



# Annual Sustainability Report 2004

## Meeting the Requirements of Tomorrow

In Accordance with GRI 2002 Guidelines

Magyar  
Telekom 

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Source: GRI (Global Reporting Initiative) 2002 Guidelines  
(www.globalreporting.org)

# Preface

## The CEO's Letter

### Dear Reader,

When this report is published Magyar Telekom Group already operates under a new name, new organization model and a new Group Sustainability Strategy that replaces and integrates the previous Group Environmental Strategy.

Our aim is for Magyar Telekom to provide the information and communication services meeting the requirements of the future in a way to promote the establishment of an information society supporting sustainable development. In order to reach that objective, in January 2005 the executive management of the Group approved our three-year sustainability strategy.

The Board of Directors took decision on changing the name of Matáv to Magyar Telekom on January 20, 2005, and the extraordinary Annual General Meeting confirmed that decision on February 22, 2005. This decision also meant full introduction of the T brand in Hungary. The brand structure of Magyar Telekom Group follows the brand structure of the Deutsche Telekom Group. Close partnership with the worldwide present Deutsche Telekom Group and implementation of the entire T-brand increase the competitive capabilities of our company. 'T' stands for quality, efficiency and innovation, and the strength of the brand lies in the close partnership of the parent and the member companies, as well as in the synergies within our group, this leading force of telecommunications. In 2005, together with our shareholders and customers, we are meeting the tomorrow.

Our first sustainability report published last year, which was primarily a stock-taking for ourselves, helped us develop the sustainability strategy.

This year we are manifesting another improvement. We are reporting every one of the core indicators of the Global Reporting Initiative, and for the first time this year also the supplementary telecommunications indicator. This report has been prepared in accordance with the 2002 GRI Guidelines. It represents a balanced and reasonable presentation of our organisation's economic, environmental, and social performance.

In 2004 we won the Corporate Social Responsibility award of "Superbrands Hungary". This and our other successes have reinforced our conviction that we are going in the right direction. Organization of the First European Conference on Telecommunications and Sustainability in Budapest, the all-group-level Environmental Round Table discussion held for the seventh time, the experimental customized internet education initiatives in the small localities, the ETNO project managed by us showing the significant

possibilities of the info-communication services in the light of the climatic changes, are actions that draw considerable recognition and give us inspiration to step further.

Let me highlight some elements of our report bearing in mind the three pillars of sustainability:

The economic interest of Magyar Telekom Group is important from the aspect of profits and our investors on the one hand, and on the other hand from the point of view of our economic environment. Through our services supporting the activities of our business customers they can operate more efficient, and with this we indirectly promote the economic development of the region.

As also stated in our Annual Report, our 2004 financial and operating results matched the annual expectations. In line with the guidance, our revenues amounted to 601.4 billion HUF, while the reported EBITDA margin was 37.1 %.

The Group complied with the integrated Act on Communications that entered into force in January 2004 in Hungary. By the end of the year number of ADSL subscribers exceeded the planned 200 000, doubled the number of localities covered by ADSL services bringing this broadband service to 375 localities where 80% of the country's population live.

With 4 million customers, T-Mobile Hungary retained its leading position in the Hungarian mobile market and implemented a successful rebranding operation, the company also won license for the provision of third generation UMTS mobile services in December 2004. In Macedonia, MakTel continued to stand its ground in a harsh macro-economic situation, and mobile operator MobiMak significantly increased its customer base, reaching 49% penetration in the Macedonian mobile market by the end of 2004.

Our social impact is significant for several reasons.

We make direct impact through our role in society, our donation and sponsoring activities and human resource management efforts. Our indirect impact is perhaps even more significant, this we make on the society through our services. The Lisbon Strategy of the European Union set the objective of establishment of the knowledge-based society. Our ambition is to contribute to realization of that objective. We can also make indirect impact on the business sphere with our ethical behavior which respects man and the environment.

