



SUSTAINABILITY REPORT

2017



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 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.

One of the main interfaces for supplier relations is the interactive **internet site of the Procurement and Logistic Directorate**, where suppliers – upon registration – can directly reach the newsletter service, the supplier qualification system, the OneSource system where quotations and auctions 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 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 from qualified suppliers. After filling out the questionnaire, we inform registered suppliers about their results in the vendor grading system. In 2017 we procure more than 82% ✓ of the value of the orders from prequalified external suppliers, through 977 ✓ partners.

The **Suppliers Code of Conduct** includes the following principles:

- **Code of Conduct**
- **Code of Human Rights and Social Principles**
- **Diversity Policy**
- **Magyar Telekom Group's Environmental Policy**
- **Financial Code of Ethics**
- **Corporate Governance Declaration**
- **Magyar Telekom Group's Quality Policy**

It is one of the main pillars of the sustainability strategy 2016-2020 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 web audit, 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. 35 companies participated directly in the survey in 2017, which corresponds to 21.07% ✓ of the purchase value (this value was 10.86% in 2015 and 3.83% in 2016). 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. The Incident Management process involving the Working Group was not used in 2017. No incident risk has been identified. 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.

The best rated suppliers in 2016 were awarded on June 12 at the 18th Sustainability Roundtable Discussion event. At the event, the „Magyar Telekom's TOP3 sustainable supplier" title was given to: the American Infinera Corporation and the Romanian ROMKATEL SRL, as well as the Hungarian Nokia Solutions and Networks TraffiCOM Ltd. companies

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 Deutsche Telekom. We invited strategically important and high-risk suppliers to declare their operational practices based on the detailed EcoVadis criteria. As a result 7 suppliers were directly and 15 suppliers were indirectly evaluated on social, environmental, economic and sustainable procurement aspects in 2017. These suppliers accounted for 40.59% ✓ of the overall procurement value, which value was 39.5% in 2014, 37.42% in 2015 and 33.23% in 2016.

An e-learning course is available for all Magyar Telekom employees about sustainable supply chain processes and in 2017 we have informed our colleagues about these topics through several channels. The e-learning material is available on the intranet and contains all of the processes, their detailed description and contacts for every topic.

Our 2016-2020 sustainability strategy's objective is to ensure that Magyar Telekom's commitment to sustainability becomes part of the suppliers business and that the supplier's CO₂ should be reduced.



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 was not launched in 2017 because the analyses have not revealed any negative environmental, working condition, human rights or social non-compliance. Therefore no sanctions were imposed and no contracts have been terminated in 2017.

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 2017 a total of 16 indirect Magyar Telekom suppliers were involved in Deutsche Telekom audits which is accounted for 36.91% ✓ of the overall procurement value; this value was 20.10% in 2014, 18.32% in 2015 and 15.05% in 2016. 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 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 2017 further 3 suppliers have joined the program – having 14 members altogether. Main success of 2017 are 8.8% carbon emissions reduction, 7.4% staff turnover reduction due to improved working conditions, establishing sustainability management system, targets and concrete action plans.

In parallel to 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 2017.

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 electronic commerce solution (CPEX) or email, 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) hit a steady high level and in 2017 reached 91.3% of all items ordered (in 2012: 59%, in 2013: 64%, in 2014: 66%, in 2015: 69%, in 2016: 89.9%).

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

	EVOVADIS	MT WEB AUDIT	AUDIT	PRE-QUALIFICATION
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	-	✓	-

	EVOVADIS	MT WEB AUDIT	AUDIT	PRE-QUALIFICATION
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	✓	-	✓
	Employees health and safety	✓	✓	✓
Society	Working Conditions	✓	✓	✓
	Labor Relations	✓	✓	✓
	Career Management	✓	✓	-
	Child and Forced Labor	✓	✓	✓
	Discrimination	✓	✓	✓
	Fundamental human rights	✓	✓	✓
	Customer health and safety	-	✓	-
	Sustainable procurement charter	✓	✓	-
Procurement	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	✓	✓	-

The DT Group One.ERP was further developed in 2017, and we have been trying to make the orders running there smoothly. In PSL system (related on the network-based real estate assets and the tool area of the technology area) the proportion of electronically ordered requests was 95.4% in 2017. While in 2016 the total number of orders sent electronically without intervention in the procurement area was 83.89%, this proportion rose to 98.3% by 2017.

In 2017, we have begun examining the possibility of robotization (such as supplier screening, reporting) to further improve procurement business processes.

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.

Despite the globalization of procurement, we continue to purchase a considerable amount of products and services from local⁽¹³⁾ suppliers. In 2017 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.

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 and minimize transportation time, hazardous materials purchased are transported directly to the internal customer, with the exception of storing a minimum inventory. In an effort to raise cost efficiency and reduce transportation, we increase the percentage of stocks managed by the suppliers (VMI 70.5%). 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.

At Makedonski Telekom with the support of the Procurement, Logistics and Real Estate Department, the organizational units in the company that initiate purchases 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 environmental protection on supplier's side, which is intended to become one of the evaluation criterias in future. All new as well as all existing suppliers are subject to pre and post qualification procedure which among other qualifications contains a sustainability self assessment. In this direction, Makedonski Telekom conducts business only with solvent, CSR-compliant and well reputed companies.

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

SUBSIDIARIES ¹⁴	2013	2014	2015	2016	2017
Magyar Telekom Plc.	74%	67%	74.5%	78.9%	77.8%
T-Systems Hungary	75%	80%	77.8%	78.46%	84.32%
Makedonski Telekom	79%	64%	65% ¹⁵	67%	65%
T-Mobile Macedonia	56%	46%	-	-	-

(13) Suppliers with headquarters in a given country.

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

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