF 122 million were financed from the Company's own resources, ensuring suitable access for such people at 38 postal outlets in 2014.



Nádudvar PO

Among the investments, the modernisation of key establishments, including renovating roofs and external walls, replacing windows, insulation, and changing obsolete boilers and lighting, occurred at 31 properties at a cost of approximately HUF 166 million. The Company spent HUF 290 million on the replacement of fixtures and fittings that had reached the end of their life and are indispensable to ensure proper functioning at 130 service points. Magyar Posta endeavours to use fuels economically, thus contributing to the optimal use of energy and other natural resources. The main aim of its energy strategy is the conscious and rational use of energy, increasing **energy efficiency** and reducing carbon dioxide emissions. With the investments, energy saving projects worth HUF 121 million (*external wall heat insulation, installing solar collectors to use renewable energy, replacing obsolete boilers, updating lighting*) were executed at 39 post offices.

Investments by type in 2014





Mosonmagyaróvár PO

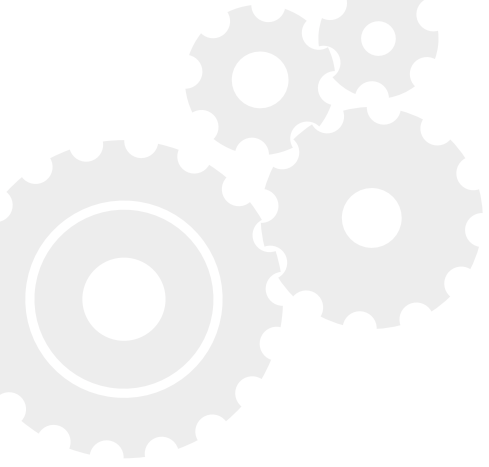
Reconstruction and the **construction** of new post offices were primarily determined by the unsuitability for service of existing postal buildings. Besides this, several postal outlets including those in Csörög and Ságújfalu were relocated. Major property developments occurred at

- Nádudvar, where a new postal building replaced the former service point on an area of 218 m².
- Mosonmagyaróvár Post Office 3, where the exterior was renovated at a cost of almost HUF 50 million (external walls, footing, yard, fencing, replacement of external doors and windows).

Besides the funds devoted to investments, Magyar Posta spent over HUF 1 billion on **maintaining** its properties in 2014.

As a priority project with European Union funding, Building "C" at Budapest, Budafoki út 107-109, was given over for use by the previously mentioned Hybrid Delivery and Conversion System. Besides developing the technological system, the construction and conversion happened as the result of a public procurement procedure.

Under the AGORA project described above, Magyar Posta established administrative points in 40 small communities and installed touch screen terminals to deal with official affairs.



OPERATIONAL FEATURES



The important elements of successful operation, apart from business and service developments, are effective corporate governance, the creation of the organisational structure according to market processes, an active human resources policy, a motivated and adequately qualified labour force and a positive corporate culture.

The long-term success and effectiveness of a business is to a large extent determined by the integrated management of corporate risks at a

high level as well as a high-standard quality and environmental policy.

Magyar Posta’s management is committed to establishing an effective corporate culture and organisational and operational system that realises business goals at a high level. Thus great emphasis is laid on the successful functioning of corporate governance, risk management, and the quality and environmental management system as well as staff development.

CORPORATE GOVERNANCE – A MODERN BUSINESS APPROACH IN ORGANISATIONAL DEVELOPMENT

To establish efficient corporate governance and to achieve the Company’s strategic goals, in 2014 Magyar Posta’s Board of Directors decided **to restructure its management system and organisational structure**, and continued to build a divisional corporate structure by restructuring the business divisions.