Among the achievements of our corporate contributions and sponsorship activities we have to mention that in 2004 our company second time was given the Corporate Donor of the Year award. More than 400 non-governmental organizations



received free ADSL access for one year through applications and we also embarked on a cooperation initiative with WWF Hungary to save the bird population.

Our Sustainability Report's achievement was that it once again earned us a second place in the Central European Environmental Reporting Award.

Last year we started our efficiency program which ends in 2006. It contains the so called "Chance" program which helps the dismissed employees find new employment.

In 2004 we updated the Group Code of Ethics which now complies with the Sarbanes-Oxley Act too, and which we also enforce vis-a-vis our suppliers. Several initiatives have been launched in the spirit of equal opportunities and diversity including the University of All Knowledge which entered its 5th semester last year.

The category of direct environmental impacts comprises the use of natural resources, the single most important element of which is energy consumption, and our emissions.

Although the indirect environmental impacts of the information technologies are not fully known yet, as significant positive achievements we can mention here the substitution of travel and dematerialization (separation of business processes from material and energy use).

Our 2004 environmental performance indicators show diverse picture. It must be stressed that several projects were launched last year which increased the use of various energy sources. But we have also reached extremely good results in the field of reducing usage of materials, with the replacement of paper-based telephone books and the increased use of internal electronic services, which helped

reduce the use of paper by 23% compared to 2003.

As regards the international cooperation efforts, we must underline the project we are managing under the auspices of the European Telecommunications Network Operators' Association and which has in the past few years been studying the impact of the information and communication technologies on the carbon dioxide emission and that as a consequence of the results presented at the First European Conference on Telecommunications and Sustainability hosted by us in November, where WWF Sweden initiated cooperation with the project with the joint objectives to make the ICT recognized in Europe as part of the solution for combating climate change and that concrete 'ICT - Climate Change' programs are initiated in Europe by 2007.

I trust that our report will evidence for you too our commitment to the requirements of the future. In order to be able to jointly shape the future we need to know the expectations and comments of the public, to have feedback. Please, cooperate with us and let us have your comments, views, expectations so that we can meet the requirements of the future together.

Budapest, September 22, 2005

Elek Straub  
Chairman-CEO

# About the Report

After our Group Environmental Report published in 2003 and the Group Sustainability Report published in 2004, we are in a position to present new development this year: in addition to all the main GRI indicators, we have also used the supplementary indicators applied to the telecommunication sector.

When preparing the Report, we made a point of following the 11 GRI guiding principles. Accordingly, the framework of our report is provided by transparency, inclusiveness and auditability. In publishing the information we made a point of completeness, relevance and sustainability context. As to the quality and reliability of the information carried by the report we can declare that they answer the principles of accuracy, neutrality and comparability. We publish the report on the Internet so that it is available to the greatest number of people interested in it and release it annually, with which we comply with the principles of clearness and timeliness.

In order to ensure the authenticity of the report we availed ourselves of the services of an independent third party. Also this year it was Deloitte who audited the report and published statement on the reliability of the information contained therein. The relevant certificate is to be found in the „Certification” chapter.

## **The information published can be grouped by the following periods and sources:**

- The financial data have been taken from the Annual Report and cover the financial year 2004.
- The social data have been published partly in the Annual Report, and for another part are derived from information supplied within the group and concern the calendar year.
- The environmental data cover the calendar year and are the product of the regular data supply process within the group.

The affected managers assume responsibility for the compliance of the content of each chapter. In those chapters or data where changes have occurred since the last report, this fact is mentioned specially.

In the structure we tried to follow the three-pillar structure of the sustainability studies, so that the data of every player of the 2004 organization model are presented. We are giving the organization model of the group in the „Introduction” chapter. If the data on some company are not available or not consistent, this fact is mentioned specially. In general, the report covers two countries, namely Hungary and Macedonia. In both countries we are talking about companies of nation-wide reach. The structure, size, scope of services of the group, that is the basis of the report, have

not changed essentially since 2003. For easier reading the 2004 data and the development are presented in the „Company group” chapter. Here, we also discuss the major changes that took place in 2005, so that our readers can follow the changes also in the light of the current organization model and the brand names.

