



2. SUPPLIERS



2.1. Suppliers' relations	56
2.2. Sustainability in the supply chain	57
2.3. Local procurement	60
2.4. DELFIN Award to responsible companies	61

2.1. SUPPLIERS' RELATIONS

Action against corruption and ethical conduct are important cornerstones for Magyar Telekom, consequently it requires its suppliers to adopt its Anti-corruption statement and the company's Code of Conduct, and to comply with the expectations specified as contract terms, too.

Besides, every supplier must learn and accept the Social Charter of the Group, which specifies the minimum social standards of the working relations and employment conditions.

We also request the suppliers concerned to accept the Coltan Policy of Magyar Telekom.

Because of its size, Magyar Telekom Group has significant impact on other stakeholders in economy, thus the scope of its responsibility cannot be limited by the boundaries of the company. Besides, it is also important from risk management aspects that it establishes business contacts with such other companies, whose economic, social and environmental performance is up to a standard. In order to ensure this, the Group manages its supplier contacts from sustainability aspects, too. The group-level coordination of vendor relations is ensured by the Procurement Directorate, partly through the provision of centralized procurement services, and partly through coordination of the member companies' functional organizations.

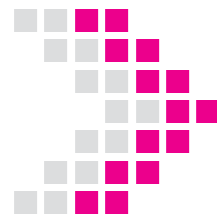
The suppliers are selected in compliance with the laws, in procurement procedures that ensure fair competition, transparency, and structured and documented processes, which is under continuous control by the Internal Control System (ICS), used together with Deutsche Telekom Group. Besides controlling purpose, the system encourages to develop our processes to be improved and quicker.

In its contracts the company seeks to develop mutually advantageous, value-creating partner relations. To ensure cost-efficient operation, the company is continuously rationalizing its processes by tapping the synergies of parent company and group-level procurement.

The basic tool of supplier contact is the interactive internet site of the Procurement Directorate at (https://beszerzes.telekom.hu/beszerzes/portal_en?appid=beszerzes&page=english/main.vm), where the suppliers—after registration—can directly reach the newsletter service, the supplier qualification system, and can make some of the official statements, required to the procurement procedures.

The references, financial standing, quality and environment protection capabilities of the suppliers are assessed in a prequalification system, operated on the internet site of the Procurement Directorate, while the contractual performance of the suppliers is assessed in a post-qualification system on the basis of which they are categorized (A—approved and recommended, B—approved, C—may be used, D—cannot be used).

The company's enhanced vendor prequalification system enables registered suppliers to complete the sustainability-focused questionnaire and also its evaluation. The results ensure the identification of risks and the possibility of joint improvement with the suppliers. The qualification results are important factors in the supplier selection process. The company buys services and products predominantly from qualified (A and B category) suppliers. For mutual development, we give the registered suppliers monthly reports about their results in the vendor qualification. We procure more than 76% of the value of the orders from qualified external suppliers, through more than 1100 partners.



2.2. SUSTAINABILITY IN THE SUPPLY CHAIN

We would like to communicate our commitment to sustainability for our suppliers, who are involved in our everyday business. This cannot be achieved without new and ambitious goals, following the best practices and the involvement of all stakeholders. In response, we created the Magyar Telekom Sustainability questionnaire, which is a series of questions on environmental, social and business ethics topics. The final score is calculated with the weighting of the respective industry of the supplier. The analysis will be introduced in 2015.

In order to develop a sustainable supplier chain, in 2014 Magyar Telekom used the help of the detailed supplier self-evaluation questionnaire, developed by GeSI (Global e-Sustainability Initiative), which, in addition to environmental queries, also contains questions concerning compliance with human rights, occupational health, security and business ethics requirements. So far 38 supplier evaluations have been completed these suppliers accounted for 16.4% of the overall procurement value (this value was 31.5% in 2011, 39% in 2012 and it was 31.3% in 2013).

We have introduced for the sustainability evaluation of our active suppliers the internationally recognized and operated EcoVadis system, which is also supported by DT. We invite strategically important and high-risk suppliers to declare its operational practices based on the detailed EcoVadis criteria. Therefore there were directly 5, indirectly 15 suppliers evaluated by social, environmental, economic and sustainable procurement aspects. These suppliers accounted for 39.5% of the overall procurement value.

