

OUR APPROACH



VISION

First now, first forever.

MISSION

We make the digital world more understandable and accessible for everyone. We enable people to have a more effortless, colorful and successful life.

CORPORATE STRATEGY

Thanks to the concentrated strategic efforts Magyar Telekom successfully kept its leading position in the Hungarian fixed voice, broadband, pay-TV, mobile and ICT market in the fourth quarter of 2015 while improving the company's customer retention ability as well as its quantifiable results. We continued to expand our network and customer service capabilities, proactively exploiting our diverse partner relation models, too.

We continue our transformation along our strategic focus points to become a diversified digital service provider: our objective is the renewal, enhancement and expansion of the core activity which, while boosting revenues, serves the purpose of developing a more agile organization. Our medium-term strategic objective is to become a more efficient and agile organization, to streamline our product and service portfolio and to enhance the automation of our processes while providing more online customer services. As an integrated service provider our main objective remains to provide special customer experience through our leading brand and excellent technology.

Amongst changing customer needs, technological development and new business models we leverage our capabilities to win a leading role in providing digital services for the homes of our consumers. We continue the exploration of new business opportunities in the field of e-healthcare, IoT, cloud-based financial and insurance services that serve the objective of customer retention and offer new revenue sources both in the residential and business segments. As a result of the changing business environment we abandon the residential natural gas market. At the same time, in order to develop and optimize our energy services, we establish a joint venture to service our business energy customers.

Our strategy enables us to leverage and develop our extensive customer base, considerably improve our efficiency, and seize the growth opportunities in the field of information and communication technology as well as in the related industries which, in the long term, result in stable cash generation.

SUSTAINABILITY APPROACH

Having realized the importance of sustainable development, as well as the fact that it is essential for future business activity, Magyar Telekom Group undertakes commitment, responsibility that it will pursue its operation, corporate governance and all other activities in this spirit in Hungary, and in every other country where it has business presence or some form of cooperation. This is the key not only to the long-term success of the Group, but through its role in the region and through its services it also has positive impact on the society, the environment and the economy.

The figure presents the complex relationship of the Group with sustainability on the triple pillars of environment-society-economy. We bore this in mind when developing the sustainability approach of Magyar Telekom Group, which centers around the following three guidelines, that are closely related to each other.

Sustainability values

Within the three dimensions of sustainability the following values characterize the company's sustainability efforts:

Economic dimension

- Company, integrity, transparency
- Vision, innovation
- Employees, team, dynamism
- Customer

Social dimension

- Democracy, information society
- Future generations, sustainable society
- Diversity, social solidarity, quality of life
- Partnership, talent, creativity

Environmental dimension

- Land
- Livable, healthy environment
- Nature, biological diversity
- Natural resources

Sustainability permeates the entire texture of the organization, so it cannot be treated as the task of a single, specific organization unit. The tasks affect different areas of the Group, and often require the cooperation of distant units. Sustainable development is not a one-man challenge, it affects everyone in person.

STRUCTURAL APPROACH OF SUSTAINABILITY



SUSTAINABILITY STRATEGY – PRELIMINARIES AND PLANS

Last year, we completed our third Sustainability Strategy, covering the years 2011-2015, and started to lay the foundation for our new, five-year strategy.

Our main objective during the past five years was to make sustainability an integral part of Magyar Telekom's identity, thus giving a competitive edge to the company in the long run.

We had prioritized topics according to how much focus and resources they required. That is how we selected five topics from the more than one hundred tasks and key indicators. The selected topics and their level of performance at the end of 2015 were as follows:

Brand management – the concept of sustainability and linking it to the Telekom brand

One of our objectives was to achieve 20% awareness among the public about sustainability and 80% among employees, as people cannot consciously take action to support something that they do not really know.

According to the surveys conducted in 2015, 24% of the public and 79% of the employees understood the concept of sustainability.

Our other objective was to achieve that 10% (original target: 20%) of the public and 60% (original target: 50%) of the employees mention Magyar Telekom as the most sustainable company. In course of the five years, we had to revise the original targets, thus we decreased the target of public awareness due to resource reasons, while increased the employee awareness target.

By the end of the period covered by the Strategy, 12.8% of the public and 61.3% of the employees mentioned Magyar Telekom as the most sustainable company.

Innovation management – innovation aimed at society and the environment

We set the goal to achieve that at least 10% of all of our research and development efforts should focus on innovation aimed at the society and/or the environment.

We overachieved that target in each year of the period covered by the strategy. The ratio of innovation aimed at society and the environment was 61% in 2015.