For continuity and transparency, beside those data where we felt it important, we present not only the change over 2003, but also over the preceding years. Cases in point are, primarily, the chapters discussing the social and environmental aspects, where the results of the different actions can be demonstrated over a longer time interval.

## **By main chapter the structure of the report covers the following elements:**

- As already mentioned above, in the chapter „Company group” we present the ownership and organizational structures of the group. For easier understanding, we incorporated in this chapter the changes following the rebranding earlier this year, presented the 2004 key financials and growth figures, as well as the top management and corporate governance system.
- The „Policies, strategies” discuss those approaches of the company group which must imbue every one of their activities in the course of their operation.
- The „Management systems” describe those quality and environmental management processes, which serve as one of the basic pillars of the reliability of our report too.
- Contacts with the interested parties are closely connected with the three pillars of sustainability, so we dedicated a special chapter to this issue as well.
- The „Activities in the light of sustainable development approach” follows identical structure with our previous report, and this structure serves as a basis for the evaluation of our performance.
- The certificate issued by the independent third party, which proves the authenticity of the report, is an integral part thereof.



Our report we publish again on the Internet, and for the request of our interested parties we also publish it on paper in a very limited number (50 copies).

From the company site between October 2004 and August 2005 the Hungarian version has been downloaded in 1,618 times, and the English version has been downloaded in 4,454 times.

Group-level environment-focussed operation started at the end of 2002, and in 2005 when we are publishing our sustainability report, we are already working towards implementation of our sustainability strategy. As decisive player of the economy with a considerable amount of social responsibility and an innovative info-communication group, we have endorsed the objectives representing the interests of the future generations, for the attainment of which we determined the guidelines in 2004 and adopted them early this year. We will give detailed report on their implementation in our next report in 2006.

Peter Janeck  
Head of the Network Division,  
Manager acting on behalf of the MC in the interest  
of the sustainability strategy

We trust that with this summary we have also given an example for the region, and on the other hand, we can launch dialogue about the future sustainability expectations, cooperation. We invite every reader to contribute to the compilation of the report by sharing with us their – either negative or positive – comments, their requirements from our activity and concepts about sustainability. Sustainable development is not a one-man challenge, it is everyone's concern. So we will be pleased to receive your proposals, opinions, comments and questions, so that we can meet together the requirements of the future.

Katalin Szomolányi  
Head of the Group environmental coordination department,  
in charge of professional management of the Group  
Sustainability Strategy



# The Company-Group

## Introduction

Matáv Group also in 2004 kept its leading position as the biggest telecom service providers 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 100% stake in Stonebridge Communications AD which is the majority owner of MakTel, the sole fixed line and the leading mobile operator in Macedonia.

Matáv Hungarian Telecommunications Co. Ltd. was incorporated in 1991 and privatized in 1993. Its majority owner (59.21%) is MagyarCom Holding GmbH, fully owned by Deutsche Telekom AG. The remainder, 40.32% is publicly traded, and own shares are 0.47%.

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.

The Group is one of the most successful and largest businesses in the Central-East European region, and an attractive stock market player internationally, too. It is a modern company capable of meeting almost any communication demand also by taking advantage of fixed-mobile convergence and the possibilities of the IP technology.

More details on products and services of the Group are available in Matáv Annual Report 2004, or at the webpage of the Company, and at the Customer Service. (<http://www.magyartelekom.hu>)

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 in 2004, four lines of business constituted 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 operated at the end of 2004 about 2.9 million fixed lines. Broadband ADSL connections exceeded 204,000 in December 2004 and are rapidly increasing. Our mobile customers exceeded 4 million, Internet subscribers increased to about 266,000 and cable TV subscribers reached 384,000 during 2004.

