



SUSTAINABILITY REPORT

2016



EGYÜTT. VELED

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

The telecommunications industry is undergoing a major change globally. Worldwide trends are driving towards an integrated telecommunications, information, media and entertainment market. The increasing need for mobility and interactivity together with local specifics create a new set-up in our economic environment in terms of infrastructure, servicing and new types of business models.

The expansion of the economic environment in the past few years had a positive effect on household budgets, but it is an increasing challenge for telecommunication service companies to receive larger portions of consumer spending in an environment where the market proportion of traditional telco services is shrinking on midterm. The fixed voice market as a major revenue and profit source is declining mobile has started to follow this trend with stagnant customer base and lower prices. The fixed market is characterized by fixed-mobile integrated bundles, with broadband becoming a core element of service offerings. We expect continued consolidation in the fixed arena with network developments and growing competition.

As a result of our focused strategic efforts, Magyar Telekom maintained its leading position in its Hungarian fixed voice, broadband, pay TV, mobile and ICT businesses in 2016, we successfully improved customer retention and delivered strong volume figures. We built a world class 4g mobile network and massively improved our fixed line HSI coverage in the past years.

Based on our improved network capabilities we aim to provide services to all segment and customer on voice, TV broadband and IT markets. The strategic objective in the mid-term is to become more agile, enhance efficiency, simplify the product and services portfolio, increase process automation and online customer servicing. As an integrated provider we continue to deliver a unique customer experience supported by our leading brand and best technology.

While anticipating new competencies required by the changing customer behaviour, technological advances, and new business models, we aim to exploit our abilities to become a leader in all digital services around the home for both customers and third

parties. We continue to identify and leverage new business opportunities in e-health, cloud, IoT, finance and insurance services, support customer retention and new revenue streams both in the residential and business segments. As a result of the changed market environment we decided to exit from the residential gas market. At the same time, we established a joint venture that provides energy services for business customers in order to improve and optimize our energy operations.

Following our strategy enables us to exploit and develop our extended customer base, improve efficiency and capture growth opportunities in an extended market of information and communications technology and related industries, which secures stable cash generation in the long run.

In the Macedonian market the competition in mobile and the fixed-line business is increasing. **Makedonski Telekom** as introduced new growth strategies in 2016 in its Consumer & Business Segments called "GoDigital" corporate program. The strategy is based on the aim of digitalizing customer journey and business architecture, keeping stable core revenues in all traditional telco segments, the increase of postpaid value and optimizing market invest. Key aim is to increase technological leadership and further develop an empowering corporate culture towards an agile and efficient telco company.

Sustainability approach

As Magyar Telekom Group has recognized the overall importance of sustainable development, as well as the fact that it is specifically critical for future business operations, it remains committed and continues to accept responsibility for pursuing its operations, corporate governance and other activities in the above spirit in Hungary and in all countries where the Group is present through its operations or partnerships, which is not only a token of our future business success, but one of our major assets in light of the Group's role in the region and its social, environmental and economic influence.

Sustainable development is not a challenge for one. It affects everyone across the whole corporate Group. Therefore, it cannot be approached as a task dedicated to one organizational unit.

The different entities of the Group learn about and then apply the sustainable practices applicable in their respective areas through the policies governing internal operating procedures. Our newly hired employees familiarize with and start to apply the sustainable operating principles that govern the whole Group and are present as an organic part of our corporate culture. The specific tasks often involve totally different entities within the Group, and require the cooperation of organizations far from each other. Magyar Telekom's sustainable corporate governance practice is described in **Chapter 7 on Responsible Corporate Governance**.

