

Matáv Group Sustainability Report 2003



Based on the GRI 2002 Guidelines



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Based on the GRI (Global Reporting Initiative) 2002 Guidelines
(www.globalreporting.org)

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Preface



FOREWORD

This is the first time we have prepared the Matáv Group sustainability report. Last year we published our environmental report, which won the second prize of the Central European Environmental Reporting Award (CEERA). As of today the interests focus on sustainable development. We have already declared in our Environmental Policy, that we keep the ideas of sustainability in view, and our activities and results reflect our efforts increasingly. In this sustainability report we have developed an inventory also for ourselves, and based on this we can set the further tasks. Matáv Group has valued its activities based on the three pillars of sustainable development. Further development this year, that an independent external organisation audits our report – Deloitte provides the audit service – to guarantee the auditability, and the reliability of the information of the report. The certificate can be found at part “Certification”.

The importance of *economic interests* is needles to be emphasised regarding Matáv Group, as it is a profit-oriented joint company, which certainly influences the trust of investors and stock markets by its business successes and market behaviour.

In 2003, our revenue was 607,252 million HUF, which was 2.8% more than the year before. For the sake of increasing the investors’ trust – according to the international practice – we improve and make more transparent our company management system. The last Investor Relations Magazine rewarded our efforts with the prize for the best managed company Central and Eastern Europe.

The main areas of our *corporate social responsibility* are the cultural and the welfare spheres. Corporate social responsibility has been an integral part of our company culture and brand-philosophy for years. We think that this

also contributes to our business successes and our general social acceptance. Matáv has become one of the most significant sponsors of civil sphere in 10 years. Last year, we provided 200 million HUF in total for the civil sphere, and in the last three years, we helped on the activities and improvement of more than 400 non-profit organisations.

As the part of our corporate social responsibility we also support the next generation with such well-known programs like ‘All-knowledge University’ and ‘Start-stone’ trainee program. Also we pay high attention to our colleagues’ training, welfare and recognition of their work.

Environmental protection is the third element of sustainable development’s ideas also in our efforts for its practical realisation. In this area, the company group operates based on the commonly approved policy, published in 2003. As of today – as shown in this report – the first environmental fruits of this activity seem to ripen. Our environmental indicators improved, we organised the 6th Environmental Round-table Discussion for our environmental and nature conservation interested partners with the participation of our member companies, we developed the internal environmental web-site, and we started different activities to capitalize the possibilities in the Group.

As an info-communication company-group we have a golden opportunity for advancing sustainable development.

We operate in European Union today; we must suit the requirements of it. We should be leading in the competition, and we should take a part of our country’s European achievement. We contribute to this also with following the sustainability strategy of the European Union.

Straub Elek

Chairman Chief Executive Officer

ABOUT THE REPORT

Based on the external and internal demands the time has arrived to give an account of Matáv Group's operation, activities and results according to the guidelines of sustainability. The content of the report has been completed by further indicators of Global Reporting Initiative's (GRI) guidelines, published in 2002.

Matáv Group is a very complex company-group in consequence of its size and activities, so it is also a difficult task to provide transparency in the report. We tried to provide it by using a well-structured content. In this way we start the report with the general introduction of Matáv Group about its structure, organisation and operation. Details of different policies, strategies, management systems and interested parties follow the introduction. After understanding all these, it is easier to construe the activities in the mirror of sustainable development's approach, which divides the results according to the three pillars.

The key-figures and their improvements in the last

year are detailed in the economic aspect. This data has been published in Matáv's annual report. Some elements of social aspect are available there and others are also available in EFQM self-assessment report. In the sustainability report, we divided this chapter into two parts. One part focusing on corporate social responsibility, the other focusing on the efforts to work- environment and employment policies within the company-group.

The details of environmental aspect are structured as in last year's report.

You can read all of the detailed information above regarding the 2003 calendar year in Matáv Group's first sustainability report. As a first document, it has grown from the environmental report, Group Environmental Co-ordination Department edited, certainly in close co-operation with each responsible organisation and member companies. For the sake of decreasing length, and for easier handling in the future only altered chapters will be included.

We find it very important to report about the environmental goal-system in the following table, which

includes more than just environmental goals, and which proves our achievements in our corporate responsibilities. Among the goals there is one, namely, the environmental analysis implemented in product development process on Group-level, which we haven't started in 2003, and which has the deadline of 2006. Finalised activities, or activities implemented in the processes, are the Group Environmental Report, the environmental round-table discussion, the Group-level environmental co-ordination, and promotion in Europe through activities in ETNO. The fulfilment of goals in decreasing environmental negative impacts are the following: decreasing hazardous waste, improving selective waste collection, decreasing paper consumption used for invoices, increasing the collection of old phone directories, increasing the use of audio- and video-conferences, use of combined renewable resources, increasing the number of double-walled oil tanks, and increasing the use of common tower infrastructure.

FOR MAINTAINING THE LEADING POSITION IN EASTERN EUROPE

| GOALS / ACTIVITIES | Deadline | Status of realisation | COMMENTS |
|---|----------------|--------------------------|---|
| COMMUNICATION (BASED ON COMMUNICATION PLAN) | | | |
| Publication of annual environmental report | ongoing | + | Group Environmental Report about 2002 got the 2nd prize of CEERA |
| Sustainability report | 2006 > ongoing | > | Deadline is advanced. Expected to fulfil in 2004 |
| Environmental forums, Intranet, etc. | ongoing | + | |
| 6th Environmental Round-table Discussion | 2003 | + | Fulfilled in February 2003 |
| Group environmental internal web-site | 2003 | + | Fulfilled, its upgrade is continuous |
| EMF communication plan | 2004 | + | T-Mobile fulfilled for the end of year 2003. Approval: 2004 |
| ORGANISATION | | | |
| Operation of Group-level environmental organisation member-companies quarterly | ongoing | + | Group environmental virtual organisation, meeting of |
| Environmental responsibilities of Group-members | 2004 > ongoing | > | Ready: T-Mobile, Emitel Under development: EPT, MatávCom, Axelero, Egertel, MatávKábelTV |
| Implementation of ISO 14001 Environmental management system at organisations with significant environmental impact Goal: transportation and procurement areas in 2003 | 2006 | > | Transportation and procurement areas have been certified in 2003 |
| Group-level development of KörTe (Environmental Planning and Registering IT System) | 2006 | » | We reduced the tasks of KörTe development |
| INTERNATIONAL CO-OPERATION | | | |
| Promotion in Europe through ETNO | Ongoing | + | Our proposal for the 1st European Conference on Telecommunications & Sustainability was approved in 2003. Matáv will host the conference in the end of 2004 |
| Managing EU DG11 project in ETNO about positive and negative environmental impacts of info-communication for proving telecommunication companies' commitment | 2005 | > | Matáv is managing the project |
| Supporting other Central European DT Group companies, closing up Matáv member companies | Ongoing | > | The environmental relationship with member companies is continuous |

Symbols: + fulfilled, systematically ongoing | > fulfillment has been started | ∅ fulfillment has not been started, yet

DEACREASING THE NEGITIVE IMPACTS ARISING FROM OUR OPERATION

| GOALS / ACTIVITIES | Deadline | Status of realisation | COMMENTS |
|---|----------------|--------------------------|--|
| PROCUREMENT | | | |
| Environmental demands, guidelines in procurement process | 2005 > ongoing | > | The development of system has been started |
| WASTE MANAGEMENT | | | |
| Development of a complex waste management | 2005 > ongoing | > | The development of the plan has been started |
| Hazardous waste Decreasing the amount of hazardous waste Goal: Until 2004 according to the basic year (2000) the amount of hazardous waste should be decreased at least 3% | 2004 | + | The rate has been over surpassed |
| Mobile batteries to be re-collected from customers Goal: Improvement according to the year before (2002) | 2003 | + | The re-collected amount was increased by 400% according to the year before. The conditions of recycling batteries are provided |
| Paper-waste, communal waste, paper consumption Further improvement in selective collecting and recycling paper waste Goal: selective paper waste collection at two additional member companies in 2003 | 2003 | + | Paper consumption decreased by 17% according to year 2002. The amount of selectively collected paper waste increased by 183% T-Mobile implemented and operates the complete selective waste collection. Additional 3 member companies started the selective paper waste collection: MakTel, MatávkábelTV & Emitel |
| Decreasing paper consumption in invoices by using electronic and both-side printed invoices Goal: decreasing paper consumption by 20% until 2004 according to year 2000 | 2004 | + | Pieces of invoices decreased by 2.6% at Matáv Ltd, by using both-side printed invoices. The amount of paper sheets decreased by 45% |
| Re-collecting double the amount of phone directories according to year 2002 | 2003 | + | The amount of re-collected phone directories increased by 170% according to the amount of year 2002 |

Symbols: + fulfilled, systematically ongoing | > fulfillment has been started | 0 fulfillment has not been started, yet



DEACREASING THE NEGATIVE IMPACTS ARISING FROM OUR OPERATION

| ENERGY RATIONALISATION | | | |
|---|---------|---|---|
| Introduction and use of solutions instead of travels | ongoing | > | It works only at Matáv Ltd with a significant increase 304 976 km travel was replaced in 2003, which means more than 9% improvement |
| Increasing and advertising the use of audio- and video-conference | 2003 | + | |
| Further use and analysis of combined renewable resource Use of combined solarpanel-windgenerator application in Magyarsarlós | ongoing | + | Analysis of application is ongoing. The monitoring system has been implemented. The valuation of results in pilot operation will be ready by the end of 2004 |
| MINIMISING OTHER ENVIRONMENTAL NEGATIVE IMPACTS | | | |
| Identification of those areas, where the negative impacts can be minimised; development and approval of guideline | 2004 | > | The development of guideline has been finished, its implementation into the regulation will happen in 2004 |
| Optimisation of telecommunication network in operation | ongoing | > | |
| Double walled oil tanks Goal: starting double-wall building at 20 oil tanks | 2003 | + | Construction has started on 32 oil tanks |
| Further efforts for common tower infrastructure use Goal: increasing the rate of common-used towers by additional 2% | 2003 | + | In Hungary T-Mobile increased the rate of common used towers from 73% to 76% according to year 2002, while Matáv Ltd did by 1.3% |

USING THE BENEFITS ARISING FROM OUR PRODUCTS AND SERVICES

| | | | |
|--|---------|---|---|
| Implementation of environmental analysing methods into product development process on group-level | 2006 | ∅ | Exists at Matáv Ltd. |
| Info-communication system realisations in environmental protection and nature conservation areas | ongoing | > | There was no new demand in 2003, but we organised a demonstration for introduction |

Symbols: + fulfilled, systematically ongoing | > fulfillment has been started | ∅ fulfillment has not been started, yet

We publish our report according to traditional method on the Internet, and on some CDs for the conference venue, to reduce the paper consumption in this way as well.

Even though Group-level environmental operation started only by the end of 2002, now, in 2004, publishing the first sustainability report, we already feel the requirement to step ahead, to take the responsi-

bility for following the guidelines of sustainability more determined in addition to environmental results.

As an innovative info-communication company-group, which shows social responsibility and which plays as a significant role in the economy, we must undertake the goals for the interests of future generations. For this, we will define the guidelines next year, and intend to provide information about it in the following report.

We are glad to read about your opinions (please send to the following e-mail address: kornyezetvedelem@ln.matav.hu), each of which we will reply to.



*Peter Janeck
Chief-technical officer*

*Katalin Szomolányi
Head of Group environmental co-ordination department*

Matáv Group

INTRODUCTION

Matáv is the principal provider of telecom services in Hungary. Matáv provides a broad range of services including telephony, data transmission, value-added services, and through its subsidiaries is Hungary's largest mobile carrier and leading Internet service provider. Matáv also holds a majority stake in Stonebridge Communications controlling MakTel, the sole fixed line and the leading mobile operator in Macedonia. Matáv's majority shareholder (59.21%) is MagyarCom, fully owned by Deutsche Telekom AG, while 40.79% is publicly traded.

Matáv Hungarian Telecommunications Co. Ltd. was incorporated in 1991 and privatized in 1993. Matáv shares were introduced to national and international stock exchange dealing both in Budapest and New York in 1997. With its steady and dynamic growth Matáv has created significant value for millions of customers and for shareholders.

Matáv is one of the most successful and largest businesses in the region, and an attractive stock market player internationally, too. It is a modern com-

pany capable of meeting almost any communication demand also by taking advantage of fixed-mobile convergence and the possibilities of the IP-technology.

Following the market liberalization of 2001, the Matáv Group proved to be the key and stable factor of Hungary's telecommunications industry. Within the Matáv Group, four lines of business constitute the basis of operations: Residential Services, Business Services, Internet and Mobile. The Matáv Group has maintained a market leadership position in all its business lines.

Matáv operates currently more than 2.8 million fixed lines. Our network capacity is over 90% digitalized and state-of-the-art ISDN channels are close to 19%. Broadband ADSL connections exceeded 100,000 in December 2003 and are rapidly increasing. Our mobile customers exceeded 3.7 million, Internet subscribers increased to about 211,000 and cable TV subscribers reached 362,000 in the second half of 2003.



Matáv has majority ownership or substantial interest in a number of subsidiaries.

Major member companies belonging to the Matáv Group:

Residential Services

Egertel Rt.

Emitel Rt.

Ept Rt.

Investel Rt.

MatávkábelTV Kft.

Business Solutions

BCN Kft.

Cardnet Rt.

CompArgo Kft.

MatávCom Kft.

X-Byte Kft.

Internet

Axelero Internet Rt.

Marketline Rt.

ROMbrandt Kft.

Mobile

T-Mobile Magyarország Rt.

Promokom Rt.

International

Makedonski Telekomunikacii AD (MakTel)

MobiMak AD

Associated companies/Joint ventures

Hunsat Rt.

Magyar RTL Rt.

Tele-Data Kft.

COMPANY HISTORY

On December 31, 1989 the Hungarian Post was split into three. Separate companies were established for postal, broadcasting and telecommunications activities, launching the process of restructuring in the communication sector.

On December 31, 1991 Matáv Hungarian Telecommunications Ltd. was established as the legal successor of the former state-owned enterprise. Up to the end of 1993 the company remained 100% state-owned. The Telecommunications Act effective from July 1, 1993 classified telecommunications services into two categories: concession services include public telephone and mobile telephone service and public paging service. The creation of the legal background enabled the preparation of the Matáv privatization tender, which applied to both obtaining the national telephone concession right and the purchase of the shares of Matáv.

Subject to the agreements concluded on December 22, 1993, the MagyarCom Holding GmbH consortium – consisting of the Deutsche Telekom and Ameritech International telecommunications companies – became the owner of the national telephone concession granted to Matáv by statute and the owner of

30.1% of the increased share capital, in exchange for a consideration of USD 875 million.

It was in February 1994 that the result of the regional concession tender was announced and the local concession companies were established. The concession service area of Matáv covers 36 primary areas in which the company provides local telephone services. The Matáv concession service area covers some 70% of the area of Hungary and 72% of the population. In the second round of the privatization of Matáv MagyarCom Holding GmbH became the majority owner; under the agreement signed on December 22, 1995 the share of the two companies constituting the consortium rose to 67.3% for a consideration of USD 852 million.

The privatization of Matáv – based on the combined value of the two rounds – has been the largest privatization deal of the Central and East European region so far; it has also been the largest foreign investment in Hungary.

November 14, 1997 was the day when Matáv shares were first traded in Budapest and New York simultaneously. As the third step of privatization, 26.3% of the shares of the company were put on the market, the largest public offering in Hungary up to that time. Thus Matáv became the first company in Central Europe to obtain a listing on the New York Stock Exchange. On spring 1999 the ÁPV Rt. sold the last 5.75% packet of the Hungarian State. The State owns the Golden Share in the future too.

July 3, 2000 – as provided in the shareholders' agreement between SBC Communications Inc. and

Deutsche Telekom AG, SBC's 50% ownership in MagyarCom Holding GmbH is being transferred to Deutsche Telekom in a transaction with a valuation based on Matáv Rt's share price as of market close on June 30, 2000. The ownership change brings Deutsche Telekom's ownership in Matáv to 59.21%, the remaining 40.79% stake is publicly traded while 1 Golden Share is with the State.

In January 2001 a consortium led by Matáv acquired majority stake in Makedonski Telekomunikacii (MakTel), the incumbent telecom operator of Macedonia and MakTel has become the Group's consolidated subsidiary. The acquisition of MakTel has made it possible for Matáv to become an international telecommunications group.

In another step of its geographic expansion strategy Matáv has purchased the remaining 50% of Emitel Rt. and in July 2001, Emitel was also integrated in the Matáv Group as a wholly-owned consolidated subsidiary. Emitel is a regional carrier of residential and business telecommunications services in South Hungary.

In December 2001, Matáv closed with Deutsche Telekom the transaction with which it acquired the

remaining 49% share of Westel and Westel 0660 companies. The company's – which name changed to T-Mobile – excellent performance and the growing leverage of the mobile business make a very powerful contribution to the success of the Matáv Group. From 2001, Matáv is offering tariff and service packages adjusted tailored to the demands of both residential and business customers. In 2002, Matáv have introduced new discount packages for Internet users. December 23, 2001 was the official date of full liberalization of Hungary's telecommunications market. Fixed line voice telephony was the last segment of telecommunications to be opened to competition. Matáv started from a favorable position in the first year of the liberalization. The companies of the Group have acquired leading positions in the mobile, Internet and data communications markets. And in fixed line telephony the Matáv Group (Matáv and Emitel) held over 80% of the market.

As a result of the organization transformation announced in December 2000, a new Group management structure was approved in December 2001, which promotes the attainment of the strategic objectives and the implementation of successful

business activities by ensuring efficient operation. The new structure implemented as of January 2002 rests on four strategic areas and the four lines of business constitute the basis of operations within the Matáv Group:

- Residential Services
- Business Solutions
- Internet
- Mobile

Matáv Group obtained a Group-level ISO 9001:2000 certification in December 2002 from SGS (Société Générale de Surveillance SA), the world's largest independent quality inspection and certification body. In December 2003 Matáv announced the achievement of a target set one year earlier, the 100,000th ADSL connection. In 2003 Matáv has tripled the number of localities covered by ADSL: the service was available in 175 towns where 80% of the population reside. The Matáv Group intends to comply with the European Union's requirements in all respects. Already before Hungary's EU accession in May 2004 Matáv has been prepared for being in line with EU standards in terms of services, pricing, customer management and internal processes.



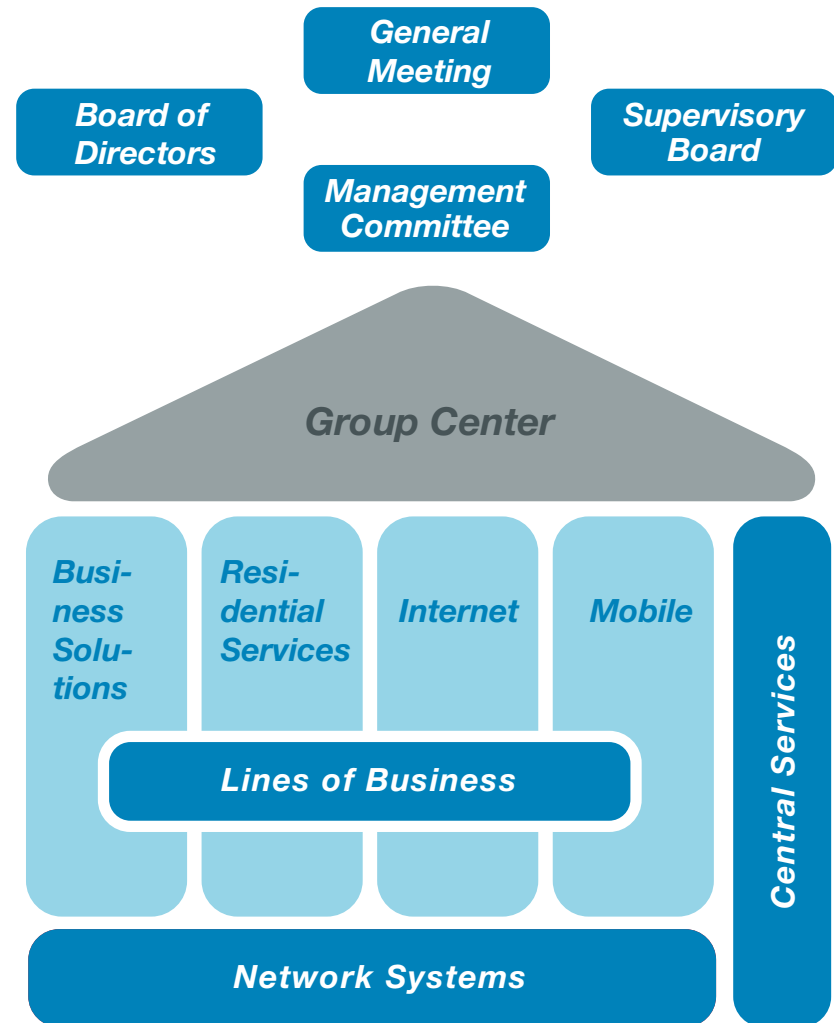
OWNERSHIP STRUCTURE

Key Shareholders of Matáv as of December 31, 2003

| | Holder of the Golden Share |
|--|----------------------------|
| The Hungarian State | |
| MagyarCom Holding GmbH (owned by Deutsche Telekom AG) | 59.21% |
| Publicly held | 40.32% |
| Treasury shares | 0.47% |



Organization Model of Matáv Group



ORGANIZATION STRUCTURE OF MATÁV GROUP

LINES OF BUSINESS OF THE MATÁV GROUP

BUSINESS SERVICES

Market leadership in business communications

Matáv Group's market share: 61%

- Full scope of business data communications: leased lines, network integration, IP products
- System integration and infocommunication solutions
- Six new business solution packages
- New markets and services: IT and telecommunication outsourcing
- International activities: GEANT, T-Systems cooperations

RESIDENTIAL SERVICES

Market leadership in fixed line telephony

Matáv Group's market share: 81%

- 2.9 million fixed lines, including 18.3% ISDN
- Rapid increase of broadband capacity: 104,000 ADSL, 362,000 cable TV customers
- Innovative pricing: 1.4 million customers use tariff packages

- Innovative tariff packages: Felező, XL, 50% Csevegő fee for Internet access
- Innovative Internet access: Open Internet, EasyNet Plusz, Satellite DSL

INTERNET

Market leadership in Internet

Matáv Group's market share: 44%

- 211,000 subscribers, 40.5% increase
- Leading positions on residential, business and online content markets
- 78,000 broadband Internet subscribers (37%), 4-fold increase
- Telephone and Internet fee in one (Kombi NetQuick, Kombi 15,40,100)
- [origo] is the leading portal site: new record of 10 million page impressions a day

MOBILE

Market leadership in mobile

Matáv Group's market share: 47.4%

- 3.8 million customers, 10.7% increase
- New tariff packages and loyalty programs: Aranykártya, Westel M, Domino Nap
- Innovative mobile data transmission: GPRS Satellite-Net, EDGE
- Mobile Internet and multimedia: commercial WLAN, 777mobil

- New value-added services: SMSmondó, infoMMS, MMS postcard

INTERNATIONAL ACTIVITIES

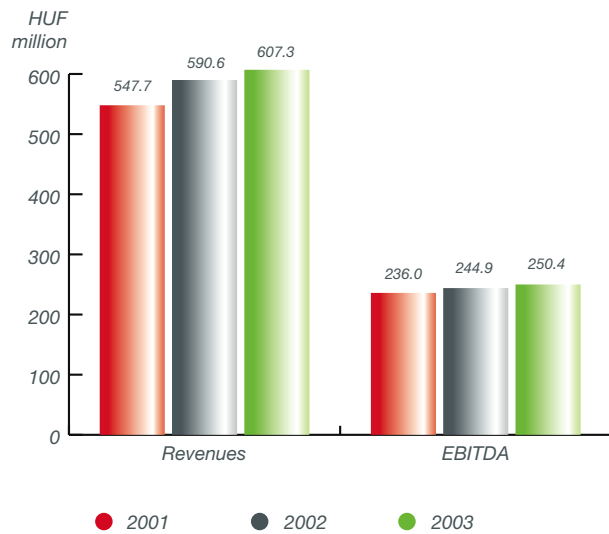
South-East Europe's most successful investment

In 2003 MakTel, the Matáv Group's international member company produced excellent results. The number of fixed lines increased to above 619,000 including a significant, 54.5% increase of ISDN channels to nearly 35,000. Mobile carrier MobiMak's customer base continued to grow dynamically by 43% to reach nearly 524,000. At the end of 2003, MakTel's mobile market share was 86%. The number of Internet subscribers increased to 49,000 in 2003 which translates to more than 43% growth year-on-year.

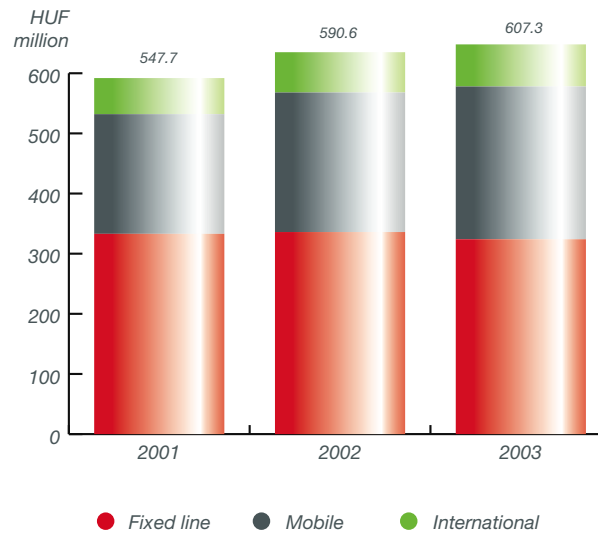
ECONOMIC AND OPERATIONAL KEY DATA OF MATÁV GROUP



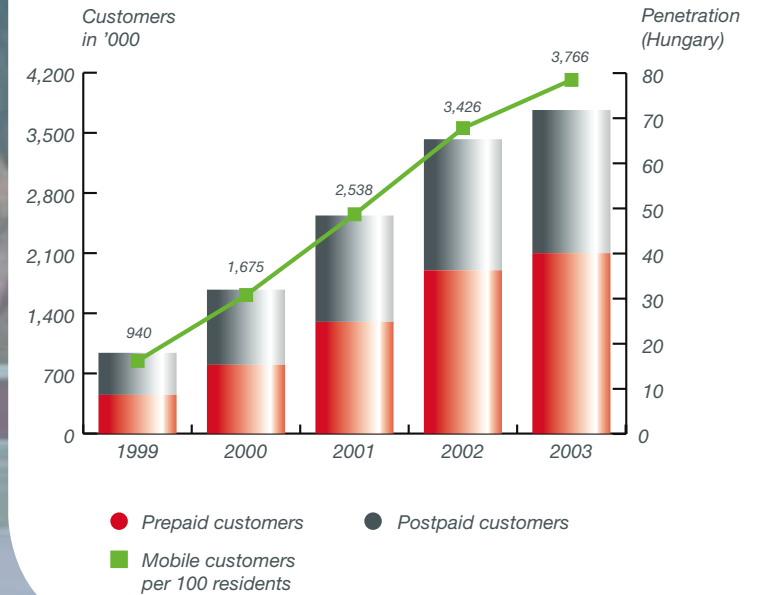
Matáv Group: Revenue growth in 2003



Contribution of business segments to revenues

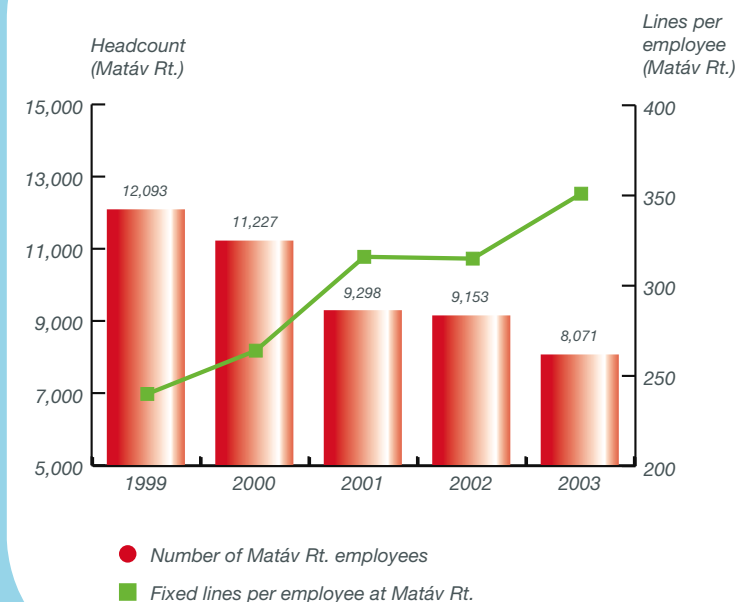


Mobile segment: The growth driver



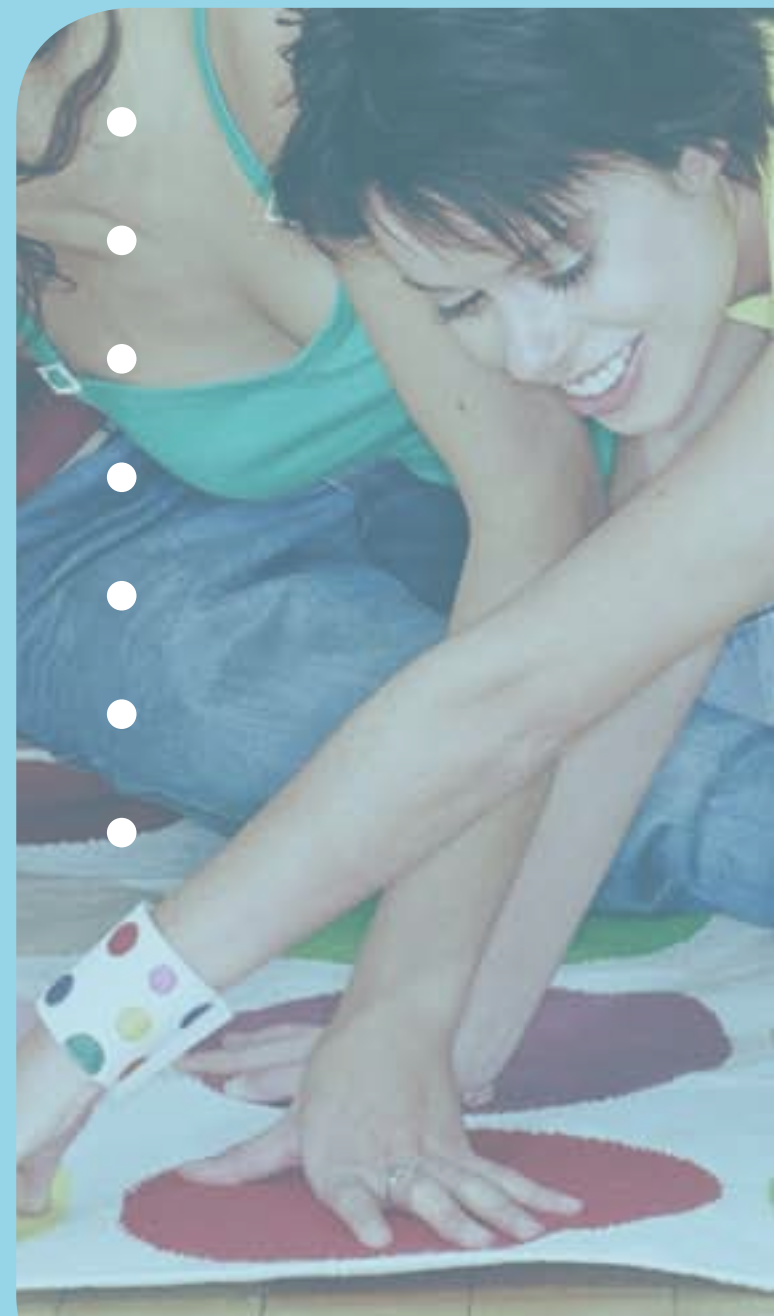
| | Dec. 31, 2002 | Dec. 31, 2003 | Change % |
|---|---------------|---------------|----------|
| No. of fixed lines: | | | |
| <i>residential</i> | 2,055,338 | 2,012,672 | (2.1) |
| <i>business</i> | 282,406 | 261,642 | (7.4) |
| <i>public</i> | 33,316 | 28,799 | (13.6) |
| No. of ISDN channels ("B") | 511,326 | 527,728 | 3.2 |
| Total fixed lines (Matáv Rt.) | 2,882,386 | 2,830,841 | (1.8) |
| No. of fixed lines incl. ISDN, Emitel | 79,460 | 78,638 | (1.0) |
| No. of fixed lines incl. ISDN, MakTel | 594,213 | 619,236 | 4.2 |
| Network digitalization with ISDN | 87.1% | 89.9% | n.a. |
| Fixed line penetration (Matáv service area, per 100 inhabitants) | 38.4 | 37.7 | n.a. |
| No. of Group employees (closing) | 16,114 | 14,710 | (8.7) |
| No. of fixed line employees (closing, Matáv Rt.) | 9,153 | 8,071 | (11.8) |
| No. of fixed lines per employee (Matáv Rt.) | 315 | 351 | 11.4 |
| No. of mobile customers, T-Mobile | 3,402,788 | 3,766,274 | 10.7 |
| No. of mobile customers Westel 0660 | 23,345 | 0 | (100.0) |
| Total mobile customers | 3,426,133 | 3,766,274 | 9.9 |
| No. of mobile customers, MakTel | 366,348 | 523,664 | 42.9 |
| Mobile penetration (Hungary, per 100 inhabitants) | 67.8 | 78.5 | n.a. |
| No. of Internet subscribers | 149,962 | 210,680 | 40.5 |
| No. of Internet subscribers, MakTel | 34,222 | 49,040 | 43.3 |

Fixed line segment: Improving efficiency



| | Dec. 31, 2002 | Dec. 31, 2003 | Change % |
|--|---------------|---------------|----------|
| No. of cable television customers | 338,625 | 362,366 | 7.0 |
| No. of managed leased lines (Flex-Com)* | 12,716 | 11,480 | n.a. |
| Domestic traffic (1000 minutes) | 8,820,201 | 7,958,292 | (9.8) |
| International outgoing traffic (1000 minutes) | 150,999 | 138,485 | (8.3) |
| Domestic traffic, Emitel (1000 minutes) | 179,670 | 152,614 | (15.1) |
| International outgoing traffic, Emitel (1000 minutes) | 2,545 | 2,253 | (11.5) |
| MOU (Minutes of Usage per User/Month), T-Mobile | 118 | 114 | (3.4) |
| ARPU (Average Traffic Revenue per User/Month), T-Mobile | 5,732 | 5,261 | (8.2) |

* Please note that from January 1, 2003, Flex-Com connections are reported from the billing system, rather than from our technical datawarehouse. Due to the difference in measurements, figures prior and after January 1, 2003 are not comparable.