During the year we set to develop one of our key strategic objectives: the sustainable supplier chain management process, which aims that Magyar Telekom's commitment to sustainability would become a part of the suppliers' operation, and the company's sustainability principles and elements would appear also at the suppliers. As part of the process, we developed different areas, like compliance with law, corporate governance integration, EcoVadis system inclusion and Magyar Telekom Sustainability questionnaire development, by the guidance of our professional colleagues. As part of the sustainable supplier chain management pro-

cess and in order to support effective operation we created a working group the members of which are responsible for and take action in the case of incidents as well as environmental, working conditions, human rights or social problems arising in connection with suppliers. The permanent members of the working group are the employees of the Corporate sustainability center, the Procurement and logistics directorate and the Corporate governance and general legal affairs department in addition to the employees working for the ordering organization involved in the incident, as well as the experts on the given issue. In order to support these efforts we established an incident management process that defines the relevant actions in such cases. The incident management process analyzes the event that triggers the incident, the strategic importance of the supplier, the severity of the given case, the supplier's reaction and provides guidance on potential remedies. No such process has been launched yet and the analyses have not yet detected any significantly negative environmental, working condition, human rights or social impact. Therefore no sanctions were imposed and no contracts have been terminated within the frame of the sustainability process.

Deutsche Telekom provides significant support through initiatives within the sector to transform supplier relations into sustainable ones, thanks to that audits are conducted worldwide to the selected suppliers. The integrated criteria of audits are promoting and securing compliance with the minimum social and environmental principles of suppliers, also in the case of common suppliers of different subsidiaries. Proving the compliance with the common group standards, in 2013 a total of 14 indirect Magyar Telekom suppliers were involved in Deutsche Telekom audits, which is accounted for 20.10% of the overall procurement value (this value was 15.4% in 2011, 20% in 2012, and it was 16.4% in 2013).

Deutsche Telekom's cross-border initiative, 'Together for Sustainability' program, was created in 2014: it is a suppliers' development program. Thanks to this action, three key ICT producer suppliers were invited for co-operation. The goal is to find common solutions to various problems, whereas we create a win-win situation for everyone, which has positive results, such as employee loyalty, motivation, increase productivity and improve product quality. In 2015 another 5 suppliers will be joining the program.

SUPPLIER ASSESSMENTS' RISK CRITERIA USED BY OUR COMPANY WERE IDENTIFIED AS FOLLOWS:

	EvoVadis	MT assessment	Audit	Pre-qualification	Supplier Score Card	GeSi
Anti-corruption and bribery	✓	✓	✓	✓	✓	✓
Conflict of interest	✓	✓	✓	✓	✓	✓
Fraud	✓	✓	✓	✓	✓	✓
Money laundering	✓	✓	✓	✓	✓	✓
Anti-competitive practises	✓	✓	-	✓	✓	✓
Respect of intellectual property rights	✓	✓	✓	-	✓	✓
Truthfulness of marketing and advertising messages	✓	✓	✓	-	✓	✓
Consumer/client dataprotection and privacy	✓	✓	✓	✓	✓	✓
Access to essential services or products	✓	✓	-	-	-	-
Partner/supplier data protection privacy	-	✓	-	✓	✓	✓
Associate/employee data protection and privacy	-	✓	✓	✓	✓	✓
Business Continuity Management	-	✓	-	-	-	-
Reduction of production-related environmental risks	✓	✓	✓	✓	✓	✓
Energy Consumption and GHGs	✓	✓	✓	✓	✓	✓
Water management	✓	✓	✓	-	✓	✓
Biodiversity	✓	✓	✓	✓	✓	✓
Local pollutants	✓	✓	✓	-	✓	✓
Materials, chemicals management	✓	✓	✓	-	✓	✓
Waste management	✓	✓	✓	-	✓	✓
Product lifecycle management	✓	✓	✓	✓	✓	✓
Property lifecycle management	✓	✓	✓	-	✓	✓
Promotion of sustainable consumption	✓	✓	-	✓	✓	✓
Sustainable forest/paper policy	-	✓	-	-	-	-
Customer health and safety	✓	-	✓	-	-	-

SUPPLIER ASSESSMENTS' RISK CRITERIA USED BY OUR COMPANY WERE IDENTIFIED AS FOLLOWS:

	EvoVadis	MT assessment	Audit	Pre-qualification	Supplier Score Card	GeSi
Society						
Employees health and safety	✓	✓	✓	✓	✓	✓
Working conditions	✓	✓	✓	✓	✓	✓
Labor relations	✓	✓	✓	✓	✓	✓
Career management	✓	✓	-	✓	-	-
Child and forced labor	✓	✓	✓	✓	✓	✓
Discrimination	✓	✓	✓	✓	✓	✓
Fundamental human rights	✓	✓	✓	✓	✓	✓
Customer health and safety	-	✓	-	-	-	-
Procurement						
Sustainable procurement management	✓	✓	-	-	-	-
Training of buyers on issues within the supply chain	✓	✓	-	-	-	-
Integration of social or environmental contract clauses	✓	✓	✓	-	✓	✓
Regular supplier assessment	✓	✓	-	-	-	-
Audit of suppliers	✓	✓	-	-	-	-
Corrective actions to facilitate supplier capacity building	✓	✓	-	-	-	-
Sustainable buyers performance appraisal	✓	✓	✓	✓	-	-
Pre-qualification of suppliers before evaluation	-	✓	-	-	-	-
Identified risks and impacts	✓	✓	✓	-	✓	✓
Conflict minerals	✓	✓	✓	-	-	-

Independently from the sustainability process certain processes and remedial actions have been applied to legal and economic non-compliance cases detected by the procurement and compliance organization that resulted in recommendations for improvement or the termination of the contract with the given partner or the initiation of legal action. The number, nature and details of such measures are confidential business information and are not public.

The procurement processes, that constitute a significant part of the vendor relations, are implemented with the support of IT systems. The internal procurement needs are ordered mostly through electronic systems. The suppliers' selection process is supported by an internet-based RPF and auction tool (OneSource), orders are also placed/confirmed through an internet-based electronic commerce solution (CPEX), managing transactions growing from year to year. These electronic solutions substan-

tially reduce the processing time of the procurement processes and the e-mail based placement of orders further reduces the quantity of paper-based documents. In the past years direct electronic procurement transactions (CPEX) hit a steady high level, and in 2014 reached 66% of all items ordered (in 2012: 59%, in 2013: 64%). In 2014 we were in connection with 105 suppliers through electronic systems.

Further electronic catalogues, managed by the suppliers, have been incorporated in our

internal ordering system. In 2014 there were 22 electronic catalogs available. Orders thus placed are transferred to the supplier via fully electronic channels. The number of items ordered electronically further increased in 2014 and reached 46% (in 2011: 38%, in 2012: 40.5%, in 2013: 43%).

In the office stationary catalogue the supplier already marks 'green' products, and we encourage our colleagues to order such items.

We ensure compliance with the statutory and corporate expectations by including sustainability/environmental clauses in the supplier contracts. We expect our suppliers to use environment-friendly materials and technology and energy-saving solutions.

As to products, there is a blacklist and a gray list of ingredients, meaning that products that contain any of the listed materials are banned from procurement (blacklist), or are not recommended to procure (gray list) by Magyar Telekom.

In early 2015, Crnogorski Telekom rolled out the Supplier Prequalification questionnaires with the intention of having all active suppliers pre-qualified as part of a mandatory process for registering all suppliers.

In an effort to prevent any damage, hazardous materials purchased are transported directly to the internal customer, with the exception of storing a minimum justifiable inventory, thus minimizing transportation time. In an effort to raise cost efficiency and reduce transportation, we increase the percentage of stocks managed by the suppliers. We study the possibility of this jointly with the supplier when entering into contract.

Makedonski Telekom's organizational units in the company initiate procurements of materials and products are responsible for the aspects of the environment when conducting procurements. Organizational units that initiate procurement of equipment need to pay attention in new investment projects to procure equipment that saves energy. In course of vendor management there is also checking of social responsibility and environment protection on supplier's side, which is intended to become one of the evaluation criteria's in future.

Magyar Telekom considers it a priority to make payments to its partners in compliance with the deadlines specified in the contracts, agreements.