Values identified by our sustainability approach in the environmental, economic and social dimensions:

Economic dimension

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

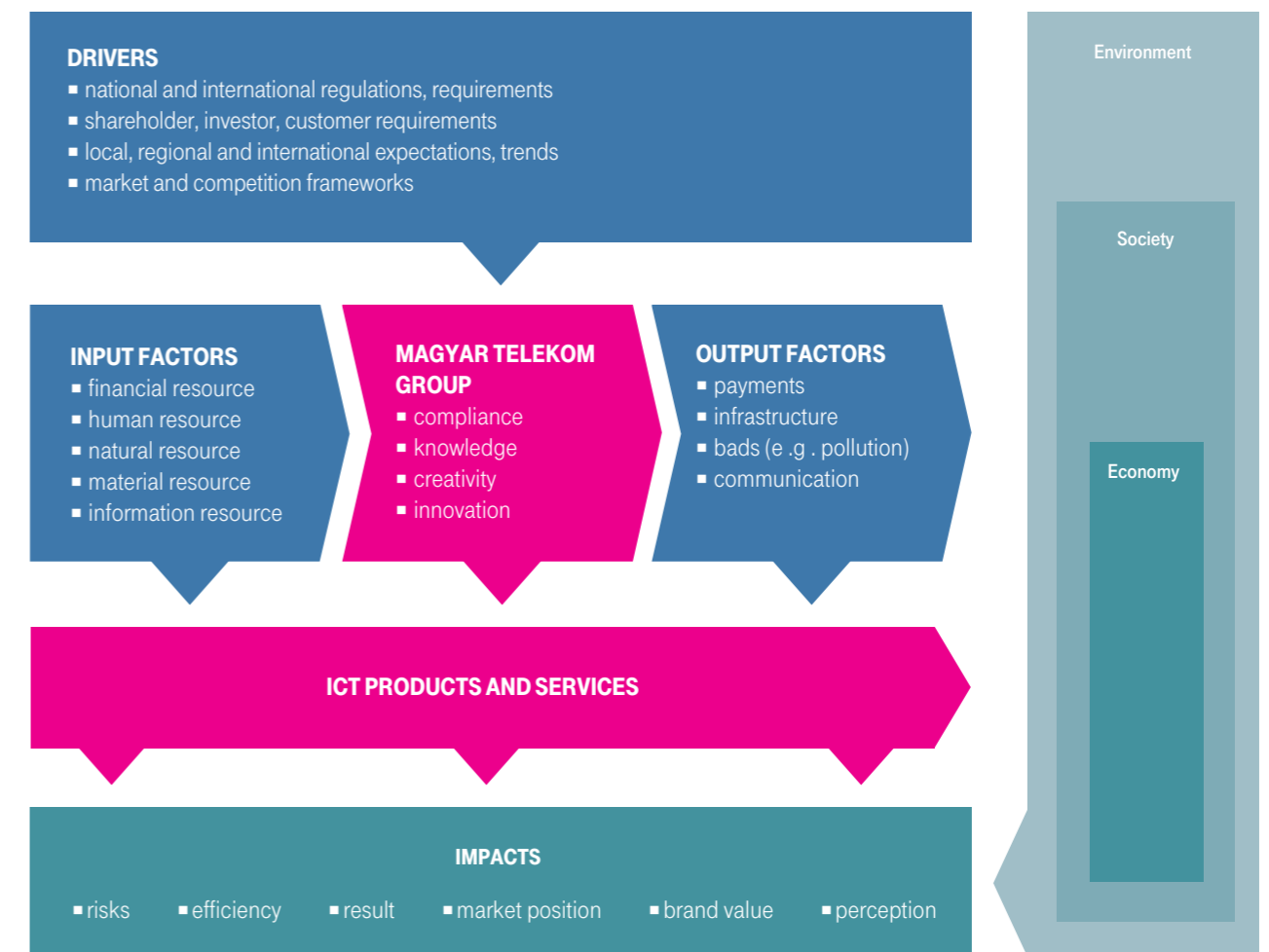
Social dimension

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

Environmental dimension

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

STRUCTURAL APPROACH OF SUSTAINABILITY



In 2015, Magyar Telekom Group became the first company in Hungary, and one of the first internationally, to achieve carbon-neutrality. In 2016, our operations remained carbon-neutral. Of course, drawing inspiration from the success of the past two years, we continue to strive for carbon-neutrality.

BE SMARTER – SUSTAINABILITY STRATEGY (2016–2020)

In 2016, Magyar Telekom Group started its new five-year sustainability strategic cycle. Our most important sustainability task at the beginning of the year was to finalize our new direction and gain approval from the top management for the same.