SENIOR MANAGEMENT, BOARD OF DIRECTORS, AND SUPERVISORY BOARD OF THE MATÁV GROUP

MANAGEMENT COMMITTEE

ELEK STRAUB

Chairman and Chief Executive Officer, Chairman of the Management Committee

DR. KLAUS HARTMANN

Chief Financial Officer, Deputy Chairman of the Management Committee

DR. TAMÁS PÁSZTORY

Chief Human Resources and Legal Officer

LÁSZLÓ BODNÁR

Chief Services and Logistics Officer

MANFRED OHL

Chief Technical Officer, Chief Officer Network Systems, responsible for environmental issues (until May 1, 2004)

PETER JANECK

Chief Technical Officer, Chief Officer Network Systems, responsible for environmental issues (from July 27, 2004)

ZOLTÁN TANKÓ

Chief Officer Business Services

CHRISTOPHER MATTHEISEN

Chief Officer Residential Services

GYÖRGY SIMÓ

Chief Executive Officer, Axelero Internet

ANDRÁS SUGÁR

Chief Executive Officer, T-Mobile Magyarország

ANDRÁS BALOGH

Chief Strategist, Executive Director, invited member of the Management Committee

Two members of the executive management of the Matáv Group, the chairman and chief executive officer and the chief financial officer are also members of the Board of Directors. The members of the Supervisory Board are independent from the Board.¹

MEMBERS OF MATÁV'S BOARD OF DIRECTORS

ELEK STRAUB

He is Chief Executive Officer of Matáv since July 1995 and Chairman of its Management Committee since November 2000. Matáv's Director since June 7, 1995, Chairman of the Board of Directors since January 31, 1996.

DR. ISTVÁN FÖLDESI

He was Matáv's Director from December 13, 1994 to April 28, 1999 and Chairman of the Board in 1994–96. Matáv's Director since April 25, 2003.

JAN GELDMACHER

Matáv's Director from April 26, 2002, to April 28, 2004.

MICHAEL GÜNTHER

Matáv's Director since April 26, 2002.

DR. KLAUS HARTMANN

Matáv's CFO and Deputy Chairman of its Management Committee in November 2000. Matáv's Director since October 27, 2000.

HORST HERMANN

Matáv's Director since April 25, 2003.

DR. MIHÁLY PATAI

Matáv's Director since April 28, 1998.

DR. RALPH RENTSCHLER

In 2002–2003 he was Matáv's Supervisory Board Member. Matáv's Director since April 25, 2003.

DR. SÁNDOR CSÁNYI

Matáv's Director since April 27, 2000, and reelected to the Board of Directors on April 25, 2003, has resigned from his position effective November 26, 2003.

¹ The proportion of the Board members who qualify as independent pursuant to section 1.5.2. of the Recommendation of the Budapest Stock Exchange Company Limited compared to the overall number of the Board of Directors members is: 77% independent members. The proportion of the Supervisory Board members who qualify as independent pursuant to section 1.5.5. of the Recommendation of the Budapest Stock Exchange Company Limited compared to the overall number of the Supervisory Board members is: 66% independent members.

ACHIM BERG

Matáv's Director since April 28, 2004.

DR. GYÖRGY SURÁNYI

Matáv's Director since April 28, 2004.

MATÁV'S SUPERVISORY BOARD

DR. LÁSZLÓ PAP *chairman*

GÉZA BÖHM

ATTILA CSIZMADIA

ARNE FREUND

WOLFGANG HAUPTMANN

GELLÉRT KADLÓT

JOACHIM KREGEL

DR. KLAUS NITSCHKE

PÉTER VERMES

COMPANY MANAGEMENT

The Company has its own responsible corporate governance code whose elements are the Articles of Association and the related Modified Rules of Procedure of the Board of Directors in Integral Structure and the Rules of Procedure of the Supervisory Board. The Rules of Procedure of the Board of Directors regulate the implementation of the tasks laid down in the Articles of Association, including questions concerning the corporate and business management of the company, financial and business policy matters, the establishment of the Management Committee, the practicing of employer rights, and also matters concerning the restructuring of the organiza-

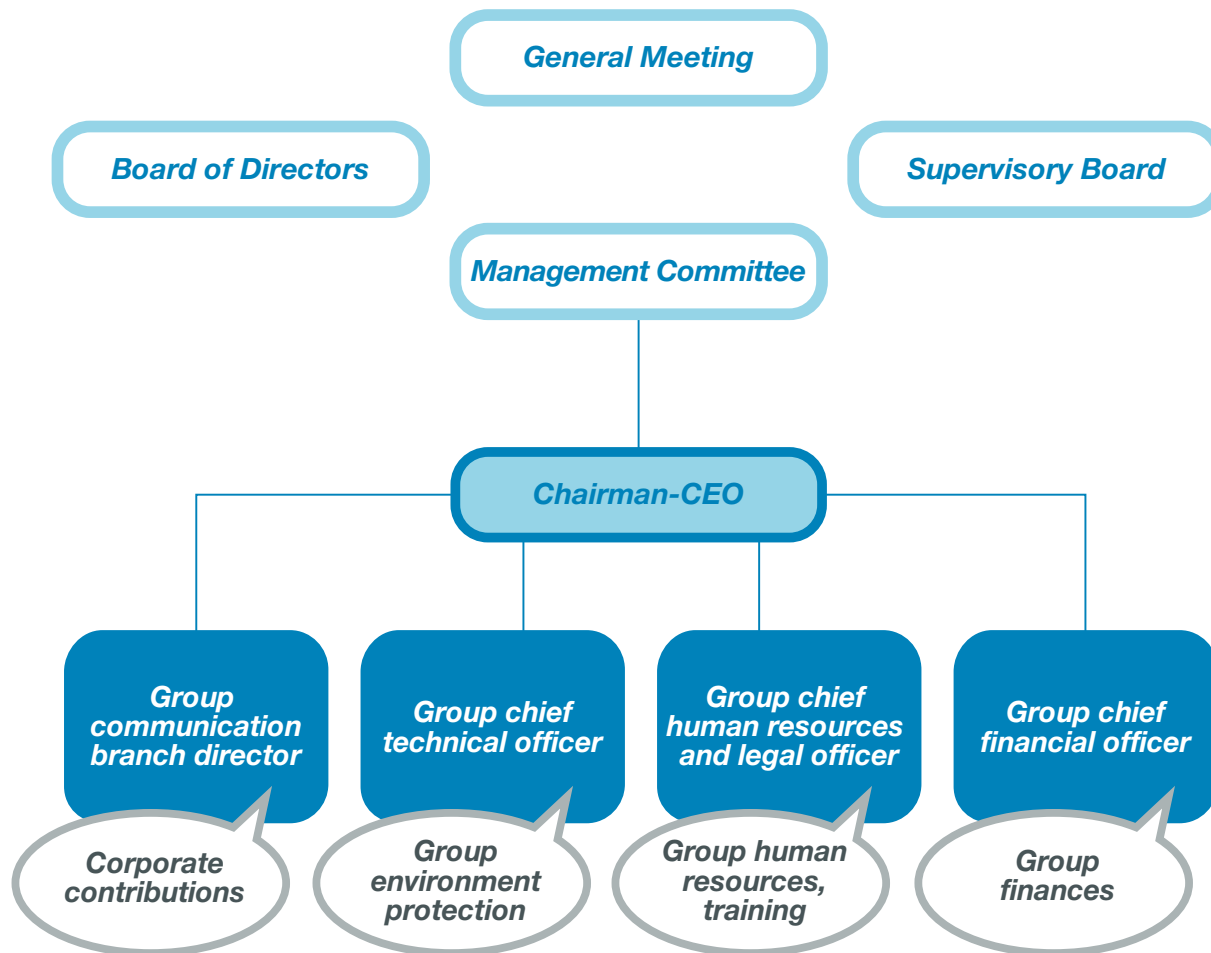
tion and the Rules of Organization and Operation (SZMSZ), such as determining the management order of the Group, acceptance of the basic document of the SZMSZ and determination of the functional positions and powers of the chief executive officer. In addition to these matters, the Rules also regulate questions connected with the capital and money movements, tangible assets, the formation of companies and investments, the subsidiaries, strategy and business planning, as well as matters and authorities connected with the managers' exercising employer rights.

Under Hungarian laws the Board of Directors is responsible for the governance of the company and it takes decision in all matters where the shareholders do not have exclusive authority. The Board of Directors prepares annual reports for the shareholders for the annual general meeting, and quarterly reports for the Supervisory Board on the business performance, assets and business policy of the company. The General Meeting ruled in the Articles of Association of the company that the Board of Directors consists of a minimum number of 6 and a maximum number of 11 members, whom the general meeting elects for a period of three years. In compliance with the Articles of Association, one of the current members was named by shareholder B; the General Meeting elected six members on the nomination of MagyarCom and two on the proposal of the other shareholders of the company. The Board of Directors meets at least on four occasions annually. The Board of Directors has quorum if at least six of its members are present. Each member of the Board has one vote. The Board takes its decisions by simple majority.

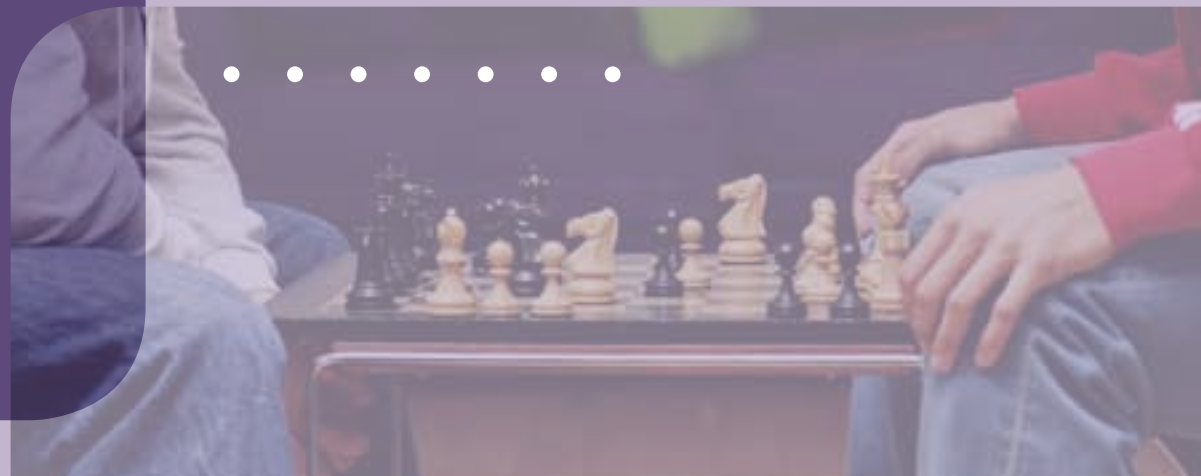
The Supervisory Board controls the management of the company and ensures the company's compliance with the statutory requirements and the company's own regulations on corporate governance. The Supervisory Board reviews every report to be submitted to the General Meeting, the proposals of the Board of Directors, the financial reports and the proposal for the division of the retained earnings. The Supervisory Board prepares report about these issues for the General Meeting whose duty is to deliberate the annual report.

In compliance with the Articles of Association of the company, the Supervisory Board is composed of minimum three, maximum fifteen members, whom the annual general meeting elects for a period of three years. At present, the Supervisory Board has nine members. The Workers' Council appoints one third of the members of the Supervisory Board with observance of the principles of the election of employees. The holder of the 'B' series share has the right to nominate one member to the Supervisory Board. The Supervisory Board meeting has quorum when at least six members are present.

In compliance with the Articles of Association of the company and the rules of procedure of the Board of Directors, in 2000 the Board of Directors of Matáv Rt. established the Management Committee which it empowered to pursue its activities in compliance with the annual business plan. The group-level support of the principles of sustainability is implemented under the direction of the following organizations.



Policies, Strategies



MISSION OF MATÁV

It is Matáv's mission to be a key player in the information society and the new economy, retaining its leading position in Central and Eastern Europe.

We commit to make telecommunications and IT achievements available to the widest scope of clients. We provide solutions to support our clients in creating a more meaningful, more effective and more humane future. Building on our unique experience accumulated on the domestic telecommunications market and our significant achievements we work on attaining our goals, satisfying the needs of our customers and fulfilling the expectations of our investors. The key to our development is our well-educated and committed professionals whom we esteem as an outstanding value of our Company.

MATÁV GROUP'S EUROPEAN UNION DECLARATION

In our Mission we specified the objective for our customers, shareholders and employees to become the defining service provider of Central and Eastern Europe. We reached that objective in the past years, and we have strengthened our leading role in the region.

With the accession to the European Union in 2004, the Matáv Group is facing yet another formidable challenge. We will have to stand our ground in the European legal and economic environment. We will have to show that, in respect to the quality and wide availability of services, and the promotion of information technologies, the Matáv Group is not only a worthy competitor for the multinational corporations but will be capable of taking a leading role in Europe within a few years as well.

The European Union resources will create new investment opportunities, through which our principal ambition – fast expansion of the broadband infrastructure – may receive fresh momentum in 2004. As the leading corporate group in Hungary, we are committed to making available the accomplishments of telecommunication and information technology for our wide range of customers. In doing so we will not only make their life and work more meaningful and more effective, but by increasing Hungary's competitiveness we will play a major role in securing a worthy place for our country in Europe. Our experiences gained as the most prominent telecommunications service provider in Central and Eastern Europe have prepared us for the competition. Let us make our voice heard in the European Union as well since after all, we already speak European.

MATÁV GROUP'S STRATEGY

STABILIZED MARKET LEADERSHIP

The Matáv Group was a key player of the telecommunications industry of Hungary and the CEE region also in 2003. We stabilized successfully our market leadership through improvement of our competitiveness, further enhancing our financial strength and maximizing our productivity. In the period to come the major sources of growth will be mobile communication, broadband Internet and fixed line network operations. Our business activities driven so far by growth in access figures and penetration will be re-focused on customer value and customer retention. To this end we have renewed our product and service offerings. We are paying key attention to preparations for meeting the EU-conform market regulations effective from 2004.

STRATEGIC VALUE CREATION

As a leading player of the industry Matáv holds good positions to continue to pursue sustainable growth, building also on the new opportunities opening up in the area of broadband and non-voice mobile services. Our value creation strategy is focused on the following:

- Maximization of shareholder value to ensure growth and competitiveness of the business lines in their markets.

- Response to global product development challenges while being in line with the Deutsche Telekom Group's service offerings.
- Complete product and special service offerings based on integrated network platforms and marketing synergies as well as the Group's combined sales channels.

COMPETITIVE RESPONSES TO CUSTOMER DEMAND

- In the fixed line segment the market of Business Services is still showing growth as the demand for business data transmission is rising. Business Services took efficient measures to stabilize market share, retain customer base and expand the market. We concluded long-term contracts with our customers generating the highest traffic volume. Our market share was 61% in the business communication market encompassing data transmission, mobile and Internet services.
- The short-term objective of Residential Services is to maintain the number of fixed lines. To stabilize our customer base we revised our product offerings. One of the major retention forces is broadband Internet where we count, in addition to ADSL connections, also on the spreading use of wireless access (WLAN). Broadband Internet usage, becoming a mass product, is accompanied by favorable tariff packages, widening product portfolio and upgraded terminal equipment.

- Our Internet line of business, being the only integrated service provider on the market, offers a complete range of services for all customer segments. The strategic goals of Axelero as Internet market's driving engine are dynamic growth, increase of Internet penetration and continuous improvement of profitability. Internet plays an important role in positioning the Group's fixed line business segment towards future growth opportunities, primarily with the spreading use of broadband services. Broadband will remain the most prominently developing segment of the Internet market.
- The Mobile line of business will be in the short and medium term the key driving force of the Group's growth. The mobile market growth in Hungary is slowing down as penetration reached 78.5% at the end of 2003. On the competitive market T-Mobile remains the strongest actor and is maintaining its position in an intense competition although for the sake of maintaining profitability the company was losing market share in a predefined and controlled way.
- The International business segment is an important value creator of the Group also in the long term. Our strategic target is to ensure MakTel's sustainable profitability and stable financial performance in line with market demand, and to use the experience gained in Hungary in both fixed line and mobile network development as well as balanced growth.

HUMAN RESOURCE STRATEGY

HUMAN RESOURCE MANAGEMENT – WITH NEW VISION

The human resource mission-vision-strategy developed in 1998 was determined within the concept framework of Customer–Organization–Employee. The first revision and development took place when the strategy for the years 2001–2002 was formulated. In 2003, the Matáv Group drafted its human resource vision, in harmony with the mission and the strategy: “The committed professionals capable of independent initiative are the key success factor for the business efficiency of the Matáv Group.”

The foremost aim is for Matáv to have the most professional human resource organization of Hungary, which its customers regard an internal partner and adviser and to which also other companies turn with trust, when they want to acquire experience.

The HR strategy is created, developed and updated in team work, with the involvement of the managers of the human resources and the training areas. The working methods of the team include workshops and brainstorming sessions, and it prepares its professional proposals in series of coordination. The final human resource strategy is approved by the chief officer in charge of the area, and is reviewed annually.

The human resource strategy of the Matáv Group is based on the company-level strategy. An equally important factor is the HR strategy determined by

Deutsche Telekom, as the principal carrier of shareholder expectations.

For developing the strategy the following input information is analyzed:

- Labor market surveys,
- Information obtained from headhunter companies,
- Participation in international conferences,
- Employee satisfaction survey (MIRROR),
- Employee forums, intranet forums,
- Assessment of the satisfaction of the internal customers with human resource management practices and services.

The human resource strategy formulated for the period 2003–2005 is grouped around 5 focus points, in harmony with the HR strategy of Deutsche Telekom:

Elements of Matáv’s human resource strategy

1. Managing Diversity

We use Group synergies to maximize business results

2. Personnel Cost Management

We efficiently manage personnel costs based on market information and best international practice

3. Total Compensation

We ensure performance-based and market-competitive compensation

4. Managing Skills and Competences

We promote the identification of talent and management of skills with high priority

5. HR efficiency and quality

We deliver high-level HR services meeting the needs of our business partners

CORPORATE SOCIAL RESPONSIBILITY STRATEGY

MATÁV GROUP AS SPONSOR

As outstanding supporter of Hungarian cultural and public life, Matáv is pleased to sponsor such events, performers and productions which represent the highest standard in their own area or in their own genre. In its sponsoring activity Matáv assumes a role in the implementation of public initiatives commensurate with its business position and weight. We mainly appear as sponsor in classical, jazz and quality light music events, theatre productions, mass sport and family leisure events.

Matáv is proud that the music events advertised with the slogan „In Harmony with Matáv” or „Matáv Presents”, as well as the „Matáv Theater Evenings” stage productions have become known and popular with the audiences over the past years.

The University of All Knowledge, this joint and highly successful undertaking of Matáv and Axelero, has proved to be a program of great importance and popularity serving the goal of science diffusion.

The Matáv Vivicitta running races designed to raise awareness to the protection of the city, and the Matáv Children’s Island have come to earn a reputation of sport and family events moving the entire family and giving them healthy and fun ways of spending their leisure.

Matáv’s goal is to bring as much pleasant experience and valuable entertainment to its customers as possible through its sponsoring activities.

In 2003, T-Mobile also took its share in the organization of cultural, sport and social events, scientific and industry conferences, exhibitions, fashion shows, balls, serious and light music concerts. By way of an outstanding initiative, and repeating the success of year 2002, an itinerary exhibition showing the works of contemporary artists across the country, was staged also in this year. In fact, this art initiative has grown into a nation-wide series of programs in its own right. In an effort to build contacts and partake in the strengthening of the local community values, the Communication Directorate helped with the successful organization of regional journalists’ balls and the company was also represented at the famous Anna Ball of Balatonfüred. Besides the joint initiatives with the Hungarian Olympic Committee and Hír TV, the Matáv-Westel Jazz Gala, the International Flying Day and many other functions served the purpose of creating value.

MATÁV AS DONOR

Apart from the fact that Matáv is outstanding supporter of Hungarian cultural and public life, Matáv became in the last 10 years one of the largest donors of the non-governmental organizations.

INSTITUTIONAL PATRONAGE

Institutional patronage is a special form of sponsoring which exists in the practice of few Hungarian corporations.

Matáv acts as patron of a secondary and a higher education foundation, several telecommunication and post museums, and the institutions that provide for the education and sport activities of the employees, also enjoy the company’s patronage.

- Postal and Telecommunication Museum Foundation – Post Museum, Telephony Museum
- Telecommunication Music Foundation – Matáv Symphonic Orchestra
- Telecommunication Education Foundation – Puskás Tivadar Telecommunication Vocational School
- Withe Telephone for the Needy Foundation
- Postal and Telecommunication Budapest Sport Foundation – Postás Matáv SE
- Foundation for Telecommunication and Telematic Higher Education

In year 2003 Matáv gave a total 110 million HUF donation to non-governmental organizations, further payments in kind and services covered about 100 million HUF.

MATÁV GALLERY

The Matáv Gallery was launched in October 2000 with the goal of giving exhibition space for already known and rising talents alike. Since that time five exhibitions are staged annually. Each exhibition is open for visitors in the aula of the headquarters for one month.

Over the past years the Matáv Gallery exhibited the works of a group of naive Roma painters, graphic artist István Orosz, painter Ernő Tóth and applied artist István ef. Zámbo. The visitors could also admire the works of such outstanding artists as Béla Balázs prize-winning photographer Demeter Balla, ceramic artist Éva Kun, iron sculptor László Virágh, textile artist Bori Tóth, as well as the canvases of Eszter Radák, a young but already Europe-famous painter.

MATÁV GROUP'S ENVIRONMENTAL POLICY

Elaboration of the major guidelines, that is the policy, was essential for group-level cooperation, to determination of the targets, which the senior management of the Group approved on February 19, 2003.

The Group Environmental Policy requires the commitment of all member companies of the Group. It also requires similar approach from all the employees regarding the questions of environment and environmental protection, the guidelines of sustainable development that were certified with the signature of the top management of the company group.

The Group Environmental Policy provides a framework for the organizations' own Environmental Policies, which must naturally be consistent with the group policy.

http://www.matav.hu/english/mtav/kapcsolodo_anyagok/ceginformaciok/kornyezetvedelmi_politika_en.pdf

The Matáv Group Environmental Policy

Matáv Group Environmental Policy


The Matáv Group, as Central Europe's leading info-communications service provider and also a leading player of the Hungarian economy, is committed to the preservation of nature and the environment and for the improvement of the condition of the environment. In compliance with our mission and the role we play in the information society, we are responsible for the harmonization of our activities with the basic principles of sustainable growth. In addition to duly complying with the relevant regulations, we are also making every effort to meet halfway the general social and environmental expectations at the level of the group, the individual and the member companies alike. Our goal is to improve our environmental performance by reducing the burden we put on the environment. Through the improvement, distribution and use of our telecommunication and IT services we help our customers and ourselves, too, improve the efficiency of the environmental efforts.

In order to meet our commitment:


- We are operating Group-level environmental coordination and in the major exposure areas implementing and operating the environmental management system corresponding to the MSZ EN ISO 14001 standard.
- We duly take into consideration environmental aspects and social expectations when developing new products and services.
- In our procurements and investment projects, environmental considerations play a highly important role and we also demand compliance with these principles and considerations from our contractors, stimulating also by this means their environmental development.
- In the development of our services, we focus on reducing the utilization of energy and other resources; we analyze the environmental impact of the products and make every effort to have positive environmental impact, which we also communicate.
- We make a point of convincing all our employees and customers of the importance of the environmental considerations. For this purpose, we give regular information and we build an information system about our environmental activities.
- In our environmental protection activities and development efforts we cooperate with all the affected parties and issue regular annual reports on our results.
- We share our knowledge and experiences with our partners, helping them also in this way to implement their environmental programs.


The Management of the Matáv Group declares that they pursue their activities with observance of the above principles of environmental policy and expect every employee to do the same.

Budapest, February 19, 2003



Elek Straub
Chief Executive Officer


Manfred Ohi
Chief Technical Officer


Dr. Klaus Hartmann
Chief Financial Officer


Dr. Ferenc Pásztor
Chief Human Resources
and Legal Officer


Zoltán Tankó
Business Services LoB
Chief Officer


László Bodnár
Chief Services
and Logistic Officer


Horst Herrmann
Chief Strategy
and International Officer


Christopher Mattheisen
Residential Services LoB
Chief Officer


László Dujkó
Internet LoB Chief Officer


András Sugár
Mobil LoB Chief Officer


beyond words

ENVIRONMENTAL STRATEGY

The Environmental Strategy of the Matáv Group has been developed in harmony with the Matáv Group Strategy, as well as the external expectations. The executive management took the decision to adopt and pursue the strategy in February 2003.

Main external expectations influencing the Group Environmental Strategy:

- Domestic, EU and international regulations
- Compliance with the statutory regulations
- Compliance with international conventions, recommendations (EU accession, Kyoto Protocol, etc.)
- Social expectations
- Saving the environment, reducing emissions, burdens
- Exemplary role, move towards sustainable development
- Economic (national economic, industrial, competitive) expectations
- Reduction of energy use
- Provision of environment-sparing services

In view of the above, the principal representations of the Environmental Strategy of the Matáv Group adopted on February 19, 2003 are the following:

1. Matáv is a leading info-communication service provider in Central Europe, which has also achieved leading role in environment protection and wants to retain it.
2. With the proliferation of the info-communication technology (ICT) its negative impact on the environment will also intensify, so the Group sees as an important task reducing that impact.
3. Exploiting the possibilities of reducing the global environmental impacts offered by the info-communication technology, and making available the relevant services are also a key environmental, social and economic interest.



The following activities contribute to the implementation of the main strategic representations:

1. Matáv Group, as the leading info-communication service provider of Central Europe playing a role of model in the region, and pioneering and championing the cause of environment protection, too, will remain committed also in the future to assuming group-level responsibility for the cause of environmental protection and sustainable development contributing by that to the reduction of the environmental burdens of Hungary, and through that, of Europe, by observing the requirements of the European Union and the international norms.

It does the following to match that goal:

- It operates Group-level environmental coordination to exploit the opportunities of cooperation within the Group and to align the member companies.
- It operates Group-level communication program to make public the values and the achievements.
- It cooperates with other European ICT service providers to exchange experiences.

2. By the nature of its core activity the Group is not a major pollutant yet, given the volume of its activities, the resource requirements of the info-communication technologies (ICT) and their environmental impact, the degree of its environment pollution is not negligible and consequently requires attention.

