



SUSTAINABILITY REPORT

2017



EGYÜTT. VELED

OUR APPROACH

Corporate strategy

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 2017, 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 3 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.

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.

The objectives defined in the Strategy are monitored with the use of the Balanced Scorecard methodology and the management quarterly reviews the actual status of the fulfillment of these objectives. The strategy is reviewed annually in light of the actual market environment and the competitors' activities.

Sustainability approach

Since 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

- Business venture, integrity, transparency
- Vision, innovation
- Employees, team, dynamism
- Client

Social dimension

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

Environmental dimension

- The Earth
- A viable and wholesome environment
- Nature, biological diversity
- Natural resources

RANKED MOST SUSTAINABLE IN THE SECTOR

SUSTAINABILITY STRATEGY 2016-2020 ALIGNED WITH UN SUSTAINABLE DEVELOPMENT GOALS

Being a responsible company, we can only envision pursuing our operations by means that are sustainable in their nature. The experiences of the past decades have further strengthened our conviction that as an ICT provider, we can contribute to the effort of enabling, supporting and extending social, economic and environmental sustainability by creating a wide range of opportunities and solutions. Our Group makes the everyday lives of our several million customers and close to 10 000 employees easier by offering the most suitable digital solutions for them. We feel responsible for everyone whom we can offer ICT solutions, and that we must continue our operations by keeping the mindset of social, economic and environmental responsibility closely within our everyday operations, thus supporting sustainable development and enabling future generations.

Being first in the industry, we are even more convinced that our commitment serves the interests of future generations, while we can make the most out of the inherent potentials of digitalization right now, while maintaining sustainable operations and business.

We monitor the achievement of the goals set forth by Magyar Telekom's Sustainability Strategy for the period between 2016 and 2020 on an annual basis, together with tracking our contributions to the UN Sustainable Development Goals (SDGs). Reaching the 17 SDGs is our global task calling for the cooperation of political decision makers, NGOs and businesses.

The objective set by our strategy is to incorporate sustainability into Magyar Telekom Group's business in order to ensure that the company pursue its operations in a sustainable manner and encourage its customers to follow sustainable consumption patterns (SDG 12 – Sustainable consumption and production). With this focus, we have achieved that one third of our revenues comes from sustainable products and services. For that, we needed to ensure that our product development processes are aligned with sustainability aspects, as well.

In the ISS-oekom's Corporate Responsibility Review 2018 Magyar Telekom Plc. is named as the TOP1 performer of the telecommunications sector. The rating agency has compiled this review of publicly available data from 2017 December, along the close assessment of sustainability related operations of 3,800 companies globally based on data of approximately 100 indicators⁴. Achieving sector leading status with our dedication to sustainability confirms the validity and efficient implementation of our Sustainability Strategy.



(4) oekom Corporate Responsibility Review 2018:
<http://www.oekom-research.com/homepage/english/2018-04%20oekom%20CR%20Review-EN.pdf>

2017 was Magyar Telekom Group's third carbon-neutral year in a row, in addition to which we have made Magenta1 and Magenta1 Business services carbon-neutral, too, by 2018. In 2017, we launched a community solar panel project among our employees, in the framework of which we installed 113 solar panels on the roof of our training facility, which our colleagues were invited to rent for a nominal fee.

We implement our main objective along the following three foci:

Climate change

It is our goal to support our customers to become more climate conscious, and that Magyar Telekom, as an authentic and responsible ICT provider is to help them on this way. We have achieved the ambitious goal of bringing down Magyar Telekom Group's actual CO₂ emissions to below 100 000 tons, and our other objective is to generate revenues from our climate protection activities. Our climate protection objectives and activities primarily aim to serve the effort against climate change (SDG 13) and the goal of sustainable energy consumption (SDG 7), but we indirectly contribute to making our urban environment more sustainable, too (SDG 11).

Education

It is our educational objective to utilize our capabilities to improve the digital literacy of the public, thus we set the specific goal for ourselves to reach 100 000 people in Hungary by our direct or indirect means of digital skills development by the end of 2020. We have designed some of our training programs with the purpose of closing the digital divide, while building up a succession pool for the industry remains a major focus for us.