## Company history

### 1989-1993

#### Matáv – The Beginning

Matáv, the Hungarian Telecommunications Company Ltd. was established on December 31, 1991 as the successor of the telecommunications company established when Hungarian Post that was split into three in December 1989. Until the end of 1993 the company remained a fully-owned state company.

#### Privatization Tender

On July 1, 1993 the Telecommunications Act entered into force; it qualified public telephone, mobile telephone and public pager services as concession services. So Matáv's privatization tender could be invited both for obtaining national telephone concession right and buying Matáv shares. According to the contracts concluded on December 22, 1993 MagyarCom, a consortium of two telecommunications companies, Deutsche Telekom and Ameritech International acquired 30.1% ownership of the national telephone concession transferred on a mandatory basis to Matáv and the increased equity – for USD 875 million.

### 1994-1995

#### Regional Concession Tenders, Further Privatization

In February 1994 after the announcement of the regional concession tender results, local telephone operators were established. Matáv's service area covering about 70% of the territory of Hungary and 72% of the population included 36 primary areas where the company provides local telephone service. In the second round of Matáv's privatization MagyarCom obtained majority ownership of Matáv. According to the contract concluded on December 22, 1995 the ownership share of the two consortium companies increased to 67.3% for USD 852 million. On the basis of the combined value of the two rounds, Matáv's privatization was up to then the largest privatization in the Central and Eastern Europe region and the largest foreign investment in Hungary.



### 1997-2000

#### **Share Subscription, Deutsche Telekom obtains majority ownership**

On November 14, 1997 Matáv share trading started simultaneously in Budapest and New York with 26.31% of the shares offered on the market, up to then the largest share subscription in Hungary. With this transaction Matáv became the first company in Central and Eastern Europe whose shares are listed on the New York Stock Exchange. In June of 1999 ÁPV Rt. (State Privatization and Holding Company) sold the remaining 5.75% share packet of the Hungarian state, but still kept the Golden Share. According to a shareholder agreement between SBC and Deutsche Telekom on July 3, 2000 Deutsche Telekom bought SBC's 50% ownership share in MagyarCom. As a result of the change in MagyarCom's ownership structure, Deutsche Telekom's ownership share in Matáv increased to 59.52%, the remaining 40.48% are held by the public, while the Golden Share is held by the Hungarian state.

### 2001-2002

#### **Telecommunications Group, Liberalization, New LoBs**

In 2001 Matáv could become an international telecommunications group when the consortium led by Matáv acquired majority ownership in Macedonia's national telecommunications company Makedonski Telekomunikacii (MakTel), so MakTel became a consolidated subsidiary of the Group. As another step in the strategy Matáv purchased the remaining 50% ownership share in Emitel Rt., so in July 2001 Emitel became a fully-owned consolidated Matáv

subsidiary that provides residential and business telecommunications services in the South Alföld region. On the basis of a contract concluded with Deutsche Telekom, in December 2001 Matáv acquired the remaining 49% of Westel and Westel 0660.

From 2001 Matáv introduced tariff and service packages tailored to the requirements of residential and business customers and from 2002 introduced new reduced-price packages for internet users. December 23, 2001 was the official date of full liberalization of the Hungarian telecommunications market. The area of fixed-line telephony was the last segment of telecommunications where the market was opened. The Group's companies achieved the leading position in mobile telephony, internet and business data communication markets and obtained over 80% share on the fixed-line telephone market. As a result of the restructuring announced in December 2000, at the end of 2001 the Group's new management structure was approved. It serves the fulfillment of strategic goals and successful business activity through ensuring efficient operation.

In January 2002 a new company structure was introduced in which operations were based on four business areas: residential services, business services, internet and mobile. In December 2002 the Matáv Group obtained a Group-level ISO 9001:2000 certificate from the largest independent quality inspection and certification body of the world, SGS (Société Générale de Surveillance SA).

## 2003-2004

### Dynamic broadband, from Westel to T-Mobile, EU-compatible market competition

In December 2003 Matáv announced connection of the hundred thousandth ADSL line. During that year the number of towns where this service was available tripled to reach 128.