It does the following to match that goal, while observing the environmental regulations:

- Focuses on energy rationalization and the economical use of the various types of energy and makes a point of using low-consumption equipment and technologies.
- Enforces environmental aspects in procurement and contracting.
- Considers an important task to reduce the amount of waste produced and to explore possibilities of recycling.
- Seeks to learn and apply the best practices.
- Follows a proactive approach in adopting the EU requirements.

• It identifies and manages the issues affecting the social groups, the environment with a view to strengthening the positive public perception of the Matáv Group.

3. The Matáv Group as info-communication services provider, carries in its core activity the possibilities that may contribute to the reduction of the environmental burdens.

These are identified in the following ways:

- In the case of those products, services and packages which carry the possibility of reducing the environmental burdens in themselves, stresses the environmental benefits and provides authentic proof for them by having the products analyzed for environmental impact.
- It offers such customized solutions for the organizations pursuing environment and nature protection activities, which help improve the efficiency of their work.



Management systems

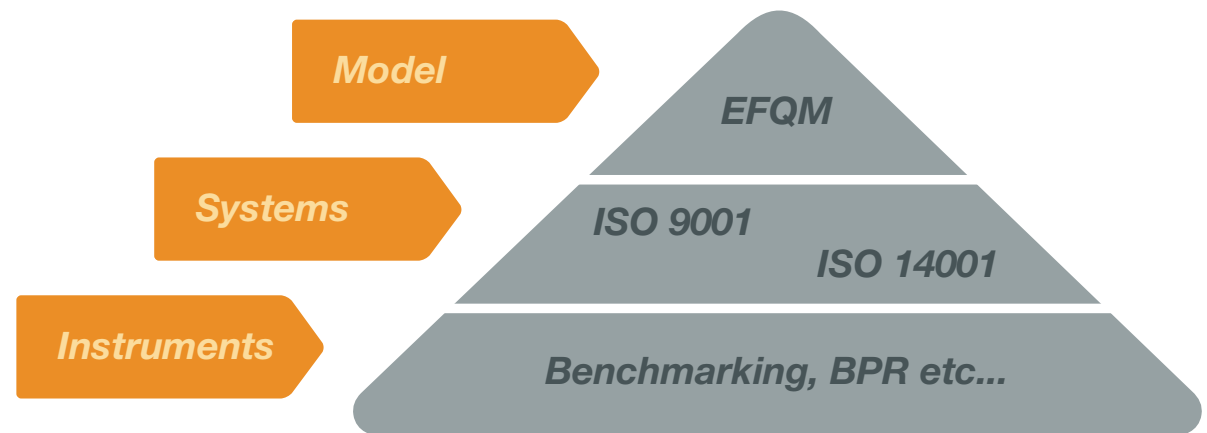
EFQM MODEL

Since Matáv is intent on strengthening the position of leading telecom service provider of the region, it follows the example of market-leading European firms in implementation operational improvement and change. This is why it has selected the EFQM model, which combines the best practices of the European companies, to help the organizations of the company understand, develop and improve their own management system, and enable the application of various systems and approaches in order to achieve business excellence.

Regular self-assessment based on the EFQM model provides the framework of operational improvement and change, and enables the standardization of the traditional organization management system and its harmonization with the newly introduced management systems expanding it (e.g. process management system, quality management system).



Business Excellence



The EFQM Model of Excellence is a practical tool which helps the organizations understand, develop and improve their own management system. With its help the organization assesses its current performance against the criteria provided in the model. The assessment implemented on the basis of the model makes it easier to identify the deficiencies and select the improvement solutions best suited to the existing level of the organization.

In 2003, Matáv Rt. launched a corporate project for the preparation of self-assessment according to the EFQM model.

Several areas of the group regularly perform self-assessment on the basis of the EFQM model and continuously improve their operations. In this field the mobile arm of the Matáv Group T-Mobile Magyarország, an independent member company, has to its credit particularly remarkable achievements: in addition to several other recognitions, it was the first Hungarian service company to win a National Quality Award in 1996, and also the first Hungarian corporation to win a European Quality Award in 2001. Among its many prizes and awards special mention is deserved by the Dale Carnegie Management Quality Award, which T-Mobile received as first in the region, and the Top Team Award given to the most outstanding subsidiary of Deutsche Telekom, in 2001.

QUALITY MANAGEMENT

The quality management Framework System developed by the Matáv Group was certified by SGS (Société Générale de Surveillance SA), the world's biggest independent quality control and certification organization, on December 16–18, 2002. With this Matáv obtained such group-level ISO 9001:2000 certificate which consists of 17 independently certified subsystems and the Framework System that integrates them.

Answering the qualitative expectations is crucial for the Matáv Group. By now the Matáv brand is associated with quality, wide-ranging and high-standard services. The basic concept of quality management system-building was defined and elaborated in 1998 based on international and domestic research, and it is being continuously further developed by using the experiences of practical operation.

The company obtained the 17 independent sub-certificates through systematic and concerted efforts over the past years, always making a point of preserving their consistency. In 2002, by introducing the so-called Framework System applied on the management organization and activities of the group, the company integrated the independently established and certified subsystems in a single umbrella system. The number of employees working in the ISO 9001:2000 certified quality management systems exceeds 10,000.

Several companies have already obtained ISO 9001 certificate, but in view of the size and complexity of

the Matáv Group, the group-level quality management system developed and successfully certified as a result of a project lasting for more than 3 years, is unique in Hungary by industry standard, and also counts as rare by an international yardstick.

The aim of the Matáv Group with implementing the ISO 9001:2000 quality management systems is to provide standard quality for its customers irrespective of time and place, and to continuously improve the quality of its services. In compliance with the principles of the quality management systems, the group regularly measures and analyzes its operation and continuously improves its quality management system. By having obtained the certificate of SGS, the world's biggest independent quality control and certification body, and continuously improving its quality management system, the Matáv Group wants to create value for its customers, shareholders and the society alike.

The Matáv Group quality management framework comprises 23 independent processes. It regulates the operation of the governing organization of the Group, and on the other hand integrates the part-systems certified by SGS according to UKAS-accreditation. The certification list is available on the Matáv homepage.

Since the very start the ten years of successful operation of T-Mobile Magyarország (formerly Westel) have been characterized by a harmony of continuity and change and commitment to quality. The company thanks exclusively to this approach, its efforts to conserve values and adapt to the environment, that

it has managed to retain its stable leading position in an ever sharpening competition. This approach also determined the 2003 tasks connected with quality and quality management. In order to satisfy the requirements of the customers to a fuller extent, the former quality management system was changed to a quality management system based on the ISO 9001:2000 standard.

Naturally, this advance did not bring fundamental changes in the operation of T-Mobile, as it was applying total quality management (TQM) practices at daily level also previously, and was, in fact, honored with a European Quality Award in 2001. At the same time this change helped make the processes more systematic and define the targets in a more clear-cut manner.

By reconsidering the quality management policy, the company made even more clear the objective to earn and keep the satisfaction of the customers with high-standard services and outstanding choice of products and services, with an innovative approach and by using the most state-of-the-art technologies. Last year T-Mobile declared even more emphatically that, in order to keep its market leading role, it intended to focus on quality, on cooperation based on reciprocal advantages with its partners, on extensive public sponsorship activities and on its model role of commitment to environmental issues.

At the level of quality policy the company ensures the attainment of these objectives through continuous development and active involvement of the employees, and it fully meets the requirements imposed on it by the regulations and its contracts.



ENVIRONMENTAL MANAGEMENT

Besides the ISO 9001 certificates Matáv also introduced and had successfully certified ISO 14001 environmental management systems in its functional areas having substantial environmental impact.

Despite the fact that the core activities of the Matáv Group are essentially not polluting, the telecommunications company expresses its responsibility and commitment for the society in an exemplary way also in this field.

In its annual EFQM-based self-assessment, T-Mobile identified the social impact criteria development possibilities and the necessity of environment-conscious operation, and found the appropriate solution in the implementation of the ISO 14001 environmental management system. The development project whose implementation required a year following the decision, was closed with successful SGS certification in 2001.

So Matáv, implemented ISO 14001 environmental management system in those areas which are considered to have substantial environmental impact, which system-building process was closed with the certification of the procurement and the transportation areas in 2003.

In the framework of the above, systems were established in the following areas:

NAME OF THE FUNCTIONAL AREA AND DATE OF CERTIFICATION

Mobile area – September 2001

Technical services area – November 2001

Network management area – December 2001

Telecommunication development area – November 2002

Real estate management area – December 2002

Procurement area – June 2003

Transportation area – June 2003

At present integrated (ISO 9001 and ISO 14001 standard) management system operates in every

area. Projected to headcount, with the certification of the above areas now over half of the Matáv Rt. areas have ISO 14001 certificate, too. (The environmentally significant impacts occurring in the other areas of Matáv Rt. are managed by the experts of those areas.)

Beyond these, the Group environmental coordination is an independent process of the Matáv Group quality management system successfully certified at the end of 2002. Operating environment protection as a process and reviewing it regularly provides the basis for the coordination of the environmental activities of the numerous member companies pursuing varying activities, in order to enforce the principles and achieve the goals laid down in the Group environmental policy.

2004 is expected to see those coordinating negotiations in which the member companies will reach agreement on whether ISO 14001 environmental management systems can be introduced in addition to the Matáv Rt. and T-Mobile systems.

Interested parties



Matáv has identified its interested parties and maintains regular contact with them so as to be able to observe their interests in its everyday operations; in fact, the circle of interested parties include all those groups that influence, or are interested in, the attainment of the company's objectives. The interested parties of the company are the following.

Market-based interested parties:

- Customers, individuals, groups, organizations, companies
- Shareholders
- Management
- Employees
- Suppliers
- Other players of the telecom market
- Trade unions, employee groupings

Non-market-based interested parties:

- State administration organs, local municipalities
- Industry and market organizations, research cooperations
- Local communities
- Environment protection organizations

MARKET-BASED INTERESTED PARTIES

CUSTOMERS, INDIVIDUALS, GROUPS, ORGANIZATIONS, COMPANIES

Availability, collection of market information

The market research and analysis tasks of the company are performed by the Business Intelligence and Documentation Directorate. In the line of business structure the extensive requirements of the company are fulfilled by market analysis experts and expert groups assigned to the new segments.

Separate expert teams are responsible for the business and the residential segments, and for the satisfaction of the market research and analysis demands of other customers within the company, and a fourth team performs queries from the company data warehouse. The company information processed by them serve as input for the analytical work of the other three group, and the independent statistics are also compiled of these pieces of information.

For the performance of market research jobs the

company has contracts with nine independent market research companies. The methods applied, in compliance with the analyses ordered, are qualitative (focus groups, deep interviews, information interpreted by professionals) or quantitative (data and information obtained from samples, where a definite mass is used to extrapolate conclusions).

Daily: summary newsletter on 15 telecommunication companies and on Hungarian business events
Weekly, bi-weekly: Competition monitoring, press monitoring (13 key Hungarian companies from the telecom market), and comprehensive news summary about the entire Hungarian economic life.

Monthly: Hungary's macro-economic indicators, forecasts by economic analysis (GKI, MNB, international banks), Reuters reports, new telecommunication technologies, Macedonia's macro-economic news, telecommunication sector analyses (Investext)

Bi-monthly: Press coverage on the key business customers of the company.

The market model processes indicators essentially qualified in three groups:

- economic (GDP, inflation, exchange rates),

- household statistics (population, solvent demand, composition of the population by age group),
 - telecommunication consumption figures at macro and micro level (telecom spending in percentage of the GDP, annual telecom spending of the households).
- These information are taken from statistical publications (KSH, NHH), the publicly available materials of economic analysts (GKI, Ecostat), and are obtained with the above-mentioned regular press monitoring methods. The method of satisfaction measuring was revisited and reformed in 1998. The number one user of the returns of general satisfaction measuring is the Strategic area.

SHAREHOLDERS

Deutsche Telekom, Europe's biggest telecom service provider, has been present in Hungary for 10 years, since the start of the privatization of Matáv. During these years as statistical investor it has proved its long-term commitment to the future of Hungary's biggest telecommunication service provider.

Identification of shareholder, investor expectations

The expectations of the investors of the company are measured annually, with the help of questionnaires. An external company is commissioned to prepare the so-called Perception Study, which company assesses the requirements and expectations of the investors with the help of a detailed list of questions on representative samples. Then, a presentation is made of the analysis for the executive management of the company, which presentation is submitted to the Management

Committee. Subsequently, the MC presents the document to the Board of Directors and in this way the majority owners are also informed about the findings. Other methods of keeping contact with the investor and assessing their requirements include personal meetings, road shows and thematic conferences (on telecommunication CEE countries) organized by international investment banks and analysts (Merrill Lynch, ING Bank). Comparative analyses are prepared to assess the expectations of the company's investors and the correctness of the strategic directions of the company. Regular meetings, road shows, conferences are organized for the investors and the analysts to share with them the most important financial and other relevant information of the company's operation. Relations are maintained also with the supervisory organs, the New York and the Budapest stock markets, as well. The general meetings and the extraordinary and regular reports are also decisive elements of keeping in touch with the world. Direct involvement in the management of the company is a key part of keeping contact with the majority shareholder.

Through its subsidiary portfolio Matáv is also shareholder, and it has to integrate in its strategy and business policy the requirements and interests of its co-owners. It is in the course of the portfolio management activities that the requirements and interests of the co-owners are learned and identified. The officers in charge of the portfolio (employees of the Strategic area) hold consultations, request information as necessary, and prepare the managers of Matáv for higher-level interest coordination talks with the co-owners.



MANAGEMENT

The success of Matáv depends on that the management tasks of the company are performed by a dedicated, recognized, well-trained and qualified management team wielding extensive experience. A number of routines and processes introduced by Matáv ensure that the most appropriate candidates fill the vacant positions. Matáv is intent on ensuring the opportunity of advance and experience gathering for its existing staff, so it is trying to fill as many vacancies as possible from inside sources. For filling strategic positions, it uses the services of a recruitment/selection consulting company, securing in this way the knowledge and experience of the best managers available in the market.

When taking replacement decisions, a professional panel weighs the knowledge, experience and former performance of the candidates, as well as their proven human qualities and management skills. The measuring tools are the Performance Management System used by the company, and the Integrated Competence System.

To assess the performance of the management and to set, monitor an asses performance and improvement targets a so-called Performance Management System (hereafter: TM) was introduced in 1997 and

has been regularly upgraded ever since, and its process has also been certified according to the ISO 9001/2000 standard. The TM system is a tool for communicating the strategic objectives, breaking them down to company targets and defining the individual professional goals, it ensures continuous personal development by determining the training directions and frameworks. The TM system is directly linked with the remuneration system, and within that, with the management bonus system. The Integrated Competence System (EKR) which contains the model conduct corresponding to the Matáv values, and whose adoption is seen to ensure the successful operation of the company, has been developed through analyzing the behavior of those employees and managers who have been working successfully in the company organization.

The single most important tool of the management of executive replacement affairs is the Personnel Round Table, which was introduced in 2003. The Personnel Round Table is a personnel evaluation process held annually, in the framework of which the work of the entire management of the company is evaluated against criteria of professional, management and personal qualities. The importance of this process is that a team of managers most familiar with the work of the person evaluated, together assess his/her

performance and potential against a set of criteria. Then, the evaluators jointly determine the possible career path and the relevant development goals. On the basis of these evaluations, the further training of those managers and employees who are considered to have development potential, is implemented under the Source Complex Talent Management program. The members of the Board of Directors and Supervisory Board of the company are nominated by the shareholders, and elected by the General Meeting with observance of the provisions of the Act on Business Associations and the Articles of Association of company. In compliance with the Rules of Organization and Operations, the Board of Directors exercises the employer's rights over the members of the Management Committee (MC). The Board of Directors exercises these powers through the Remuneration Committee created in compliance with the international practice. The Remuneration Committee is composed of three members of the Board of Directors, and it meets at least on three occasions annually. The meetings discuss matters concerning the replacement and performance management of the MC members, and table their proposals for approval to the Board of Directors. This carefully elaborated system guarantees that the replacement decisions are taken after wide coordination and in a transparent manner.

EMPLOYEES

The number of the employees of the Matáv Group is: 14.710 (December 31, 2003)

The human resource strategy of the Matáv Group is based on the HR strategy determined by Deutsche Telekom.

The following tools identifying employee expectations played an important role in developing the strategy:

- Employee satisfaction survey (MIRROR) results concerning human resource management, through the implementation of the action plans based on those results the employees were directly involved in the development of the strategy
- Employee forums, intranet forums where the participants share their opinion and proposals on the human resource area, with the functional area itself
- Internal customer satisfaction survey with human resource management and services. The first survey was conducted in 2000, then in 2003.

Matáv is placing much weight on communication with the employees and on learning the requirements of the employees in order to prepare mutually beneficial developments and strengthen their loyalty.

Since 1995, company communication has been run by the communication director.

The guidelines of the improvement, further development of communication are laid down in the communication strategy, which rests on the strategy of the Matáv Group, in harmony with the communication requirements.

To identify the requirements, the communication organization monitors the employee opinions appearing on the intranet forums, analyzes the questionnaires that follow up the company's communication events and the results concerning communication of the MIRROR employee satisfaction survey. In addition to those, the area studies the possibilities of expanding the channels at international and domestic communication conferences.

The communication pronounces, among other things: „we highly appreciate if the employees share with their managers, or make public on other forums, their ideas or concepts designed to improve services to the customers.”

The (two-way) personal and online communication provides opportunities for such feedback.

Tools of (two-way) communication ensuring feedback:

- Job meetings whose order is regulated individually at each organization in ISO Framework and the ISO islands. The starting point of these meetings is the work meeting of the executive managers of the company. The information imparted at that meeting is broken down by the managers of the organizations to their own area, and mid-managers are given briefs weekly or bi-weekly. The contents of the mid-managers' meetings are then relayed by them to the employees.
- The Employee Forums held by the executive managers on several occasions a year, which every employee of the functional area concerned and occasionally also the delegated representatives of the internal „customer organizations” may attend

and ask questions concerning the job from the manager who hosts the forum.

- The Dessert program is meant to as an informal dialogue option between managers and employees. Under this program 3-4 employees, in recognition of their outstanding performance, are given the opportunity to have informal discussion with a top manager at a work dinner or breakfast. In 2003 when the program was launched the CEO and every chief officer participated in such meetings on one or two occasions.

Both the Employee Forum and the Dessert Program were launched in response to the Culture Change Questionnaire and the results of the MIRROR employee satisfaction survey.

The tools of the feedback providing (two-way) online communication are the top management and professional forums available on the intranet.

The professional forums are anonymous, and thus the scene of exchanges of views without requiring registration and a name.

The Matáv Group Intranet – which is one of the most important tools of communication of Matáv – provides platform for one-way communication, too.

The purpose of the intranet is, for one thing, to provide fast and authentic information for the employees of the group on the operation, structure and actual tasks, achievements of their place of work, and on the other hand, to bring to them such news and information which they can use in their everyday work.

Further channels of one-way communication:

- The most important internal communication publication is the bi-weekly company newspaper *Telmondo*, which has been published for 12 years now. Since January 2002 *Telmondo* reaches not only Matáv employees but, in line with the requirements, also the employees of the member companies.
- The Lotus Notes circular letter is an important communication channel.
- The intranet pages of the various organizations are an important surface of job communication. The majority of the organizations have their own home page on the company intranet, where they demonstrate their activities and services.
- The *MIRROR* survey is a tool of bottom-up one-way communication and expressing employee opinion.
- The Kick-Off Meeting provides the employees direct information about the strategic objectives.
- The key team-building events of the company include the Matáv Group Olympic Games, the Children's Day, and the Matáv Group on the Podium event. The former two are organized each year by the internal PR area, and the last one by the Human Resource area.

SUPPLIERS

Procurement-focused supplier relations

At Matáv the procurement-focused management of supplier relations is implemented by the organization that operates an integrated quality and environment-focused management system answering the ISO 9001:2000 and ISO 14001:1996 standards. The group-level coordination of the supplier relations is managed by the Group Procurement Council that was established in 2002 and is operated by the functional managers of the decisive member companies. Coordination is implemented by the functional organizations of the member companies.

The suppliers are selected in transparent, structured and documented procurement procedures that comply with the relevant laws, are regulated and ensure competition and fair competition. In its contracts the company seeks to develop mutually beneficial, value-creating partner relations.

In the interest of cost efficiency, it continuously rationalizes its processes and the number of its suppliers, and at the end of this effort it creates a stable high-quality supplier base. Over the past year the number of active suppliers decreased by an average 10.6% in the case of the member companies of the Matáv Group Procurement Council, and within that figure, Matáv achieved 25.6% reduction.



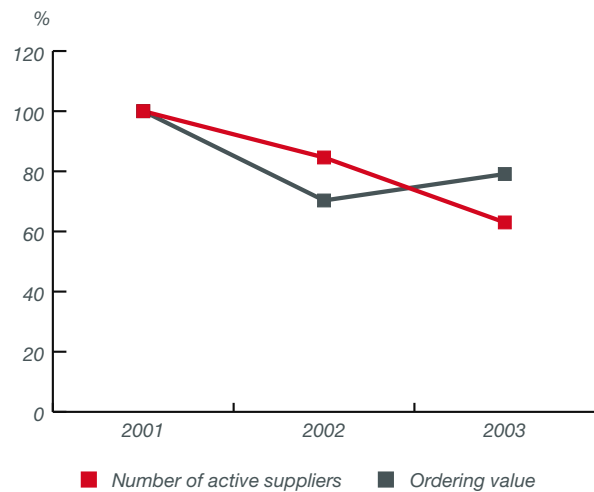
To improve the efficiency of the procurement activity, the following targets were set in 2001:

- achieve larger reduction in the number of active suppliers than the change in the order value,

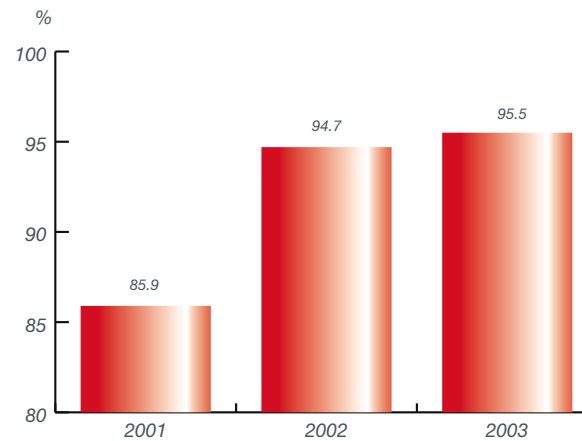
- a growing proportion of the orders be fulfilled by qualified suppliers (Chart: Order values of the qualified suppliers),

- and increase the number of alternative electronic procurement solutions that result in shorter procurement processes (Chart: Number of e-Commerce transactions).

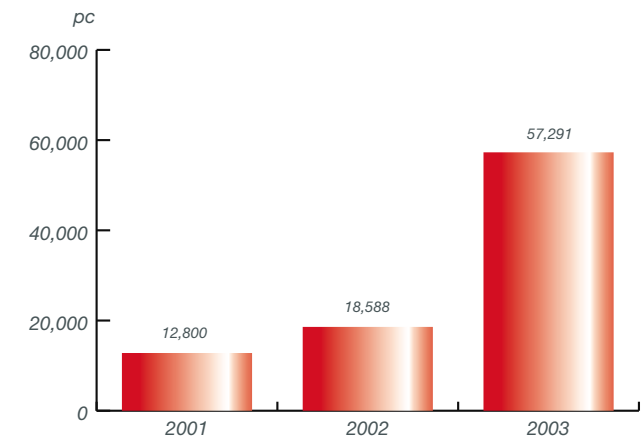
Number of active suppliers



Order values of the qualified suppliers



Number of e-Commerce transactions





The references, financial standing, quality and environment protection related capabilities of the suppliers are assessed in a pre-qualification system, while their contractual performance is evaluated in a post-qualification system, on the basis of which the suppliers are ranked in quality categories (A, B, C, D). The results of the qualification are important factors of the supplier selection process. The products and services are procured predominantly from qualified (A and B category) suppliers. 95% of the annual order value comes of qualified suppliers.

The Vendor Qualification System is an important tool of maintaining contact with the vendors, in the framework of which the company regularly informs its suppliers about the achievements in the interest of joint development.

The procurement processes that account for a significant part of maintaining contact with the suppliers are implemented with the support of integrated IT systems. The selection process is also supported by an internet-based marketplace (Marketline), and the sending out of the requests for proposals and orders to the suppliers and receiving their confirmation are implemented by WebEDI electronic commerce solutions to a growing degree from year to year. Over the past two years the

number of eCommerce transactions increased four times.

Since 1996, Supplier Conferences are held annually for the vendors instrumental for the company' operation to mutually assess the achievements, present procurement strategy directions and new tendencies.

To recognize the performance of the best suppliers, the company presents „Supplier of the Year” awards. The satisfaction of the suppliers is also measured at the conference, with the results providing important feedback for Matáv.

The current directions of the enhancement of supplier relations include further electronization holding out benefits for both parties (direct electronic requisitioning-supply relationship: the EBP-SAP-WebEDI based New Procurement Channel has been in operation since 2003), more intensive utilization of group-level synergies under the direction of the Group Procurement Council and group-level management of the decisive supplier relations.

Matáv treats environment protection as a key focus at the procurement processes. In order to prevent damages, when hazardous materials or products are

procured these are delivered directly from the supplier to the customer, with the exception of a minimum justified amount of stock on storage.

Matáv purchases materials, tangible assets and services exclusively in a regulated procurement process from qualified suppliers. The activity of the suppliers is assessed every half year, in the framework of a post-qualification process, and non-compliance induces the termination of the contract. Compliance at the highest possible level with the ISO 9001: 2000 and ISO 14001:1996 standard requirements is a key aspect of the evaluation. In 2002, the elaboration of an environmental qualification system to be integrated in the supplier contracts, was started.

Technical development, operation and maintenance cooperation with the supplier partners: Matáv makes consistent efforts for its partner relations to promote the attainment of its strategic objectives, at the same time it supports innovative and creative thinking. Those functional organizations that are involved in the management of the supplier relations from a technical or development aspect, also operate integrated quality and environment-focused management systems answering the ISO 9001:2000 and ISO 14001:1996 standards.

OTHER PLAYERS OF THE TELECOM MARKET

Matáv has introduced several institutional forms of meeting with its partners. Of outstanding importance are, among others, the Telecommunication Round Table where the executive managers of the company hold consultations on telecommunication regulation policy matters with the involvement of ministries and other telecommunications companies.

The company receives information on the upcoming laws and regulation changes affecting telecommunication, takes part in the coordination and the comments prepared by the company are coordinated and discussed in the Conciliatory Council for Telecommunications, so that the regulation will reflect the expectations of the consumer side.

In the course of its operation Matáv respects the rights of its competitors and reject every step that restrains fair market competition.

Intent on preserving the clean and transparent operation of the Group, it also rejects all forms of corruption from any player of the market

EMPLOYEE REPRESENTATIONS: TRADE UNIONS, WORKERS' COUNCIL

In compliance with the effective regulations, in the interest of the representation of employee interests Matáv ensures the operation of the trade union and the workers' council.

The representatives of the trade union and the Central Workers' Council (KÜT) take part in the annual interest conciliation talks and in the development of the relevant agreement. The executive management of the company is represented at those talks by the manager responsible for the human resource and legal area and several responsible managers of the area. The components of the agreement include the wage agreement, the headcount frameworks and the extent of increase of the scope and measure of the welfare benefits.

The employees are informed about the agreements via internal forums (Intranet, Telmondó, KÜT-members).

The Central Workers' Council exercises the powers of the Workers' Council in such cases when the decision affects at least two separate organizations. Accordingly, the granting of home construction support, the distribution of holiday home places, changes in the workplace meal system, the regulations on granting aid, the supply of working clothes and uniforms, workers' transportation and the commuting to work with own vehicles require the concerted

decision of the KÜT. In addition to the above, any change in the support of education and sport activities, education at the place of work, modification of the rules of availability of travel benefits, determining the size of subsidy on telephone usage also require the approval of the KÜT.

In 2003, Matász (Hungarian Telecommunications Branch Union), this voluntary interest representation and interest protection organization of telecommunication employees operating on the principle of self-government, was in operation at Matáv with 2834 members.

Its tasks are to:

- conclude the collective agreement and other agreements, accords.
- exercise the trade union rights stipulated by law in the interest of specific objectives.
- represent the entire membership belonging to the union, or a bigger group of the members vis-à-vis the partner employers and other organs.
- participate in the solution of interest protection, interest representation matters affecting the workers, act jointly with every organization whose goals coincide with the interests of its members.
- provide self-aid service for the membership.
- take action against injurious decisions, measures and enforce the interests of the members with the means available to it. Consistently champion its position on public forums.



NON-MARKET-BASED INTERESTED PARTIES

STATE ADMINISTRATION ORGANS, LOCAL MUNICIPALITIES

The preparation of telecommunications regulation and the development of compliance with the regulatory environment are important elements of compliance with the public rules.

The line ministry (Ministry of Information Technology and Communication) develops the regulatory program on the basis of the proposals and decisions of the government, and submits it for comments to all interested parties of the area (service providers and the representation organizations of the industry), and coordinates the paper with them – occasionally also in the framework of organized debate forums. At the company, the specialized employees of the Regulatory affairs and pricing policy branch and the company's telecommunications law experts are responsible for commenting these drafts and coordinating the complex commenting process. As part of the commenting process, they also consult the functional areas to be affected by the upcoming regulation (network, marketing, sales, customer relations). The commenting-coordination process is implemented in the framework of a liberalization project created for this purpose in such a way that all the affected organizations, lines of business and the Legal branch are fully involved in the commenting operation. The

comments prepared by the company on the laws, regulations are then discussed at the interest representation organ of which the company is member (Conciliatory Council for Telecommunications), so that the regulation will reflect the expectations of the consumer side. The feedback for the regulator and the authority, respectively, is also provided through the Regulatory affairs branch, if technical problems are encountered with the enforcement of the regulations. Under the concession agreement and later the universal service agreement the company is obliged to submit regular reports to the ministry, according to criteria provided by the ministry, on the fulfillment of its contractual obligations.

The National Communications Authority (NCA) checks compliance with the obligations specified in the regulations and agreements in the form of on-the-spot controls, or requests the relevant information in writing, specifying a deadline (data on our services, contents of subscriber complaints). The Competition Office (GVH) acts as watchdog on competition, prices, market regulation and price harmonization. It will typically launch investigations in concrete matters, first requesting the company to supply certain information (on a questionnaire). Beyond absorbing the eventual business impacts of the GVH rulings, decision is also taken for compliance with the norms set by the market at the level appropriate to the weight of the given issue, even within the company, at top management level. In the course of its activities affecting the local communities Matáv also comes into contact with the

local municipalities as regulators. A case in point is the approval process. Striking successful cooperation with the local municipalities also lies in Matáv's interest, so it pays special attention to compliance with the regulations.