It is our goal to provide training opportunities for students, teachers, residents of disadvantaged regions and pensioners alike to enable them to acquire new and develop their existing digital skills, to thus support the cause of closing the digital divide.

In the framework of our academic training courses and programs aimed at developing an industrial succession pool, we strive to pass on the skills and knowledge specific to the IT sector, at the same time present the diverse range of possible ICT career paths.

Through our educational objectives, we strive to enable everyone to access skills development opportunities and lifelong learning (SDG 4), at the same time, put extra emphasis on reducing social inequalities (SDG 10).

In 2017, we held our tenth Sustainability Day festival conference, attended by another record-breaking number of 9 000 participants. The invitees of the break-out sessions addressed the theme "FLOW or FOLLOW" from environmental, economic and social aspects. The visitors were invited to learn more about more than 40 organizations that presented their activities at the event, through which we supported sustainable development in partnership with the organizations representing the society (SDG 17).

On the occasion of the April 02 World Autism Awareness Day and in the spirit of equal opportunity, for each BOOKR Kids tablet purchased during the month of April, we donated one to our strategic partner, the Autistic Art Foundation, by which we contributed to the range of digital assets available for the development of the residents living in the boarding facilities supported by the foundation.

Digital sustainability

Magyar Telekom considers itself a sustainable digital company, and for that very reason it is our goal to achieve that at least 50% of the public recognize us as a sustainable company. It is our clear objective that our customers should use sustainable services, too. For that, we strive to conduct responsible marketing, as well as to introduce and pursue activities that enable and inspire others, and are based on sharing. It remains one of our key objectives to provide devices and services to our customers that feature sustainable qualities (SDG 9 – Industry, innovation and infrastructure).

Our "hello holnap!" mobile app, which has exceeded 13 000 downloads, encourages users to pursue sustainability activities, which are not only rewarding for their valuable nature, but enable users to collect points that Telekom converts into cash that the owners of the points can donate to the NGOs of their choice. The app allows participants to take part in many activities that relate to the Sustainable Development Goals (e.g. SDG 1 – No poverty, SDG 2 – Zero hunger, SDG 3 – Good health and well-being).

Being a responsible large corporation employing thousands of people, we encouraged employees to take action for the benefit of the society by offering them and supporting 14 different volunteer programs in 2017. We find it important to enable colleagues to opt for the volunteer activity that they personally find the most suitable for them to support society and being really valuable. In 2017, we organized the second Telekom Volunteer Day event, in the framework of which close to a thousand of us did volunteer work at 32 locations.

Through our sustainable supplier chain management processes, we ensure that we act consciously in areas that we have no or only minor direct operational impact on (SDG 6 – Clean water and sanitation, SDG 14 – Life below water, SDG 15 – Life on land).

The combined, prorated achievement rate of our high and medium-priority objectives in the second year of our Sustainability Strategy encompassing the period 2016-2020 is 83%. The specific achievement rates of our high-priority objectives are 100% for climate protection, 70% for education and 60% for digital sustainability.

We are especially proud of the fact that Magyar Telekom Group's previous Sustainability Report covering the year 2016 was awarded the Green Frog Award, which goes to the best sustainability report of Hungary, as well as received a special award on regional level.



Zsuzsanna Friedl

ZSUZSANNA FRIEDL

Chief HR Officer and top executive in charge of sustainability

Our objective by issuing our annual sustainability reports is to keep our stakeholders informed about our operations in general and responsible corporate activities in particular (SDG 16 – Peace, justice and strong institutions). In addition to having been included in the CEERIUS (Central and Eastern European Responsible Investment Universe) Index from its start, the company's contribution to sustainable economic growth (SDG 8) in 2017 is reflected by the fact that we were selected for the second time to be included in the FTSE4Good Emerging Index.