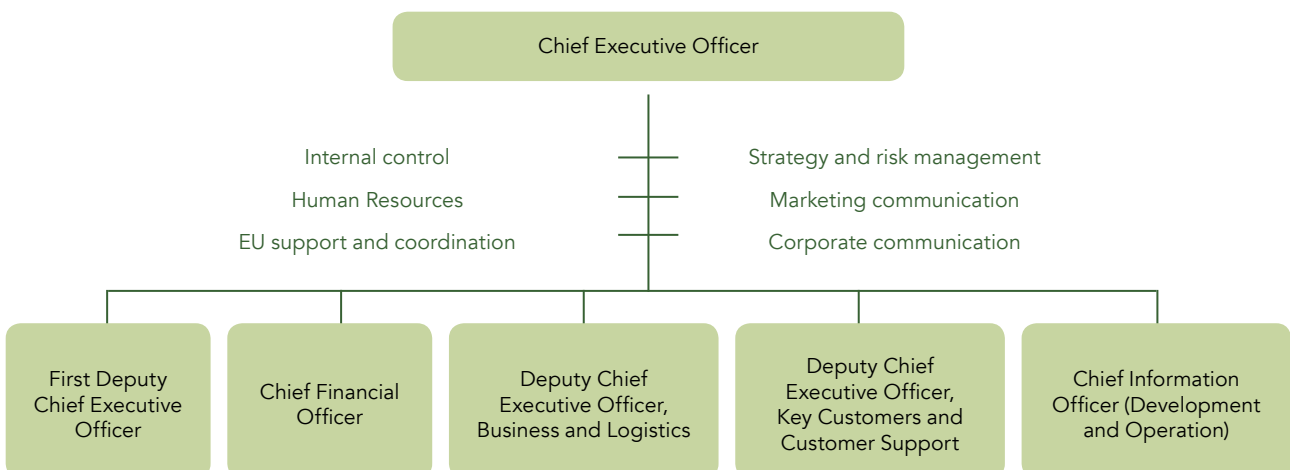
The new organisational principle establishes clear links between the market segments, sales channels and the competences of managing products and services in the spirit of a **modern business approach**.

By decentralising decision-making powers and making these transparent as well as shortening decision-making processes, the restructuring significantly increases customer and sales orientation, and the effectiveness of management, and allows

the development of profit-oriented business units functioning on a business basis.

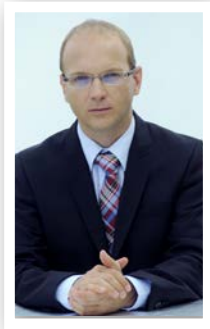
Separate dedicated organisations cater for the key, business and private segments. Magyar Posta’s specific product and service development **is able to respond faster and more effectively to the actual needs of affected customers**.

In order to manage the company group and to coordinate its activities, Magyar Posta in 2014 established the asset management company Magyar Posta Vagyonkezelő Zrt., which exercises direct control over the subsidiaries and interests it holds in Postaautó Duna Zrt., Posta InIT Zrt., Posta Paletta Zrt., JNT Security Kft., Posta Kézbesítő Kft., Magyar Posta Oktatási Szolgáltató Kft. and indirectly over PostafloTTa Kft. through Postaautó Duna Zrt.



MEMBERS OF THE BOARD OF DIRECTORS AND THE SUPERVISORY BOARD OF MAGYAR POSTA ZRT.:

MANAGEMENT:



Zsolt Szarka
Chief Executive
Officer

Tamás Szauer
First Deputy Chief Executive Officer

Ákos Békési
Chief Financial Officer

Zoltán Kovács
Deputy Chief Executive Officer, Key Customers
and Customer Support

Róbert Molnár
Deputy Chief Executive Officer, Business and
Logistics

Board of Directors

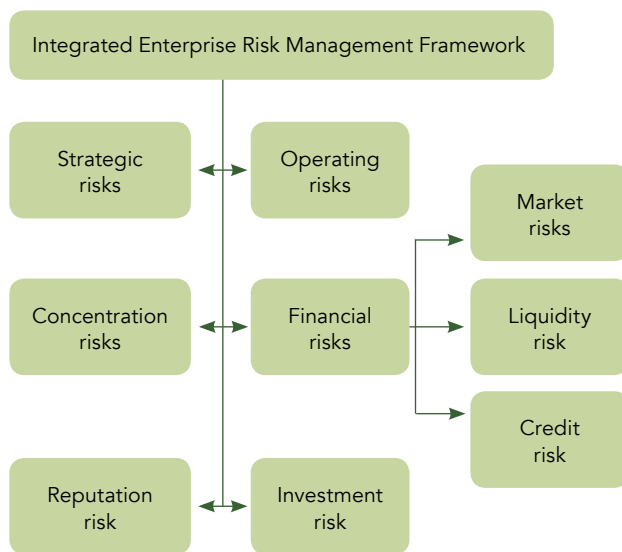
- Dr. Csaba Polacsek, chairman
- Ákos Békési
- Iván Bulyáki
- Dániel Lontai
- Zsolt Szarka
- Tamás Szauer