In 2003, the company organized the sixth round table discussion on environment protection, which was designed to coordinate the achievements and discuss outstanding questions. The partners who participated in the discussion included representatives of the National Communications Authority (NCA), the Ministry of Environment Protection and Water Management, the Environment and Nature Conservation Supervision, the directorates of the national parks, public organizations of nature conservation, research institutes, etc. and the Matáv Group.

INDUSTRY AND MARKET ORGANIZATIONS, RESEARCH COOPERATIONS

Conciliatory cooperations

Matáv is represented by managers of various levels in the industry organizations. The company is involved in 23 international organizations and several Hungarian organizations, including MSzT, MISZ, OMIKK, the Inter-University Telecommunication and Information Technology Coordination Center, Hungarian National Host.

The company is informed about upcoming telecommunication laws, change of regulation and is involved in the coordination process. The comments prepared

by the company are coordinated and discussed in the Conciliatory Council for Telecommunications, so that the new regulation reflect the expectations of the consumer side.

Cooperation with international organizations

Telecommunication industry cooperations

The managers regularly attend industry conferences, workshops, symposiums, seminars organized by the partners in Hungary and abroad (for example, the CISCO Expo, Siemens, Ericsson, Kapsch, Alcatel seminars, CEBIT, IIR -Institute for International Research-conferences, Liberalization Forum, Telecommunication and Marketing Forum, Controlling Academy) not only as audience but also as lecturers.

The most important partners among the international organizations are EURESCOM, ETSI, ETNO and ITU-T. Matáv managers also regularly participate in the activities of the major international telecom service providers and the relevant work groups.

The principal goal of these relations is to ensure cultural and infrastructural compatibility and implement joint development projects.

Environmental cooperations

The Matáv Group has been involved in the work of the ETNO (European Telecommunications Network Operators' Association) Environmental Working Group since 1998 and in the Sustainability Working Group since 2003, where it has the opportunity to brainstorm in industry matters with the leading telcoms of Europe.

Relations and cooperation with higher education institutions

Matáv managers are actively involved in cooperation schemes with the Budapest University of Technology and Economics (BMGE) and the Scientific Association of Communications (HTE), because these organizations constitute the basis of our domestic innovation relations. Matáv organized several joint conferences with the BMGE and HTE (e.g. ONDM 2003 – IT, Microcoll conference 2003), with Matáv directors participating in the organizing committees, too. Matáv, as a telecom service provider committed to creating value for the country, feels its duty to cooperate with scientific societies and encourage the flow of information in order to promote the building of the knowledge-based society.

Matáv fosters traditionally good relations with the higher education institutions (especially BMGE, BKÁE), because these universities also mean a knowledge and replacement base for the company. The company places R+D orders with the higher education institutions in each direction of technical development, such as platform/network and product development, thus involving the students directly in everyday practical work. The results are then utilized in the entire technical spectrum.

In the framework of the cooperation with the higher education institutions the company also runs a trainee program under which it receive several Hungarian and foreign graduate students every year for practical training.

In 2003, the Ministry of Education honored the education support efforts of Matáv's development institute with a Kármán Tódor prize.

In its capacity of supporter of the work of the international students' association, in 2003 Matáv was involved in the AIESEC (International Association of Students of Economics) programs called Sustainable Future. Apart from the speeches delivered at the opening and closing meetings, interested students were also given a tour of the company.

LOCAL COMMUNITIES, ENVIRONMENT PROTECTION ORGANIZATIONS

Matáv managers pay prime attention to fostering public relations, so for example, the chairman-CEO of Matáv Rt. is the president of the German-Hungarian Chamber of Industry and Commerce. He also represents the company in the C3 Cultural and Communication Center Foundation, the board of OMFB, the board of trustees of the Foundation „Self-care – For the development of the financial and investment culture” created by the Budapest Stock Exchange, in the board of MGYOSZ, in the professional panel of „With Education for the Economy” Kármán Tódor Prize, the Social Senate of the Budapest University of Economic Sciences

and Public Administration and on the board of the Hungarian Yachting Association.

The chief officer of the Business Services Line of Business represents the company in the Budapest Chamber of Commerce and Industry, in the Association of IT Enterprises and in the International Telecommunication Union.

The Chief Financial Officer is member of the AmCham, the American Chamber of Commerce.

The head of the mobile business arm sits on the MGYOSZ board, is co-president of the Hungarian Yachting Association and also represents the company in the board of the Hungarian Olympic Committee.

Accepting public roles has been part of the corporate culture and brand philosophy of Matáv for several years. Matáv has realized that major involvement in the development of the entire society is an essential component of both the business success and the general public acceptance of the company. Over the past ten years Matáv has been one of the most significant corporate sponsors promoting the development of the civil sphere; last year it donated a total of 200 million HUF to civil organizations. Over the past three years Matáv helped survive and grow over 400 non-profit organizations.

The company is trying to respond to the needs and expectations of the local communities and

the society at large also through its environmental strategy. In developing its environmental policy, the Matáv Group pays special attention to integrating the expectations and demands of the parties interested in its environmental performance.

One of the most important steps of responding to the environment protection expectations of the society was that the company introduced an ISO 14001 standard environment-focused management system in those of its areas that are considered to have major environmental impact (technical services, mobile area, network management, telecommunication development, real estate management, transportation and procurement areas).

Matáv has developed its environmental policy in harmony with its mission, assuming responsibility for the preservation of nature and the environment and improving the state of the environment.

The company has been preparing comprehensive environmental strategies since 1998, which it adjusted to the new corporate structure in 2002 encompassing the enforcement of synergies in the area of environment protection, too. The directive regulating the company's environmental activities and establishing the responsibilities and authorities of the environmental officers, was developed and issued in 2002.



Activities

in the light of the Sustainable Development approach

ECONOMIC ASPECT

CORPORATE GOVERNANCE

With the business environment becoming more risky, several European countries, including Germany, have made it compulsory for the companies listed on the stock exchange to operate a risk management system and release regular risk reports to inform their investors (KonTraG legislation).

This obligation also applies to the consolidated subsidiaries of the German stock exchange-listed companies, so Matáv, as Deutsche Telekom's subsidiary, must inform the T-Com LoB of DT in quarterly reports about the actual risk situation.

In July 2002 the US legislation created the Sarbanes-Oxley Act which, among other provisions, introduced more stringent rules for the risk management processes. In view of the fact, that the papers of Matáv Rt. are listed and traded on the New York Stock Exchange, Matáv Rt. as securities issuer must also comply with

the relevant regulations of the United States. Primarily from an investor protection point of view, the Sarbanes-Oxley act may make the chief executive officer and chief financial officer of the company responsible under law for the appropriateness of the risk data supplied by the company.

Beyond the statutory obligation, it is the essential interest of Matáv to assess and manage those risks that may eventually cause the decrease of its profits, jeopardize the fulfillment of its business plan and affect its customer base, employees and partners.

MILESTONES 2003

Reversing the trend in the fixed line segment

In 2003, Matáv was slowing down month by month, and in the last quarter it almost stopped the decrease of fixed lines felt since 2001, primarily due to mobile substitution, with a marketing strategy of growing intensity, innovative offers and targeted communica-

tion activity. In respect of new prospects for the fixed line network one of our greatest achievements is the fast development of Internet usage as a joint result of dynamic growth in broadband connections, tariff packages encouraging fixed line telephone usage and the average 25% tariff reduction applied since March 2003 with the government's contribution.

Strong growth in broadband connections

Matáv's greatest success in 2003 was the achievement of a target, 100,000 ADSL set one year earlier with almost 104,000 ADSL connections. The strong growth in ADSL penetration (205%) was accompanied by more widespread Internet usage.

The rate of our broadband Internet users is very high by European standards, with 33% of Axelero's Internet customers accessing the web through broadband connection. With this we have created the possibility of preserving the value of our fixed line network, stabilizing its role both in telephony and broadband Internet access. In 2003 we have tripled the number of locali-



ties covered by ADSL service. At the end of the year this service was available in 175 towns where 80% of the population reside.

Winning a battle in the mobile market

In 2003 a competition with intensity never seen before was launched on the mobile market reflected by marketing communication with enhanced vigor and tariff packages introduced close between. T-Mobile reacted in a professional way and found the methods that lead to success and as a result it stabilized its leading market share in the last quarter of 2003 and, in December, even raised it. T-Mobile can achieve continued growth through offering an ever wider range of mobile services.

Matáv – Deutsche Telekom: 10 years together

Deutsche Telekom, Europe's largest telecommunications service provider has been present in Hungary for 10 years with the contracts concluded in December 1993, at the start of Matáv's privatization. Over these 10 years DT has proven as a strategic investor its long-term commitment to Hungary's largest telecommunications service provider and the future of Hungary's telecommunications. Today Matáv is one of the most developed and successful telecommunications companies in the Central and Eastern European region.

Renewed matáv website

Matáv's website (www.matav.hu), renewed and redesigned in October 2003, offers numerous new services to customers, investors, the press and all users. In addition, the latest news about the company updated

daily are also published on the website. Matáv has the largest and most frequently visited corporate website in Hungary: it includes more than 6,000 pages. It was the first corporate website to be included in the Medián official webaudit list so certified figures are available about its visiting rates. On a working day 17,000 users visit the website on the average and download 161,000 pages.

Professional recognition

In 2003 the Matáv Group has received numerous awards and prizes to recognize both its financial and professional performance. Matáv obtained the Investor Relations Magazine's Grand Prix for the Best Investor Relations in the Central and Eastern European region and in Hungary and for the Best Investor Relations Website and Best Annual Report. We have received the Global Excellence in Workflow Silver Award for the innovative workflow management system implemented at Matáv. Matáv obtained the Kármán Tódor Award for its outstanding activities to support scientific research. In 2003, T-Mobile became the Best TOP 200 Company of the Year on the basis of three indicators: revenue increase, return on investment and after-tax profit. On the basis of readers' votes, the Budapest Business Journal declared Axelero Internet the Top Internet Service Provider in 2003.

| | 2002 (HUF million) | 2003 (HUF million) | Change (%) |
|--------------------------------|-----------------------|-----------------------|---------------|
| Total revenues | 590,585 | 607,252 | 2.8 |
| EBITDA* | 244,981 | 250,398 | 2.2 |
| Operating profit | 122,240 | 122,064 | (0.1) |
| Net income | 68,128 | 57,475 | (15.6) |
| No. of shares (millions) | 1,038 | 1,038 | 0.0 |
| Basic earnings per share (HUF) | 65.7 | 55.4 | (15.7) |
| Total assets | 1,077,451 | 1,058,837 | (1.7) |
| Long term debt | 145,667 | 121,344 | (16.7) |
| Net debt | 364,709 | 291,654 | (20.0) |
| Total shareholder's equity | 516,144 | 560,110 | 8.5 |
| Net debt to total capital | 38.8% | 31.6% | n.a. |
| Capital expenditures | 109,988 | 90,788 | (17.5) |
| EBITDA margin | 41.5% | 41.2% | n.a. |
| Operating margin | 20.7% | 20.1% | n.a. |
| Net income margin | 11.5% | 9.5% | n.a. |
| ROA | 6.2% | 5.4% | n.a. |
| HUF/EUR (year end) | 235.90 | 262.23 | 11.2 |
| HUF/EUR (average) | 242.97 | 253.42 | 4.3 |
| HUF/USD (year end) | 225.16 | 207.92 | (7.7) |
| HUF/USD (average) | 258.00 | 224.55 | (13.0) |

*EBITDA – Earnings Before Interests, Taxes, Depreciation and Amortization

ANALYSIS OF GROUP OPERATING EXPENSES

Depreciation and amortization amounted to HUF 128.3 bn, compared to HUF 122.7 bn in 2002 (an increase of 4.6%) primarily due to the revision of useful life of assets at MakTel and at Matáv Rt. and T-Mobile's higher gross asset base. In addition, depreciation and amortization also includes the amortization of goodwill arising from the prior acquisitions of MakTel and Westel.

Payments to other network operators amounted to HUF 84.4 bn, compared to HUF 81.1 bn in 2002 (an increase of 4.2%). Mobile traffic to the second Macedonian mobile service provider, Cosmofon and the Hungarian operators Pannon GSM and Vodafone increased due to the higher mobile penetration. On the other hand, payments to Hungarian wireline and foreign service providers decreased because of lower Hungarian interconnection fees and lower international traffic with favorable average settlement rates.

The cost of telecommunications equipment sales was HUF 40.8 bn, compared to HUF 39.7 bn last year. This figure represents an increase of 2.7% driven by upgrades and higher average handset prices at T-Mobile, partially offset by lower number of gross additions.

Other operating expenses were HUF 143.7 bn, compared to HUF 135.5 bn in 2002, an increase of 6.0%. Major expenses increased include marketing costs, as well as agency fees at the fixed line and mobile segment. Higher than average growth is primarily explained by the increasing mobile and Internet penetration (e.g. ADSL) and promotion of tariff packages. Agency fees also include the HUF 1.5 bn that T-Mobile paid to Fotex in the last quarter of 2003. Under the terms defined in a contract signed on December 10, 2003, T-Mobile took over the Fotex Group dealer network contract relationships consisting of 81 outlets. In addition to operating expenses, the income tax expense increased. The growth here is explained by deferred tax assets primarily arising from previously unrecoverable losses which decreased the reported income tax expense in 2002.

Impact of the taxes paid

Considering the fact that Matáv is a company wielding one of the biggest economic weights in Hungary, the building tax paid to the local municipalities and the local industry tax paid on the proportionate amount of personnel payments, mean an important source of income for the localities. Through these, the company exercises both employment and financing impact on the economies of the localities. In the period surveyed the assemblies of 4 cities expressed their appreciation to Matáv as major taxpayer.

PERSONNEL EXPENDITURES

Employee-related expenses decreased by 1.5% to HUF 87.9 billion as a result of a 7% decrease in average Group headcount, resulting from the efficiency program, and lower severance provision charge, partly offset by wage increases (such as those effective April 1, 2003 at the parent company Matáv Rt.). At the end of 2003, total Group headcount amounted to 14,710, representing an 8.7% decline compared to 16,114 at the end of 2002.



PUBLIC–SOCIAL ASPECT

HUMAN RESOURCE MANAGEMENT AND TRAINING

In 2003, the Matáv Group developed its human resource vision, in harmony with the mission and the strategy, which can be read in the Strategies chapter.

Milestones 2003

Human resource management with a new vision

In 2003 we defined the Matáv Group's human resource vision, in line with the corporate Mission and strategy: "Committed professionals with independent initiatives are the key factor for the Matáv Group's business success." Our primary goal is to ensure that Matáv has the most professional human resource organization in Hungary and that customers consider it their internal partner and consultant which is contacted with confidence also by other companies wishing to gain experience.

Talent management and career planning

Since April 2003, the Personnel Round Table assessment method, already proven at Deutsche Telekom, has been applied to almost all senior and middle management and talent management programs were also launched. At meetings, senior managers assess the performance and development potential of managers in leading positions in their respective management areas. Our human resource development professionals help

young staff members in career planning, which serves the interests of both the employees and the company. Matáv recognizes professional excellence and welcomes new ideas. Each year more than 500 employees and the authors of more than 80 innovative telecommunications ideas are rewarded.

Caring and healthy workplace

In 2003 new service charge allowances, including employee Internet were added to the wide range of employee benefits offered by Matáv. This was connected to the internal Intranet service, launched in 2002 and extended with new features in 2003, through which Matáv continues to be number one in Hungary in terms of internal online applications. The importance of this is enhanced by the fact that 20% of our staff work with flexible schedules and 250 employees are teleworkers working two or more days a week off-site, mostly at home or at a customer, with the help of advanced communication. In February 2003, Matáv joined the Healthy Workplace Program of the American Chamber of Commerce in Hungary (AmCham).

Innovative job training

A key component of Matáv's human resource development is internal training for the employees and support for their external professional studies. A wide range of training is offered to support the employees' professional development and improvement of skills. We operate an internal tailor-made training system based on 10 years of tradition, and in addition to conventional courses also use innovative training and

development solutions. The Sales Academy, developed for marketing and sales teams, offers training courses customized to jobs which support the employees with practical knowledge.

High level training and recruitment

At Matáv the share of graduate employees has reached 40%, and for this reason we primarily support studies for a second diploma. In 2003 we concluded study contracts to support the university education of about 1,000 employees primarily in economic, technical and legal areas. Matáv offers an internship program for fresh graduates where they can learn about corporate culture and gather practical experience. The Rajtkő (Stepping stone) internship program aims at helping freshly graduated lawyers, economists and engineers who come to the company or the Group. This includes presentation of the Company over a seven-month period, leading them around in various areas, offering them theoretical and practical training and active involvement in a job.

Management training

In 2003 the programs aiming at senior and middle management's development were restructured. The goal of the Management Academy training is to support leadership roles and develop the Group's managers, to provide a forum for experience sharing, joint thinking and discussing new management tools, specialized for target groups. Additionally the cascading structure of the programs enhances the continued development of corporate culture. The inter-

active program series called *Naprakész (Updated)*, which targets middle and senior managers, aims at promoting joint thinking and learning new and successful management styles and tools.

Distance learning and multimedia

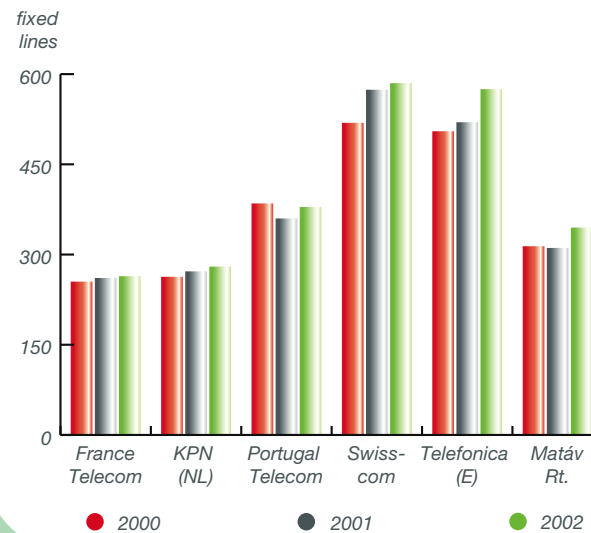
Matáv has a long tradition in distance learning method with 45% of the training courses offered as distance learning. Our synchronous distance learning studio was a great step towards improvement of training efficiency, capitalizing on more than 6 years of experience with distance learning and multimedia curriculum development. In 2003 a distance learning training offered to all Matáv Group employees introduced the provisions of the Sarbanes-Oxley Act for companies listed on the American stock exchanges. Recognition of our experiences with distance learning was shown by our participation in 2003 in the *e-MódszerTAN (e-Methodology)* national project with an objective of laying the foundations for standard e-learning methodology in Hungary.

Employment and decent work

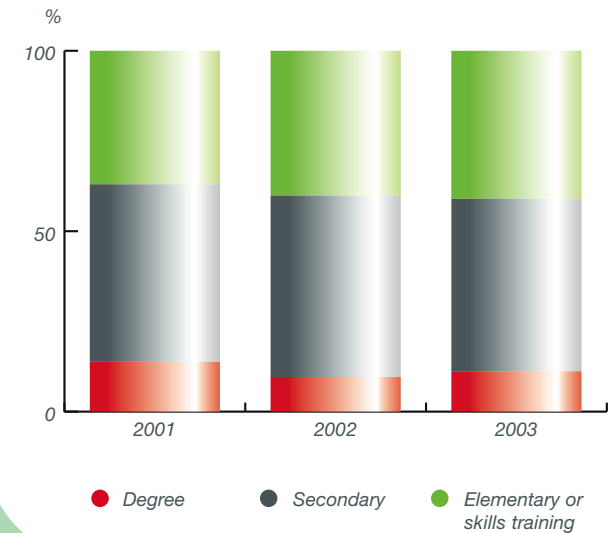
At the end of 2003, in the context of its employees the Matáv Group devotes much attention to the questions of training, health and security. The company benchmarks the per employee number of fixed lines on other telecommunications companies. In compliance with the mission of Matáv, the proportion of its highly qualified workforce is growing steadily: the following diagram shows the percentage of graduate employees.



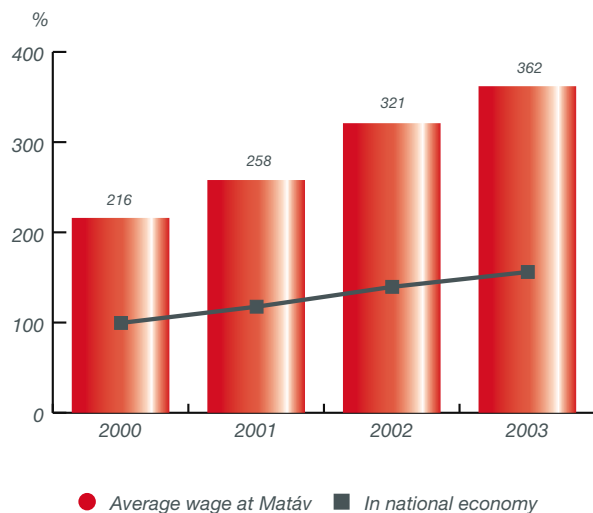
No. of fixed lines per employee



Distribution of qualification levels



Average wage at Matáv and in national economy



Financial rewards compared with the national economic average, and taking the national economic figures of the year 2000 as 100% show the trend illustrated by the diagram.

The range of social and welfare benefits provided by Matáv is extremely wide by Hungarian standard. Some of these benefits are available on employee right but others are conditional on certain eligibility criteria. The social benefits and the procedure of granting benefits not available on employee right are regulated in the Collective Agreement and the related regulations. The size of the benefits is determined annually at the interest conciliation talks. The benefits available on employee right include workplace meals, telephone usage benefit and – with the consent of the employee – the benefits available under the DIMENZIO scheme. In addition to the traditional social policy elements, the company provides new types of insurance benefits based on the risk-sharing of employer and the employee, through the DIMENZIO Insurance Association. The life, pension and health insurance schemes, and the self-help provisions are available to every employee, if

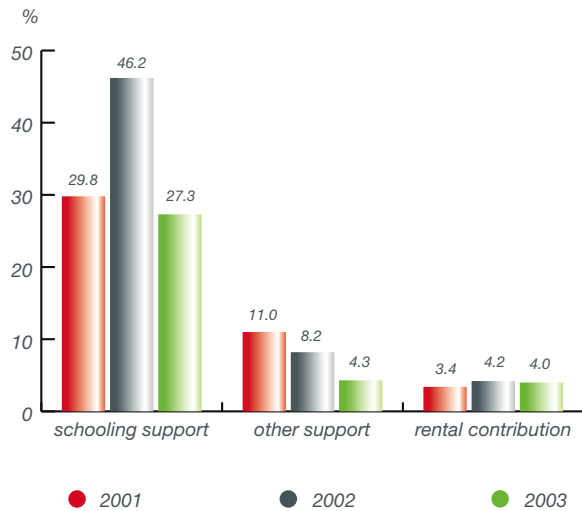
they agree to join the insurance scheme. In fact, a very high percentage of our employees is member of one or more Dimenzio organizations. The benefits not available on employee right include company holidays, rent contribution, aids, housing loans, commuting support, provision of work uniforms. Each year, in the framework of the Matáv Group on the Podium event, the company offers an opportunity for its employees engaging in some amateur art activity to demonstrate their talent. Libraries offering classical and professional literature are also available to the employees in several company premises. Matáv supports mass sport activities through the sport clubs it has created and the annual Matáv Olympic Games offer an opportunity for the company's amateur athletes to match skills in the different sports. In 2003, this event drew almost 1,500 individual entrants and 277 teams. Outstanding among the non-financial incentives (decorations, rewards) are the Matáv Employee of the Year and the group-level Employee of the Year awards, and the rewards awarded by the top managers. These types of reward are also accompanied by a purchase or travel voucher.

The following two diagrams show the welfare benefits granted on other than employee right.

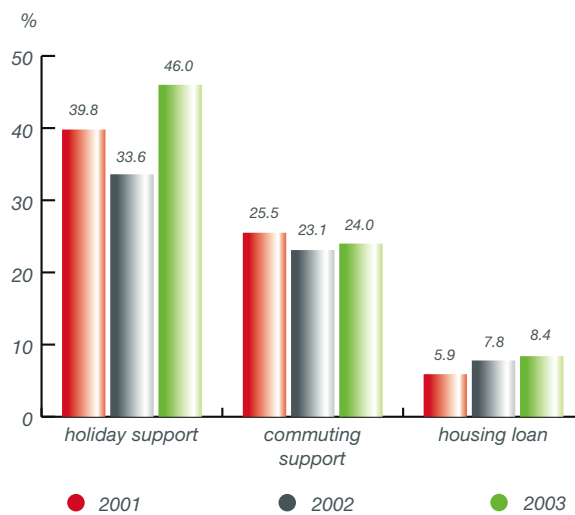
Welfare benefits granted on employee right are rising.



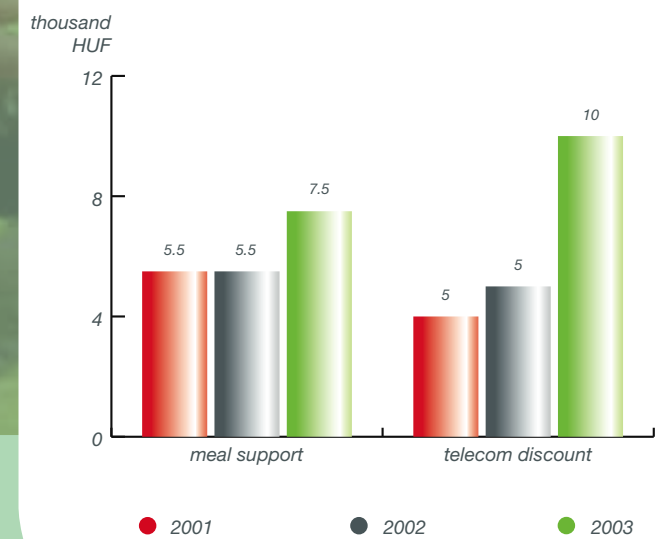
Welfare benefits without automatic entitlement I.



Welfare benefits without automatic entitlement II.



Welfare benefits with automatic entitlement





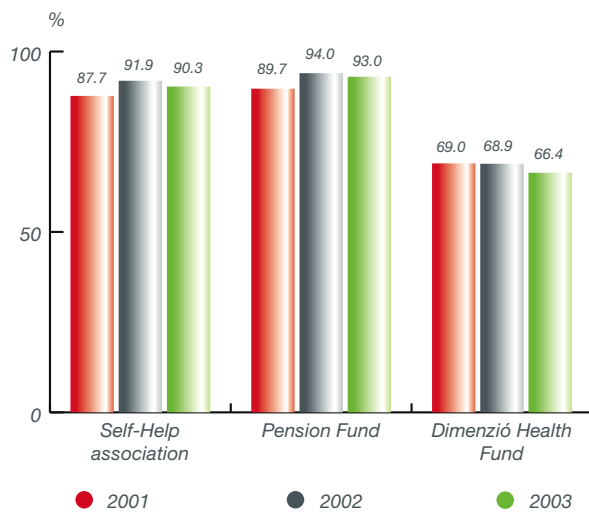
Employee representations

In compliance with the effective regulations, in the interest of the representation of employee interests Matáv ensures the operation of the trade union and the workers' council. (see the chapter on interested parties).

Headcount and personnel expenditure spending is implemented in an annually repeated, regulated process documented in the quality management system. The Human resource planning and controlling manual was issued in 2003.

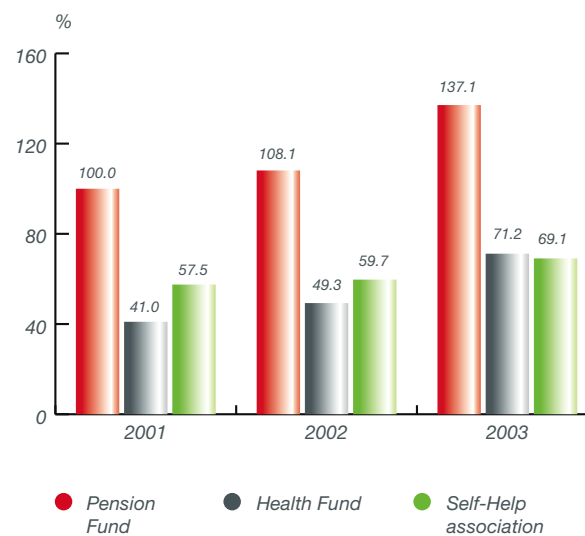
The headcount plans of the organizations are developed in the same time schedule every year by using the results of the joint benchmarking project with MERCER, in close cooperation with the trade unions, with top down-bottom up method. This headcount plan is then coordinated with the various interest representation organizations. Subsequently, the plan of the necessary personal expenditures is elaborated. The headcount and personnel expenditures and their utilization are regulated by the relevant directives of the CEO and the chief officers, which are commented by the organizations prior to release. The comments and proposals are integrated in the regulations. This makes possible to continuously review and improve the planning process.

Dimenzió Group membership



Many Matáv employees are members of the Dimenzió Group. The diagram shows membership by branch compared to the overall headcount.

The contribution of Matáv to Dimenzió membership fees (member/year)



Matáv supplements the employees' own payments into the branch Dimenzió schemes.

Diversity and equality

Both in the selection process and during the employees' career at Matáv, the company has always ensured for its employees equal opportunities irrespective of age, gender, ethnicity, religious and political conviction and sexual preference.

The foundations of equitableness and equal opportunities were laid down at Matáv by the norms stipulated in the Code of Ethics issued in 1997.

The initiatives promoting equal opportunities are: teleworking, part-time work, flexible working hours, employment of persons with reduced abilities, support of disadvantaged people (through foundations), children's vacations, training.

Following chart shows the results of the initiatives aimed at ensuring equal opportunities for the employees.

The principle of equitableness is manifested in the human resource policy in the following:

System of welfare benefits, wide range of benefits granted on employee right.

Competence-based approach with attempt at objectivity in the selection, performance evaluation and individual development.

It also points in the direction of equitableness that in the case of downsizing the company grants several times the amount of severance pay specified by law. In addition, the vacancies are filled primarily from

inside, with employees recruited from the downsized areas, reducing also in this way the number of employees who have to be dismissed. In 2000–2001 the proportion of vacancies filled in this way reached 70%.

