



SUSTAINABILITY REPORT

2016



EGYÜTT. VELED



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SUPPLIERS

Anti-corruption measures and ethical conduct are important cornerstones of operation for Magyar Telekom. Consequently the company requires its suppliers to adopt Telekom's Anti-corruption statement, the Suppliers Code of Conduct and the Coltan Policy of Magyar Telekom. As part of the contractual terms each and every supplier must know, approve and must comply with these requirements as stated.

Because of its size, Magyar Telekom Group has significant impact on other stakeholders of the economy, thus the scope of its responsibilities cannot be limited to the company itself. Along our risk management strategy, we maintain our ambition to do business with suppliers who appropriate a high level of social, economic and environmental performance and standards. In order to ensure this, the Group manages its supplier contacts with a strong commitment to fostering a sustainable supply chain. The group-level coordination of vendor relations is ensured by the Procurement and Logistic Directorate, partly through the provision of centralized procurement services, and partly through the coordination of the member companies' functional organizations.

Suppliers are selected in compliance with the laws, in procurement procedures that ensure fair competition, transparency, and structured and documented processes, which are under continuous control by the Internal Control System (ICS) used jointly with Deutsche Telekom Group. Besides providing proper controls the system encourages us to improve and accelerate our processes.

In respect of contracting 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 main interface for supplier relations is the interactive internet site of the Procurement and Logistic Directorate at (<https://beszerzes.telekom.hu/fooldal.vm>), where suppliers – upon registration – can directly reach the newsletter service, the supplier qualification system, the OneSource system where quotations are managed, electronic invoicing description and may find useful information on our procurement processes and sustainability requirements.

The references, financial standing, quality assurance and sustainability capabilities of the suppliers are audited by our experts in a prequalification system which is also operated on the internet site of the Procurement and Logistic Directorate.

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 prequalified suppliers. For mutual development, after filling out the questionnaire, we inform registered suppliers about their results in the vendor grading system. We procure more than 80% of the value of the orders from qualified external suppliers, through 974 partners.

We would like to communicate our commitment to sustainability to the direction of our suppliers who are actively 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. There is a special focus in the assessment process on whether the suppliers have any sustainability expectations declared towards their partners or not. The final score is calculated with the weighting of the respective industry of the supplier. 18 companies participated directly in the survey in 2016, which corresponds to 3.83% of the purchase value (this value was 10.86% in 2015). Respondents were informed about their results, where they have received topic-specific feedback on their performance. In addition, we provided more detailed information via email or phone to partners who requested it. We used our Incident Management process involving the Working Group only in one case in 2016. The incident risk has been classified as low and the concerned partner has been informed accordingly. Throughout its operations Magyar Telekom is proactive and transparent in terms of its commitment to have sustainability become part of its identity and empowers its partners to consciously participate in sustainable development. Therefore we highly appreciate all partnerships along which we can gain a better understanding of our partners' sustainability related strategies and operations.

In order to develop a sustainable supplier chain, in 2016 Magyar Telekom continued to use 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 and these suppliers accounted for 29.82% of the overall procurement value (this value was 31.5% in 2011, 39% in 2012, 31.3% in 2013, 16.4% in 2014 and 19.45% in 2015).

For the purpose of the sustainability evaluation of our active suppliers we use the internationally recognized and operated EcoVadis system, which is also supported by DT. We invited strategically important and high-risk suppliers to declare their operational practices based on the detailed EcoVadis criteria. As a result 3 suppliers were directly and 16 suppliers were indirectly evaluated on social, environmental, economic and sustainable procurement aspects. These suppliers accounted for 33.23% of the overall procurement value, which value was 39.5% in 2014 and 37.42% in 2015.

During 2016 we have finalized our new 2016-2020 sustainability strategy with the objective to ensure that Magyar Telekom's commitment to sustainability becomes part of the suppliers business and that the supplier's CO₂ should be reduced.

An e-learning course is available for all Magyar Telekom employees about sustainable supply chain processes and in 2016 we have informed our colleagues about these topics through several forums. The e-learning material is available on the intranet and contains all of the processes, their detailed description and contacts for every topic.

As part of the sustainable supplier chain management process, 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, 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. Such process has been launched only in one case yet in 2016 but the analyses have not yet detected any 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 (JAC – Joint Audit Cooperation) to transform supplier relations into sustainable ones, thanks to that audits are conducted worldwide for 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 2016 a total of 12 indirect Magyar Telekom suppliers were involved in Deutsche Telekom audits which is accounted for 15.05% of the overall procurement value; this value was 15.4% in 2011, 20% in 2012, 16.4% in 2013,

The Suppliers Code of Conduct includes the following principles:

- Code of Conduct
- Social Charter
- Diversity Policy
- Magyar Telekom Group's Environmental Policy
- Financial Code of Ethics
- Corporate Governance Declaration
- Magyar Telekom Group's Quality Policy

8 DECENT WORK AND ECONOMIC GROWTH



12 RESPONSIBLE CONSUMPTION AND PRODUCTION



13 CLIMATE ACTION



20.10% in 2014 and 18.32% in 2015. Depending on the results of the audits, corrective action plans are given to the poorly performing suppliers, followed by a re-audit if necessary.