Since January 1, 2004 – when the Electronic Communications Act that introduced EU-compatible market regulation entered into force – fixed-line number portability is possible in Hungary, i.e. when a subscriber migrates to another service provider he can keep his existing telephone number. On May 1 number portability was introduced also by the mobile carriers with the support of the Ministry of IT and Communications.

In March 2004 Matáv's Board made a decision to change Westel's name and join one of the world's leading mobile brands, T-Mobile. Since May 2004 the company's official name is T-Mobile Hungary Ltd. It remained a fully-owned member of the Matáv Group.

Already before Hungary's accession to the European Union in May 2004, the Matáv Group was recognized to have promoted with proactive contribution the creation of an EU-compatible, market-oriented and customer-focused regulatory environment.

## 2005-

### From Matáv to Magyar Telekom, introduction of the T-brand

As part of its efficiency improvement program, on January 1, 2005 Matáv restructured the Group. The newly established Wireline Services LoB integrated the operations of the earlier Residential services LoB, Internet LoB and Network Systems LoB.

In December 2004 Matáv submitted a bid at the open tender invited for the acquisition of Telekom Montenegro, the Montenegrin telecommunications company; it came in first and Matáv acquired a 73% majority ownership of the company in March 2005. This success proved again that our experience and performance shown as international strategic investor is recognized by decision-makers in the South East Europe region.

On May 6, 2005 the Matáv Group was renamed Magyar Telekom Group in the largest rebranding in Hungary so far. The new name and full introduction in Hungary of the T-brand meant the beginning of a new communications era too. With the integration the advantages offered by a global background are directly accessible also for Hungarian customers thanks to the Deutsche Telekom Group's experience.

The Magyar Telekom Group members, T-Com (earlier Matáv's Wireline Services LoB), T-Online (Axelero's successor), T-Mobile, T-Systems (earlier Matáv's Business Services LoB) and T-Kábel (earlier MatávKábelTV) jointly offer the full range of telecommunications for residential, SME and large corporate customers.

## Ownership structure

Key Shareholders of Matáv Group as of December 31, 2004 (in alignment with year 2003)

	2004
The Hungarian State	Holder of the Golden Share
MagyarCom Holding GmbH (owned by Deutsche Telekom AG)	59.21 %
Publicly held	40.32 %
Treasury shares	0.47 %

## Organizational structure of the Group

### Organization model of the Group – Changes from 2004 to 2005

In 2004 operated the the same organization model was operating of the Group whichth the one was published in the previous Sustainability Report.

During 2005 according to the previously presented rebranding and the restructuring the Magyar Telekom Group covers three business areas: mobile communications, services provided to business customers and wireline services.

Principal member companies and associates of the Magyar Telekom Group:

#### **T-Com – Wireline Services** (in 2004: Residential Services LoB)

T-Online (in 2004: Axelero)  
T-Kábel (in 2004: MatávkábelTV)  
Emitel  
EPT  
InvesTel

#### **T-Systems – Business Services** (in 2004: Business Solutions LoB)

BCN Rendszerház (In December 2004 was established by merger of MatávCom and BCN)  
Integris Rendszerház  
Cardnet