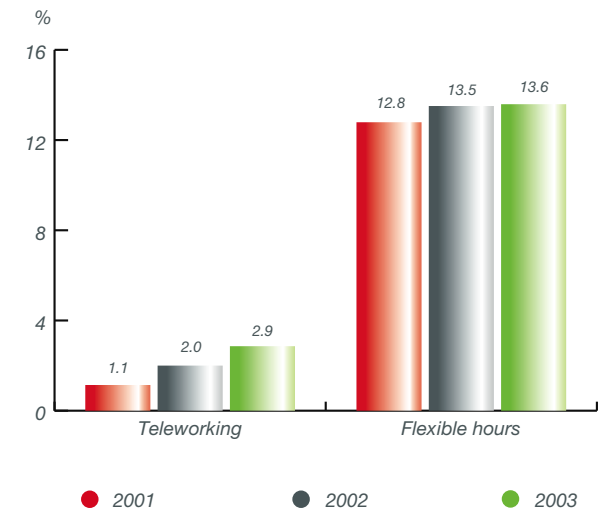
The company has been providing outplacement service („CHANCE program”) since 2001 in an effort to help the downsized employees find a new job.

The employees leaving the company have access to services most needed in their life situation: re-training, help in finding a new job, labor law counseling, and from 2003 also psychological assistance and labor market training. The availability and nationwide coverage of the services have improved with the growth of the number of the program offices and both the participation and the placement rates have increased.

The company promotes corporate diversity with programs designed for groups with different social status and background (wide use of teleworking, “Women in management” program, etc.) and naturally retains its focus on assuring equal opportunities for its employees both in the selection practice and in everyday work.

A good example for these efforts is that T-Mobile employees in its Call Center disabled persons, thus improving the employment opportunities of this group.

Ratio of teleworkers and employees working flexible hours of the total headcount



Health and Safety

Labor safety

The high level of safety of its employees is key focus for Matáv, as is the observance of the requirements of providing safe working conditions for them that do not impair their health.

A dedicated organization deals with the questions of labor safety and occupational health, and with the development of the labor safety strategy and the tools of its implementation.

The tasks of Matáv's labor safety office include the following:

Regulation of the labor safety activity, development and operation of the occupational health service, development and operation of the system for the provision of personal safety equipment; enforcement of the labor safety regulations and control of compliance with them; analyzing occupational hazards, accidents and diseases; making labor safety reports, statistics; planning non-personnel labor safety expenditures, supporting and monitoring use; evaluating the company's labor safety activities, provision of data for the line authorities.

The relevant Matáv regulations and procedures comply with the Hungarian labor safety and occupational health regulations, which are aligned with the ILO regulations.

Matáv's Labor Safety Regulations regulate the procedures of treating work-related safety questions.

Matáv has checklists on the safety requirements of each organization, the employees are involved in drawing up these checklists and evaluation of the

information received and elaboration of the improvement and preventive measures are part of the systematic operation.

Matáv has in place an internal audit process of safety matters encompassing the entire company, which process also appears as a subprocess of the ISO 9001:2000 quality management framework.

This process underlies the following activities:

- Risk assessment, rating on the basis of §54 of the labor safety law,
- action plan to contain risks,
- post-control of the implementation of the action plan,
- periodic aptitude test of the employees,
- prior to the creation, transformation of jobs, control of compliance with the relevant regulations, ergonomic, health, safety and other requirements
- periodic control and authority revision of the working tools and dangerous equipment.

The labor safety law required those employers, in the first instance, that were already in operation at the time of promulgation of the law, to make a risk assessment and rating by December 31, 2002. In 2003, the employers were required to measure the degree of implementation of the action plan prepared on the basis of the 2002 assessment and the change in the level of risk resulting from the implementation of the action plan. The Labor Safety Regulations, which are based on §56 of the Labor Safety Law and on the Ministry of Health decree no. 65/1999.

(XII. 22.), specify the procedure of provision of personal safety equipment and list the equipment of compulsory use. The Labor Safety Office of Matáv is responsible for determining the labor safety provisions for each activity and job, because under the legal regulations its activities qualify as safety authority activities.

Labor safety training

Labor safety knowledge is disseminated through training schemes which the Labor Safety Office develops in compliance with the relevant regulations. The Labor Safety Office controls the implementation of the training schemes against its annual schedule, in compliance with Matáv's Labor Safety Regulations.

Treatment of emergency situations, trainings

For the treatment of emergency situations, procedures have been developed in the framework of the ISO 14001 environment-focused management systems at those organizations of the company which have major environmental impact. The employees involved in the framework system regularly attend training on the operation of the system.

Rates of absence for sickness, workplace accident

According to the statistics of the Labor Safety Office, in 2001, 2.83 workplace accidents were recorded per 1000 employees, in 2002 the corresponding figure was 4.32 and in 2003, 3.96.

The number of sick days was 58,220 in 2001, 51,072 in 2002 and 51,806 in 2003. In 2001 absence for sickness accounted for 2.4% of the working days, in 2002 for 2.1% and in 2003 for 2.5%.

In compliance with §64 of the Labor Safety Law, the Labor Safety Office duly meets its workplace accident reporting obligation and also keeps records of the accidents.

The reporting and investigation of occupational diseases and cases of exposure are implemented in compliance with §65 of the Labor Safety Law and other relevant regulations, with the involvement of the Labor Safety Office.

Occupational health

Matáv runs an extensive occupational health network across the country. Besides the occupational health

services, also dental, general medical and gynecologist services are available to the employees in the company's own medical consulting rooms and in the rented facilities.

The occupational health services are essentially provided for the employees through the Dimenzió health insurance fund. Those medical fitness tests which the Ministry of Health decree no. 33/1998 (VI.24.) refers to the competence of the employer, are directed and coordinated by the Labor Safety Office. The Labor Safety Office is also responsible for referring the employees to the compulsory medical fitness tests prior to entering employment, and to the closing medical tests following the termination of their employment. The jobs where closing medical tests have to be performed are listed in the Labor Safety Regulations. An employee of the Labor Safety Office

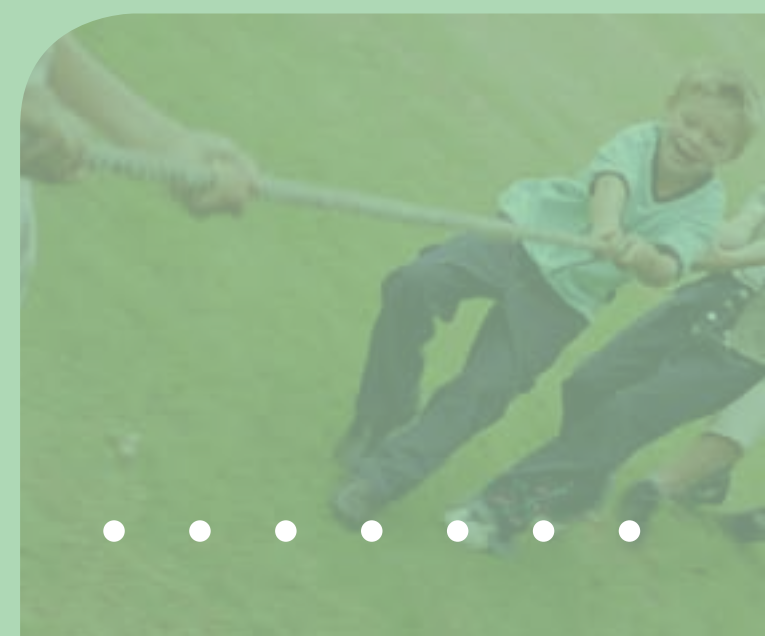
issues the summons for the periodic medical tests required for certain jobs.

The Labor Safety Regulations contain the detailed occupational health rules broken down to Matáv organizations, and the Regulations are updated by the Labor Safety Office.

During the occupational health consulting hours and also in the health preservation program of the Dimenzió health insurance fund, the medicals are happy to advise the employees on matters of health preservation (e.g. chronic diseases, acute contagious diseases, allergy, AIDS information, etc.).

Matáv support to the health preservation of its employees through DIMENZIÓ health fund

| Branch of insurance | Matáv contribution | Fee paid by the insured (member) |
|----------------------------|-------------------------------|---|
| Self-Help | 2.2% | 1% |
| Voluntary pension | 5% + 2,500 HUF/employee/month | min. 1% |
| Life and accident | 500 HUF monthly | - |
| Health fund | 2% | 0.5% |



Education and training

In an effort to bring new knowledge into the company, Matáv has been operating the Starting Block Trainee Program since 1995, under which it hires 20-25 new graduates each year. The participants of the Trainee Program spend a learning period of five months at alternate organizations of the company in order to obtain practical work experience.

Since Matáv is an important player of the telecommunication sector, its managers and professionals participate in the education of the future generation by acting as external consultants to the graduates preparing their diploma. In the past three years 73 diploma works were prepared across the country under the professional supervision of Matáv officials. Between 2001 and 2003 the company granted practice opportunity in the technical and other areas to 136 students, mainly from Budapest.

Matáv developed the Compass program in 2002 to help the new entrants learn the company faster and integrate into it with the aid of the Internet. The orientation in the company of the new entrants is also assisted by the so-called Mentor program, helping them to learn their professional environment faster.

Matáv uses the Performance Management System (TM), which was introduced in 1997 and has since been continuously upgraded, to measure competence, knowledge and review individual tasks. Depending on the requirements, various systems are used to measure competence and knowledge, which have been developed on the basis of samples taken from the domestic environment, and which are being continuously updated:

- Assessment Center (AC), which is used primarily for selection,
- Development Center (DC), which focuses on the areas in need of improvement of the participants,
- 360 degree assessment, personality / intelligence / motivation tests (e.g.: OPQ, Raven, Mill Hill).

After having identified the areas in need of improvement, training, the trainings may be implemented in the following forms:

- conventional training, “front” training within the company, (e.g. the training of technicians) and training outside the company (telecommunication MBA in cooperation with BKI-VKI)
- skill development training (individual and team programs with trainers, e.g. team-building, self-knowledge training)

- e-learning, that is individual remote learning with the help of the “net” (e.g. media training)

The store of the training and improvement exercises is the Training module system based on the Qualification catalog, from which the specific training modules suited to the chosen development targets can be selected. At present, over 110 training schemes can be offered from the training module system.

The aim of the training, learning through work experience is that, as a result of the process, the participants directly integrate the experiences gathered in their daily work and improve their skills.

In the past year 33 employees participated in the international management exchange program developed jointly with DT. Another practice of learning through work experience is job rotation, through which the employees can learn several jobs from inside, expand their knowledge and experience. Yet another form of learning and development within the company is that the participants of the program find the solution to a given problem in individual or team work. Such programs are the ‘Spark’ complex idea management system, the ‘Oops’ Internet-based idea-sharing page and the annual problem solving

competitions. This learning process is implemented through the joint thinking of employees delegated by several areas – in an inter-organizational form.

Chart: Training costs and training days per person shows the per employee budgeted and actual training costs and the number of student days per employee

The statistics indicate also the proportion of conventional and remote learning (Chart: Ratio between traditional and distance training).

In addition to the above, we involve in projects those employees who possess the required competencies (know their area well, their personality make them suitable for team work and for accepting extra task). Besides the projects, the employees can also partici-

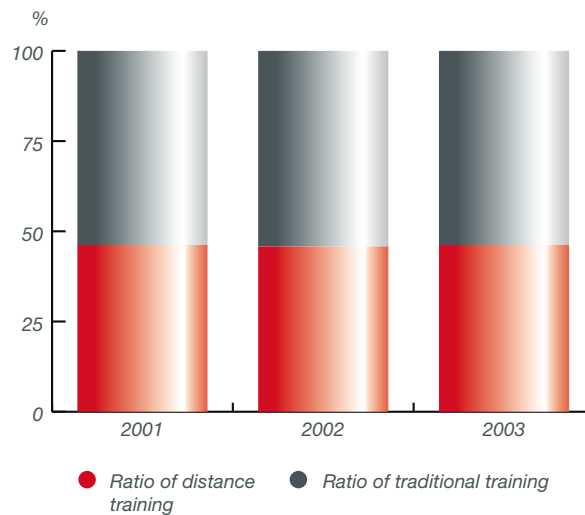
pate in team work. For example, teams elaborate the organizational action plans, perform the organizational audits and process the MIRROR employee opinion research findings.

An ever growing proportion of the employees attend team-building exercises in order to increase the efficiency of team work. (Chart: Ratio of participants of team building to total headcount).

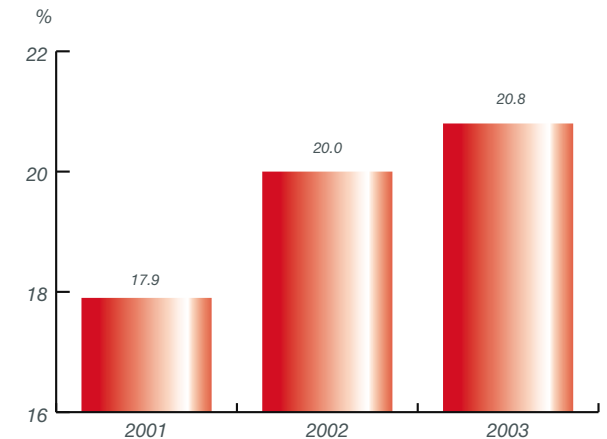
Training costs and training days per person



Ratio between traditional and distance training



Ratio of participants of team building to total headcount



For those employees who do not yet possess the competencies needed for the implementation of tasks requiring key authorization, the TM system offers the possibility to identify and develop the missing knowledge.

In the TM process regular feedback and the processes built upon one another ensure constant development. The TM ensures the continuous personal development of the employees by setting the training directions and frameworks. The number of employees involved in the system is growing from year to year. It was first employed for the key group of strategic management, but by now it has been rolled out to many more employees who play instrumental role in the attainment of the corporate objectives. In the TM system the targets are set and performance is evaluated jointly, with the involvement of the employees.

Using the methodology applied in Hungarian practice, in 2003 Matáv developed its Integral Competence System (EKR) which, departing from the company's mission and strategy, structures, defines and arranges into levels the company's set of competences.

For the definition of the employee qualification requirements of the specific jobs, in 1994 the company developed a job category system resting on the internationally used Hay methodology, which it revised and simplified in 2003. The position descriptions completed by April 2004 supplement these definitions.

Several initiatives have been made for the involvement of the employees and for widening their authorization. In 2003, we developed the integrated Spark complex idea management system, which encourages the employees to enrich the knowledge of the group with their own innovative and creative ideas. The "Oops" forum of special ideas is the most popular element of the Spark program, through this forum the employees can keep sending in innovative ideas and proposals which a professional jury will then evaluate.

The Problem solving competition has been in place since 1997, offering employees the opportunity to send in applications with possible answers to key problems affecting the entire group.

The Product idea box is used for the collection, evaluation and utilization of marketing and product ideas coming from the employees.

The Ulrich Schaumann prize managed by the "Matáv for Technical Development Foundation" has also been created to tap the creative ideas of the employees. It is used primarily in the technical areas to recognize creative ideas which directly or indirectly result in extra revenue or cost-saving for the company, or set a new strategic path leading to the above-described objectives.

Matáv has founded the "For Telecommunication" creators' award as financial and moral recognition of the efforts of those employees who offer outstanding performance in the innovative and creative work of

telecommunication, champion new ideas, services or methods. The prize is given both to individuals and teams.

Human rights

Ensuring equal opportunities and an approach free from discrimination are key focus of the Human Resource Strategy of the Matáv Group. Among the nine basic elements of the SA8000 (Social Accountability) standard Matáv devotes special attention to non-discrimination. As regards the other measured area, such as child labor, forced labor, health and safety, free association and collective bargaining, disciplinary practices, working hours and compensation (management system), these are either regulated in the Collective Agreement or, since the company does not use child labor and forced labor, there is no special system or regulation in place either, because the practice followed by the company is in conformance with the Hungarian laws and regulations (including the Constitution of the Republic of Hungary, the Labor Code and its provisions, and the Universal Declaration of Human Rights).

- Article 2 of the [Universal Declaration of Human Rights](#) pronounces: "Everyone is entitled to all the rights and freedoms set forth in this Declaration, without distinction of any kind, such as race, color, sex, language, religion, political or other opinion, national or social origin, property, birth or other status."

The *Code of Ethics of the Matáv Group* formulates this principle as follows: “Following from the above, we too have to respect the religious, political and other conviction of our colleagues and refrain from influencing them with any – especially authoritative – means.”

- According to Article 3 of the *Universal Declaration of Human Rights*: “Everyone has the right to life, liberty and security of person.”

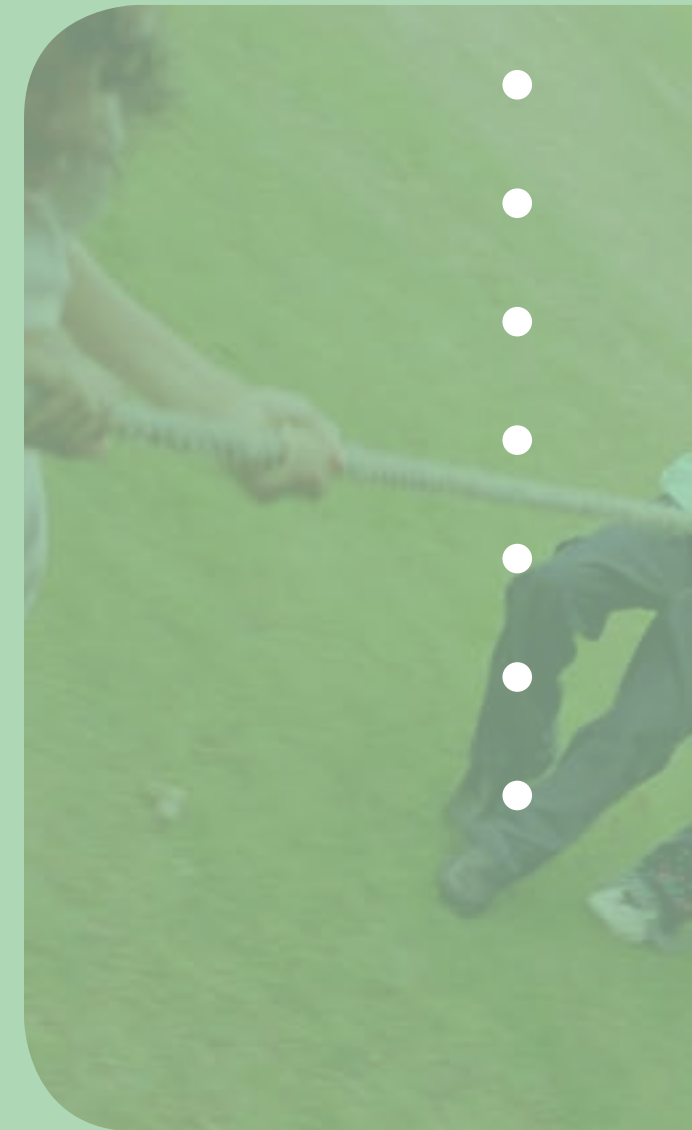
The *security services of the Matáv Group Security Branch* extend to the following: protection of property, information security, handling of confidential documents, security supervision, etc.

- Article 22 of the *Universal Declaration of Human Rights* pronounces: “Everyone, as a member of society, has the right to social security...”
The range of welfare services provided under the *Collective Agreement of Matáv* and through the *Dimenzió Group* helps increase the security of the employees and the attainment of a better quality of life.
- Article 23 of the *Universal Declaration of Human Rights* pronounces: “Everyone, without any discrimination, has the right to equal pay for equal work.”

The principle of equitableness plays prime role in the development of *Matáv’s wage tariff* system.

- Article 24 of the *Universal Declaration of Human Rights* pronounces: “Everyone has the right to rest and leisure, including reasonable limitation of working hours and periodic holidays with pay.”
The *Collective Agreement of Matáv* regulates resting and working time in compliance with the relevant provisions of the *Labor Code*.

- Article 25 of the *Universal Declaration of Human Rights* pronounces: “Everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control. Motherhood and childhood are entitled to special care and assistance. All children, whether born in or out of wedlock, shall enjoy the same social protection.”
The *aid, support and benefits provided by Matáv* for its employees, such as housing loans, health fund, sick pay, extraordinary holidays, child birth support, schooling support, etc. are designed to promote the enforcement of these principles.



CORPORATE SOCIAL RESPONSIBILITY

In compliance with its mission, Matáv is making available the achievements of information technology to the widest circle of customers, and is offering such solutions with which it can assist the efforts of the society to create a more meaningful, successful and humane future.

Matáv attaches key importance to fostering relations with the representatives of the society. At group level, it is launching numerous initiatives of cooperation and support in order to promote the development of the information society because, as responsible corporate citizen, it fully realizes that its own operation will become successful through the development and success of the communities.

Cooperation

The most characteristic thing about Matáv's cooperation with the representatives of the society is that, in order to benefit from exchanges of view and adopt the best practices, it maintains membership in such domestic and international organizations where it can play an active role. These are such organizations which support Hungary's development, the attainment of high quality and excellence, but there are also several industry organizations among them. The company is represented in these organizations at various levels of management. The company is involved in 23 international organizations and many Hungarian ones including MSzT, MISZ, OMIKK, Inter-University

Telecommunication and Information Technology Cooperation Center, Hungarian National Host.

Matáv's executive managers pay outstanding attention to the fostering of social relations, they represent the group in many important public organizations, associations and committees. (for our roles see the chapter on interested parties).

Matáv managers are actively involved in cooperation schemes with the Budapest University of Technology and Economics (BMGE) and the Scientific Association of Communications (HTE), because these organizations constitute the basis of our domestic innovation relations.

The managers regularly attend industry conferences, workshops, symposiums, seminars organized by the partners in Hungary and abroad (for example, the CISCO Expo, Siemens, Ericsson, Kapsch, Alcatel seminars, CEBIT, IIR-Institute for International Research conferences, Liberalization Forum, Telecommunication and Marketing Forum, Controlling Academy) not only as audience but also as lecturers. The most important partners among the international organizations are EURESCOM, ETSI, ETNO and ITU-T. Involvement in the international and Hungarian organizations provides good opportunity for learning and adopting the best practices. Matáv also regularly participates in the activities of the major international telecom service providers and the relevant work groups.

As member of ETNO (European Public Telecommunications Network Operators' Association) Matáv has since 1998 been involved in the work of the Environmental Working Group and subsequently the Sustainability Working Group, supplying information for the Environmental Reports, contributing also with this to making the operations, environmental and sustainability performance of the European telecommunications companies transparent and accessible for the public at large.

Since 1998 Matáv has organized Environmental Round Table discussions on six occasions, to present its own environmental achievements, learn the problems of the interested partners and answer their questions. The feedback and proposals received at these meetings set off cooperation with several national parks for the use and testing of information communication technology in nature conservation work.

The management exchange program within the DT group is designed to improve cooperation with Matáv's strategic partners. In the framework of this initiative Matáv managers have the opportunity to work for a month in a DT organization, learn the operation of DT, its development areas and forge good personal contacts with DT colleagues working in counterpart areas. They can then pass on the experiences so gathered to their own Matáv colleagues and adopt them in their everyday work.

In the “Business and Success” project Matáv, together with other companies, help small and medium-size enterprises prepare for the tasks posed by European Union membership. Matáv evaluates the work of its suppliers every year in the framework of the “Supplier of the Year” project.

When preparing the launch of its Jelmondó (relay) service, Matáv contacted the National Federation of the Deaf and Hearing Impaired (SINOSZ). The service helps satisfy the telecommunication needs of deaf and hearing impaired people. Matáv’s Donation Board presented SINOSZ 60 special devices.

Donation and sponsoring

Beyond taking its part in the support of Hungarian cultural life commensurate to its economic role, Matáv has become one of the most significant players of the civil sphere over the past ten years. The introduction in Hungary of the term “corporate social responsibility” is also associated with the name of Matáv.

The term, covering the areas of support, donation and patronage, has become accepted as a household word in professional and civil circles alike. Over the past three years Matáv helped over 400 non-profit organizations survive and grow.

The Nonprofit Information and Education Center

(NIOK) awarded Matáv the 2003 Corporate Donor of the Year. The foundation awards this prize to business organizations taking a leading role in donation. The prize has been awarded every year since 1995, and in a unique manner in the history of NIOK, Matáv deserved this high recognition for a second time.

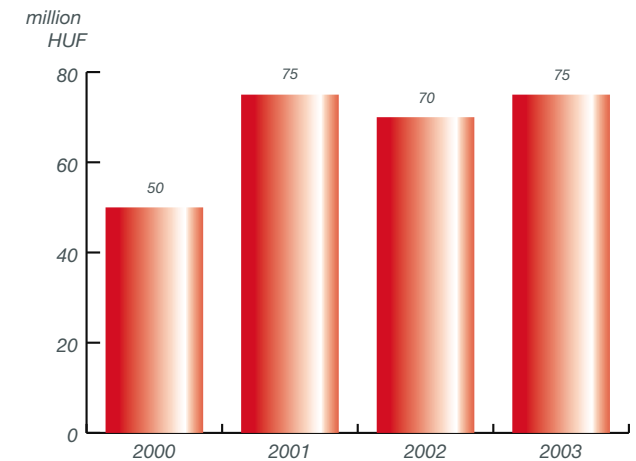
“In addition to its direct financial donations which amounted to 110 million HUF in 2003, Matáv also makes exemplary contribution to the development of the civil sphere through its free or subsidized services, which help the civil organizations make the interested parties and the donors familiar with their activities”, the board of trustees explained their decision. Matáv makes public its decision on granting support, and on its home page provides information to people inquiring in donation and sponsoring matters.

As part of its corporate social responsibility, Matáv makes significant contribution to the development of the sponsoring culture in Hungary. Through its donation activities, it is involved in the support of disadvantaged groups, health and social organizations, also expressing in this way its sensitivity to the problems of the society, the community.

Matáv implements this task with the help of its Donation Board, which allocates significant sums each year for charitable, social and health purposes.

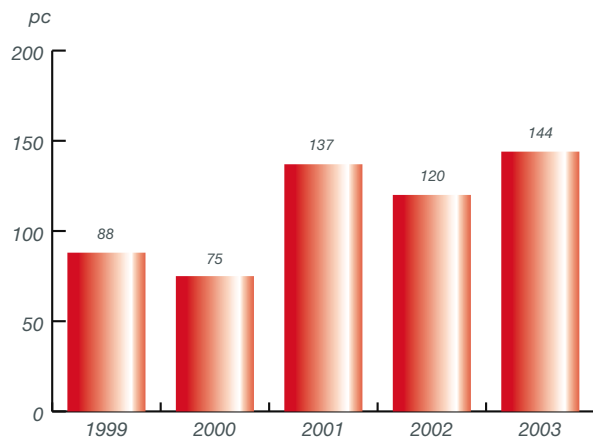


Donations to health and charitable causes





Organisations and foundations supported by donations



KEY AREAS OF DONATION

- Treatment, preventive care of heart and vascular diseases
- Health preservation, sickness prevention programs, in particular the tumor screening, rehabilitation, recreation
- Treatment of communication problems (speech, hearing impairment)
- Sport activities of people with disabilities
- Cultural initiatives of disadvantaged localities
- Treatment of the health and social problems of children
- Support of the work of telephone helpline services

Matáv feels an important task to support the Hungarian non-profit sphere, various foundations and associations, and to participate in solving the burning problems of the society (Chart.: Organisations and foundations supported by donations), which efforts are recognized not only by the media, but also by the numerous letters of thanks received.

Matáv has given yet another proof of its social sensitivity when it introduced a new form of donation in Hungary: in May 2002 it launched the Donation Line, which enables the collection of donations from the population on the telephone. By calling a specific number, people can donate 100 HUF with each call to a charity organization. Matáv then decides through applications to which organization to give the collected money.

The company provides the service for free, with transfer of the full amount of donation, without business interests, with undertaken the costs (VAT), and in addition provides significant support to the organizations in communications campaigns (eg. organization TV, or other press events).

From May 2002 with the help of Matáv Donation Line 12 non-profit organizations received more than 70 million HUF.

DONATION COLLECTION CAMPAIGNS IN 2003

- January–February 2003: Shelter Foundation
- March–April 2003: Children for Children’s Health Foundation
- May–June 2003: Artists for Children with Leukemia Foundation
- July–August 2003: Down Foundation
- September–October 2003: UNICEF
- November–December 2003: Infants with Heart Disease Public Benefit Foundation

The company reached significant efforts too with introducing the 1771 “charity number”. In cooperation with RTL Television in 2003 Matáv – in a similar construction like “Donation Line” – 24 million HUF collected in 4 days for the child clinic in Debrecen. In 2003 Matáv as an example to other public service providers introduced the civilian packet, in which provides an average 30% discount to non-governmental organizations.

Matáv group-member Axelero supported, among others, the Hungarian Association of the International

Child Rescue Service. In the framework of the support the company provided broadband (BDSL) internet access for the Budapest headquarters of the organization and its computer club at Pécs, while the Service used the remaining amount of the support to sponsor the 13rd Children's Day events in Budapest's City Park.

Axelero has also been supporting for two years the Hungarian Hospice Foundation by providing ADSL Profi service for them.

Matáv's sponsoring activities are also commensurate with its economic weight. From year to year it plays an important role as lead sponsor of Hungarian music culture and prominent music events. As the biggest sponsor of Hungarian cultural life, it spends hundreds of millions of forints annually on supporting culture, especially classical music, theatre and art events. The amounts spent on sponsoring increased by an annual average 10.5% between 1999 and 2003. In line with its leading market position, Matáv primarily sponsors such events or programs where its name appears in the slogan or title ("In harmony

with Matáv", "Matáv presents", "Matáv theater evenings"). Since October 2000 our culture sponsoring activities includes also the exhibitions in the Matáv Gallery, the aula of the company headquarters. In 2003, group-member T-Mobile was involved in supporting numerous cultural, sport and social events, scientific and industry conferences, literary events, fashion and other shows, balls, serious and light music concerts. T-Mobile and its partners organized a great number of music events and other programs that gave hundreds of thousands unforgettable moments of joy and true enjoyment. To mark the 10th anniversary of its existence, T-Mobile brought to Budapest a true world star Elton John.

The Macedonian member of the group MakTel has also drawn up its sponsoring strategy and developed the relevant rules. On the basis of these, as a significant national company, it mainly sponsored sport, cultural, education and health preservation initiatives and events in 2003. These included the sponsoring of the Goce Delcev folk song festival, supporting prominent Macedonian sport clubs like

the Macedonian karate and ski federations, the MTZ basketball club's junior team and a Marathon running club. The company also supported the roll-out of the Schools Online school internet program.