From the second half of 2017, we have put even greater emphasis on the social pillar of our set of sustainability objectives. For us, as a responsible company, it is an important goal to establish diversity and equal opportunities for men and women, which can be achieved by measures like increasing the number of women in management positions, supporting work-life balance, taking action against unjustifiable differences in remuneration and guaranteeing a working atmosphere where women feel safe and are not exposed to sexist conduct (SDG 5 – Gender equality, SDG 10 – Reduced inequalities). Uniquely among European large corporations, before designing our diversity and equal opportunity development measures, we surveyed our employees as to what they considered areas of priority. By means of an anonymous and voluntary attitude survey conducted in January 2018, we could outline the areas to improve based on the answers of approximately 1300 employees. The findings of the survey helped us to determine the cornerstones of the diversity and equal opportunity concept drawn up at the beginning of 2018. Our goal is to establish a diverse and attractive workplace, where our teams of many-faceted expertise and background work on enabling all members of Generation NOW to benefit from the potential inherent in the digital world of NOW.

Parallel to the above ambition and upon the initiative of Deutsche Telekom, we renewed our Group Code of Conduct and our Social Charter was replaced by the Code of Human Rights and Social Principles at the end of 2017.



Katalin Szomolányi

KATALIN SZOMOLÁNYI

Head of the Corporate Sustainability Center and executive supervising sustainability activities

SOCIALLY RESPONSIBLE ELEMENTS OF STRATEGIC PROGRAM 'MISSION TURNAROUND' OF MAKEDONSKI TELEKOM

Mission Turnaround is the new strategic program of Makedonski Telekom for 2017 and 2018 and is expected to bring a strong positive turnover to the company's operation. The program is based upon the ten key initiatives that should guarantee company's growth in the period to come. Many of the main focuses of these ten projects are referring to the social and sustainable aspects of the strategic business activities but also throughout business as usual operations. Thanks to that, so far several projects have been realized for increasing the awareness and engagement of the employees in actions of environmental consuming, cultural behavior and customer's empowerment significance. Therefore, so far, water saving taps have been installed in all restrooms in the corporate HQ in Skopje. Thus, the company save up to 40% of this precious resource. 70 recycle bins for paper and plastic have been placed in HQ on visible and frequently visited locations and also there was an action for collecting e-waste and empty batteries in almost all premises of the company including Telekom shops. Practice of organizing eco day in the company has also been established where employees come at work without their cars. And this is just the beginning. More plans are ahead and more activities are to come.

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, FTSE Russell, 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 2017 report we took into account the results of the stakeholder survey 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 2017

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

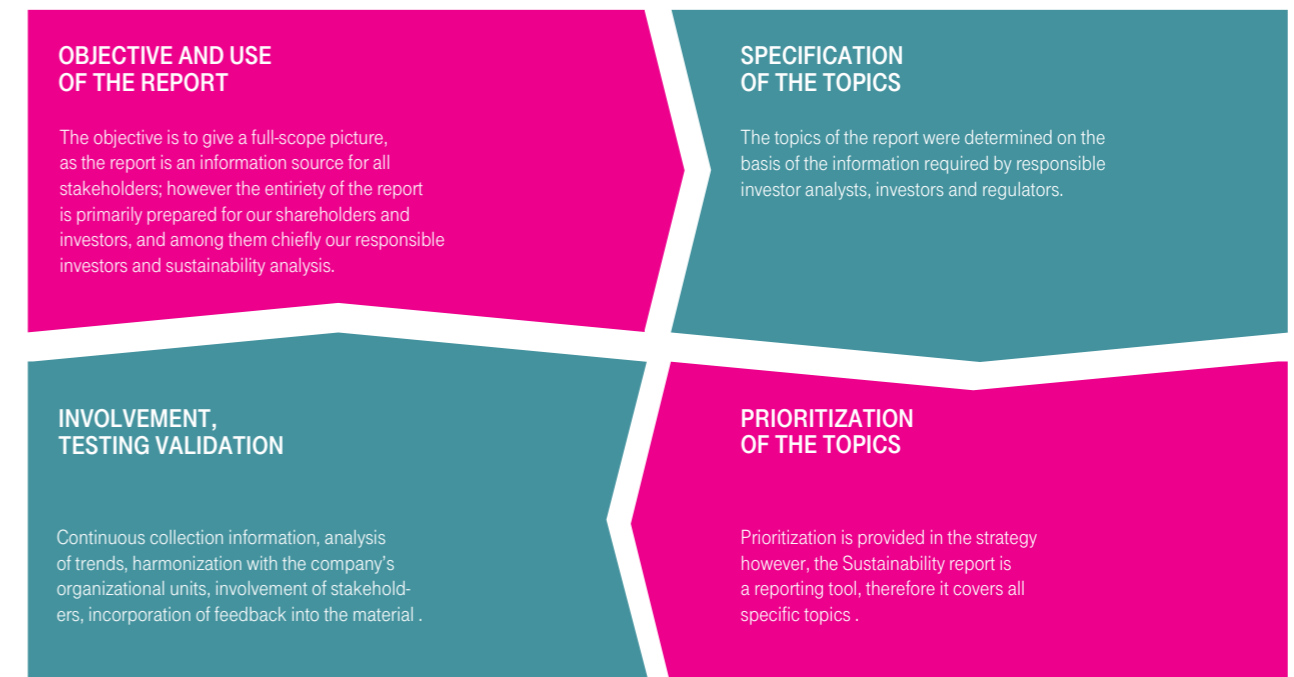
ICT products for sustainability	Data protection	Sponsorship
Customer satisfaction	DELFIN Award to responsible companies	Professional cooperation
Emissions		Talent management
Resource-consumption		Service availability
Human rights, equal opportunities		Addressing legal and ethical aspects of content service providing
		Cooperation in environmental and social issues
		Risk management
		Managing changes
		Investor relations
		Corporate compliance
		Operational data
		Political presence

