



SUSTAINABILITY REPORT

2017



EGYÜTT. VELED



7.

CORPORATE GOVERNANCE

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Public companies are increasingly expected to clearly state their corporate governance principles and to what extent those principles are implemented. As a company listed on the Budapest Stock Exchange, Magyar Telekom is highly committed to come up to these expectations and to meet legal and stock exchange requirements.

To increase the transparency of the company's corporate governance practices Magyar Telekom provides several information on [this](#) website.

Information on annual general meetings and the resolutions adopted at them is available on [this](#) website.

7.1
SUSTAINABILITY COORDINATION

The group-level governance of corporate sustainability operations is shown on the diagram below. The group-level coordination is continued to be implemented under the auspices of the Group Sustainability Coordination Council (GSCC). The levels of development and management of the corporate sustainability strategy are separated from the operative implementation level within the operation of the GSCC, thus the process of implementing sustainability activities is divided to the following levels:

1. Strategy development and strategy management level operating under the auspices of the GSCC:
- development of strategic concepts
 - implementation of the strategy
 - relevant communication with national and international organizations
2. Operative implementation level managed by relevant organisations of the governance areas and subsidiaries:
- actual operative activities
 - task management
 - data provision etc.

The GSCC's operation is regulated by a group level directive: on the regulation of Magyar Telekom Group's sustainability operation and the responsibilities and competence of stakeholders.

The operative management of Magyar Telekom Group, the Management Committee (MC) receives at least once a year a report on the implementation of the tasks of the Group Sustainability Strategy and other ongoing significant sustainability activities, results, potential exposures and opportunities.

The MC is informed on the latest sustainability trends and may respond to the feedback from stakeholders through the annual report and based on the report may decide on the amendment of the strategy. The MC keeps contact with the stakeholders through the GSCC. Incoming inquiries are received by the respective professional areas and critical comments regarding sustainability are transferred to the responsible staff members by the GSCC members. According to the relevant group directive the strategic tasks are allocated to the respective Chief Officers.

Communication is based upon the results of the above activities and one of the most important elements of communication is the annually released Sustainability Report which is supervised by the Chief Human Resources Officer while the professional management of the report is performed by the Corporate Sustainability Center.

The Chief commercial officer's governance area SMB terminated in November 2017.

COMPETENCE	RESPONSIBLE
determination of main directions, decision on key issues	Management Committee (MC)
ensuring the necessary framework and supervision of the activities	responsible senior manager – Chief Human Resources Officer (CHRO), member of the MC
making the decisions and resolutions necessary for the operation, ensuring the coordination for the performance of tasks	Group Sustainability Coordination Council (GSCC)
professional management; harmonized implementation of group level tasks; participation in the Hungarian and international professional activities	GSCC manager - leader of the HR-VFK
implementation of tasks of the management area/organization/member company, information, participation in meetings, data supply, implementation of operative tasks	GSCC members

SUSTAINABLE DEVELOPMENT MANAGEMENT OF
MAGYAR TELEKOM:

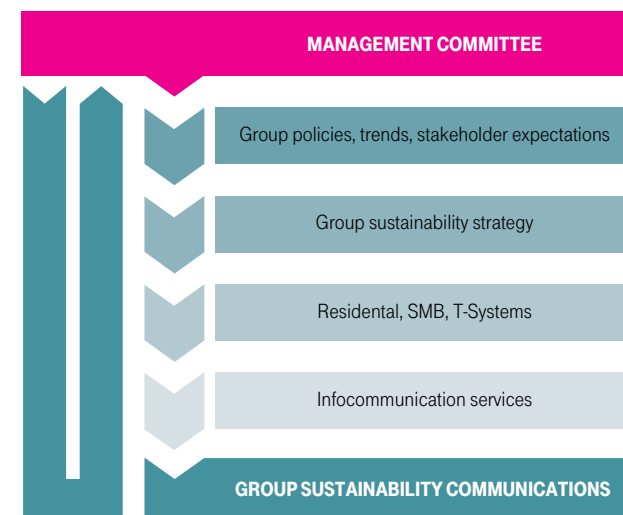


Hierarchy of the sustainability activities

The hierarchy of the sustainability activities of Magyar Telekom Group has not changed lately, only the structure of the Group changed that can be followed in the annual sustainability reports. The sustainability strategy was determined in line with various policies of the Group, Hungarian and international trends (climate protection, electromagnetic fields, responsible content services, etc.) and in consideration of the stakeholders' expectations (i.e. proposals made had roundtable discussions and at various sustainability forums, email messages, survey results, etc.). The continuously updated strategy then served as a basis of our tasks and objectives.