The sport, including the mass sport activities of young people and disabled persons is a key sponsoring area of Matáv. (Chart: Participants in the mass sport and youth events sponsored by Matáv) These events move more and more people each year. The Matáv Vivicitta and Minicitta City Protection running races already count as outstanding mass sport events of the year; since 2001 they have been staged in some large cities (Szeged, Veszprém, Pécs), too in addition to Budapest. These running races and the Matáv Children's Island have already become traditional family events, giving old and young the opportunity to spend their free time together in a fun and healthy way. Besides supporting mass sport, Matáv also focuses on the replacement: for several years it has been sponsoring the Matáv Polo School where former Olympic and world champion coaches train the budding waterpolo talents.

| | Number of participants | | | Change 2002/2003 |
|-------------------------|------------------------|--------|--------|------------------|
| | 2001 | 2002 | 2003 | (%) |
| Matáv Vivicitá | 10,000 | 11,400 | 11,200 | (1.75) |
| Matáv Children's Island | - | 18,000 | 60,000 | 233 |

Institutional sponsorship means, in the case of Matáv, complete or partial financing of the cultural, sport or other institutions founded by Matáv. Matáv acts as patron of the Hungarian telecommunication and post museums, and the institutions providing for the education and sport activities of our employees, also receive company support. (for details on the supported foundations see the strategy chapter). The single most important element of Matáv's patronage activity is the maintenance of the Matáv Symphony Orchestra. Thanks to the support of the company, the orchestra can work in its own home, the Matáv Music House, where much attention is paid also to the music education of young people. As a result of its preserving professional efforts in the past 5-6 years the orchestra made it to the ranks of the most prominent Hungarian orchestras. The National Civil Guard Association and its member organizations that number almost 60 000 members across the country and play an important role in crime prevention, concluded a three-year agreement with T-Mobile. This framework agreement gives the Association the possibility to purchase up to 30,000 discount subscription tariff packages in which the

services are bundled according to the requirements of the civil guard, sets also with a discount and even use the GSM Pro service. The National Sport Federation has also chosen T-Mobile as their operator. Under the relevant agreement the members of the federation are entitled to substantial discounts both on the purchase and the usage of the mobile phones. T-Mobile also grants purchase discounts to almost 100 000 athletes with competition license under this agreement.

A large enterprise can only be a responsible citizen if its employees also are. Since 1999, the company has been offering its employees an opportunity for charitable activities by operating the Supplemented Individual Donations (KEA) program. Under this program the company supplements the individual donations of its employees. The employees readily endorse the corporate initiative, proof of which is the popularity of the KEA actions and the success of the Christmas clothes collection campaign (in the 2002 campaign about 3,000 kg used clothes were collected for charitable purposes).



In the emerging knowledge-based society the mediation of knowledge also belongs to the tasks of a telecommunications company. The Matáv Group initiated, organizes and finances the University of All Knowledge initiative, which was launched jointly with the Hungarian Academy of Sciences in September 2002: it comprises weekly lectures by prominent scientists about questions of wide public interest. A research into the awareness of the Hungarian public returned that 25% of the Hungarian population has already heard about the University of All Knowledge and 5% follow the lectures on television from week to week. This project has also made available on the internet the highest-standard Hungarian knowledge base, and the lectures were published in a book in 2003.

Matáv supports secondary and high-level education through foundations. The Puskás Tivadar Secondary Technical School for Telecommunications maintained by the Telecommunication Education Foundation counts as the third best vocational secondary school in the country. The company has made agreements for supporting five other vocational secondary schools.

In the framework of its higher education support activities, Matáv has cooperation agreements with seven universities and colleges.

In the field of infocommunication education, it has launched the country's first complex telecommunication-information technology training program called e-akademi@, which offers accredited advanced-level

and high-level qualifications in two professions (infostructure manager and telecommunication technician).

In compliance with the needs of the information society, Matáv and Axelero have created the Internet Academy which is designed to help masses of people master basic knowledge in Internet usage.

In cooperation with the Budapest University of Technical and Economic Sciences, Matáv established the Media Education and Research Institute in 2002. The MultiCenter training and education centers, which the Ministry of Education has been operating with Matáv support since 1999 in 19 locations, implement "learning by playing". These computer centers representing the most state-of-the-art technology offer inter-active programs to children, students and adults alike in a multimedia environment.

T-Mobile is the only Hungarian mobile operator to be involved in a national scientific research program, whose importance reaches beyond the borders and which has earned much international interest and recognition by now.

In the framework of the joint program with the Institute of Philosophy of the Hungarian Academy of Sciences called "Communication of the 21st century", which studies the effects of the mobile phone of the society and human behavior, the world's largest conference was held on this topic at the end of April in which all the prominent international workshops were represented. The 28 lectures given at the con-

ference were published in a book entitled "Mobile Democracy: Essays on Society, Self and Politics" and also in German language.

Axelero has founded several scholarships and also offers other support to students offering excellent performance in higher education. The scholarships include the Axelero scholarship for students of economics studying the Internet economy and the scholarship available for BMGE students engaging in Internet development studies, as these are considered to be key areas contributing to the knowledge-based society.

Axelero was again chief sponsor of the Internet Hungary conference, organized in October 2003 for the fourth occasion.

Risk management, Product liability

System of risk management

The risk management system of the Matáv Group comprises the identification, quantification and assessment of the risks, if necessary, the elaboration and implementation of risk management measures and ongoing control of their implementation and effectiveness.

The management of the company took decision at the end of 1999 on the development of the risk management system which is currently in operation, and on the establishment of the department coordinating the risk management activities. In 2002 this activity was integrated in the risk management system of the parent Deutsche Telekom.



The material operational, financial, legal, environmental risks in the external and the internal environment are being assessed and managed in a well-defined process. The risk management manual and the relevant CEO directive describe the activities and elements of the process. The process participants have received appropriate training to master the necessary knowledge and the operation of the IT system supporting the process.

After the acceptance of the Sarbanes-Oxley act Matáv improved its risk management processes. Since under this law the stock market companies, including Matáv which is listed on the New York Stock Exchange, must inform their investors about all such risks that can influence investment decisions, the company has supplemented its quarterly risk reporting activity with the so-called ad hoc risk report.

The risk management activity of the Matáv Group is unique in Hungary because it covers the entire company and, in addition to addressing financial risks, it extends to all major corporate risks, too.

In compliance with the decision of its Management Committee, Matáv developed a customized insurance program in 1995, which offers an integral approach to the conclusion and renewal of its own insurance policies and those of its subsidiaries. Since its inception in 1995, the insurance program has become increasingly far-reaching and offering better

and better coverage. Among others, the company is covered against the following risks under its liability insurances:

- *general civil law liability,*
- *service and product liability.*

For damage or personal injury caused by Matáv in the course of activities performed in the capacity of contractor under (business) contract, to the contract partner or the persons using the

- *employer liability,*
- *tenant liability,*
- *environment pollution liability.*

The insurance company pays those damages, which are caused by the eventually environment polluting activities of Matáv.

Product liability

Matáv cooperates with its customers on an ongoing basis, ensuring on both sides the necessary information and collecting comments on its activities. The customer service maintains contacts, fulfills demands and addresses complaints and claims in processes regulated by the ISO 9001 standard.

Maintaining contacts with the customers in the technical areas extend to the provision of information on our services, answering questions concerning orders and ongoing tasks, handling customer complaints and comments and environmental questions affecting the customers.

The methods, the details of the tasks and the responsibilities are contained in our regulations:

The requirements and reporting obligations concern-

ing the security and safe operation of our services and the monitoring system are regulated in a CEO directive.

The technical area receives information from several directions: verbally (from the technicians, sales staff), on the phone and in writing, and then reach the employees operating the above-described processes.

Feedback from the customers is received by the organizations in direct contact with the customers. Some of the comments are then processed by the receiving organization itself, but the majority are relayed to the Relations management center, an organization created specially for taking and processing such comments and complaints. In case of problems of special priority (e.g. data communication errors) coordinators or operators are appointed by name to address the problem.

Matáv regularly measures the satisfaction of its customers by segment, with the involvement of an external company:

- We measure the satisfaction of the residential and the business segments semi-annually since 1999.

- We started to measure the satisfaction of the wholesale customers in 2003, once a year. The results of these surveys are then evaluated and improvement proposals are adopted on the basis of the findings.

Matáv also commissions customer satisfaction surveys every half year to learn the opinion of its customers about its billing operations.

The findings of the regular market researches are evaluated and used in the product development activity. With its new developments and new technologies in the field of telecommunication Matáv contributes to the growing satisfaction of its customers

Data security and information protection

Matáv supplemented the statutory regulation on data security and information protection with its own corporate regulations after two years of preparatory work, in 1998–1999. The protection of information has been regulated in the following codes and directives:

- Security Code for PC users – 1998
- Security Code of Matáv – Information protection – 1998

- Regulation of the conditions of data transfer or magnetic and optical data carriers and in digital form – 1998
- Information protection – IT Security Regulations (IBSZ) – 1999

The security processes are regulated. The new entrants are given training in the security regulations, and all the other employees receive compulsory update every two years.

The IT applications are protected on the user side at a level appropriate to the security regulations, with password, electronic signature. The general requirements for access authorization of the IT systems and the systems supported with IT tools are specified in a CEO directive, while the conditions of withdrawal of the access authorizations on termination or the employment is regulated by the joint directive of the security and the human resource directors. Access authorizations are granted through a dedicated IT system via Lotus Notes or the intranet site of the Security Branch.

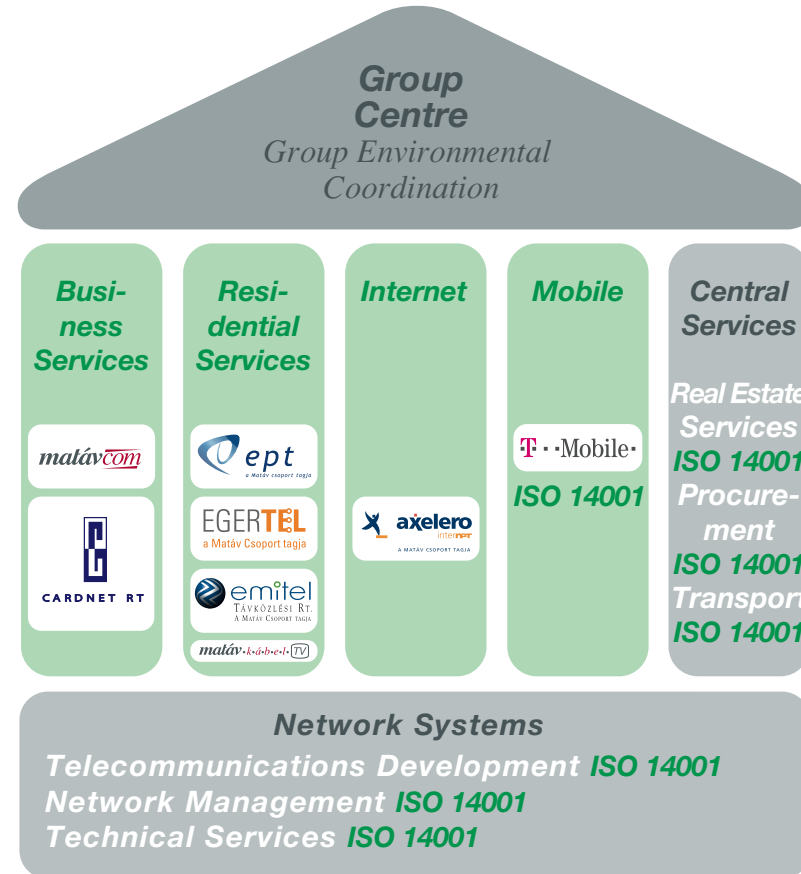
ENVIRONMENTAL ASPECT

LINKAGE BETWEEN OPERATION AND ENVIRONMENT

Environmental coordination

The new group structure implemented in 2002 confronted the environment management activities pursued that far by Matáv Rt. with new challenges. Group operation demands that all responsibilities be assumed together with the member companies and that they also share the implementation efforts. 2002 saw preparations for one of the biggest challenges of group operation, Group environmental management, and the Group environmental coordination process was also developed. In 2003, the organized environmental cooperation and operation of the group started according to the principles of that process. In view of the importance and complexity of their tasks and the great number of participants, the organization that directs and coordinates the environment protection activities of the Matáv Group was accommodated in the Group Center. The fact that the company's core activities essentially rest on technical foundations and most of the environmental impacts are generated in the technical area, played a key role in selecting the top manager responsible for environmental matters. Accordingly, the chief technical officer was appointed to oversee and direct the environment protection activities of the Group. In 2002, following reshuffles within the Group Center, an independent group was set up to take responsi-

Structure of the Matáv Group with indication of environmental aspects

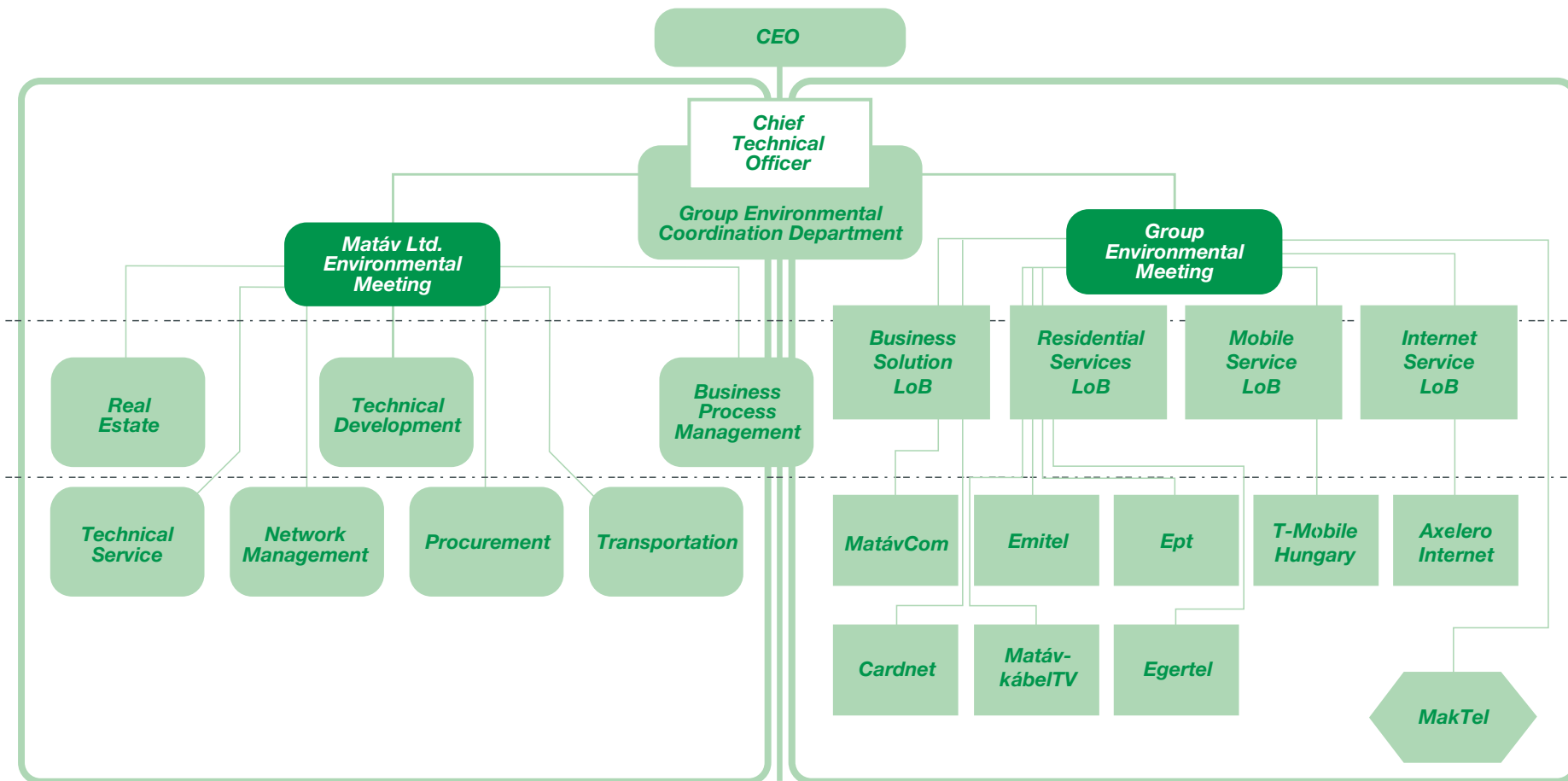


bility for the environmental tasks, and on January 1, 2003 environmental tasks were delegated to the authority of the Group Environment Protection Coordination department.

The process significantly promoting group environmental coordination was closed in 2003 when the ISO 14001 systems were put in place at the biggest member company Matáv Rt. These island-like environment-focused management systems constitute an

appropriate supplement to the coordination efforts of the group environment protection organization. Based on the experiences of the environmental activities of Matáv Rt. the so-called virtual organizations seen on the following chart were established.

Structure of the organization managing the environmental operations of the Matáv Group



As also demonstrated by the chart, environment protection activities presume the coordinated operation of many players. For this end, a directive has been issued which regulates the relevant activities at CEO level and whose observance is compulsory for all member companies.

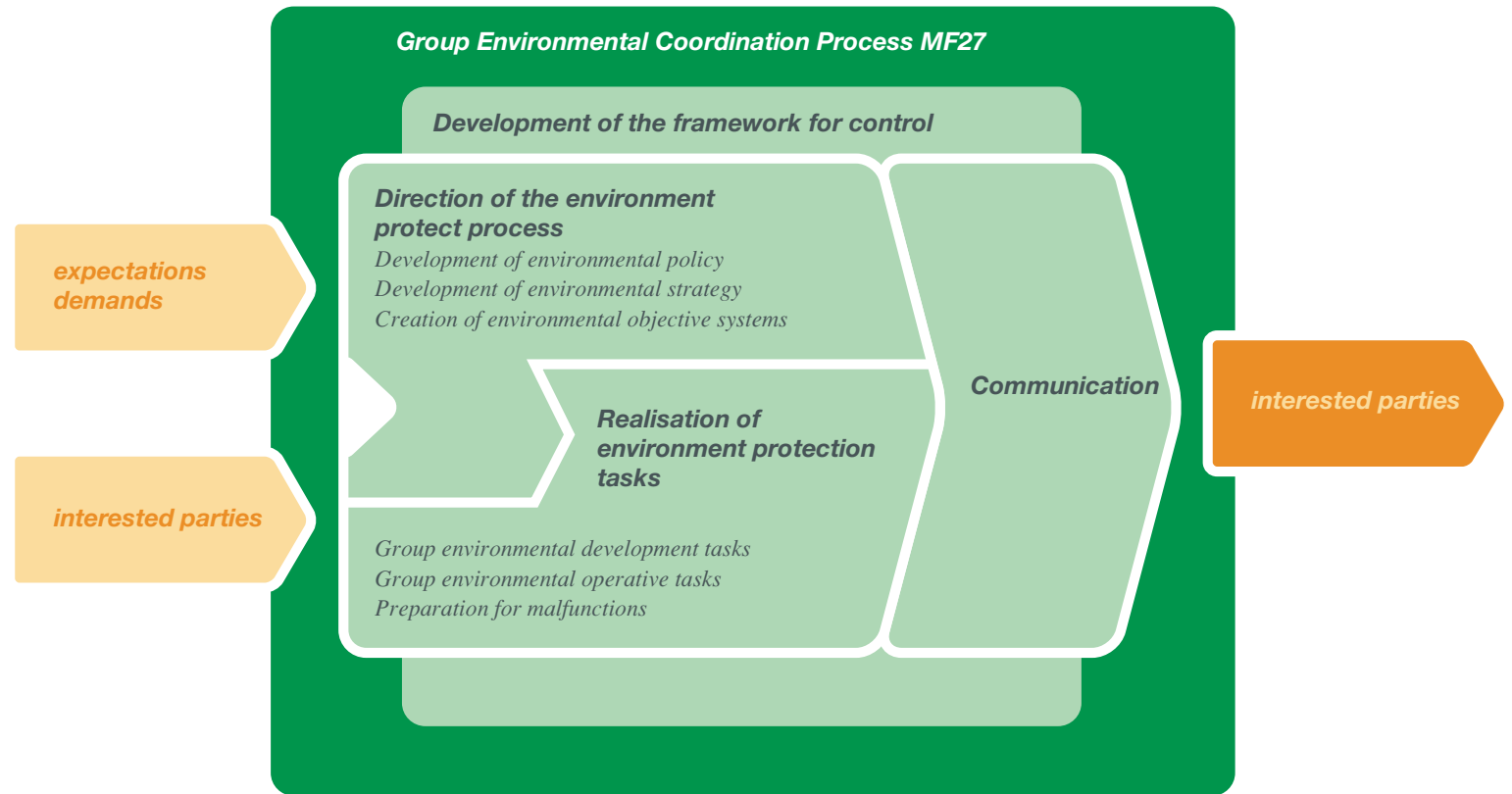
The process underlying the environmental operations of the Matáv Group

The group environmental coordination process encompasses the entire environmental activity of the Matáv Group and was regulated as an independent process of the group quality management framework. The first audit of the process was performed

in December 2002 by SGS (Société Générale de Surveillance SA), the world's biggest independent quality control and certification organization, which honored it with a group ISO 9001:2000 certificate. The subprocesses and activities of the process are demonstrated by the following chart.



Sub-processes and connections of Matáv Group's environmental activities



The group-level environmental operation between Matáv Rt. and its subsidiaries began in 2003 according to this process.

The development of the regulatory framework comprises the elaboration of the CEO directive – in compliance with the existing regulations, influencing rules and expectations - according to which the group organizations have to carry out their environmental operations in the subprocesses. The subprocess contains control of the operation in compliance with the regulation, and the steps of preparation of the annual report for the executive management (Management Committee).

The change of the effective regulations, the circumstances and the requirements and the expectations of the interested parties induce the launch of the subprocess, and modification of the directive, if necessary.

The environmental policy of the group and the company is elaborated in the framework of the management of the environmental process, and the strategy and the targets are determined on the basis of the policy.

All three activities are coordinated with the affected parties in compliance with the regulatory framework. The subprocess contains the control of the operation and the steps of preparation of the documents required for the communication.

The feedback received from the subprocesses of development of the regulatory framework and the management of the environmental process, and the changes of the requirements and needs together with

the expectations of the interested parties will, either collectively or separately, launch the subprocess, which may also result in the necessary modification of the targets, the strategy or the policy.

The implementation of the environmental tasks comprises the tasks of the environmental developments, the operative tasks and the steps of preparation for controlling operation disorders.

The activities must be planned and implemented on the basis of the regulatory framework, in compliance with the provisions laid down in the subprocess addressing the management of the environmental process. The subprocess contains the control of the operation and the steps describing the preparation of the documents necessary for the communication.

The feedback received from the subprocesses of development of the regulatory framework and the management of the environmental process, and the changes of the requirements and needs together with the expectations of the interested parties will, either collectively or separately, launch this subprocess, which may also result in the modification of the tasks or the procedure of controlling operation disorders.

Environmental communication comprises the process of preparation and approval of the communication plan that regulates internal communication, as well as the control of the communication activities. This subprocess regulates the publication of the results of all environment protection activities including the release of the annual environmental reports, the organization of various forums, “environmental

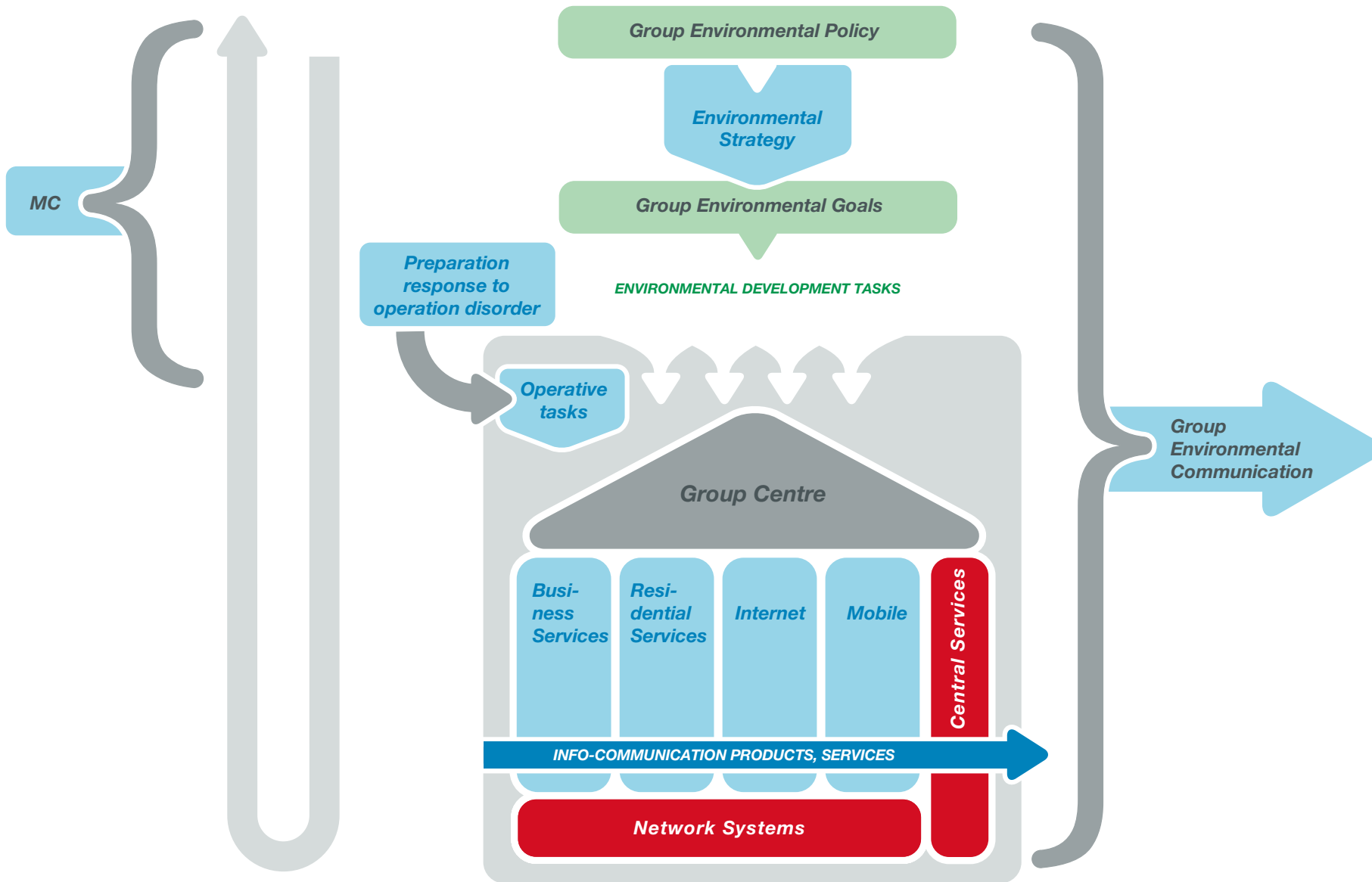
round table discussions” and internal workshops etc. for the interested parties.

Feedback received from all the other subprocesses, or the deficiencies identified in the controls will launch this subprocess, which may, if necessary, result in the modification of the communication plan.

Result of the Group Environmental Process

After the development of the process, the regulatory framework supporting its controlled operation was also developed. The directive issued by the CEO determines the borders of the activity, the procedure of the regular meetings supporting group-level coordination, the responsibilities and competencies, etc. which must be followed in the spirit of the Group Environmental Policy, Strategy and Targets.

The group members are independent legal entities, so the directive must be incorporated in the rules of organization and operation of each member company, which also started in 2003. In order to have ongoing management control and keep the senior management abreast of the developments, the number one managers of the member companies and the chief officers of the affected lines of business receive regular reports on the meetings and the results. Under the relevant regulations the executive management of the Matáv Group, the Management Committee, receive annual reports on the status of implementation of the strategic tasks (or if necessary, immediately). The first status report on the 2003 results was accepted on January 28, 2004.



The above chart shows the hierarchy and consistency of the environmental activities of the Matáv Group. The strategy is deduced from the policy, and the environmental targets and development tasks are deduced from the strategy. The operative tasks are the responsibility of the relevant organizations of the group. Communication, as the report in this case, is based on these. At least once a year the Management Committee controls the overall activities.

Regulatory compliance

No environmental fines were issued for the member companies of the Matáv Group in 2003 either. Complaints were received from neighborhood residents for the noise caused by the external units of the air conditioning equipment. In the densely inhabited areas noise abatement walls were raised around the air conditioning equipment to prevent the disturbance of the neighborhood residents. The group takes preventive actions to eliminate reports relating to electro-magnetic radiation, so in several cases it increased the height of the antenna masts and integrated them in the landscape, and also informed the residents about the preventive efforts. In some cases the area surrounding the telecom switches or masts operated at unattended plants were untidy, the grass was not mowed, weeds covered the area, which problems were sorted out by the subsidiaries when they received complaints from the local residents.

Expenditures

The environmental expenditures of the Matáv Group member companies exceeded half a billion forints

in 2003, an increase of 165% over 2002, which was incurred as a result of the investments and developments preparing compliance with the regulations. The expenditures include the implementation and maintenance of the environmental management system, capital expenditures, operating expenditures and the costs of development and landscape restoration. MakTel, this dynamically growing member company of the Matáv Group, saw environmental spending double in 2003 in comparison to 2002.

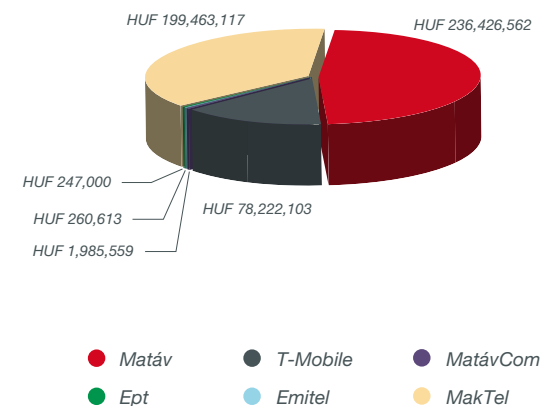
The group recognized the following expenditures: The single most important constituent of the environmental expenditures of the Matáv Group is the cost of waste management; in 2003, the member companies of the group spent 104 million HUF on appropriate management of their waste, which amount is double that of the preceding year.

The expenditures on operative environment protection activities amount to over 75 million HUF at group level. These comprise the costs of the environmental measurements, tests, duties paid to the authorities, the replacement of the gas in the fire extinguishing equipment and the costs of disaster prevention. The operative costs also include the financing of the recollection from the population of the used telephone books.

The cost of environmental investments is rather significant at 155 million. The sum mainly comprises the costs of repair of the oil containers of Matáv Rt. started last year and the replacement of the extinguishing devices operating with halon gas, on which 81 million HUF were spent in the first phase, but for the first time this year, MakTel also contributed to the cost increase in an amount of 10 million HUF.



Environmental costs



Landscape restoration costs were also recognized on the expenditure side of Matáv Rt. and MakTel in an amount of 96 million HUF.

