



3. SUPPLIERS

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3.1 SUPPLIER RELATIONS

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. Besides, from a risk management point of view, it is also important to do business with suppliers with proper economic, social and environmental performance and standards. 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 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 is 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 Directorate at (https://beszerzes.telekom.hu/beszerzes/portal_en?appid=beszerzes&page=english/main.vm), where suppliers – upon registration – can directly reach the newsletter service, the supplier qualification system, the OneSource system where quotations are managed and may find useful information on our procurement processes.

The references, financial standing, quality assurance and sustainability capabilities of

Anti-corruption and ethical conduct are important cornerstones for Magyar Telekom, consequently the company requires its suppliers to adopt Telekom's Anti-corruption statement and the company's Code of Conduct the provisions of which are part of the contracts concluded with our suppliers.

Besides, each and every supplier must know and approve the Social Charter of the Group, which specifies the minimum social standards required in our working relationship and employment conditions.

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

the suppliers are audited by our experts in a prequalification system which is also operated on the internet site of the Procurement 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 75% of the value of the orders from qualified external suppliers, through 1150 partners.

3.2 SUSTAINABILITY IN THE SUPPLY CHAIN

We would like to communicate our commitment to sustainability to the direction of our suppliers who are in 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. The final score is calculated with the weighting of the respective industry of the supplier. 15 companies participated directly in the survey in 2015, which corresponds to 10.86% of the purchase value. Respondents were informed about their results, where they have received topic-specific feedback on their performance. Magyar Telekom is proactively and transparently committed to make sustainability part of its identity and empower its partners to consciously participate in sustainable development. Therefore we do appreciate our cooperation where we have a better understanding about our partners' sustainability features.

In order to develop a sustainable supplier chain, in 2015 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 19.45% of the overall procurement value (this value was 31.5% in 2011, 39% in 2012, 31.3% in 2013 and 16.4% in 2014).

For the purpose of the sustainability evaluation of our active suppliers we also introduced 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 7 suppliers were directly and 26 suppliers indirectly evaluated from social, environmental, economic and sustainable procurement aspects. These suppliers accounted for 37.42% of the overall procurement value, which value was 39.5% in the previous year.

As part of the process, we developed different areas, like compliance with law, corporate governance integration, implementation of the EcoVadis system and Magyar Telekom Sustainability questionnaire development - under the guidance of our experts. In 2015 we have informed our colleagues through several forums about the updated processes and created an e-learning course which is available for all Magyar Telekom employees. The e-learning material is available on the intranet and contains all of the new 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. 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 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 2015 a total of 16 indirect Magyar Telekom suppliers were involved in Deutsche Telekom audits which is accounted for 18.32% of the overall procurement value; this value was 15.4% in 2011, 20% in 2012, 16.4% in 2013 and 20.10% in 2014.

Deutsche Telekom's cross-border initiative, the "Together for Sustainability" 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 2015 further 7 suppliers have joined the program, as a result CO₂ emissions due to fluctuations and recruitment decreased and productivity increased. In 2016 new suppliers are scheduled to join the initiative.

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. 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

During 2015 we have reached one of our key strategic objectives: the elaboration of the sustainable supplier chain management process with the objective to ensure that Magyar Telekom's commitment to sustainability becomes part of the suppliers' operation and that the company's sustainability principles should be present at our suppliers as well.

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 2015 reached 69% of all items ordered (in 2012: 59%, in 2013: 64%, in 2014: 66%). In 2015 we were in connection with 264 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.

In 2015 18 electronic catalogues, managed by the suppliers, were available in our internal ordering system. Orders thus placed are transferred to the supplier via fully electro-

nic channels. The number of items ordered electronically fell back in 2015 to 26.7% due to the changes of our system (in 2012: 40.5%, in 2013: 43%, in 2014: 46%). In 2016 our aim is to reach better results than in 2014, and invite more suppliers to this system.

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	✓	✓	✓	-	-

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.

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

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 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.

3.3 LOCAL PROCUREMENT

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 2015 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.

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

MEMBER COMPANIES ⁽⁶⁾	2010	2011	2012	2013	2014	2015
Magyar Telekom Plc.	70%	71%	75%	74%	67%	74.5%
KFKI	58%	56%	74%	-	-	-
IQSYS	95%	95%	86%	-	-	-
T-Systems Hungary	-	-	-	75%	80%	77.8%
Pro-M	53%	47%	53%	-	-	-
Makedonski Telekom	67%	73%	86%	79%	64%	65%
T-Mobile Macedonia	55%	47%	46%	56%	46%	-(7)
Crnogorski Telekom	38%	42%	52%	42%	50%	55%

(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.