In addition to the results of our Sustainability Strategy 2011–2015, the goals and tasks defined for the period through the end of 2020 have been determined by the goals and directions applied internationally in terms of sustainable development (SDG, CDP, GeSI SMARTer2030, EU2020 climate package), which we, as a Group, adhere to. When identifying our priorities, we have focused on the expectations of the responsible investors monitoring our company and the current corporate trends. Of course, local market conditions, as well as consumer behavior and demand have also been taken into account, so that we be able to proactively meet our customers' needs.

When identifying our strategic goals, we kept in mind that our sustainable operation has a significant impact on the society, the economy and the environment. In addition to being responsible for the livable future of our several million customers and more than 10 000 employees, as a market leader ICT provider and a large enterprise of regional proportions, we are aware that our business and operational decisions influence the economy and the society of the future, too. It is our firm belief that we, as a company, are responsible for all the groups of people whom we can enable by ICT solutions, and that we have to make social, economic and environmental responsibility a part of our corporate genetic code to thus promote sustainable development and opportunities for future generations.

In the past 15 years, Magyar Telekom Group has laid the ground for the ambitious goal of making sustainability an organic part of Telekom's business in three strategic cycles. The goal can be achieved only, if we take a comprehensive, authentic and innovative approach to all the three pillars of sustainability. As part of this process, we strive to make Magyar Telekom even more well-known for its sustainable nature, while promoting smart, reliable and responsible corporate processes in our operations. Our commitment translates into achieved goals along the "Sustainable Telekom for all" principle.

Climate protection

It is our goal to make our customers more climate-conscious, too, and to be the authentic and responsible ICT company that helps them along that way. It is our ambitious objective to generate profit on our climate protection activities, and to lower Magyar Telekom Group's actual CO₂ emissions below 100 000 tons.

So, decreasing Magyar Telekom Group's CO₂ emissions remains a high-priority task for us, while we also strive to promote that our customers and vendors also decrease their emissions.

Education

We wish to put greater emphasis on improving the digital competencies of the public. It is our goal to reach out to 100 000 people through our trainings by the end of the strategic cycle in 2020, and to help them better their digital skills directly or indirectly. Our programs focus on closing the digital divide and developing the industry's succession pool.

It is our goal to enable students and pedagogues, people living in disadvantaged regions, as well as pensioners to acquire and improve their digital competences, and to thus close the existing digital divide.

Our academic training efforts and ones aimed at developing the industry's succession pool focus on sharing professional knowledge and skills required in ICT areas, as well as on making ICT jobs attractive.

Digital sustainability

Being a digital large enterprise, we clearly strive to promote that our customers use sustainable digital services. However, to make that a differentiating factor, we need to achieve that Magyar Telekom's recognition rate as a sustainable company reach 50%.

For that, we strive to pursue responsible marketing and to demonstrate and implement enabling, inspiring and sharing activities. It remains one of our key objectives to provide devices and services to our customers that bear sustainable features, to inform them about those features and to exploit the opportunity offered by ICT technologies to popularize our relevant initiatives, like the [hello holnap! mobile app](#) or the [hello holnap! fleet tariff packages](#) designed specifically for customers living with handicaps.

The combined rate of achievement of the high-priority and medium-priority objectives set forth by the new Sustainability Strategy, prorated for the first half year, is 81%. Among our high-priority objectives, the rate of achievement of climate protection is 89%, that of education it is 80%, and that of sustainability is 70%.

The year 2016 was a defining period for Magyar Telekom in terms of sustainability not only for the fact that the new strategy was launched, but also because of our many sustainability achievements. Our operation remained carbon-neutral in 2016, as it had been in 2015. We organized our ninth Sustainability Day festival conference, attended by a record number of 5 000 people at Akvárium Klub. Visitors learned at the break-out sessions about the opportunities that opened up in terms of the environment, the society and the economy due to the achievements of the smart era, as well as got an insight into the work of more than 40 organizations offered by their exhibitions.

In 2016, Magyar Telekom also embarked upon new paths in equal opportunity. In March 2016, it established an NGO strategic partnership with Autistic Art, in the framework of which it provides, among others, digital devices to the foundation, and enables the public to learn more about autism and people affected by it in the framework of a sensitization campaign ("Our worlds may differ. Still, we understand each other."). In July, we renewed the discount-rate hello holnap! tariff packages designed for people living with disabilities, and on August 31, Magyar Telekom signed a letter of intent with the Hungarian Paralympic Committee, under which the company shall support the Hungarian team in the next Paralympic cycle.