Members of the Supervisory Board

- Csaba Lantos, chairman
- Dr. Barnabás Balczó
- László Bogár
- Dr. Sándor Nemes
- Ferenc Szarvas
- Zsuzsanna Tóth

EFFICIENT RISK MANAGEMENT – THE SECRET OF LASTING SUCCESS

Due to the experiences of the 2008 crisis and changes in the economic and regulatory environment, the management of Magyar Posta decided to pursue a new approach to risk management and insurance management. Instead of the isolated risk management activities based on risk types that had been in place for years, the foundations of an Integrated Enterprise Risk Management (ERM) Framework have been laid.



A risk management concept befitting Magyar Posta's strategy has been established together with an appropriate organisational background as well as the regulation and reporting system for operative risk management.

According to the provisions of the Risk Management Strategy adopted by the Board of Directors and the Supervisory Board, the Company's aim is not to eliminate risk entirely but its rational management. The Strategy lays down the objectives and tools available both on integrated level and by separate risk types as well as the risk appetite.

One of the risk management tools is insurance management, by which the risk arising is partially transferred to insurance companies. A thorough knowledge of the operation of Magyar Posta and its subsidiaries enables the Group to have a customized, unified insurance portfolio with such conditions that provide greater protection than its former policies, and are better suited to the risk profile of the Group and its range of activities. For this reason centralised insurance management was established in 2014.

Magyar Posta set up the Strategy and Risk Management Directorate in 2014. This body, as the organisation in charge of managing this activity, is not exclusively responsible for risk management and insurance management. It maintains close relations with other areas involved in operative risk management. Furthermore, all employees must be able to identify and mitigate any risk arising.



QUALITY MANAGEMENT



The management of Magyar Posta is committed under the provisions of the Quality and Environmental Policy to **increasing the satisfaction** of business and private customers, strategic partners, staff and shareholders, and **reducing the extent of environmental impacts**. In order to uphold these commitments, **the Company operates a Quality and Environmental Management System, while an Information Security Management System supports the protection of sensitive information.**

One means of maintaining and improve quality of service is – taking into account customer feedback – to define internal quality goals. The performance is regularly measured and analysed, and when necessary, interventions are made in the processes.

The Company, as the universal postal service provider, regards compliance with the legal provisions concerning quality of service as an essential requirement. The **results for 2014 certified** by an independent measuring organisation showed that the **mail transit time** and the **reliability of forwarding mail** were above the prescribed thresholds and that **performance was excellent** with 98% of mail items entrusted to Magyar Posta being delivered to customers on time.

The quality management systems are regularly inspected for compliance and audited by SGS Hungária Kft. as an independent certification body.



RESPONSIBLE ENVIRONMENTAL PROTECTION

For a responsibly minded, leading business in the 21st century to maintain its competitive edge and proceed towards sustainable economic growth, not only must its financial results be improved, but also its operations must be environmentally aware and benefit society. The Company management feels responsible for consciously environmental protection, for efficient and environment friendly corporate operation and for sustainable development. In this spirit an **Environmental Management System (EMS) operates at 44 premises**, and as a demonstration of commitment and corporate responsibility, **in 2014 Magyar Posta joined the "Cycle to Work" and "Pick It Up!" environmental campaigns.**

The Company takes a responsible attitude to the problem of climate change, setting as a goal the steady reduction of CO₂ emissions and supporting energy-saving investments.

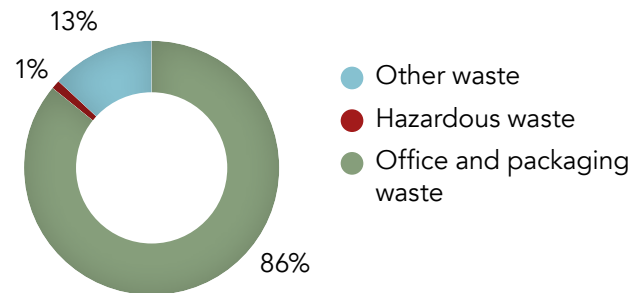
In 2014, as part of the ECOPOST trade day, Magyar Posta announced that, in line with the principles of the National Climate Change Strategy, it would fulfil the **"3x5 Climate Protection Programme"** for the period 2014-20. Under this scheme the Company makes a commitment compared to 2013 to:

- reduce CO₂ emissions by 5%,
- reduce energy consumption by 5%, and
- increase the use of renewable energy by 5%.