#### **T-Mobile – Mobile Services**

T-Mobile Magyarország

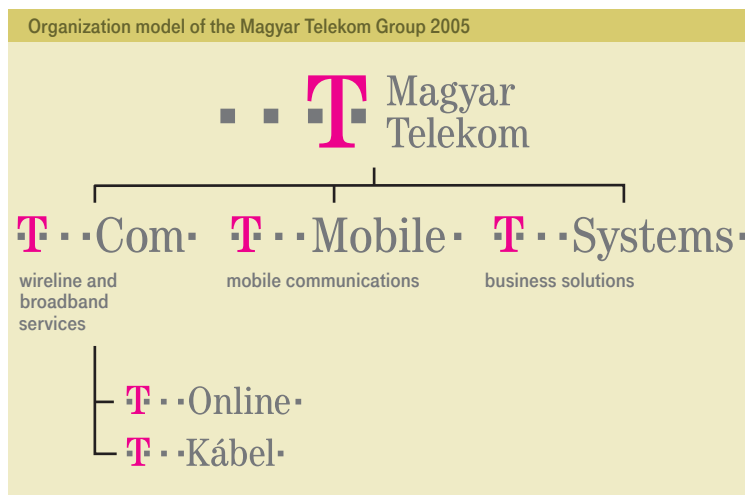
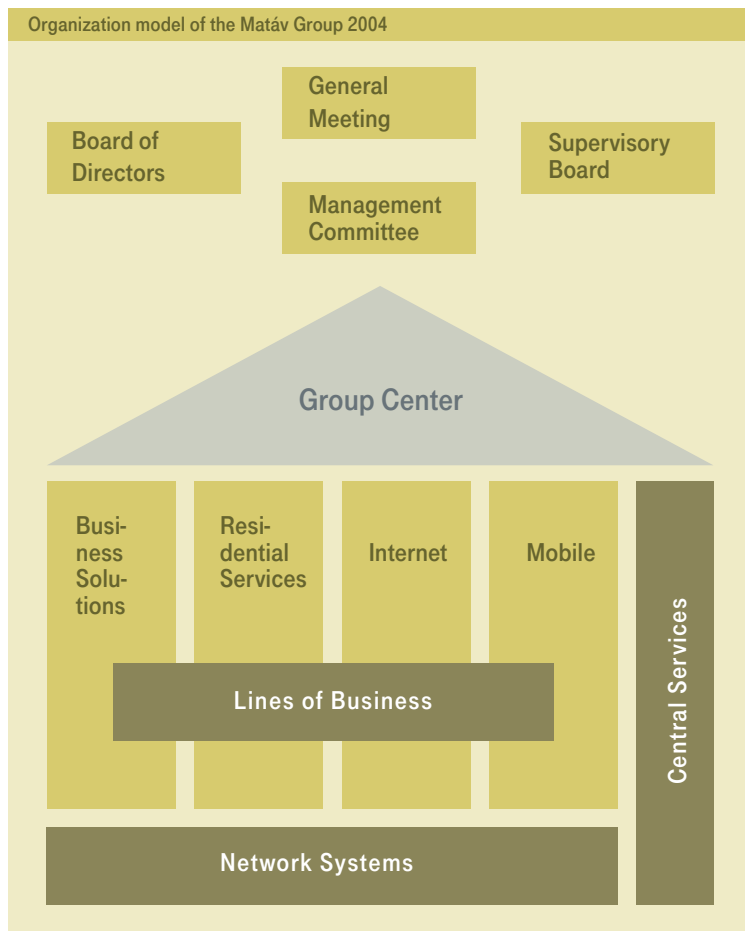
#### **International companies**

MakTel (Makedonski Telekomunikacii)  
MobiMak  
Stonebridge  
Telekom Montenegro (Telekom Crne Gore) (from March 2005)  
Monet (from March 2005)  
Internet CG (from March 2005)  
Montenegro Card (from March 2005)

#### **Associates**

Hunsat  
IKO-Telekom  
Tele Data  
T-Systems Hungary

During 2004 9 employees of the IT area were outsourced into T-System Hungary.



# Business lines of the Group in 2004

## Business Services

**Market leadership in business communications. Share: 62%<sup>(a)</sup>**

- New sales strategy: solutions supplied for key business partners, long-term contracts
- Key supplier of the national public service network (service, installation, operation)
- Market expansion: outsourcing, data communications, IT (BCN, Integris)
- Strategic partnerships within the Deutsche Telekom Group (T-Systems International, T-Systems Hungary)
- Offers in the competitors' areas (voice and data services, carrier preselection)