All our activities are supervised by the Management Committee, based on our regular reports. In order to manage risks that may have an impact on the business we established the sustainable supplier chain management process. Incidents are managed by a work group established by the GSCC and based on them we elaborate measures to mitigate potential future exposures.

REGULATION OF THE SUSTAINABILITY ACTIVITIES, GROUP SUSTAINABILITY PROCESS, ENVIRONMENTAL COORDINATION



The sustainability management process covers Magyar Telekom Group's entire sustainability activity (including environment protection).

7.2 REGULATORY COMPLIANCE

Magyar Telekom uses its best efforts to fulfill its obligations in accordance with the effective laws. In order to prevent potential authority penalties and sanctions we always strive to ensure Magyar Telekom's compliance with the effective laws and manage conflicts - besides harmonizing our processes and IT systems with the amendment of laws - with continuous personal consultation, agreements concluded with the authorities and retroactive settlement plans set out in undertakings, made in the form of declarations.

In order to ensure compliance with the sector-specific regulations we operate the so-called Compliance Coordination Forum to help the share of information within the company and the preparation of the necessary changes (the activities of the Forum are regulated by Magyar Telekom through internal policies).

Magyar Telekom can comment and propose the modification of industry-specification policies, strategic material and draft legislation through the telecommunication interest representation organizations. e.g. Communications Reconciliation Council (CRC).

The permanent professional consultation partner of the Hungarian Government regarding the implementation of the Digital Welfare Program (DWP) is the CRC.

The achievements of the consultation partner role include the promulgation of the first legislation package with bureaucracy reducing measures and their entry into force that support the broadband network infrastructure building efforts (e.g. acceleration of the authority permit procedures) within the Broadband Internet Project, implemented under the auspices of the DJP.

7.3 CORPORATE COMPLIANCE

Magyar Telekom Group's Corporate Compliance Program has been elaborated with the aim to ensure that Magyar Telekom Group conducts its business with maximum consciousness and commitment, in accordance with relevant laws and regulations, in harmony with the strictest possible business ethics standards. To this end we have issued directives addressing the potential compliance risks, operate the procedures contained by them and provide continuous training for our employees. Clear processes are in place for the whistle-blowing, investigation, monitoring and remedy of suspected cases of non-compliance.

The Corporate Compliance Program is supervised by the Group Compliance Manager. The Group Compliance Manager reports directly to the Audit Committee, and is in direct contact with the Board of Directors, the Supervisory Board and the management.

The centerpoint of the Compliance Program is the Code of Conduct that summarizes the relevant requirements and the applicable ethical norms. Employees may ask compliance related questions through the Ask me! portal.

The Company verified the cases of unethical conduct reported during the year, and launched appropriate investigations if it was considered necessary. In the cases where the action of fraud was verified, the necessary remedial actions were duly taken. Complaints and comments related to issues and violations of internal and external regulations can be submitted to Magyar Telekom Group's Tell me! portal.

7.4 RISK MANAGEMENT

As a result of the corporate environment becoming more risky, in more and more European countries it was made compulsory for listed companies to operate a risk management system and to make risk reports for the information of their investors. Establishing a comprehensive risk management system the Company complies with national provisions such as the recommendations of Budapest Stock Exchange, as well as with international standards.

It is **our policy** that all disclosures made by us to the shareholders and the investment community be accurate and complete, and fairly present our financial condition and results of operations in all material respects. Such disclosures should be made on a timely basis as required by the applicable laws, rules and regulations. To achieve these objectives, we developed and have continuously enhanced its risk management policies.