Deutsche Telekom's cross-border initiative, the 'Together for Stronger Brands' program (previously 'Together for Sustainability') was created in 2014, which is a supplier development program. Thanks to this action, three key ICT 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, increased productivity and improved product quality. In 2016 further 4 suppliers have joined the program – having 11 members altogether, as a result electricity consumption and CO₂ emissions have decreased, while productivity and waste-water recycle and reuse increased. In 2017 new suppliers are scheduled to join the initiative.

Independent from the sustainability process, our procurement and compliance organization has an ongoing monitoring process to identify non-compliance to law and/or economic cases. There were no such cases identified in 2016.

The procurement processes, that constitute a significant part of the vendor relations, are implemented with the support of IT systems. Internal procurement processes are initiated 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 substantially 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)

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

	EVOVADIS	MT ASSESSMENT	AUDIT	PRE-QUALIFICATION	SUPPLIER SCORE CARD	GESI	
Economics	Anti-corruption and Bribery	✓	✓	✓	✓	✓	
	Conflict of interest	✓	✓	✓	✓	✓	
	Fraud	✓	✓	✓	✓	✓	
	Money laundering	✓	✓	✓	✓	✓	
	Anti-competitive practices	✓	✓	-	✓	✓	
	Respect of intellectual property rights	✓	✓	✓	-	✓	
	Truthfulness of marketing and advertising messages	✓	✓	✓	-	✓	
	Consumer/ client data protection and privacy	✓	✓	✓	✓	✓	
	Access to essential services or products	✓	✓	-	-	-	
	Partner/ supplier data protection and privacy	-	✓	-	✓	✓	
	Associate/ employee data protection and privacy	-	✓	✓	✓	✓	
	Business Continuity Management	-	✓	-	-	-	
	Environment	Reduction of production-related environmental risks	✓	✓	✓	✓	✓
		Energy Consumption and GHGs	✓	✓	✓	✓	✓
Water management		✓	✓	✓	-	✓	
Biodiversity		✓	✓	✓	✓	✓	
Local Pollutions		✓	✓	✓	-	✓	
Materials, Chemicals management		✓	✓	✓	-	✓	
Waste management		✓	✓	✓	-	✓	
Product lifecycle management		✓	✓	✓	✓	✓	
Property lifecycle management		✓	✓	✓	-	✓	
Promotion of sustainable consumption		✓	✓	-	✓	✓	
Sustainable forest / paper policy		-	✓	-	-	-	
Customer health and safety	✓	-	✓	-	-		

	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 charter	✓	✓	-	-	-
	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	✓	✓	✓	-	-

hit a steady high level and in 2016 reached 89.9% of all items ordered (in 2012: 59%, in 2013: 64%, in 2014: 66%, in 2015: 69%). In 2016 we were in connection with 413 suppliers through electronic systems. The significant increase of this number is due to the effort that we try to manage more and more partners that only have a small number of transactions in our system.

The internal procurement system has changed in 2016, and a new PSL system has been introduced, which incorporates network-relevant real estate assets and development and operation processes of the technological department. 97% of the orders were electronically created. We have been working on a vendor and contract signed catalogue, in which by entering the contract data once, there is no need to initiate further procurement request. The number of the electronic catalogues managed by the suppliers has decreased because of the new system and cataloging, but overall 83,89% of the order items are entirely created electronically.

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, technology and energy-saving solutions.

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

In an effort to prevent any damage, hazardous materials purchased are transported directly to the internal customer, with

Despite the globalization of procurement, we continue to purchase a considerable amount of products and services from local⁽⁵⁾ suppliers. Within that it is important for us that small and medium sized companies should be given appropriate opportunities. In 2016 nearly 80% of our suppliers belonged to this category. By ordering products and services from local suppliers we significantly contribute to the retention of jobs.

the exception of storing a minimum 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 the contract.

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

In early 2015, Crnogorski Telekom rolled out the Supplier Prequalification questionnaires, therefore they pre-qualify their suppliers as part of the registration. So far a total of 50 suppliers filled out the questionnaire and risk factors were not

identified in any of the cases. From October 2015 (date of the new procurement directive's entry into force) they examine in each call for proposals whether the candidate meets the requirements for sustainability.

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

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

MEMBER COMPANIES ⁽⁶⁾	2011	2012	2013	2014	2015	2016
Magyar Telekom Plc.	71%	75%	74%	67%	75%	78.9%
KFKI	56%	74%	-	-	-	-
IQSYS	95%	86%	-	-	-	-
T-Systems Hungary	-	-	75%	79%	78%	78.46%
Pro-M	47%	53%	-	-	-	-
Makedonski Telekom	73%	86%	79%	64%	65% ⁽⁷⁾	67%
T-Mobile Macedonia	47%	46%	56%	46%	-	-
Crnogorski Telekom	42%	52%	42%	50%	55%	63%

(5) Suppliers with headquarters in a given country.

(6) Magyar Telekom Group member companies with significant procurement value.

(7) T-Mobile Macedonia AD merged into Makedonski Telekom AD on 01.07.2015.