



LETTER FROM THE CEO

Dear Reader,

Another year has passed, and now you are reading Telekom's report on the completion of its third Sustainability Strategy, which has been compiled, similar to last year, in full compliance with the 4th generation guidelines of the Global Reporting Initiative (GRI) and also reports the achievements related to the UN Global Compact as Magyar Telekom remains committed to the 10 principles set forth by the Global Compact in the areas of human rights, environmental protection and anticorruption.

While working hard on the last stretch of implementing the current strategy and laying the ground for the new one, in 2015, we mainly focused on network development to thus strengthen our technological leader position. We accelerated our high-speed broadband fixed-line network development efforts, and continued to roll out our 4G mobile network. We are committed to building a state-of-the-art infrastructure in Hungary, integrated into Europe's overall broadband network.

Last year, we spent a significant amount of money on fixed-line network development. Relying upon our own resources, we provided high-speed broadband internet to more than 464 000 additional households by the end of the year, thus exceeding our original target.

Our 4G mobile network already demonstrated its power in 2015. By now, the most sophisticated mobile internet services are available at more than 2700 settlements, and the nationwide residential outdoor coverage exceeds 97%. The number of 4G/LTE users among our customers reached one million. This dynamic increase confirms that people are open to the technology launched in 2012, i.e. top quality, fast mobile internet, and the number of 4G/LTE-capable devices are increasingly popular.

While increasing our coverage, we also focused on quality: Telekom's broadband mobile internet network achieved the best test results in course of the independent, international and Hungarian tests conducted during the year. The latest measurement results were published by a company highly esteemed in the mobile industry, OpenSignal, according to which Magyar Telekom's 4G services provide 30 Mbit/s download speeds on average, which makes us the ninth 4G provider in the world and the third in Europe.

Another novelty of mobile nature is associated with the first venue of the Digital Hungary Program, Nyiregyháza. It was the first settlement in Hungary where Telekom's mobile internet service, provided in cooperation with Ericsson and reaching as high nominal speeds as 300 Mbit/s became available in December 2015. That is

As a result of the development, Telekom's high-speed fixed-line internet coverage reached 2.3 million households.

The greatest sustainability success of 2015 we can look back upon is that the whole corporate Group went carbon-neutral. We were the first to achieve that status among large enterprises in Hungary, and only a few companies worldwide can boast of the same.

the fastest mobile internet technology available in Hungary currently, i.e. LTE-Advanced, which is the next stage of 4G.

Building, modernizing and developing the network cannot be the main objective in itself. We wish to make the digital world understandable and accessible, for which digital services are needed, which in turn require that users possess the appropriate digital competencies. Let us enumerate a few further achievements from last year:

- The Digital Bridge Program visited its 200th location in Hungary. The program, which has been in place since 2004, demonstrates benefits of the internet and provides crash courses on its use to small, typically disadvantaged, settlements where less than 3000 people reside, with the involvement of employees who volunteer for the task.
- In the framework of our safe internet use program called Telekom Smart Digital, and aimed at mainly primary school pupils and secondary school students, the company's volunteers have educated more than 62 000 users by now.
- The Group launched its "Become an IT expert!" program, which familiarizes students with the promising future offered by an IT career. The program takes place in the form of 45-minute classes held by IT experts of Magyar Telekom and T-Systems Hungary.

By now, most service providers have realized that the first and foremost key to success is understanding customer demand and providing experience. We have done a lot in this field, but are also aware that we still need to improve. We firmly believe that customer experience starts with service experience. We deem it important to provide real genuine high quality to both residential and business customers.

A good example is our simple-to-use Webkönyvnyen service, which enables any micro, small or medium enterprise to establish a full-fledged online presence. The reason is that what matters is not only the quality inherent in our services, but also how effortlessly and quickly can customers make business with us. The company strives to make it quicker, simpler and more comfortable to conduct business with us by continuous innovation. Telekom's webshop, accessible from cellphones and tablets, was redesigned in February 2015. Customer can establish their Telekom accounts which enable them to make business with us through a single point of contact since June, and e-signatures are accepted in our shops since August.

Let me also provide you information about Magyar Telekom's subsidiaries.

For approximately EUR 42 million, we purchased Deutsche Telekom's 100% stake in GTS Hungary LLC. By this acquisition, our main

goal was to further strengthen our market position on the business service market.

One of the greatest achievements of our affiliate providing services to large enterprises and state administration, T-Systems Hungary, in 2015 was that it won Coca-Cola HBC's tender for data center outsourcing services, in cooperation with OTE Greece. The EUR 43 million contract is one of the greatest ICT business successes achieved by Deutsche Telekom Group in Europe, as well as an excellent example of cross-border cooperation. The agreement promotes the achievement of Deutsche Telekom's goal to strengthen its positions in the European B2B segment. Affiliates of the Group, like T-Systems Hungary, owned by Magyar Telekom, play an increasingly important role in that, as its integrated operations, comprehensive ICT portfolio and market leader position in Hungary make it possible to successfully implement international projects, across multiple countries.

Our affiliate in Montenegro introduced its integrated billing and CRM system in October 2015, and went all-IP with its total network in November.

T-Mobile Macedonia merged into Makedonski Telekom (MKT) on June 30, 2015. The merger had been preceded by long negotiations with MKT's second largest shareholder, the State of Macedonia. The merger was necessary due to the increasing significance of fix-mobile convergent products and propositions on the Macedonian market.



Getting back to topics closer to home and initiatives that aim to achieve more than business success, our company won the Family-friendly Workplace title for the second time in May 2015 and the Handicapped-friendly Workplace title in November 2015.

Sustainability is for our joint benefit. Therefore we strive to make it accessible and educative for everyone in a playful manner. We further developed the "hello holnap!" mobile application, by which customers collect points by taking sustainable action, and then make monetary donations debited to those points.

It is also within the interest of all of us to support communities. That is why we opened community gardens at three of our less used premises

last year, including the largest community garden of Budapest established at our Soroksári Road facility, where close to 100 families living in the tenement buildings close-by can maintain their own vegetable gardens.

I am proud that our company, which has done excellently at sustainability for years, can draw attention by such an outstanding achievement, which is an authentic representation of our objective to lead by example.

It is my pleasure and I consider it important to highlight that Magyar Telekom achieves its outstanding business success as a responsible and sustainable enterprise, and always keeps customers and employees, i.e. its environment, in mind, along its new five-year sustainability strategy.

As CEO, I consider it an objective and also expect employees to continue to act in the same spirit.

Magyar Telekom remains committed to the 10 principles set forth by the Global Compact in the areas of human rights, environmental protection and anticorruption, the achievements related to which are also included in the report.

Christopher Mattheisen
Chief Executive Officer

Budapest, June 23, 2016