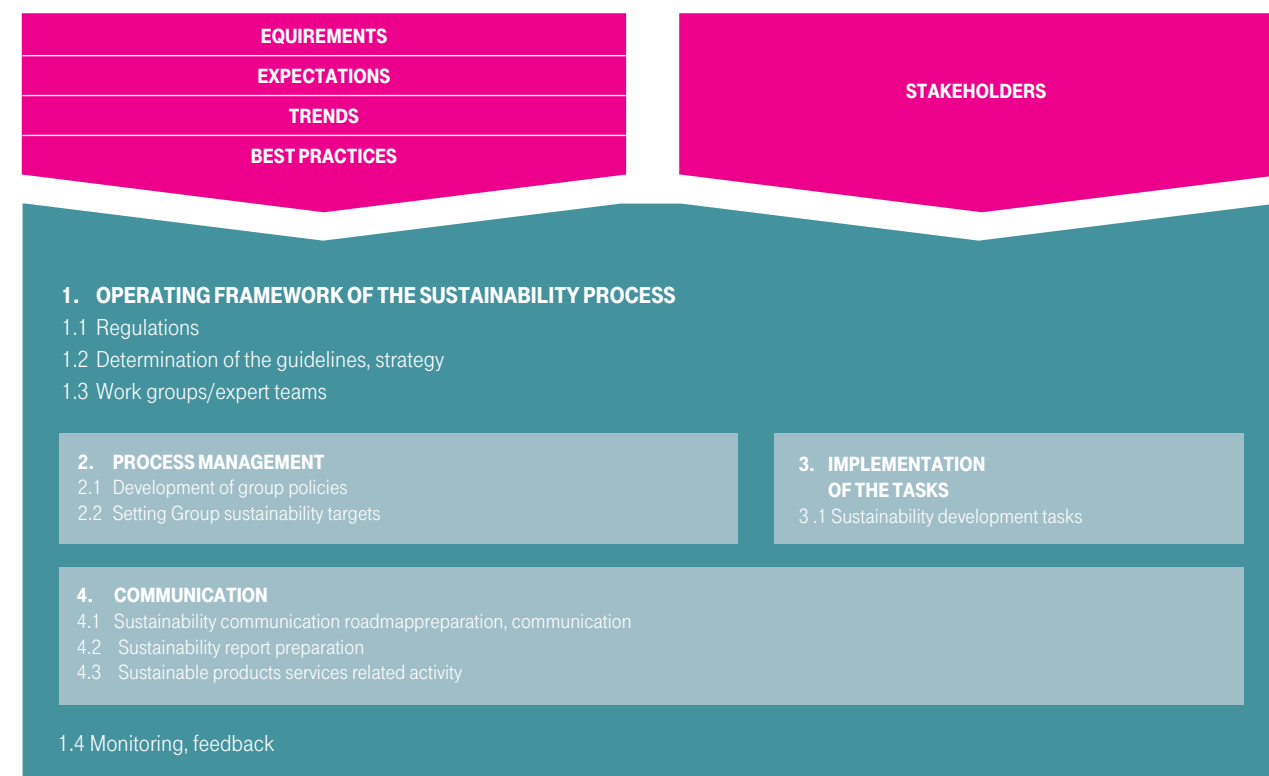
Our risk management includes identification, assessment and evaluation of risks, development of necessary action plans, as well as monitoring of performance and results. For risk management to be effective, we must ensure that management take business decisions with full understanding of all relevant risks. In 1999 we established a formal risk management system. This system has been operating in an integrated way with the risk management system of Deutsche Telekom since 2002.

All risks related to material internal and external operations, financial and legal compliance and certain other risks are evaluated and managed by a well-defined internal mechanism. A risk management handbook and an internal regulation on risk management were issued. A risk management course was developed for employees responsible for risk management in all organizational areas.

Risk items affecting our operations are reviewed quarterly throughout the Company. All of our subsidiaries, business units, divisions and entities are obliged to identify and report their operational risks on a quarterly basis. After evaluation of these risks, results are reported to our management, to the Board of Directors and to the Audit Committee.

For the sake of prompt disclosure of all risk items influencing investors' decisions, we complemented our quarterly risk reporting system with a continuous reporting procedure which requires all of our departments and subsidiaries to report on a real-time basis any new material fact, information or risk that comes to their knowledge. Information thus submitted is monitored and evaluated by the risk management area and the CFO is notified when a new material risk or information is identified. An internal regulation has been issued to define responsibilities of each employee in risk monitoring and management.