Supplier standards – sustainable supplier chain management

We aimed to establish and to run a sustainable supplier chain management process, based on international standards.

The full, policy-based process was implemented, and its pilot was successfully completed in 2015.

Climate protection – carbon-neutral operations along the climate strategy

Our goal was to decrease CO₂ emissions, for which we had originally identified a target of 20% decrease (compared to the year 2004 as a basis), then we decided to aim for total carbon-neutrality by the last year.

It is our great pleasure to announce here, too, that Magyar Telekom achieved total carbon-neutrality in its operations on Group level in 2015, which is partly due to the fact that it bought 187 GWh of renewable energy.

Telecommunications services impact – sustainable competitive advantage

We firmly believe that ICT can be applied for sustainable development. Therefore, we considered it a valid expectation to ensure that

one fifth (20%) of our annual sales revenue should come from products and services of a sustainable nature.

By the end of 2015, 21% of Magyar Telekom's Hungarian sales revenue came from products and services of that type.

The above well demonstrates that we achieved our objectives of topmost priority, and the overall performance level of our strategy is 83%.

Some of our initiatives closest to our hearts are the Sustainability Day event, an annual festival-conference, which had been in place for 8 years by 2015, the "hello holnap!" mobile app, which educates people about how to promote sustainable development, while supporting NGOs of disadvantaged position, the community gardens at Budapest, which were set up on our own premises in the spirit of sharing economy, the "hello holnap!" tariff package, which is the first such package in Hungary available to all disabled people, and we could list many other achievements of ours that can be considered drops of water creating waves in the ocean of sustainability.

When discussing our achievements, we must also emphasize that during the years of 2011-2015, covered by the strategy, several responsible investment analysts ranked our performance outstanding, but we are most proud of the fact that Oekom Research ranked Magyar Telekom third among 108 leading telecommunications companies of the world. Only Deutsche Telekom and British Telekom were ranked higher than us. By that, we are positioned almost incredibly well on the world chart.

It was in light of our strategic achievements that we started to elaborate our new, five-year strategy, the main directions of which have been influenced by not only the steps we have already made, but also the expectations of

responsible investors, EU directives, industrial and corporate trends, as well as local, i.e. Hungarian conditions and consumption patterns.

The main objective set forth by the new strategy covering the period through the end of 2020 is to make sustainability part of Magyar Telekom's business, meaning that we should capitalize on our responsible identity.

To achieve that end, we defined three major foci:

Climate protection

Our goal is to make our customers climate-conscious, too, and to be an authentic and responsible company that helps them along that journey.

It is our ambitious objective to generate revenue from our climate protection activities, as the ICT world offers especially great potential for that, at the same time to push Magyar

Telekom Group's actual CO₂ emission below 100,000 tons.

In order to achieve the above, in addition to the emission decreasing initiatives, we also need to work on elaborating "green" services specifically.

Education

We want to assume a role in educating the public and our customers.

Our goal is to directly or indirectly reach 100,000 people in Hungary with our trainings by the end of the period covered by the strategy. We shall primarily focus these trainings on two areas: programs aimed at eliminating the digital gap and the succession pool of the industry.

Digitally enabled sustainability

Being a sustainable digital company, it is our clear expectation that our customers should

also use sustainable digital services. To that end, we strive to pursue responsible marketing and activities that enable and inspire others, as well as are based on sharing.

In this context, our goal is that awareness about Magyar Telekom, as a sustainable company should reach 50%.

It is not easy to aim even higher with the fourth strategy, but we believe that we managed to set objectives the challenge posed by which make all of us smarter than we were five year ago, i.e. when the previous strategic period started. And by smarter we mean more sustainable, more conscious people, demonstrating more responsible conduct and being better qualified, as well as solutions that enable us to pursue activities cheaper, more efficiently and on digital platforms. That is the bridge we build to the future.

Budapest, June 30, 2016



ÉVA SOMORJAI

Chief HR Officer
as top executive in charge of sustainability



KATALIN SZOMOLÁNYI

Head of the Corporate Sustainability Center
as senior executive in charge of coordinating the company's sustainability activities

MATERIALITY

When preparing this report - in compliance with the "Comprehensive" level of the fourth generation Global Reporting Initiative (GRI G4) - we put the emphasis on materiality, stakeholder inclusiveness, completeness, accuracy, comparability, timeliness, reliability, balance and sustainability.