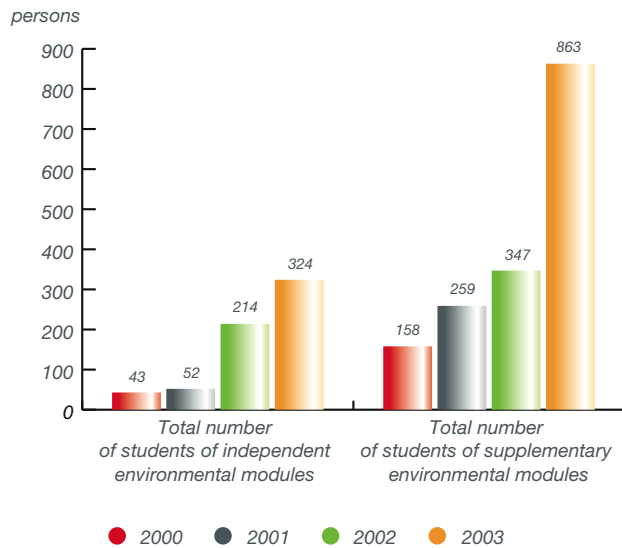
Among the group member companies, Matáv Rt. and T-Mobile Magyarország Rt. recognized costs in the context of the development of the ISO 14001 environment-focused management system, in a total amount of 11 million HUF.

Raising environmental awareness

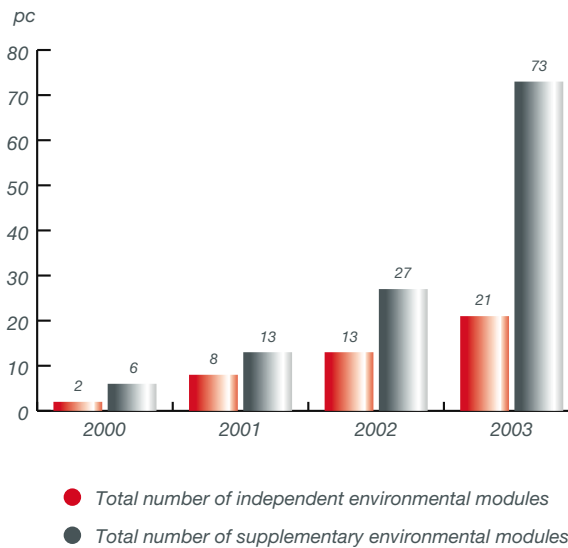
For the improvement of its environmental performance, the Matáv Group considers important the appropriate education and information of its employees. The need to bring the employees abreast of the new regulations following Hungary's accession of the European Union, has considerably increased both the number of environmental training courses and

their participants. The independent environmental training modules which contain expressly environment-focused education material, grew by 61% over the previous year, and the number of the participants of the training courses rose by over 50%. The quantity of the supplementary modules, which offer environmental information in conjunction with a course on some other topic, has also grown. The

Total number of students of supplementary environmental modules



Total number of supplementary environmental modules



number of modules increased by 170% at group level and attendance increased by 148%. MakTel also contributed to this impressive growth. In the foregoing years the company did not lay much weight on environmental education, but in 2003 more than 500 of its employees were given some form of environmental training. Matáv Rt. put much emphasis on educating the employees in the framework of independent environmental modules, the quantity of these increased by 42%, while the number of supplementary environmental courses decreased by 66%. With this method the efficiency of transferring the knowledge to the participants could also be increased. As regards attendance, the company increased by 100% the number of participants in the two types of environmental training courses. T-Mobile Magyarország Rt. increased enrollment in the independent modules six times, while reducing the number of the courses. The number and attendance of the supplementary courses did not change over last year at T-Mobile Magyarország Rt. In the context of implementation of the ISO 14001 environment-focused management systems, the following training courses were held at Matáv Rt. either integrated with the ISO 9001 training, or subsequently:

- Integrated leader training/KIR leader training
- Integrated documentation training/KIR documentation training
- Integrated internal auditor training/KIR internal auditor training

The employees attended the following conferences on the application of the new regulations affecting the group in the wake of accession to the European Union:

- Waste management conference – conference on the preparation of waste management plans and keeping waste inventories
- Challenges of up-to-date waste management in the light of the EU accession – this conference addressed the impacts of the product fee law and its waste management implications.



ENVIRONMENTAL PERFORMANCE INDICATORS

Explanation: 😊 positive change exceeding 2%
 😐 change under 2%
 ☹️ negative change exceeding 2%

Summary of the environmental performance indicators

| Environmental indicator | 2003 | % of change between 2002 and 2003 (+/-) |
|---|-------------|--|
| Total number of independent environmental training courses | 😊 | 61.0 |
| Total number of supplementary environmental training courses | 😊 | 170.0 |
| Number of courses together | 😊 | 135.0 |
| Total number of students of the independent environmental training module courses | 😊 | 51.4 |
| Total number of students of the supplementary environmental training courses | 😊 | 148.7 |
| Total number of attendants | 😊 | 111.5 |
| Paper consumption | 😊 | -17.4 |
| Paper telephone book replaced by CD | 😊 | 15.0 |
| Electricity consumption | 😊 | 0.04 |
| Relative electricity consumption of the Matáv Group projected on relative 1000 lines | 😊 | -7.14 |
| Relative value of the electricity consumption of the Matáv Group compared to its revenues | 😊 | -2.77 |
| Gas consumption | 😊 | 2.0 |
| Running capacity of vehicles | 😊 | 5.8 |
| Total fuel consumption of the vehicles | 😊 | -2.48 |
| Diesel consumption of the vehicles | 😊 | -2.4 |
| Unleaded petrol consumption of the vehicles | 😊 | 6.6 |
| Leaded petrol consumption of the vehicles | 😊 | -24.7 |
| Travel replaced by audio and video conferences | 😊 | 9.34 |
| Water consumption | 😊 | -13.6 |
| Net Storey Area (NSA) | 😊 | -2.79 |
| Amount of hazardous waste | 😊 | -16.0 |
| Amount of recycled hazardous waste | 😊 | 11.5 |
| Amount of communal waste | 😊 | -2.79 |
| Amount of paper waste given/sold for recycling | 😊 | 182.8 |
| Amount of telecom and other wastes sold for recycling | 😊 | -5.9 |

Materials

Usage of materials

The material usage of the member companies of the Matáv Groups – since they are service providing companies – is considered indirect, with the exception of paper consumption.

In 2003, 15.426.134 kg paper was procured for the organizations of the Matáv Group. As a consequence of the organization streamlining and the roll-out of electronic administration, data processing and inventory systems the quantity of paper used is continuously decreasing. In fact, last year's paper use was 82% of the amount of 18.686.922 kg used in the previous year.

Matáv Rt. used the following quantities of paper for bill issue in 2003:

- in the form of printed matter 346,908 kg
- in the form of envelope 151,823 kg
- in other forms 4,518 kg

Printing bills on both sides of the paper was introduced in December 2002. In December 2002 it was only introduced in a limited group, but by June 2003 it was rolled out entirely at Matáv Rt. Its importance lies in the fact that, as a result of printing on both sides of the

paper, with approximately the same number of bills and prints substantial reduction has been achieved both the number of sheets and the postal consignments.

The group is studying the possibility of sending electronic bills to its subscribers. The only obstacle is that the relevant ministry of finance decree enabling it has not been published yet. Despite this fact, in 2003 Matáv Rt. launched a project to assess the costs of implementing electronic billing.

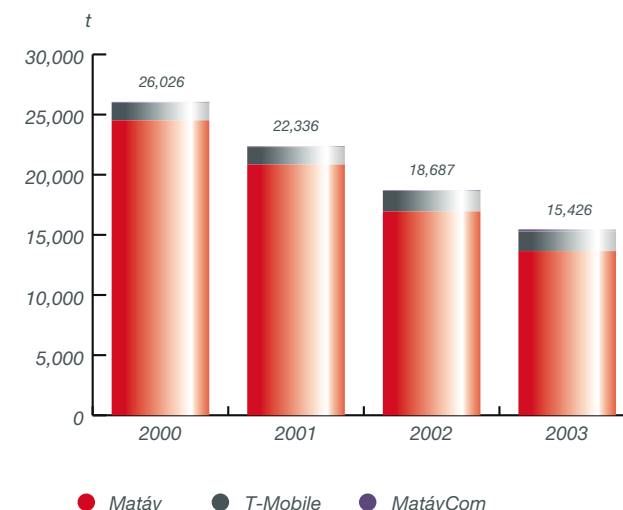
T-Mobile Magyarország Rt. launched for its major customers the so-called Electronic Traffic Information (EFT) service, with the help of which an electronic image of the bill and custom itemization can be downloaded through the Self-service Customer Service. On April 1, 2003 the EHR (Electronic Call Itemization) service was also launched, with which the subscribers can download the itemized bills of a given period until a given date.

In each case Matáv Rt. requests from its suppliers information on the basic materials of the products to be used in the telecommunication network. The telecommunication equipment selected and procured subsequently is then entered in the Environmental Planning and Inventory System (KörTe).

Use of paper by invoices

| | October 2002 | October 2003 |
|----------------|--------------|--------------|
| Bills (no.) | 2,321,897 | 2,261,607 |
| Paper (sheets) | 5,121,537 | 2,836,801 |
| Envelops (no.) | 2,433,519 | 2,283,567 |
| Foil (pcs) | 4,427 | 1,477 |

Use of paper



Materials collected from the consumers

We collect from the Matáv Points the telephone sets returned by the subscribers, and sell them to recycling businesses. In 2003 we collected and sold 11 937 sets, far fewer than a year earlier, which indicates that the campaign launched in the previous year wore out.

Matáv began to recollect the telephone books in an organized form in 2002, which operation it continued in 2003. As a result, 89,565 kg paper-based telephone directories and yellow pages were collected and recycled.

Selecting the paper quality of the telephone books is the competence of the Hungarian Telephone Book Publishing Company. In order to match the quality requirements of Matáv, the paper (Finnish import)

used for the telephone books is not yet recycled paper.

Recollection of the Budapest telephone books on issue of the new ones

When the Budapest Telephone Directory and Golden Pages were issued to the subscribers in 2003, they had the opportunity to deposit their old books at the post offices. As a result, in 2003 we collected 54,565 kg paper at a net cost of 695,688 HUF.

Recollection of the county telephone books on delivery of the new ones

Due to cost constraints, in 2003 we collected the old telephone books simultaneously with the delivery of the new ones in three counties (Fejér, Hajdú and

Zala). The result: 82,229 books (37,506 kg); at a cost of 1,092,272 HUF.

The experiences show that a greater proportion of the customers living in the country returned their old telephone books than the inhabitants of the cities. Mostly the 1–2 year-old publications were returned, but also older editions surfaced sporadically.

Recollection by the schools

Through its foundation created expressly for this purpose, the Hungarian Telephone Book Publishing Company organizes recollection campaigns by making the schools compete. These competitions resulted in the collection of approximately 100 tons of paper in 2003 according to MTT.

Recollection of the county telephone books on delivery of the new ones

| County | Number of subscribers | Recollected telephone books (pcs) | Recollected telephone books (kg) | Collection rate (%) | Cost (HUF) |
|---------------|------------------------------|--|---|----------------------------|-------------------|
| Fejér | 96,931 | 14,539 | 6,019 | 15.00% | 174,468 |
| Hajdú | 159,075 | 52,762 | 26,396 | 33.17% | 738,668 |
| Zala | 98,834 | 14,928 | 5,091 | 15.10% | 179,136 |
| Total | 354,840 | 82,229 | 37,506 | 23.17% | 1,092,272 |

**Solutions replacing the use of paper –
CD telephone directories**

CD directories have been distributed in Budapest since 1998 (the current policy is that we give one CD for five printed books), and their popularity is increasing from year to year. In 2003, the subscribers picked up 8,952 CD telephone directories, which saved 44,760 printed telephone books or approximately 76,000 kg paper.

In the counties the CD version was introduced with the 2003 telephone books. We distributed 2,845 CD country-wide, which replaced 14,225 telephone books and saved about 5,400 kg paper.

At the end of 2001, with the assistance of Axelero, a new version of the Internet telephone directory was put on the Matáv home page, which offers more content than the previous versions: an expandable mobile number database, presentation of e-mail and web addresses, enlarged search criteria.

Distribution of CD telephone directories

BUDAPEST CD

| Year | Publication | Items | Target group |
|------|-------------|-------|----------------|
| 1998 | August | 1,000 | above 10 lines |
| 1999 | July | 2,209 | above 10 lines |
| 2000 | July | 2,682 | above 10 lines |
| 2001 | May | 3,976 | above 5 lines |
| 2002 | July | 7,788 | above 5 lines |
| 2003 | July | 8,952 | above 5 lines |

Distribution of CD telephone directories country-wide

| County | CD telephone directory demand, items | Replaced telephone books, items |
|---------------|--------------------------------------|---------------------------------|
| Bács | 138 | 690 |
| Baranya | 227 | 1,135 |
| Borsod | 269 | 1,345 |
| Fejér | 186 | 930 |
| Győr | 309 | 1,545 |
| Hajdú | 201 | 1,005 |
| Heves | 94 | 470 |
| Jász | 139 | 695 |
| Komárom | 153 | 765 |
| Nógrád | 17 | 85 |
| Pest | 470 | 2,350 |
| Somogy | 146 | 730 |
| Szabolcs | 114 | 570 |
| Tolna | 68 | 340 |
| Vas | 105 | 525 |
| Veszprém | 29 | 145 |
| Zala | 180 | 900 |
| Total: | 2,845 | 14,225 |

Energy

The Matáv Group uses electricity directly for the provision of its services. For ensuring the background of the telecommunication services and satisfying the social requirements of the employees, it uses mineral gas, drinking water, and for the transportation of people and goods, it uses petrol and diesel oil.

Electricity consumption

At group level electric energy consumption was practically identical with the 2002 level. With a minimum increase (0.04%) the overall quantity of electricity used

in 2003 was 213,760 MWh.

A separate analysis of the consumption of the member companies has shown that those companies used more energy, that considerably expanded service provision in their areas of activity.

The biggest increase – 16% – was recorded at MatávkábelTV Kft., while slighter growth was realized by MatávCom Kft. (8.7%), T-Mobile Magyarország Rt. (7%), EPT Rt. (6%), and MakTel (5.2%).

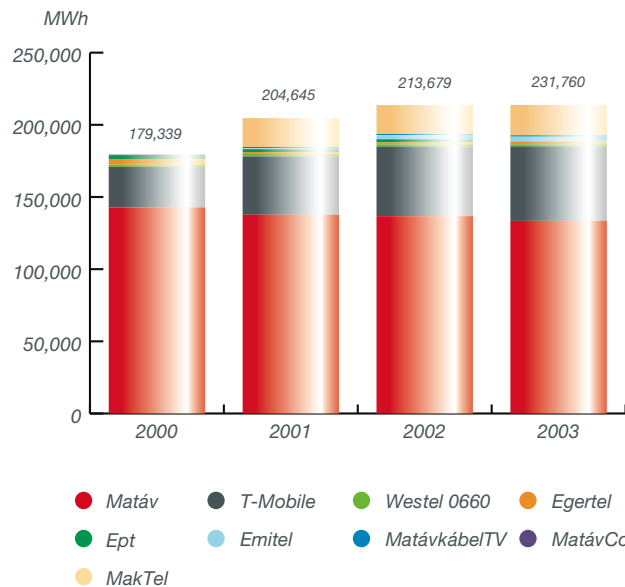
The following group members managed to save electricity: Emitel Rt. (6.4%) and Matáv Rt. (2.4%).

The figures suggest increase everywhere with the

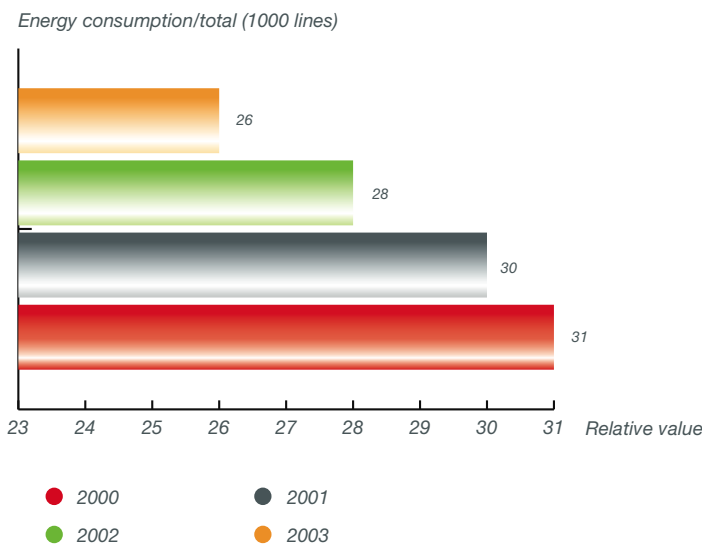
exception of two member companies, yet the group-level indicator shows stagnation which is due to the fact that the 2.4% consumption decrease of the biggest member company – both in terms of headcount and service volume – Matáv Rt. amounts to a sizeable 3,245 MWh energy.

In relative terms the electricity consumption of the Matáv Group shows continuous improvement, as also indicated by the diagram. The cause of the improvement is the growth of the mobile communication, cable television and Internet markets, which is reflected by

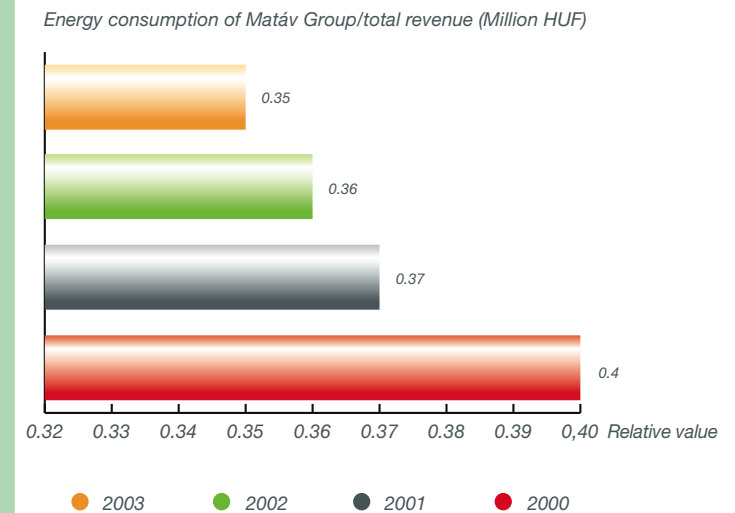
Electricity consumption absolute value



Energy consumption of Matáv Group/1000 lines



Energy consumption of Matáv Group/total revenue



the increase of the number of subscribers. Indirectly the diagram also shows that, thanks to the fast development of the telecommunication and info-communication technologies, lower and lower energy consumption equipment are used at the member companies of the Matáv Group. With this we can not only focus on cheaper and better services, but the group can also make a positive impact on the environment.

Efforts for reducing energy consumption:

In 2003 Matáv drew up a plan for the reduction of energy consumption in telecommunication, on the basis of which a project was launched in 2004. Its goal is:

- Review of the air conditioning practice in order to prepare proposals for the implementation of such rational modifications, which will strike a balance between the saving of energy used for air conditioning and acceptable operating risks.
- Explore the technical feasibility of raising the operating temperature in the rooms used for the operation of various telecommunication equipment and using fresh air for cooling, prove the efficiency and economical feasibility of such solution.

Gas consumption

The majority of the group members use mineral gas for heating their buildings through remote heating systems. At group level gas consumption increased by 2%,

mainly as a result of the long and cold winter, the prolonged heating season and the increase of the service areas, and consequently the building portfolio, of some member companies. The volume of increase is not significant, thanks to the rationalization of the heating systems started last year and continued this year, especially not if we also take into account the increase of the number of heated buildings.

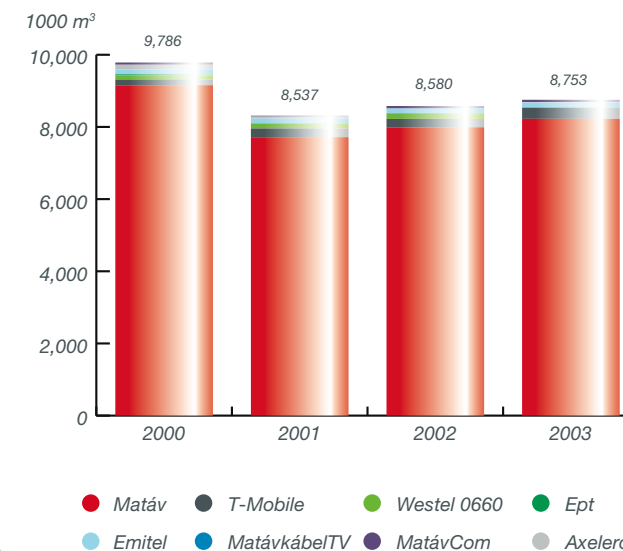
Looking at the consumption figures of the member companies we find major increase in the case of T-Mobile Magyarország Rt. (32%). This growth is fully justified in the light of the fast growth of the mobile market and T-Mobile's share in it, which naturally entails the expansion of the service infrastructure (e.g. buildings) and increase of the amount of energy consumed by them (e.g. gas). Besides the 6.8% increase of Emitel Rt., the biggest member Matáv Rt. upped its consumption by only 2.9%. It must be noted, however, that even this modest increase meant 234,000 cubic meter more gas, while T-Mobile Magyarország Rt. only increased its consumption by 77,000 cubic meters.

MatávkábelTV appears in the report as "new consumer", the reason of which is the expansion and nationwide roll-out of their activities, including the operation of its own buildings. In 2003 MatávkábelTV Kft.'s gas consumption was 15,000 cubic meters.

MatávCom Kft. was the only member company that managed to save 8.6% gas in comparison to 2002.



Gas consumption



Fuel consumption of the vehicles

Running capacity of the vehicles

The service area of the Matáv Group extends to the entire country, and through MakTel, also to the entire territory of Macedonia, so the use of vehicles is indispensable for the seamless performance of the installation and transportation jobs and for keeping up employee contacts.

The expansion of the service area and the growth of the subscriber base caused the mileage performance of the vehicles also to increase.

The group-level increase was 15% which translates into 10,538,005 km.

Mileage performance grew at the following companies: Futásteljesítmény-növekedés tapasztalható:

- MakTel² (27%),
- T-Mobile Magyarország Rt. (21%), the reason is the increase of the vehicle fleet and the service area,
- Axelero Rt. (20%),
- MatávkábelTV Kft. (6%), as a result of the increased the subscriber base and the relevant service area,
- Matáv Rt. (2%),
- Emitel Rt.³ (1.7%).

In contrast, MatávCom Kft. reduced the mileage performance of its vehicles by 35%, Ept Rt. by 56.14% and Cardnet Rt. by 2%.

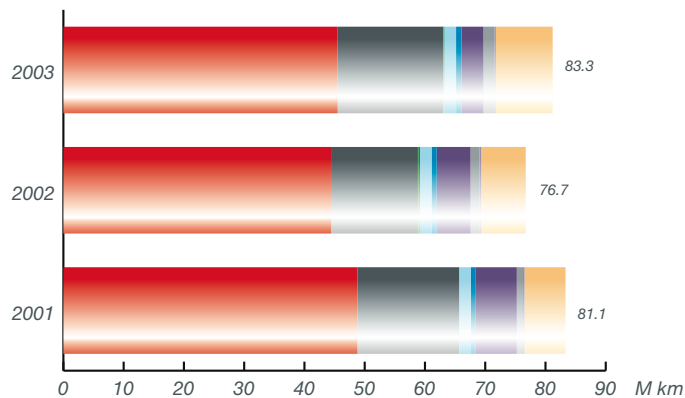
Total fuel consumption of the vehicles

The 15% increase of the mileage performance of the vehicles did not trigger group-level fuel consumption growth, in fact fuel consumption decreased by a modest 2.4% which, however, meant 172,936 liters. The biggest increased was recognized by T-Mobile as a result of the already mentioned increase of its car fleet.

The average consumption of the vehicles was 8.3 liters/100 km in 2003.

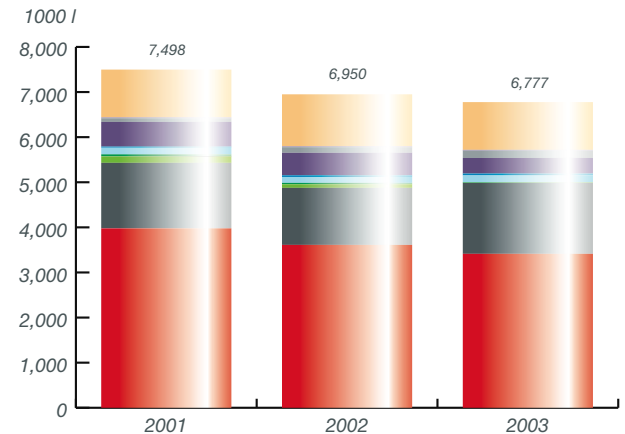


Running capacity of vehicles



- Matáv
- T-Mobile
- Westel 0660
- Egertel
- Ept
- Emitel
- MatávkábelTV
- MatávCom
- Axelero
- Cardnet
- MakTel

Total fuel consumption of vehicles



- Matáv
- T-Mobile
- Westel 0660
- Egertel
- Ept
- Emitel
- MatávkábelTV
- MatávCom
- Axelero
- Cardnet
- MakTel

² The adjusted value of the mileage performance given in the report for 2002 was 7.400.000 km.

³ The adjusted value of the mileage performance given in the report for 2002 was 1.914.547 km.

Diesel oil consumption

The diesel oil consumption of the Matáv Group vehicle fleet decreased by 2.4% in comparison to the previous year. Of the member companies that recognized decrease, MatávCom used 33% less fuel as a result of more effective transportation organization and a smaller vehicle fleet. Ept Rt. decreased its consumption by 25%, as a result of a smaller service area and leaner staff. The biggest member company of the group Matáv Rt. reduced its consumption by 11%, which meant 310,473 liters less diesel oil than a year earlier. This tendency of decrease is steady and unbroken since 2001, which the diagram also illustrates. Although to a smaller degree – by 4% – Emitel Rt. also managed to reduce its diesel oil consumption.

The consumption of T-Mobile Magyarország Rt., MatávKábelTV Kft., Axelero Rt. and MakTel increased.

Unleaded petrol consumption

The consumption trend of unleaded petrol shows 6.6% increase in 2003 in comparison to the decrease realized in 2002. The reason lies partly in the higher mileage performance and partly in the fact that, as a result of the modernization of the group vehicle fleet, more petrol-fuelled cars were purchased, which reduced both the number of diesel-fuelled vehicles and diesel oil consumption.

The majority of the member companies use more unleaded fuel than a year ago. The biggest increase was recorded by Axelero Rt., MakTel and T-Mobile, because these

companies saw all their subscriber base and background infrastructure grow most.

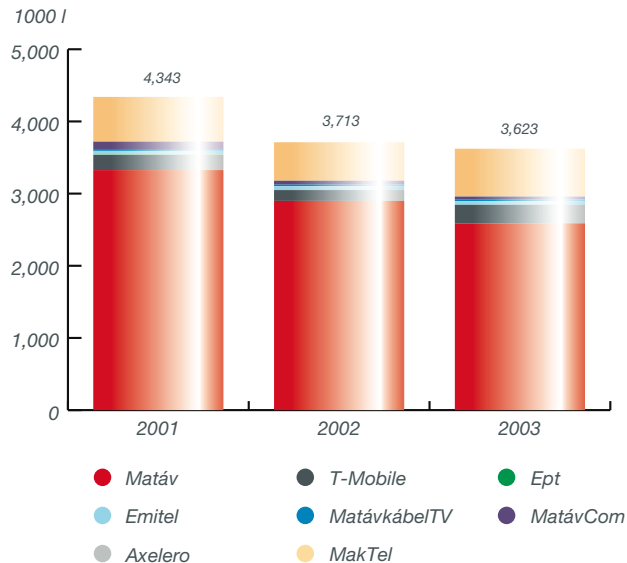
Leaded petrol consumption

Among the group members only MakTel uses leaded petrol. The diagram shows that it decreased consumption in comparison to last year by over 24%, which it achieved through modernization of its vehicle fleet.⁴

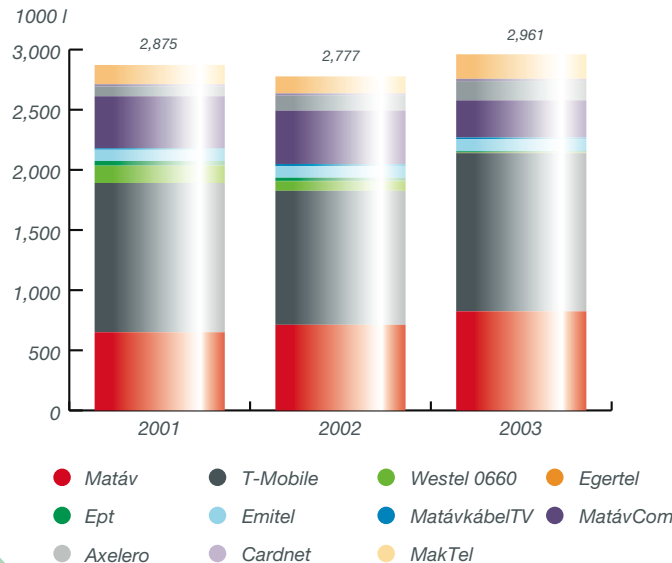
Their main efforts also impacting the environment include compliance with the European Union norms, which also means gradual withdrawal from service of the vehicles using leaded petrol.

⁴ The adjusted value of unleaded fuel consumption given in the report for 2002 was 256,000 l

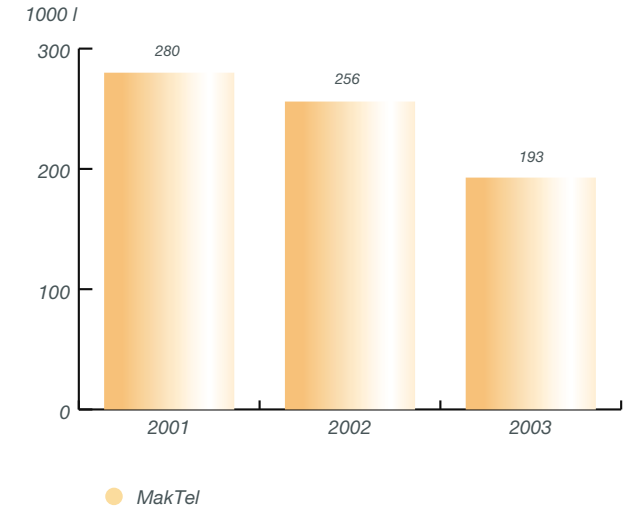
Fuel consumption of vehicles (diesel)



Fuel consumption of vehicles (unleaded petrol)



Fuel consumption of vehicles (leaded petrol)



Solutions reducing travel

The use of vehicles is a condition of the operation of the business, which may not be curtailed by environmental considerations. However, the principles of reason, and the ones that improve both business and environmental efficiency, enjoy special support.