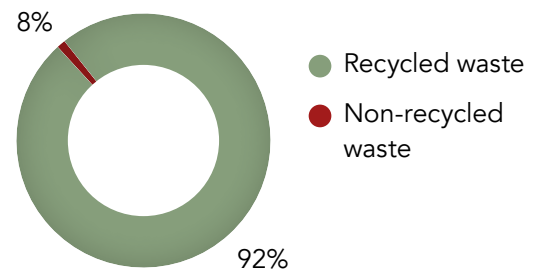
Waste management is a prominent pillar of **environmental protection**. On 1 June 2014 the Company introduced a new **optimised waste collection system**. A central hazardous waste collection point was established at the National Logistics Centre and at the same time 5 hazardous waste collection points around the country were closed in order to reduce risks to the environment.

In 2014 the Company generated 2,690 tons of separately collected waste and 22 tons of this were classified as hazardous.

Separately collected waste by type (%)



Waste to be recycled (%)



Of the total waste 86% was office and packaging paper waste and 1% was hazardous waste. More than 91.8% of the waste (paper, metal, plastic, electronic waste) was recycled or sold, producing an income of almost HUF 38 million for the Company.

Investments targeting environmental protection and energy savings were rearranged adapting to needs and were as follows in 2014:

Priority investment areas in 2014	HUF 000 (rounded)
modernising, regulating heating and cooling	145,600
replacing, renovating doors and windows	129,500
wall/roof renovation, heat insulation	19,200
modernising lighting and wiring	61,100
renovating and connecting plumbing and drains	15,800
renovating sanitary units	5,800
installing solar collectors	6,600
Total	383,600

A REVIEW OF HUMAN RESOURCE MANAGEMENT

Magyar Posta's employment policy is defined by the goals described in the corporate strategy and efficiency criteria.

The main goals of the Company's human resources activities are:

- efficient human resource allocation according to business requirements,
- forming and maintaining a motivated pool of employees capable of additional performance,
- obtaining competitive organisational knowledge,
- ensuring equal opportunities,
- maintaining the balance between constant and variable wages,
- targeted and continuous staff and management development,
- maintaining stable labour relations,
- providing human services within the company group.

In 2014 the average statistical **staff number**, taking into consideration all kinds of employment status including employment from 1 day to 5 days, was 31,220.5, which, converted to a reduced full-time staff number, means 29,709.1 persons. This reduced Company staff number, in line with the efficiency requirements expressed in the strategy, represents a fall of 3.7% compared to the previous year.

Total **wage costs** in 2014 amounted to HUF 74,284.1 million. With the owners' permission, the Company managed wages through an increase in average earnings achieved by devoting resources released by improving the efficiency of operation. The **average salary** for full-time work rose by 0.7% compared to the 2013 level. This increase was due to the changes in basic salaries in 2014. The size of the permitted incentive fund for 2014 was almost HUF 6 billion, from which the Company provided additional performance-linked payments to some 28,000 to 30,000 employees on a monthly, quarterly, half-yearly or annual basis dependent on whether assessment was based on achieving specific targets or additional performance.

Optional fringe benefits for employees were an influential part of staff costs. In 2014, as in other years, the Company offered staff the option of choosing the individual fringe benefit elements that are best suited to their particular living conditions, and personal and family needs. In May 2014 six months instead of the earlier one year's employment became the criterion for entitlement. The **annual benefit** fund for full-time employees employed throughout the year was HUF 212,000 gross in 2014 as well.

As part of the 2015 pay agreement but still applicable to 2014, upon certain conditions employees received a **one-off benefit** in the form a Posta Paletta Gift Voucher worth HUF 10,000 net, followed by HUF 35,000 or 40,000 net dependent on pay bracket. The one-off benefit was granted to more than 93% of employees.