THE CONNECTION OF SUB-PROCESSES AND ACTIVITIES ARE SHOWN IN THE FOLLOWING FIGURE:



KEY OPERATING STATISTICS OF MAGYAR TELEKOM GROUP 2017

KPI INFORMATION ON MOBILE SERVICES IN HUNGARY, MACEDONIA AND MONTENEGRO ✓

	2016 31 December	2017 31 December	2017/2016 (% change)
HUNGARY			
Total number of subscribers	5 331 986	5 293 328	(0.7)
Number of mobile broadband subscriptions	2 554 703	2 845 079	11.4
Population-based outdoor 3G coverage (%)	86.2	86.2	n.a.
Population-based outdoor 4G coverage (%)	98.0	99.0	n.a.
MACEDONIA			
Penetration (%) ⁽¹⁶⁾	105.8	106.1	n.a.
Total number of subscribers	1 257 887	1 203 228	(4.3)
SIM market share (%) ^{(16) (17)}	50.2	48.6	n.a.

KEY OPERATING STATISTICAL FIGURES OF TELEKOM HUNGARY SEGMENT ✓

	2016 31 December	2017 31 December	2017/2016 (% change)
MOBILE SERVICES			
Number of customers (RPC)	5 331 986	5 293 328	(0.7)
Post-paid share in the RPC base (%)	59.2	64.5	n.a.
MOU	191	199	4.1
Post-paid ARPU	4 873	4 833	(0.8)
Pre-paid ARPU	1 119	1 073	(4.1)
ARPU (HUF)	3 302	3 392	2.7
Post-paid (%)	10.1	8.0	n.a.
Pre-paid (%)	30.7	33.5	n.a.
Overall churn rate (%)	18,7	17.8	n.a.

KEY OPERATING STATISTICAL FIGURES OF TELEKOM HUNGARY SEGMENT ✓

	2016 31 December	2017 31 December	2017/2016 (% change)
Ratio of non-voice revenues in ARPU (%)	34.5	39.3	n.a.
Average acquisition cost (SAC) per gross add (HUF)	6 013	4 092	(31.9)
Number of mobile broadband subscriptions	2 554 703	2 845 079	11.4
FIXED-LINE SERVICES			
VOICE SERVICES			
Total voice customers	1 422 589	1 411 972	(0.7)
Total outgoing traffic (thousand minutes)	2 728 548	2 745 232	0.6
Blended MOU (outgoing)	158	161	1.9
Blended ARPU (HUF)	2 569	2 395	(6.8)
INTERNET SERVICES			
Blended retail broadband market share (%) ⁽¹⁸⁾	37.7	37.6	n.a.
Number of retail DSL customers	566 956	549 694	(3.0)
Number of cable broadband customers	346 557	370 061	6,8
Number of fiber optic connections	102 003	153 828	50.8
Total retail broadband customers	1 015 516	1 073 583	5.7
Blended broadband ARPU (HUF)	3 612	3 497	(3.2)
Number of wholesale DSL access	25 802	33 200	28.7
TV SERVICES			
Blended TV market share (%) ⁽¹⁸⁾	27.4	28.9	n.a.
Number of IPTV customers	550 002	628 797	14.3
Number of satellite TV customers	290 012	275 886	(4.9)
Number of cable TV customers	128 999	121 849	(5.5)
Total TV customers	969 013	1 026 532	5.9
Blended TV ARPU (HUF)	3 332	3 480	4.4
ENERGY SERVICES			
Electricity points of delivery	92 486	0	n.a.
Gas points of delivery	0	0	n.a.

(16) Data published by Macedonian Agency for Electronic Communications (AEC)

(17) Based on active RPC

(18) Calculation methodology has been changed, data based on NMIAH reports

	2016 31 December	2017 31 December	2017/2016 (% change)
KEY OPERATING STATISTICAL FIGURES OF MACEDONIA SEGMENT ✓			
MOBILE SERVICES			
Number of customers (RPC)	1 257 887	1 203 228	(4.3)
Postpaid share in the RPC base (%)	41.9	47.2	n.a.
MOU (outgoing)	215	219	1.9
ARPU (HUF)	1 671	1 692	1.3
FIXED-LINE SERVICES			
MARKET DATA			
Fixed-line penetration (%)	10.8	10.5	n.a.
VOICE SERVICES			
Total voice customers	216 832	210 889	(2.7)
Total outgoing traffic (thousand minutes)	176 369	151 862	(13.9)
INTERNET SERVICES			
Number of retail DSL customers	165 770	168 552	1.7
Number of wholesale DSL access	23 678	20 965	(11.5)
Number of total broadband access	189 448	189 517	0.04
TV SERVICES			
Number of IPTV customers	107 672	117 481	9.1