On October 15, close to 1 000 Telekom and T-Systems colleagues planted 500 trees at 29 locations across the country. The results of the tree planting project can be seen at [hello holnap! pagony](#), where one can look at trees planted by others or upload photos of trees they planted themselves.

As a listed public company and a responsible corporation that has been working on sustainability on a strategic level for more than 10 years, we must also keep in focus our responsible investor evaluations. The international responsible investor indexes assessing large corporations excelling in sustainability address Magyar Telekom Group in the global large enterprise category. Based on our audited results, the Group is among the most sustainable companies every year. We meet the strict requirements posed by responsible investors that consider corporate sustainability an important feature.

In 2016, Magyar Telekom was selected from the start to be a part of the FTSE4Good Emerging Index launched that year, and based on its environmental and social performance, Oekom Research awarded it a **Prime** status with a **B-grade**, i.e. recommends the company as a responsible investment. We have also been part of the CEERIUS (Central and Eastern European Responsible Investment Universe) index from its launch.

COMPLIANCE WITH THE SUSTAINABLE DEVELOPMENT GOALS



In order to effectively address global challenges, the UN adopted its Sustainable Development Goals (SDG) in September 2015. The main objective is to support economic development and well-being, in harmony with social justice and in consideration of ecological limitations on global growth. The achievement of the 17 Sustainable Development Goals is our joint task, on which political decision makers, the NGO community and businesses must work together.

Through its products, services and operation, Magyar Telekom Group contributes to the achievement of the SDGs. Most of the high-priority tasks set forth by our Sustainability Strategy contribute to the achievement of SDG 13, i.e. a quick and effective action to be taken against climate change. The measures we adopt to decrease the company's emissions, to retain our carbon-neutrality, to decrease the emissions associated with our supplier chain and the devices used by our customers all serve the pur-

pose of climate protection. We help cities become sustainable or further develop along the way (SDG 11), when we support livable and sustainable, digital communities by means of our ICT developments and smart city solutions. With our education efforts aimed at closing the digital divide, making the use of ICT solutions accessible and stopping disadvantaged social layers from being left behind, we address digital poverty, quality education (SDG 4) and social inequalities (SDG 10). By the achievement of our strategic goals, we contribute to long-term, comprehensive and sustainable economic growth (SDG 8).

By its operations, the company contributes directly or indirectly to the achievement of several more, in total 15 Sustainable Development Goals. In our Sustainability Report 2016, we indicate by the use of the respective SDG symbol which sustainable development goal is addressed by the actions listed in the specific chapters.



ÉVA SOMORJAI

Chief HR Officer
and executive in charge of sustainability¹



KATALIN SZOMOLÁNYI

Head of the Corporate Sustainability Center,
in charge of supervising sustainability operations

MATERIALITY

When preparing this report - in compliance with the "Comprehensive" level of the Global Reporting Initiative Standard (GRI Standard) - 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 (Oekom Research, FTSE4Good Emerging Index, Trucost, 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 2016 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 2016 and 2020 and the priorities of the stakeholders the ranking and groups of the materiality of sustainability topics are as follows:

MATERIALITY OF SUSTAINABILITY TOPICS OF MAGYAR TELEKOM IN 2016

High priority topics	Medium priority topics	Low priority topics
Climate protection and energy efficiency	Environmental targets, costs and compliance	Corporate governance
Innovation for sustainability	Our employees as corporate citizens	Regulatory compliance
Sustainability in the supplier chain	Community investments	Occupational health and safety
Protection of minors in the Digital Age	Management of customer complaints	Local procurement
Involvement of our employees	Involvement of our customers	Supplier relations
Initiatives to eliminate the digital divide	Safe use of mobile phones, electromagnetic fields	Informing our customers
ICT products for sustainability	Data protection	Sponsorship
Customer satisfaction	DELFIN Award to responsible companies	Professional cooperation
Emissions		Talent management
Resource-consumption		Service availability
Human rights, equal opportunities		Addressing legal and ethical aspects of content service providing
		Cooperation in environmental and social issues
		Risk management
		Managing changes
		Investor relations
		Corporate compliance
		Operational data
		Political presence