The scope and the content of the report was defined on the basis of Magyar Telekom's materiality analysis and as an external resource we also used the questions of responsible investor analysts (RobecoSam, Oekom Research, Sustainalytics) as well as the materiality analysis and manual of the Global e-Sustainability Initiative (GeSI) prepared for the ICT sector (<http://gesi.org/portfolio/report/79>). Magyar Telekom's materiality analysis helps to define all sustainability topics that are important and actual for the company and its stakeholders and supports the implementation of the stakeholders' interests into business processes and strategic objectives.

The topics were defined, prioritized and grouped during the preparation of Magyar Telekom Group's Sustainability Strategy in the first place, then the topics were verified - and if necessary revised and amended - upon their annual submission to the Management Committee. The development of the materiality process is also supported by continuous harmonization with other strategies of the company.

When defining the scope, content and structure of the year 2015 report we took into account the results of the stakeholder survey. Our stakeholders are presented in details in the "Stakeholders" chapter.

Based on the comparison of the sustainability strategy priorities for the period between 2011 and 2015 and the priorities of the stakeholders the ranking and groups of the materiality of sustainability topics are as follows:

High priority topics

- Climate protection and energy efficiency
- Innovation for sustainability
- Sustainability in the supplier chain
- Procurement locally
- Involvement of our employees
- Initiatives to eliminate the digital divide
- ICT products for sustainability
- Customer satisfaction
- Supplier Relations
- Emissions
- Resource-consumption
- Human rights, equal opportunities

Medium priority topics

- Protection of our children in the Digital Age
- Informing our customers
- Environmental targets, costs and compliance
- Our employees as corporate citizens
- Community investments
- Sponsorship
- Involvement of our customers
- Regulatory compliance
- Cooperation in environmental and social issues

Low priority topics

- Corporate governance
- Occupational health and safety
- Safe use of mobile phones, electromagnetic fields
- Data protection
- Professional cooperation
- Talent management
- Management of customer complaints
- Service availability
- Addressing legal and ethical aspects of content service providing
- Risk management
- Managing changes
- Investor relations
- Corporate compliance
- DELFIN Award to responsible companies
- Operational data
- Political presence

Based on the analysis and the materiality ranking we believe that all topics have significance both inside and outside the company.

The structure of the report follows the priorities of the materiality analysis: high and medium priority topics are presented in details

whereas information on low priority topics are primarily provided in the GRI table of contents to provide as transparent information to all stakeholders as possible on the company's corporate governance, environmental and social impact as well as the underlying risks and opportunities.

STRATEGIES AND POLICIES RELATED TO OUR SUSTAINABILITY APPROACH

Human resources strategy

One of the key challenges of the Sustainability Strategy is human resource management, so Magyar Telekom's HR Strategy also plays an important role in achieving our sustainability objectives. Magyar Telekom's human strategy for 2011-2015 was elaborated in line with the company's strategy. The vision is to operate a livable, lovable and successful company. This strengthens our employees' commitment, satisfaction and it is attractive in the labor market.

Magyar Telekom's HR strategy from the Company's point of view:

- Efficient company - continuous revenue-aligned optimization of the personnel costs
- Competitive company - competitive edge with the human capital (training-development, career management)
- Energized company - an international, diverse, healthy community, sharing successes

Magyar Telekom's HR strategy from the employees' point of view:

The development of the employees will be implemented through enhancement of the employee experience, which is the key element of our strategy. We identified the stations of a Magyar Telekom employee's employment life cycle, and assigned the necessary HR tools to the implementation of each HR sta-

tion. In 2012 we earned the second place in the Best Employer survey in the big enterprise category and proudly held the title for three years.

- Selection: We will create a place of work with diversity by maintaining a healthy level of internal recruitment and by increasing the weight of non-typical employment. The company boasts 70% internal replacement rate, and some 12% of the employees work in a non-typical form of employment.

- Agreements: We create transparent, flexible and reliable frameworks. We maintain balanced partnership with the employee representation organizations and seek to standardize employee contracts.

- Orientation: New entrants become members of our team by sharing our knowledge, culture and experience. We have renewed our orientation program in order to make it an informative and efficient event for our new colleagues, which also facilitates their integration in the organization's culture.

- Remuneration: We operate a simpler, more transparent and consistent employee remuneration model, which reflects the true value of the positions and not the hierarchy, and which is suitable for market benchmarking as the basis of a competitive remuneration policy.

- Improvement of training, organization development: We thank our competitive edge to our qualified employees. The financial resources devoted to the development of our employees are in line with the best international practice. We gave high priority to internal knowledge sharing and the majority of trainings are provided from internal resources.

- Work, private life: Our energized employees make us successful. We help to keep our employees' mental and physical health with programs organized by the company as well as various benefits.