2.3. LOCAL PROCUREMENT

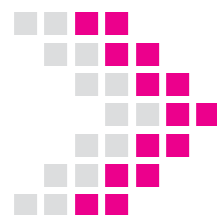
Despite the globalization of procurement, we continue to purchase a considerable amount of products and services from local⁽²⁹⁾ suppliers. Within that it is important to us that small and medium sized companies would receive appropriate role. In 2014 more than 80% of suppliers belonged to this category. By ordering products and services from the local suppliers we significantly contribute to the retention of jobs.

(29) Suppliers with headquarters in a given country

VALUE RATIO OF PRODUCTS AND SERVICES FROM LOCAL SUPPLIERS, MAGYAR TELEKOM GROUP

Member companies ⁽³⁰⁾	2010	2011	2012	2013	2014
Magyar Telekom Plc.	70%	71% ✓	75% ✓	74% ✓	67% ✓
KFKI	58%	56% ✓	74% ✓	-	-
IQSYS	95%	95% ✓	86% ✓	-	-
T-Systems Hungary	-	-	-	75% ✓	80% ✓
Pro-M	53%	47% ✓	53% ✓	-	-
Makedonski Telekom	67%	73% ✓	86% ✓	79% ✓	84% ✓
T-Mobile Macedonia	55%	47% ✓	46% ✓	56% ✓	46% ✓
Crnogorski Telekom	38%	42% ✓	52% ✓	42% ✓	50% ✓

2.4. DELFIN AWARD TO RESPONSIBLE COMPANIES



With DELFIN Award Magyar Telekom wants to promote the idea of sustainable development among all companies in Hungary, and recognize efforts made towards this goal. The award is given to suppliers offering outstanding performance in the field of sustainability, on the basis of applications judged by a board of professionals.

In 2008 our company established the DELFIN Award: the award stands in Hungarian for a Committed, Sustainable, Innovative Generation (https://www.telekom.hu/about_us/society_and_environment/events/Dolphin_Award).

Members of the professional jury:

- Bence György: TV2, program and news director
- Viktor Nagy: portfolio.hu, senior analyst
- Dr. György Pataki: Corvinus University of Budapest, associate professor

- Ernő Simon: independent journalist and communication expert
- Katalin Szomolányi: Magyar Telekom, Head of Corporate Sustainability Center

The sixth award ceremony was held on 3 September 2014, at the Sustainability Roundtable XV.

The application materials can be found at: http://www.telekom.hu/about_us/society_and_environment/events/Sustainability_Roundtable_Discussion



DELFIN Award ceremony, 2014

WINNERS OF THE DELFIN AWARD BY CATEGORY

Category	Winning company
Support of equal opportunities and non-discrimination within and outside the company	Hill and Knowlton PR agency
Education and awareness-raising of sustainability	STKH Sopron and Region Environmental and Waste Management Nonprofit Ltd.
Innovation realized for sustainability	Vasi FULL-TÁV Ltd., Csepel Plc.



ANDREA ÉDER
STKH Sopron and Region Environmental and Waste Management Nonprofit Ltd.

Head of customer service and communication

STKH Sopron és Térsége Környezetvédelmi és Hulladékgazdálkodási Nonprofit Kft. (STKH Sopron and Region Environmental and Waste Management Nonprofit Ltd.) is responsible for the management of 39 settlements' 110 thousand residents' waste. The environmental responsibility and its conscious promotion is important part of our work for several reasons. In the short term, we can only increase our efficiency with the cooperation of our clients, which has instant measurable economic benefits. In the long term, the development of the good behavior not only manifests in the waste management fee, but also in the preservation of the environmental health and in the preserving of the harmony of the living and inanimate environment.

DELFIN Award is an important milestone for our company in the environmental awareness. It was a guidance for us to be weighted by an internationally known exemplary responsible company. Our endeavors taking their place in the jury's list strengthens us in our everyday life.

All of our awareness-raising activities are built on local communities. We are working with the 'I don't like' stuffs, but we can make experiences by our programs, which can help to strength the routine also in the work with waste. Many a little makes a mickle, and it's true in sustainability, too.

For me it's a huge acknowledgement to win the DELFIN Award, because I was working for the Magyar Telekom for 10 years, and I feel that the knowledge I had gained here helped me to create true value within another team.



(30) Magyar Telekom Group member companies with significant procurement value