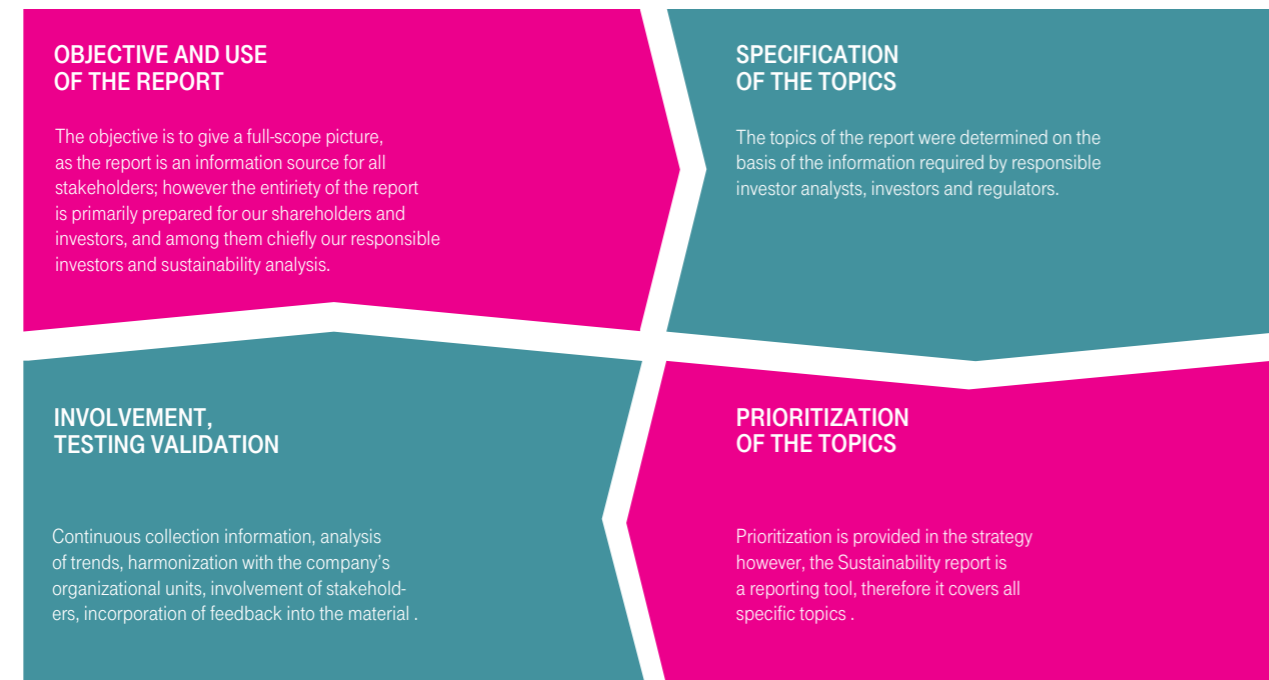
(1) Éva Somorjai held the position through December 31, 2016. At the time the Report is published, Zsuzsanna Friedl holds the CHRO position and is the executive in charge of sustainability (from May 16, 2017).

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.

PROCESS FOR DETERMINING THE CONTENT OF THE REPORT



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. Our objective is to build a liveable, likeable working environment as a basis for a successful company. This empowering professional environment builds up to employee satisfaction, and a more dedicated team. It also enhances positive employer brand positioning Magyar Telekom among the most attractive employers of the region.

