

A photograph of two young women at an outdoor festival. The woman in the foreground is sitting and looking at a smartphone, wearing a yellow festival wristband with '2018' on it. The woman behind her is leaning over her shoulder, also looking at the phone. They are both wearing colorful, patterned tops. The background is filled with green foliage and out-of-focus festival lights, creating a bokeh effect.

SUSTAINABILITY REPORT

2018



EGYÜTT. VELED



3. 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 all suppliers must get familiar with and maintain compliance 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.

Supplier's references, financial stance, quality assurance and sustainability capabilities of the are being audited in a pre-qualification system, available at the Procurement, Logistic and Infrastructure Services Directorate website. A sustainability-focused vendor questionnaire and its evaluation are also integral parts of the corporate vendor prequalification system. The findings contribute to the identification of potential sustainability risks and points of improvement for better sustainability management 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 2018 88%✓ of the procurement value originated from prequalified external suppliers, through 918✓ partners.

One of the main pillars of the 2016-2020 sustainability strategy is to channel our commitment to sustainability to suppliers involved in our everyday business. This is only possible through setting new and ambitious goals and by following the best practices involving all relevant stakeholders. This is the primary reason why we have developed the Magyar Telekom Sustainability web audit, a questionnaire 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 within industry weighing of the supplier. 22 companies participated directly in this survey in 2018, which translates to 26.42%✓ of the purchase value (this value was 10.86% in 2015, 3.83% in 2016 and 21.07% in 2017). Respondents were informed about their results, and they also received topic-specific feedback on their performance. Upon request we have also provided further information via email or phone to partners who requested it. There was no incident risk or non-compliance identified in 2018. Throughout its operations Magyar Telekom is keen on maintaining sustainability along its operations in a transparent way and encourages its partners to take their share 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 **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

The top rated suppliers of 2017 were awarded on 14 June 2018 at the 19th Sustainability Roundtable Discussion. At the event, the „Magyar Telekom's TOP3 sustainable supplier 2017” title was given to: Cisco International Limited that pays special attention to select its suppliers on the basis of sustainability considerations; Huawei Technologies Hungary Kft. that deeply integrated sustainability aspects into its corporate governance; and Capgemini Magyarország Kft. that operates in an exemplary manner in terms of business ethics and anti-corruption.

For the purpose of the sustainability evaluation of our active suppliers we use the internationally recognized and operated EcoVadis system, also used by Deutsche Telekom. We have invited strategically important and high-risk suppliers to disclose their operational practices based on the detailed EcoVadis criteria. As a result 6 suppliers have received direct and 11 suppliers indirect evaluation of social, environmental, economic and sustainable procurement aspects in 2018. These suppliers accounted for 45.06%✓ of the overall procurement value, which value was 37.42% in 2015, 33.23% in 2016 and 40.59% in 2017. The validity of the EcoVadis ratings is two years, thus the results of 2017 and 2018 are taken into consideration.

An e-learning course is available for all Magyar Telekom employees about sustainable supply chain processes and in 2018 we have informed our colleagues about these topics through several channels. The e-learning material is available on the intranet and contains all processes, their detailed description and the list of contacts of topic owners.

The objective of our 2016-2020 sustainability strategy is to ensure that the sustainability commitment of Magyar Telekom 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 incident assessment when it comes to environmentally hazardous working conditions, human rights issues 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 client organization involved in the incident, as well as 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 case, the supplier's reaction and provides guidance on potential remedies. Such process was not launched in 2018 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 on this regard in 2018.



Along the sustainability process, our procurement and compliance organization has an ongoing monitoring process responsible for identification of legal or economic non-compliance cases. There were no such cases identified in 2018.

Deutsche Telekom provides significant support for the sustainable improvement of supplier relations through sectorial initiatives such as JAC – Joint Audit Cooperation. As a result audits are being conducted worldwide for the selected suppliers. The integrated audit criteria assure compliance with the basic social and environmental benchmarks when it comes to shared suppliers of different subsidiaries. Proving the compliance with the common group standards, in 2018 a total of 12 indirect Magyar Telekom suppliers were involved in Deutsche Telekom

audits which is accounted for 40.14% ✓ of the overall procurement value; this value was 18.32% in 2015, 15.05% 2016 and 36.91% in 2017. Depending on the results of the audits, corrective action plans are given to the poorly performing suppliers, followed by a re-audit if necessary.

In 2018, Deutsche Telekom transferred its existing Supplier Development Program (SDP) as an industrial approach under the umbrella of the ICT industry initiative Global-e Sustainability Initiative (GeSI). In the second half of the year, Deutsche Telekom launched the new GeSI SDP as a pilot project with four suppliers. From 2019, further ICT companies, their suppliers and subcontractors will join the program.

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

		EVOVADIS	MTWEBAUDIT	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	-	✓	-	-	-	-
	Reduction of production-related environmental risks	✓	✓	✓	✓	✓	✓
	Energy Consumption and GHGs	✓	✓	✓	✓	✓	✓
Environment	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	MTWEBAUDIT	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	✓	✓	✓	-	-	-