These solutions include the use of audio and video conferences. In 2003, the Matáv Rt. effort to reduce mileage resulted in the saving of 9.34% travel kilometers compared to 2002, through the use of video conferences in over 200 occasions. In terms of carbon-dioxide emission this means 49 tons.

In 2003 T-Mobile held 6 registered video conferences, and used the option of audio conference on about 180 occasions. At these the distance between the end points has not been registered, so it is not possible to quantify the positive impact on the environment.

Matáv also employs teleworkers on its own payroll.

The number of teleworkers has not changed substantially over the past two years. 80% of the teleworkers spend two working days, 14% three working days, 1% four working days and 5% one day a week at their place of work. The experiences show that both the managers and the employees consider this form of work useful and efficient.

Another travel-saving solution is remote education, where the employees do not have to travel to the place where the training is held but can complete the course on their computer within a given time interval, by submitting their test paper on the network which will be duly registered.

Directly generated energy used for own purposes

No change has taken place over the past year in the respect of directly generated energy used for own purposes. In case of power failure at the electricity company, the group members continue to generate electricity with diesel-powered generators.

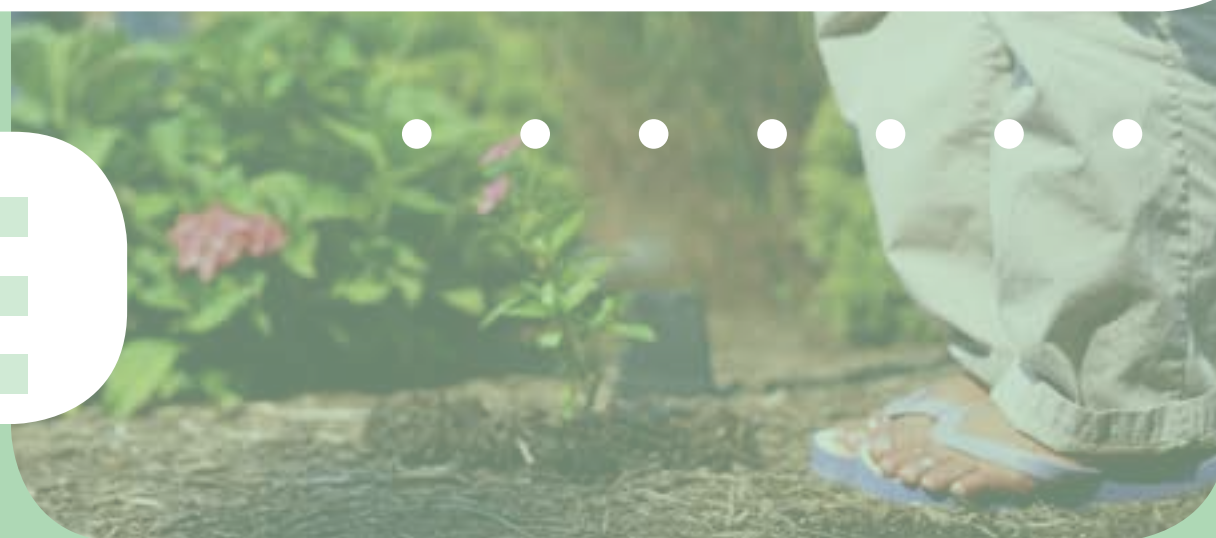
The gas engine providing for the energy supply of the Krisztina körút Headquarters, mentioned in the previous year's environmental report, is still in operation, ensuring not only the emergency electricity supply, but also the heating and hot water supply of the headquarters building. The energy generated but not used in full is sold similarly to the earlier periods.

Renewing energy sources

The combined renewing energy source providing the energy supply for the Magyarsarlós IRT equipment (combination of solar battery and wind generator).

Savings of solutions reducing travel

| | 2002 | 2003 |
|--------------------------------|-------------|-------------|
| Saved km | 278,921 | 304,976 |
| Saved diesel oil (l) | 10,030 | 10,967 |
| Saved petrol (l) | 8,200 | 8,966 |
| CO ₂ equivalent (t) | 45.1 | 49.31 |



Parameters of the telecom equipment serviced:

- IRT 1500 model microwave subscriber equipment
- Electricity takeup: 24 V, 1.5 A, daily 36 Ah
- Installed in a container
- At a distance of approximately 500 meters from the inhabited areas

Technical parameters of the solar energy source (installed in 1992)

- Solar battery panel – 12 pieces, SM-12/2 S type, 40 W, 2.5 A (1,000 W/m² radiation)
- Southward orientation, 65 degrees inclination angle
- 6 m² surface, with support structure mounted on antenna mast
- Battery – 8 x 12 V, totally: 24 V, 530 Ah
- Switching cabinet with electronic control board
- Daily average charge at annual level appr. 24 Ah/day

According to the operating experiences of the solar battery energy source, in the period March–October the battery generates more than the consumption of 36 Ah/day. In February–November and in December–January the battery generates less than the consumption, in this case the energy stored in the battery supplies a part of the consumption. In case of a higher consumption the battery capacity is no longer sufficient.

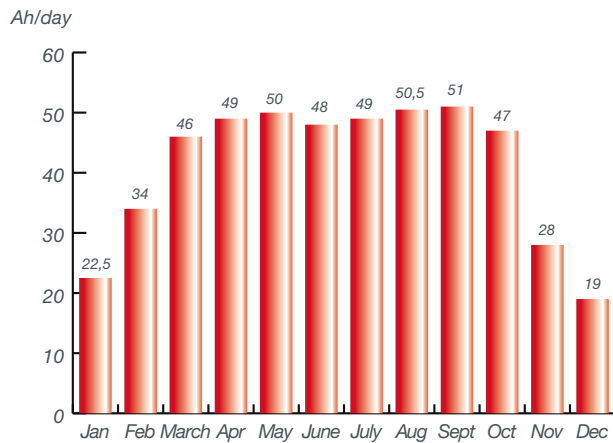
Local conditions allowed to generate the remainder energy with a wind generator.

Technical parameters of the wind generator:

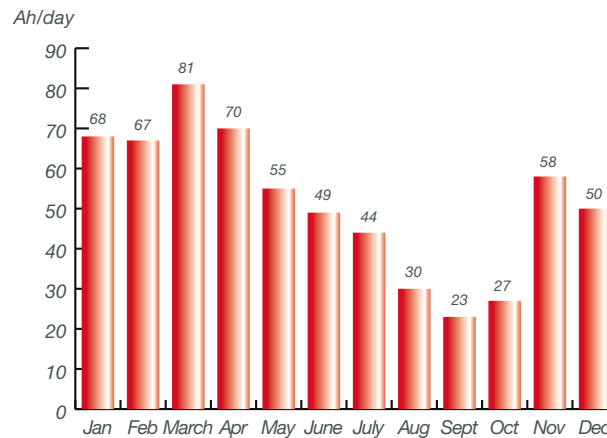
- Fortis Passat model
- 1,000/1,400 W nominal performance at wind speeds of 10/12 m/sec
- 7.65 m² rotor surface
- rotor blades: 3
- 2.5 m/sec starting wind speed
- 12 m high pole

The expected charge of the wind generator, according to the average values of the wind velocity measurements of the Pécs weather station, is 6 m free height. The integrated solar battery and wind generator system operates as an autonomous power source.

Energy production of solar cell in the course of the year



Charge of the wind generator



Carbon-dioxide indicator

In the following table we converted the amounts of energy utilized into CO₂ emission. For this purpose we used the UNEP (United Nations Environmental

Programme) guidelines published in 2000 about greenhouse gas indicators and the conversion factors contained therein.

Accordingly, the CO₂ emission derived from the energy consumption of the Matáv Group changed from 2002 to 2003 as follows:

The CO₂ emission derived from the energy consumption of the Matáv Group

CO₂ impact (tons) of the energy utilization

| | 2001 | 2002 | 2003 | Change over the previous year (%) |
|--|----------------|----------------|----------------|-----------------------------------|
| DIRECT ENERGY UTILIZATION | | | | |
| Mineral gas | 16,359 | 16,441 | 16,772 | + 2 |
| Fuel | 18,643 | 17,195 | 16,711 | - 3 |
| INDIRECT ENERGY UTILIZATION | | | | |
| Electric energy | 74,081 | 77,352 | 77,381 | + 0.04 |
| Emission caused by the total energy consumption | 109,083 | 110,988 | 110,864 | - 0.2 |

Factors, measurements used for the calculation

| | Unit of measure | Conversion factor | CO ₂ conversion factor (UNEP) |
|------------------------------------|-----------------|--------------------------|--|
| DIRECT ENERGY UTILIZATION | | | |
| Mineral gas | m ³ | 9,486 kWh/m ³ | 0,0002020 t CO ₂ /kWh |
| Fuel (diesel oil) | l | | 0,00268 t CO ₂ /l |
| Fuel (petrol) | l | | 0,00222 t CO ₂ /l |
| INDIRECT ENERGY UTILIZATION | | | |
| Electric energy | MWh (kWh) | | 0,000362 t CO ₂ /kWh |

Water consumption

Water consumption is influenced by the headcount and the number of buildings of own property.

Compared to 2002, overall consumption decreased by 13.57%, resulting in 96,000 m³ saving at group level. Among those member companies that reduced their consumption, the biggest percentage of saving was achieved by MatávCom Kft. (58.82%), followed by Matáv Rt. (20.45%), the member company with the biggest headcount. MakTel recognized 2% water saving. The water consumption of T-Mobile Magyarország Rt. grew slightly, which is explained by the increase of buildings of own property. The water consumption of Emitel and Ept did not change over last year. The diagram shows a new data supplier MatávkábelTV Kft. which increased both the

number of its buildings and headcount as a consequence of the expansion of its service area.

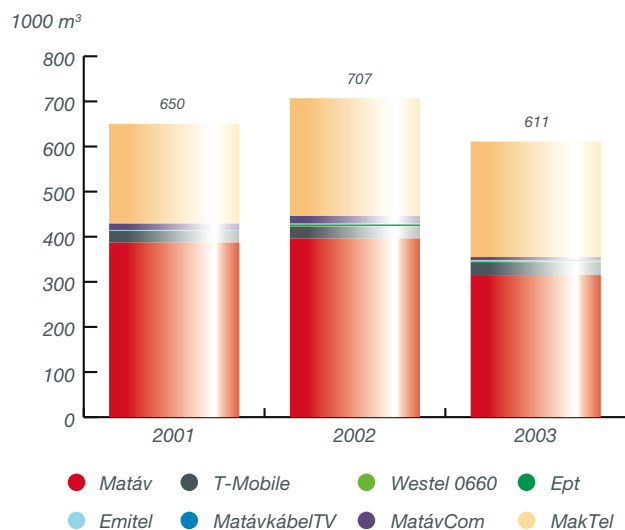
Bio-diversity

Even if not to a major degree, the Matáv Group uses the natural environment for the provision of its services. Since the member companies of the group cover with their services the entire territory of both Hungary and Macedonia, their equipment are also present in Hungary in the protected areas, national parks and thus have an environmental impact. This technical presence is indispensable, both in order to make work in the protected areas faster and more efficient, and to avert eventual disasters.

The members of the group are making every effort to use equipment causing as little environmental impact as possible.

However, our presence has not only negative impact on the environment, with the achievements of modern technology we also promote the research and development work of nature conservation, and provide technical possibilities for disaster and crime prevention with the latest tools of telecommunication.

Water consumption



Area use of the group in comparison with 2002

| Member company | 2002 (m ²) | 2003 (m ²) | Difference (%) |
|---------------------------|---------------------------|---------------------------|-------------------|
| Matáv Rt. | 745,291 | 717,037 | -3.79 |
| T-Mobile Magyarország Rt. | 257,711 | 257,711 | 0 |
| Emitel Rt. | 21,115 | 21,115 | 0 |
| Axelero Rt. | 6,500 | 5,500 | -15.3 |
| MatávkábelTV Kft. | 3,900 | 3,900 | 0 |
| MatávCom Rt. | 12,268 | 12,268 | 0 |
| Net Storey Area (NSA) | 1,046,785 | 1,017,531 | -2.79 |

The goals of the group include preservation of the original landscape and the state of the built-up environment. The telecom masts and base stations not fitting into the landscape can be major ruining factors. T-Mobile Magyarország Rt. developed several solutions to address this problem, and the ones technically most appropriate, and also most acceptable for the local population, the directorates of the affected national parks and occasionally the environment and nature protection organizations were used. The achievements of T-Mobile Magyarország Rt. in 2003 are: number of shared towers increased by more than 12%, the number of hidden or masked towers increased by 20% and the number of the more landscape conform pipe-shaped towers increased by 20%. Along with the obviously negative impacts associated with the presence (like disturbance of flora and fauna, changes of the natural environment, changes of the landscape, increased environmental pollution, etc.) there are also substantial benefits. Prevention of the natural disasters, losses, emergency events, criminal actions, an early treatment of the events, speeding up of responses are managed through info-communications technologies (mobile telephones, high speed data communications, Internet), not to speak about the positive economic and social impacts of our presence. Natural research and monitoring assignments can be supported with the use of high-speed data communication and mobile technology which help communication and data exchange between the plants (mapping applications, video conference applications,

video transmission applications, animal movement monitoring devices, Internet applications). By using remote Internet access and by operating a information kiosk we can publish materials, provide training, show and popularize tourist targets and sites on the spot for the visitors. The infrastructure basis of servicing the customers of Matáv Group is constituted by the networks, that are present in fixed-wire and wireless form in our environment. We have already discussed the environmental impacts of the wireless networks which receive special attention from the society. Construction of the fixed networks, their extension and development to the required size have been completed during the past years, therefore no development was made beyond the fulfillment of the demands identified in the not yet covered areas, nor is such development planned in the future either. The Matáv Group implements impact studies in each case when laying cables into the ground, and seeks the approval of the environment authority competent in the area. The length of the underground metal cables can be considered stable, the non-significant changes come from the maintenance, or minor extension of the network. In 2002 the length of the underground metal cables in protective tube was 28,659, and the length of metal cables not cased in a protective tube was 59,184 km. The length of optical cables which are predominantly used in modern fixed telecommunication technology is: 1,191 km laid directly into the ground, and 15,096 km drawn in a protective tube.

The majority of the terrestrial cable networks is used by the Matáv Group on the network sections that provide for direct servicing of the subscribers. The length of the terrestrial metal cables is 128 000 km, while the optical aerial cable network measures 643 km. As a result of the dynamic expansion of MakTel's network these values show increasing tendency, as the geographical conditions allow only limited underground network construction in Macedonia. In contrast, Hungary's aerial cable telecommunication networks are decreasing.

Emissions, water pollution and wastes

Air pollution

The member companies of the Matáv Group do not release major amounts of polluting agents into the air in the course of their service provision activities. The group members use modern boilers and heating equipment to heat their offices and social facilities. The boilers, whose performance complies with the values specified in the relevant regulation, are controlled each year and the results of the measuring are reported to the area environmental authorities. The annual operating time of the diesel emergency engines listed among the point sources of pollution does not exceed 50 hours, and even that time mainly consists of the regular monthly test operations. So the operation of these equipment does not reach the hour limit specified in the regulation, above which their operation must be measured and the results reported. In addition to the above, we also have to mention the

use of halon and freon compounds, known for their damaging effect on the stratospheric ozone layer, in technological and building operation structures in fire extinguishing and air conditioning equipment, for the replacement of which a program is underway at the group members.

Because of their damaging effect on the stratospheric ozone layer, the use of certain types of halon and freon gases in the air conditioning and fire extinguishing equipment is regulated by European and Hungarian laws, and because of their indirect human health impacts, they are also in the focus of public attention. In the light of these expectations, the Matáv Group has launched a program with substantial funding to replace the components banned by the regulations. Of the 2003 budget 81.2 million HUF was spent of the replacement of the halon-operated equipment. The application of air condition and fire extinguishing equipment of high efficiency (using other than water or powder as extinguishing agent) is of major importance in telecommunication technology, because the equipment are sensitive to changes of temperature, and in the case of failure even a minor fire can cause significant damage to the services. This is the reason why the info-communications companies, including our group, operate such a large number of technological air conditioning and fire extinguishing equipment.

We must also mention in this context the vehicles used in personal and goods transportation, as linear pollution sources. The transportation organizations of the companies have regularly checked the pollution

emission of the vehicles mentioned as linear pollution sources, in compliance with the relevant statutory requirement for periodic environmental tests.

Water pollution

It is a special feature of the services provided by the Matáv Group that no industrial water consumption or water treatment are included in the technology, the member companies only use water in the offices and social buildings.

The drinking water supply of the group members is provided from the public utility networks.

Most of the plants of the companies are located in areas supplied by the public water and sewage system of the locality. Where such utilities are not available collection of wastewaters is implemented in leakage-free, closed-system underground tanks in accordance with the regulations, emptying of which is made with the necessary regularity.

In one plant of Matáv Rt. sewage treatment equipment of active sludge is used, the efficiency of treatment and the composition of the output sludge is controlled in laboratory on a regular basis.

As a result of the above, the Matáv Group member companies do not release untreated sewage into the environment.

Soil and underground water contamination

The underground diesel oil tanks supplying fuel for the emergency diesel generators that are put into operation during the outage of electricity to ensure the continuity of the services of the Matáv Group



represent potential risk to the soil and the underground waters.

The users are required to mitigate such risks also by the relevant ministry (IKM) regulation. In view of the above, Matáv Rt. has, for years, been pursuing a program under which the oil tanks are covered with double wall to comply with the regulations and eliminate eventual harmful impacts on the environment. In 2003, 32 oil tanks were provided with double wall under this program. In the course of implementation of the investment process, laboratory tests are performed to measure the carbo-hydrate (TPH) contents and reveal eventual earlier contamination.

Noise and vibration impact

The outdoor air conditioning equipment used primarily for the conditioning of larger building, can be regarded as significant noise sources at the Matáv Group member companies. The use of such equipment can draw complaints from the residents primarily in the densely inhabited urban areas. In order to eliminate the disturbing noise effect and prevent complaints, the equipment undergo regular maintenance primarily during the summer period as significant noise pollution can be caused by the inappropriate operation of these equipment. When purchasing new equipment the member companies of the Group bear in mind the key requirement that – in addition to the technological compliance – the equipment must meet the requirement of low noise emission, as well. Before putting them into operation, each equipment is measured for noise level.

Electromagnetic radiation

Among the member companies of the Matáv Group it is mobile operator T-Mobile Magyarország Rt. whose activities put in the focus electromagnetic radiation.

The continuous growth of the number of mobile telephone subscribers (by the end of 2003, overall subscribers amounted to 7.994 million, an increase of 20% over the previous year) requires development from the services providers. The development stimulates not only the launch of new services, but also requires the expansion of the capacities of the network and the base stations. More subscribers can only be serviced properly through the installation of more base stations. In areas of average traffic, a new base station has to be installed for 1,000–1,500 subscribers.

When planning its new facilities, the company complies with the MSZ 16260-86 standard that specifies the maximum emission permissible in the vicinity of the base stations.

The members of the Matáv Group assign special importance to the location of the antennas which is regulated by the MSZ/T-17200-9 standard.

Before installing a base station or antenna tower, the company consults the affected parties (residents, local municipalities, independent organizations) and wherever possible, takes into consideration their demands.

Wastes

Hazardous wastes

The quantity of hazardous wastes generated by the group members decreased by 16% in 2003 over 2002. Although remarkable, this decrease is far smaller than the 48% achieved in 2001.

The reduction is due to the fact that environment-conscious procurement has gained special importance at the member companies; under this approach priority is given to the purchase of longer life equipment, such as rechargeable batteries. It is important to note that the upgrading of the batteries used in various technologies was completed in the foregoing years: as a result, the old acid-bath open batteries have been replaced with environment-friendly long-life jelly batteries. The other reason of the major decrease was that the soil rescue jobs were completed in 2002, and no such soil contamination occurred in 2003 which previously substantially increased the amount of hazardous waste generated.

Among the member companies Emitel Rt. achieved the biggest reduction in the quantity of hazardous waste produced, in fact its waste only amounted to 1% of the previous year. The reason was the completion of the upgrade of the above-mentioned batteries. Matáv Rt. also achieved sizeable 46% reduction, at this company the tendency of decrease has been linear since 2001.

T-Mobile increased the amount of collected and recycled hazardous waste in accordance with its environmental targets for year 2003 and the European Union directives on electric and electronic wastes, which come into force in 2004.

T-Mobile has made even more intensive the collection of the batteries of the mobile phones and thus managed to increase the amount of collected hazardous waste five times, 80% of which quantity it transferred for recycling.

In view of the small quantities involved, the diagram cannot illustrate that the hazardous wastes of Axelero Rt. more than doubled as a result of the quantitative increase of ink and toner cartridges. However, this waste is 100% recycled.

The hazardous waste emission of MatávCom and Cardnet remained more or less stable at last year's level. MatávKábelTV Kft. appears as a new data supplier in the respect of hazardous wastes, the generation of which follows from its expanded activities. Its hazardous wastes are primarily ink and toner cartridges generated in office activities.

By recycling as large proportion of the hazardous wastes as possible the Matáv Group targets the preservation of nature and the environment. T-Mobile Magyarország Rt. recycles as much as 80% of its hazardous waste. Compared to 2002, Matáv Rt. increased the recycling of its hazardous wastes by 35%, and Axelero Rt., which mainly releases toners and ink cartridges, doubled the degree of recycling through appropriate treatment of its wastes.

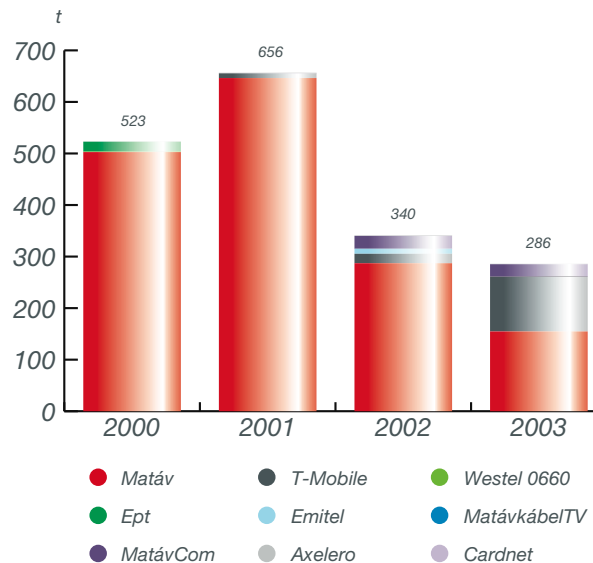
The recycling rates of Cardnet and MatávCom did not change over 2002.

Communal and paper waste

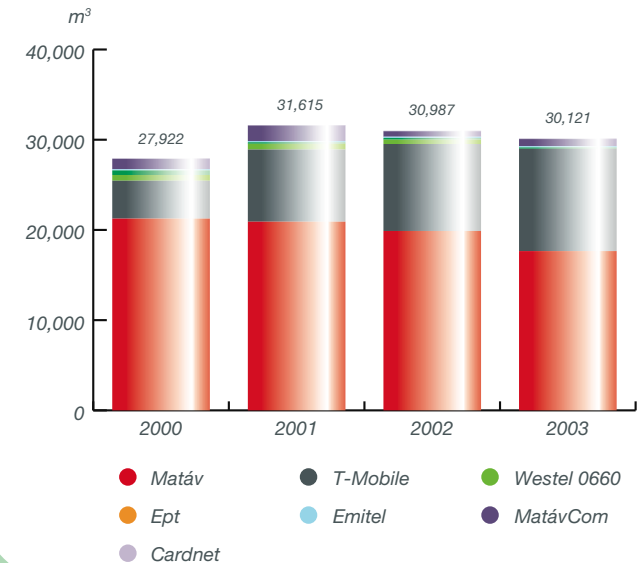
The composition of the waste generated in the activities of the member companies of the Matáv Group shows the pattern of the communal waste in an average locality. The total amount of waste is deposited in waste depositories. The group seeks to reduce the quantity of waste by adopting selective waste collection. At present, with the exception of T-Mobile Magyarország Rt., only the selective collection of waste paper is realized with growing success at the member companies.

Thanks to selective collection, the amount of the group's communal waste decreased by approximately 3%.

Amount of hazardous waste recycled or sold for disposal (total)



Amount of communal waste



Of the member companies significant reduction was achieved by Matáv Rt. (11%) and Ept Rt. (24%). Because of the increase of the number of plants, the communal waste production of T-Mobile Magyarország Rt. (17%) and MatávCom Kft. (30%) grew. The waste production of Emitel and Cardnet practically remained stable at last year's level.

In 2003, we increased the efficiency of selective paper collection and sold 182% more paper to recycling companies as a result.

The best result in selective paper collection was achieved by Axelero Rt., which increased the quantity of selectively collected waste paper five times over 2002. It is followed by T-Mobile Rt. with four-fold increase, and Matáv Rt. with double the previous

year's quantity. Ept Rt. collected about the same amount of paper selectively as a year earlier. Paper waste collection was introduced at Emitel, MatávkábelTV and MakTel, as well.

Although the first-year achievements of T-Mobile Rt.'s of 24 tons of waste paper, 2,954 kg plastics and 3,945 kg glass recycled are slightly short of the expectations, in 2004 further improvement is anticipated in this field.

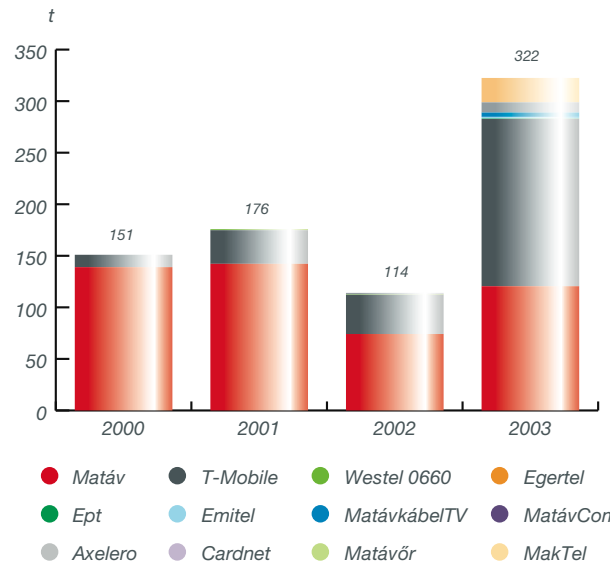
Telecommunication waste

The rapid development of the info-communication technologies and the fast growth of the service portfolio greatly contribute to the fact that continuous modernization and the replacement of the obsolete tools

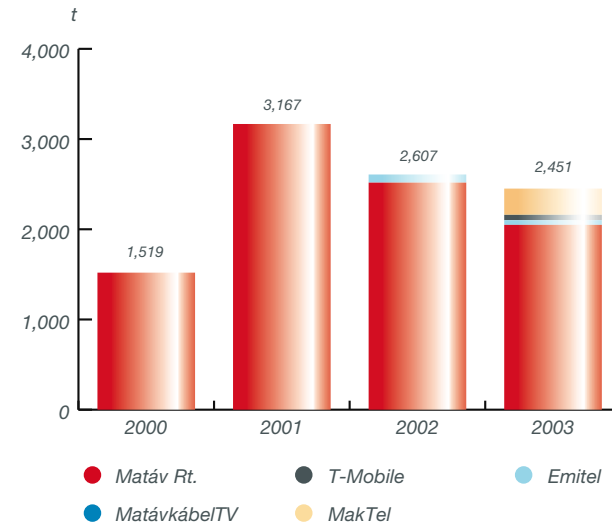
and equipment, characterize the asset management operations of the group member companies these days. It is through these operations that the obsolete and scrapped measuring equipment and tools are sold and the still functioning IT equipment are put to second use.

Among the group members, fixed network service provider Matáv Rt. generates telecommunication waste, which it transfers for recycling to a company holding the appropriate licenses. The diagram shows that the amount of telecommunication and other wastes generated and sold in 2003, decreased in comparison to 2002. This decrease is due to the fact that the major telecommunication network expansion and modernization jobs have been completed and the service areas are almost completely covered.

Amount of paper waste given/sold for recycling



Amount of telecommunication waste and other waste sold for recycling



Certification

Deloitte.

VERIFICATION LETTER

Deloitte has completed the verification of Matáv Group's report titled "Matáv Group's Sustainability Report 2003". The assessment process and the verification took place pursuant to the Global Reporting Initiative (GRI) guidelines.

Matáv Group's management approved the report and assumes responsibility for the contents thereof.

Our review consisted of the following

- Adaptation of GRI guideline,
- Consistence with Business Report,
- Accuracy,
- Completeness,
- Structure, clarity,
- Supported by data and indicators,
- Traceability, timeliness.

Our conclusions

Matáv Group prepared its first sustainability report for the year 2003, in which – in accordance with the "triple bottom line" of GRI (Economy, Environment, Society) – it presents the economic, environmental and social impacts of its activities, following the transparency, inclusiveness and auditability principles.

The data transferred from the annual consolidated financial report agree with those presented in the Sustainability report. The social and environmental costs and expenditures could not be deduced from the annual consolidated financial report. For accuracy of them Matáv Group's management assumes responsibility in Management Representation Letter.

The sustainability indicators shown in the report give a true and fair view of the company's activities, with the above remark.

The GRI indicators presented and disclosed in the report provide a reliable picture of the most important sustainability impacts of the activities of the Group.

The most important impacts of their activities are presented according to the "triple bottom line", based on GRI structure.

We have concluded on the basis of our random tests that the figures disclosed in the report are appropriately supported by source documents and are used properly.

Matáv Group strives to present the annual changes of economic, environmental and social indicators in the Report.

The employees, responsible for drafting the report, possess the information on the basis of which the economic, environmental and social impacts inflicted by the activities of Matáv Group can be accurately presented.

Recommendations

Based on our review and our discussions with the employees responsible for the report, we make the following recommendations:

- we recommend that in your future Sustainability Report more emphasis should be placed on the balance of Economy, Society and Environmental protection as the "triple bottom line".
- in order to meet the principle of comparability, we recommend that the number of used indicators should be increased, and reasons should be provided in case of non used indicators
- we recommend that coordination tasks associated with sustainability should be carried out by one organisational unit.

Deloitte


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Róbert Reiniger
Partner

Budapest, October 7, 2004

Audit • Tax • Consulting • Financial Advisory.

Member of
Deloitte Touche Tohmatsu

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