Company perspective of People Strategy

Efficient company – focus on Total Workforce Management (TWM) cost, thus enabling flexible and efficient management of expenses

Competitive company – elaboration and safeguard of competitive edge based on human capital through recruitment-selection, supported by training development and remuneration

Energized company – international, diverse and healthy organization focused on wellbeing (physical, mental and social wellbeing), that experiences success

In 2016-2017, we build our People Strategy around 4 pillars:

- employer brand and recruitment,
- training and development,
- remuneration,
- wellbeing

Employee perspective of People Strategy

We have renewed our People Strategy and identified its pillars we wish to focus on in 2016 and 2017 in line with Magyar Telekom's Business Strategy. Prior to and in preparation for that, we transformed our HR organization and operating model in the second half of 2015 in order to support the achievement of the ambitious goals set forth in our Business Strategy by an efficient and customer-focused HR. The implementation of our corporate-level People Strategy encompassing two years is a task shared by the whole company, i.e. managerial and non-managerial personnel alike. HR facilitates the process by actions, tools and solutions.

- **Employer brand building** – we create a livable and likeable workplace, which is satisfactory for our employees and offers an attractive perspective in the labor market through its future oriented methods of work. We put greater emphasis on using social media solutions in building the brand.
- **Recruitment-selection** – We use segment-based online recruitment channels and means to select the best candidate for the specific positions. During the selection process, we seek the attitude and personal traits defined as requirements for future Telekom employees.
- **Remuneration** – We retain our competitive edge in the market with our total compensation package and we are forerunners in the market with our innovations in compensation methods. We make our company attractive for employees by means of our wide range of benefits. We have a transparent, simpler and consistent job grading model, which reflects primarily the respective values of jobs, and provides for market comparison, as a basis for a competitive remuneration policy.
- **Training development**– We are building a digital Telekom, thus put an increasing emphasis on collaborative digital tools and solutions that enable and inspire self-development. Online training catalogue, online training materials, online coachbank and mentoring, online knowledge sharing (Share).
- **Wellbeing** – We take action for each other and ourselves in order to maintain our physical, mental and social wellbeing. Energized employees make us successful. We draw employees' attention to conscious preventive health efforts, volunteer work, sustainability and work-life balance.

The definition of the goals of the 2016-2020 Equal Opportunities Plan was synchronized with other strategies, policies and directives that determine our corporate operations. Thus it was designed in accordance with the 2016-2020 Human Strategy of Magyar Telekom Plc., and the 2016-2020 Group Sustainability Strategy, integrating the results of the previous 2013-2015 Equal Opportunities Plan as well.

Along the implementation of the 2016-2020 Equal Opportunities Plan the company focused on the introduction of measures to improve the position of particular under privileged employee groups such as women, employees with families, employees on childcare leave, employees with disabilities, employees with changed working abilities, fresh graduates entering the labor market and senior employees over 50 years of age.

Support strategy

Magyar Telekom has, for almost for two decades, been making a special point of selecting and implementing its corporate social responsibility and its sponsoring programs for almost two decades. 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.

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.

The principles of justice and equal footing are set out in the basic standards articulated in our Code of Ethics. Alternative forms of employment like telework, part-time work, flex-work, employment of disabled persons provide possibilities for the practical implementation of the principle of equal footing.

Equal opportunities in Life and Work

Magyar Telekom and T-Systems has accepted its 4th Equal Opportunities Plan, according to its routine since 2010 and in compliance with the option stated in the Law for the Advancement of Human Rights and Equal Opportunities (2003/CXXV.). The Equal Opportunities Plan of the Group states the core values of equal treatment and equal opportunities together with the tracking and improvement of the career cycle of particular under privileged employee groups.

Magyar Telekom Plc. has become a strategic partner of Autistic Art Foundation on March 30, 2016. The company supports the work of the foundation with volunteer activities, equipment, communication platforms and by providing services to help their efforts in the support, development and maintenance of residency centers for Autistic people in the country.

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 that was obtained by Magyar Telekom Plc. as well in 2016.

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 GROUP'S ISO14001 CERTIFIED MEMBER COMPANIES:

Member company/Organization	Validity of the certificate
Magyar Telekom Plc.	December 8, 2017.
T-Systems Hungary Plc.	September 15, 2018
Makedonski Telekom	March 29, 2017
DT HSE-certificate	September 14, 2018

(http://www.telekom.hu/static/sw/download/Magyar_Telekom_Nyrt_ISO_14001.pdf)

For further information on Magyar Telekom Group's quality guarantees, please visit (only HU)
http://www.telekom.hu/rolunk/vallalatrol/iranyelveink/minoseg_garancia