Based on the Collective Agreement and other internal regulations, Magyar Posta provides many **other benefits** to employees, which include concessionary holidays, housing aid and aid for employees experiencing difficult circumstances, and grants professional distinctions in acknowledgement of outstanding performance.

The main aim in connection with providing **holidays** continued to be the rational and efficient operation of welfare properties. In 2014 the Company provided concessionary holidays for 8,463 employees and their families in 45 postal welfare institutions. 426 children took part in concessionary holidays.

The amount devoted to housing aid and social aid totalled almost HUF 300 million. The Company granted housing aid to 103 employees and social aid to staff members in difficult circumstances dependent on need. Assistance was also provided where need arose for maternity and funerals.

Employees whose work was consistently outstanding over a long period, whose performance was above average, and whose initiatives, and market-

and customer-oriented conduct promoted the development of their field or increased the Company's revenues received recognition for their endeavours. Approximately five hundred people received professional distinctions in 2014.

In order to offer varied and flexible forms of work, the Company provided numerous **atypical employment** options including distance work, temporary employment, student jobs, part-time jobs, split daily working time, working time banking, flexible working hours and flexible working arrangements.



The Company's management is committed to employing **people with a reduced capacity to work**. The **aim** of the Scheme for the Recruitment



of Employees with a Reduced Capacity to Work is **to support the integration of such people into the labour market in the spirit of social responsibility** and to reduce the amount the Company is legally obliged to pay in rehabilitation contributions.

New employees at Magyar Posta took part in the **Assimilation Scheme** to smooth their induction to the work organisation. As part of this they were provided with the essential information that helps them find their place in the organisation from the time of joining the Company so that they can positively contribute to the work in their specific field as soon as possible.

Great importance is attached to grooming the next generation of experts, so the up and running **Trainee Programme** continued in 2014. The programme aims to discover university or college students and young people entering the labour market with high development potential who envisage their future at Magyar Posta.

In 2014 the focus of the Company's scheme to retain key staff members, the **Key Person Programme**, was mentorship, a process in the spirit of support and development, which proved to be an effective way of sharing expertise. The awareness-raising and culture fostering power of mentorship was also discernible during the programme. The two-year programme both retains highly knowledgeable employees who could only be replaced at considerable cost over a substantial period of time and passes on their expertise in an intensive manner.

The Company supported employees with children by arranging **Child Day-Care Programmes** in 2014.

Employees affected by staff rationalisation are given help in finding a new job under the **Human Assistance Programme**. The purpose of the programme is to promote the creation of social competences which impart a positive attitude in employees leaving their workplace, such as self-awareness, self-confidence, independence, sociability, professional strengths and weaknesses, and marketable skills and abilities.

The role of workforce development increased in 2014 compared to previous years due to the large number of new products that were introduced. In addition to developing skills in product knowledge and sales and the complex preparation of the support IT system, skills development courses were offered to most post office managers.

With the involvement of the subsidiary providing educational services, the number of participations in organised training, including various professional knowledge expansion, skills development and complex training, totalled 82,490 in 2014 (some employees took part in several courses). The growing number of participants in organised training was due to the extension of the **e-learning method**⁶.

In consequence of the new technologies and services introduced, the number of training programmes at work also grew, which were most effective in the form of **on the job training**. On the job training is acquiring a more and more important role in centrally organised complex programmes based on the blended learning method (the combined use of classroom study and distance learning within the same training course).

In order to maintain stable labour relations, the employer holds consultations and negotiations about measures affecting large groups of employees and regularly operates the Postal Reconciliation Council in order to find out about the work and current tasks of each specialist area. The employer strives to maintain good labour relations with the trade unions and other interest groups represented at Magyar Posta.

Magyar Posta's HR unit provides full **HR services** not only for the organisation of the parent company but, based on a separate agreement and remuneration, also for postal companies in which it has an interest. These services include labour and accounting tasks and competence measurements. In 2014 the HR service was provided to the 350 members of staff of the 7 companies in the Posta Group.

⁶ Electronic distance learning method

REGISTRATION DATA ABOUT MAGYAR POSTA ZRT.