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

People Strategy

One of the key challenges of the Sustainability Strategy is human resource management, so Magyar Telekom's People 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.

As the largest Hungarian employer in the ICT sector Magyar Telekom believes that corporate culture based on diversity and inclusion (D&I) contributes to the success of companies and all organizations. Next to the benefits of creativity in teamwork D&I also supports the further engagement of clients and partners, enhances resilience. Magyar Telekom's commitment to diversity and inclusion further supports compliance with legal obligations to non-discrimination.

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 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.

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 manages the selection and implementation of its corporate social responsibility activities at a strategic level. These activities are performed in line with centrally regulated and audited processes in consideration of the latest social, environmental and economic developments.

The focus of the bi-decennial sponsoring efforts of the company have been shifted into an integrated scheme that focuses on the support of projects that are closely aligned with the company's profile as well as the leveraging of synergies and targeted sponsoring activities.

The Company sponsors various areas, among others professional and amateur sports, music - especially pop music festivals -, professional events and social efforts.

Magyar Telekom is convinced that its long-term success depends on the company's commitment to social matters, its openness to social needs and problems as well as the quality of its sensitivity to these topics. Besides, Magyar Telekom strives to make its social engagement and support activities an awareness-raising oriented activity, so from the very start it pays distinguished attention to the communication of its support program and the involvement and activation of its customers and employees.

It is important for Magyar Telekom to harmonize its sponsoring activity with other elements of its sustainability activity. This also means that we do not only provide financial support but other types of assistance, too, and seek to aid the realization of the projects with our core activity info-communication solutions and support socially important matters with our own initiatives.

Since 2013, in line with the senior management's decision and the company's strategy, Magyar Telekom connects its sponsoring efforts to its core activity, i.e. emphasizes programs that improve digital competences thereby creating a firm basis for the society to leverage the opportunities offered by the latest technologies. The Become an IT expert! program, established in 2016, is the company's IT career orientation program for young students while joining Deutsche Telekom, the mother

company's Teachtoday initiative, Magyar Telekom conveys useful knowledge to children, their parents and teachers on the conscious use of media.

Parallel to this the Company gives high priority to supporting social issues in areas where the company has an impact and where solutions can be approached from a new angle with the use of technology. An example for this is the company's strategic partnership with the Autistic Art Foundation whereby Magyar Telekom supports homes for autistic people with digital devices and helps organizing their development workshops, helping to elaborate methodologies and promoting the widespread use of electronic devices.

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.

Quality policy

The **Quality policy** of Magyar Telekom Group, approved in 2005 and renewed in 2009, is available in full length.

Management systems

In October 2017 Magyar Telekom Group renewed the ISO 9001, ISO 14001, ISO 27001 certificates. Deutsche Telekom maintains its HSE (ISO 14001, OHSAS 18001) umbrella certificate to Magyar Telekom Plc. 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).

Please find more detailed information on quality guarantees in Magyar Telekom Group on [this](#) website.