- Fair dismissal: We part with our colleagues in a fair and correct manner. Fair dismissal is a key value, we make our employees realize that keeping up marketability is everyone's own responsibility.

In 2015 the implementation of the objectives was evaluated and the Y2016 new human strategy was elaborated.

Support strategy

Magyar Telekom has, for almost for two decades, been making a special point of selecting and implementing its corporate social responsibility, and within that, its sponsoring programs. The company provides the support in a centrally controlled way, in line with audited processes. Naturally, the changes in our economic, social and natural environment require continuous review of our support activities.

As a result of this process, in the past years we sought to operate our support activity in an integrated manner, to efficiently implement sponsoring projects that focus on our activities, to identify and tap the synergies in the group operation.

The company's sponsoring activity is primarily focused on sports and music and embraces the support of Hungarian professional sports, amateur sportspeople, pop music festivals and music institutes. It is important for Magyar Telekom to harmonize its sponsoring activity with the other elements of its CSR activity. This also means that we attach much importance to sponsoring initiatives with other than financial forms of support, and seek to aid the realization of the projects with our core activity info-communication solutions.

PROCESS FOR DETERMINING THE CONTENT OF THE REPORT

OBJECTIVE AND USE OF THE REPORT

The objective is to give a full-scope picture, as the report is an information source for all stakeholders; however the entirety of the report is primarily prepared for our shareholders and investors, and among them chiefly our responsible investors and sustainability analysts.

SPECIFICATION OF THE TOPICS

The topics of the report were determined on the basis of the information required by responsible investor analysts, investors and regulators.

INVOLVEMENT, TESTING VALIDATION

Continuous collection information, analysis of trends, harmonization with the company's organizational units, involvement of stakeholders, incorporation of feedback into the material.

PRIORITIZATION OF THE TOPICS

Prioritization is provided in the strategy however, the Sustainability report is a reporting tool, therefore it covers all specific topics.

In view of the corporate social and economic responsibility arising from the sheer size of the Company, Magyar Telekom is trying to answer the challenge of making its CSR and support activities awareness-raising, so from the very start it pays distinguished attention to the communication of its CSR program and to the involvement and activation of its customers and employees.

Since 2013, in line with the senior management's decision and the corporate strategy, the company's social responsibility practices are linked to the core activities. i.e. Telekom supports digital education programs that develop the society's digital maturity and conveys knowledge that can be used in our everyday lives. This is why we established the Telekom Smart Digital Program in 2013 that was amended with the Become an IT expert! program at the end of 2015.

Environmental policy

Magyar Telekom Group upholds its commitment to sustainable development and the environment protection in the environmental policy. The policy contains obligations for the members of the Magyar Telekom Group both individually and as a Group:

https://www.telekom.hu/static-tr/sw/file/Magyar_Telekom_environmental_policy.pdf

Quality policy

The Quality Policy of Magyar Telekom Group, approved in 2005 and renewed in 2009, is available in full length on the following website: http://www.telekom.hu/static/sw/download/minosegpolitika_en.pdf

Management systems

In November 2014 Magyar Telekom Group renewed the ISO 9001, ISO14001, ISO 27001 certificates; in the same year DT extended its HSE (ISO 14001, OHSAS 18001) certificate to Magyar Telekom Plc. as well. The integrated management system of Magyar Telekom Plc. includes a company health and security management system too (MSZ 28001:2008 (BS OHSAS 18001:2007)). T-Systems has its ISO 50001 energy management system and an ISO 20000-1 IT service management system too.

In order to achieve Magyar Telekom's strategic objectives it is essential to operate successfully, to sustain the continuity of services, to preserve the health of employees, to protect the company's physical and intellectual property in any and all circumstances, both within and outside the competence of the company (e.g. extraordinary weather conditions, flood). Telekom was the first company in Hungary that obtained the ISO 22301 business continuity management system certificate (in 2014). Magyar Telekom Plc. has been consciously optimizing energy consumption and is committed to implement and obtain the ISO 50001 energy management system in 2016.

For further information on Magyar Telekom Group's quality guarantees, please visit http://www.telekom.hu/about_us/about_magyar_telekom/principles/quality_guarantees

MAGYAR TELEKOM GROUP'S ISO14001 CERTIFIED MEMBER COMPANIES:

Member company/Organization	Validity of the certificate
Magyar Telekom Plc.	December 8, 2017.
T-Systems Hungary Plc.	June 25, 2016
Makedonski Telekom	March 29, 2017
DT HSE-certificate	December 9, 2016

(http://www.telekom.hu/static-tr/sw/file/ISO_14001_2004_Nyrt_E.pdf)