Magyar Posta Zártkörűen Működő Részvénytársaság (also referred to as Magyar Posta or the Company) was established for an indefinite term. The Company is the general legal successor of Magyar Posta Vállalat and was founded on 31 December 1993.

COMPANY HEADQUARTERS:

Budapest, District XIII, Dunavirág u. 2-6

THE COMPANY'S SHAREHOLDERS ON 31 DECEMBER 2014:

Prime Minister's Office exercising ownership rights on behalf of the Hungarian State: 75% + 1 share, 10,603,271 shares, each with a nominal value of HUF 1,000

Integration Organisation of Cooperative Credit Institutions (Szövetkezeti Hitelintézetek Integrációs Szervezete, registered office: 1051 Budapest, Nádor utca 31): 25% - 1 share, 3,534,422 shares, each with a nominal value of HUF 1,000

Hungarian Savings Cooperative Bank (Magyar Takarékszövetkezeti Bank Zrt.): 1 share with a nominal value of HUF 100

THE COMPANY'S SHARE CAPITAL ON 31 DECEMBER 2014:

HUF 14,137,693,000

MAIN ACTIVITIES:

- acceptance, transport and delivery of letter-mail items and parcels,
- complex logistics services,
- postal financial intermediation,
- savings and insurance intermediation,
- newspaper distribution,
- retail activity

THE COMPANY'S MANAGING BODY:

Board of Directors

THE COMPANY'S CHIEF EXECUTIVE OFFICER:

Zsolt Szarka

2014 BUSINESS FIGURES



The Company's auditor on 31 December 2014:

Tamás Horváth, certified auditor

Chamber membership number: 003449

on behalf of

Deloitte Könyvvizsgáló és Tanácsadó Kft. (Registered office: 1068 Budapest, Dózsa György út 84/C; company registration number: 01-09-071057; chamber registration number: 000083).

Subsequent to the balance sheet date no event has occurred that would justify the correction of the report or would cast doubt on the true and fair view of the property, financial and income position of the Company in the report.

Performance indicators

Name	2013	2014
EBIT (HUF million)	441.6	587.5
EBITDA (HUF million)	8,487.1	8,214.2
EBIT/average equity	0.6%	0.8%
EBIT/average assets	0.3%	0.3%
EBIT/net sales revenue	0.2%	0.3%
EBITDA/average equity	11.3%	10.5%
EBITDA/average assets	5.4%	4.8%
EBITDA/net sales revenue	4.5%	4.4%

Annex 1

Independent Auditor's Report



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H-1068 Budapest, Dózsa György út 84/C., Hungary
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Registered by the Capital Court of Registration
Company Registration Number: 01-09-071057

Translation of the Hungarian original

REPORT OF THE INDEPENDENT AUDITOR ON THE SUMMARY FINANCIAL STATEMENTS

To the Shareholders of Magyar Posta Zrt.

The accompanying summary financial statements, included as Annex 2 to this Annual Report, which comprise a summary balance sheet as at December 31, 2014, and the related profit and loss account for the year then ended, are derived from the audited financial statements prepared in accordance with Act C of 2000 on accounting („Accounting Act”) of Magyar Posta Zrt. for the year ended December 31, 2014. We expressed an unmodified audit opinion on those financial statements in our report dated April 27, 2015, approved on the General Meeting dated May 15, 2015. Those financial statements, and the summary financial statements, do not reflect the effects of events that occurred subsequent to the date of our report on those financial statements.

The summary financial statements do not contain all the disclosures required by the Accounting Act applied in the preparation of the audited financial statements of Magyar Posta Zrt. Reading the summary financial statements, therefore, is not a substitute for reading the audited financial statements of Magyar Posta Zrt.

Management's Responsibility for the Summary Financial Statements

Management is responsible for the preparation of a summary of the audited financial statements.

Auditor's Responsibility

Our responsibility is to express an opinion on the summary financial statements based on our procedures, which were conducted in accordance with Hungarian National Standard on Auditing 810, “Engagements to Report on Summary Financial Statements.”

Opinion

In our opinion, the summary financial statements derived from the audited financial statements prepared in accordance with the Accounting Act of Magyar Posta Zrt. for the year ended December 31, 2014 are consistent with those financial statements.

Budapest, July 22, 2015.

The original Hungarian version has been signed.

Molnár Gábor
Deloitte Könyvvizsgáló és Tanácsadó Kft.
1068 Budapest Dózsa György út 84/C.
000083

Horváth Tamás
kamarai tag könyvvizsgáló
003449

FINANCIAL AND OPERATING PERFORMANCE

figures in HUF
thousand

Balance sheet - Assets		31 December 2013	31 December 2014
	Item		
A.	Investments (non-financial)	103,758,525	143,998,041
I.	INTANGIBLE ASSETS	6,491,962	9,389,793
	Capitalised value of start-up and restructuring		
	Capitalised value of R&D		
	Rights representing property	4,961,055	6,999,403
	Intellectual products	1,530,907	2,390,390
	Goodwill		
	Prepayment on intangible assets		
	Revaluation of intangible assets		
II.	TANGIBLE ASSETS	80,639,800	87,834,922
	Land and related property-valued rights	37,816,052	38,225,291
	Technical equipment, machinery, vehicles	10,673,761	13,666,789
	Other equipment, accessories, vehicles	1,458,713	1,619,404
	Livestock		
	Reconstruction in progress	2,278,077	4,019,084
	Prepayment on investments	1,224	583
	Revaluation of tangible assets	28,411,973	30,303,771
III.	FINANCIAL INVESTMENTS	16,626,763	46,773,326
	In associated undertakings	14,417,215	45,958,475
	Long-term loans to associated undertakings		
	Other long-term shares	1,279,138	129
	Long-term loans to undertakings in other profit-sharing partnership		
	Other long-term loans	930,410	814,494
	Securities embodying long-term credit partnership	0	228
	Revaluation of financial investments		



B.	Current assets	51,598,079	38,749,640
I.	STOCKS (INVENTORY)	1,998,944	932,320
	Raw materials	572,250	469,670
	Unfinished goods and work-in-progress		
	Livestock		
	Finished goods	56,088	71,294
	Goods	1,237,034	217,183
	Advance payments on inventories	133,572	174,173
II.	RECEIVABLES	21,330,792	14,451,760
	Receivables from customers	10,499,613	10,143,828
	Accounts owed by associated undertakings	1,030,520	1,102,321
	Accounts owed by undertakings in other profit-sharing partnership	641	0
	Bills of exchange receivable		
	Other debtors	9,800,018	3,205,611
III.	SECURITIES	3,732,059	7,455,994
	Share in associated undertakings		
	Other shares	654,666	206,000
	Own shares		
	Securities for trade embodying credit partnership	3,077,393	7,249,994
IV.	LIQUID ASSETS	24,536,284	15,909,566
	Cash in hand, cheques	15,814,154	13,416,208
	Bank deposits	8,722,130	2,493,358
C.	Prepayments	1,233,294	1,294,947
	Prepayments of income	503,592	361,408
	Prepayments of costs and expenditures	729,702	933,539
	Deferred expenditures		
	Total assets	156,589,898	184,042,628



Liabilitiesfigures in HUF
thousand

	Item	31 December 2013	31 December 2014
D.	Equity	76,713,245	79,107,284
I.	REGISTERED CAPITAL	14,137,693	14,137,693
	of which repurchased property share at face value		
II.	REGISTERED UNPAID CAPITAL (-)		
III.	CAPITAL RESERVE	4,890,823	4,940,823
IV.	PROFIT RESERVE	27,416,707	28,495,774
V.	TIED UP RESERVE	530,434	633,391
VI.	REVALUATION RESERVE	28,411,973	30,303,771
VII.	PROFIT OR LOSS FOR THE YEAR	1,325,615	595,832
E.	Provisions	15,341,742	18,234,073
	Provisions for expected liabilities	15,341,742	18,234,073
	Provisions for future costs		
	Other provisions		
F.	Credits (liabilities)	50,649,504	60,736,734
I.	SUBORDINATED LIABILITIES	0	0
	Subordinated liabilities against associated undertakings		
	Subordinated liabilities against associated undertakings in other profit-sharing partnership		
	Subordinated liabilities against other party		
II.	LONG-TERM LIABILITIES	308,750	3,115,089
	Long-term loans		
	Convertible bonds		
	Debenture loans		
	Investment and development credits		
	Other long-term credits		2,819,000
	Long-term liabilities against associated undertakings	102,494	53,297
	Long-term liabilities against associated undertakings in other profit-sharing partnership		
	Other long-term liabilities	206,256	242,792



III.	SHORT-TERM LIABILITIES	50,340,754	57,621,645
	Short-term loans		
	of which convertible bonds		
	Short-term credits	9,338	4,636,310
	Prepayments received from purchasers	838,804	806,298
	Trade creditors	9,255,118	11,376,049
	Bills of exchange payable		
	Short-term liabilities against associated undertakings	2,591,507	3,665,544
	Short-term liabilities against associated undertakings in other profit-sharing partnership	1,134,010	0
	Other short-term liabilities	36,511,977	37,137,444
G.	Accruals and deferred income	13,885,407	25,964,537
	Accrual of income	385,884	390,566
	Accrual of costs and expenditures	10,159,197	23,755,990
	Deferred income	3,340,326	1,817,981
	Total equity and liabilities	156,589,898	184,042,628



PROFIT AND LOSS STATEMENT (total costs method)

figures in HUF
thousand

	Item	31 December 2013	31 December 2014
1	Net domestic sales	183,820,632	180,671,691
2	Net export sales	5,351,698	5,972,590
I.	Turnover (01+02)	189,172,330	186,644,281
3	Change in stocks produced ±	-35,747	15,206
4	Capitalised value of assets produced	245,188	277,571
II.	Own performance capitalised (±03+04)	209,441	292,777
III.	Other income	3,418,624	20,294,727
	of which reversed diminution in value	447,642	168,697
5	Cost of raw materials	9,627,544	8,659,981
6	Services used	33,483,972	34,554,507
7	Other services	523,018	474,514
8	Original value of goods sold	6,962,011	5,224,745
9	Value of services sold (brokerage)	3,960,215	274,568
IV.	Material-type expenditures (05+06+07+08+09)	54,556,760	49,188,315
10	Wage costs	74,151,663	74,284,129
11	Other personal type expenses	9,721,501	10,514,757
12	Wage contributions	22,653,572	23,039,831
V.	Staff costs (10+11+12)	106,526,736	107,838,717
VI.	Depreciation write-off	8,045,517	7,626,634
VII.	Other expenditures	23,265,575	45,931,022
	of which value loss	1,164,668	363,307
A.	OPERATING PROFIT (I±II+III-IV-V-VI-VII)	405,807	-3,352,903
13	Dividend and profit-sharing from investments	0	48,773
	of which from associated undertakings		
14	Exchange rate profit on the sale of shares	12,500	0
	of which from associated undertakings		
15	Interest and exchange rate profit on the sale of payment investments	13,967	11,737
	of which from associated undertakings		
16	Other interest and similar income due	1,599,100	677,468
	of which from associated undertakings	39,843	10,260
17	Other income from payment transactions	264,466	2,261,200

VIII.	Income from financial transactions (13+14+15+16+17)	1,890,033	2,999,178
18	Exchange rate loss on sale of payment investments		
	of which to associated undertakings		
19	Interest and similar expenditures payable	133,351	165,230
	of which to associated undertakings	58,265	19,710
20	Value loss of shares, securities, bank deposits	53,267	340,700
21	Other expenditures on payment transactions	148,081	391,739
IX.	Expenditures on payment transactions (18+19±20+21)	334,699	897,669
B.	PROFIT ON PAYMENT TRANSACTIONS (VIII-IX)	1,555,334	2,101,509
C.	PROFIT ON ORDINARY ACTIVITIES (±A±B)	1,961,141	-1,251,394
X.	Extraordinary income	245,765	7,223,771
XI.	Extraordinary expenditures	285,628	4,860,873
D.	EXTRAORDINARY PROFIT (X-XI)	-39,863	2,362,898
E.	PROFIT BEFORE TAX (±C±D)	1,921,278	1,111,504
XII.	Taxation	595,663	515,672
F.	PROFIT AFTER TAX (±E-XII)	1,325,615	595,832
22	Use of profit reserve for dividend, profit-sharing		
23	Dividend, profit-sharing approved		
G.	PROFIT OR LOSS FOR THE YEAR (±F+22-23)	1,325,615	595,832