## Residential Services

**Market leadership in fixed line telephony Share: 81%<sup>(b)</sup>**

- 2.9 million fixed lines, erosion stopped (increase in 4th quarter)
- Broadband mass products: 204,000 ADSL, 384,000 cable TV customers
- Innovative pricing: 1.7 million residential customers use tariff packages (58%)
- Innovative offers for small and medium businesses: Üzleti Felezô, Flotta ADSL, Háttértár
- Offers in the competitors' areas (Csevegô Partner, 1515 Elôhívó, Ritmus Partner, Ritmus Elôhívó)

## Internet

**Market leadership in Internet Share: 42%<sup>(c)</sup>**

- 266,000 subscribers, 58% with broadband connection
- Multimedia content services: [origo>play], music store, [origo] téka
- New Internet packages: ADSL Play, Internet voucher
- [origo] is the leading portal site: average of 1 million visits a day, 1.9 million [freemail] users
- Offers in the competitors' areas (Kombi packages)

## Mobile

**Market leadership in mobile Share: 46.2%**

- More than 4 million customers
- Successful rebranding: nearly 100% brand awareness in 6 months
- New tariff packages and loyalty programs: Relax, K.A.P., GPRS 300
- Mobile Internet and multimedia: EDGE and HotSpot services, t-zones portal
- UMTS third generation mobile services licence

## International Activities

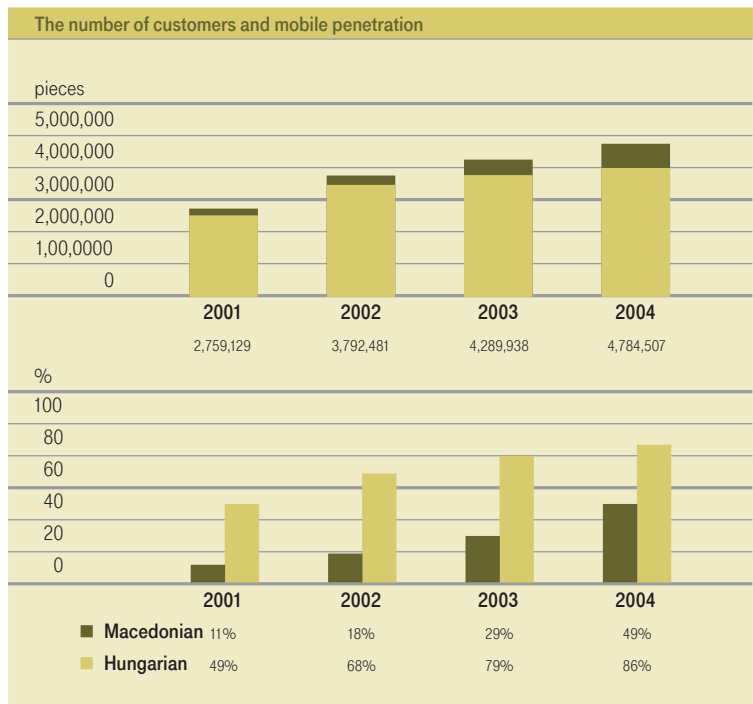
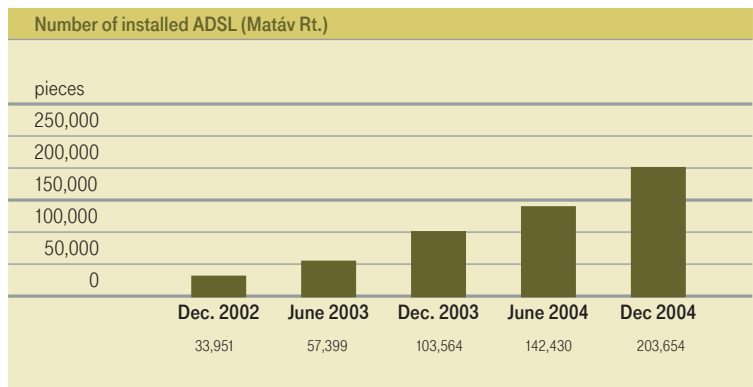
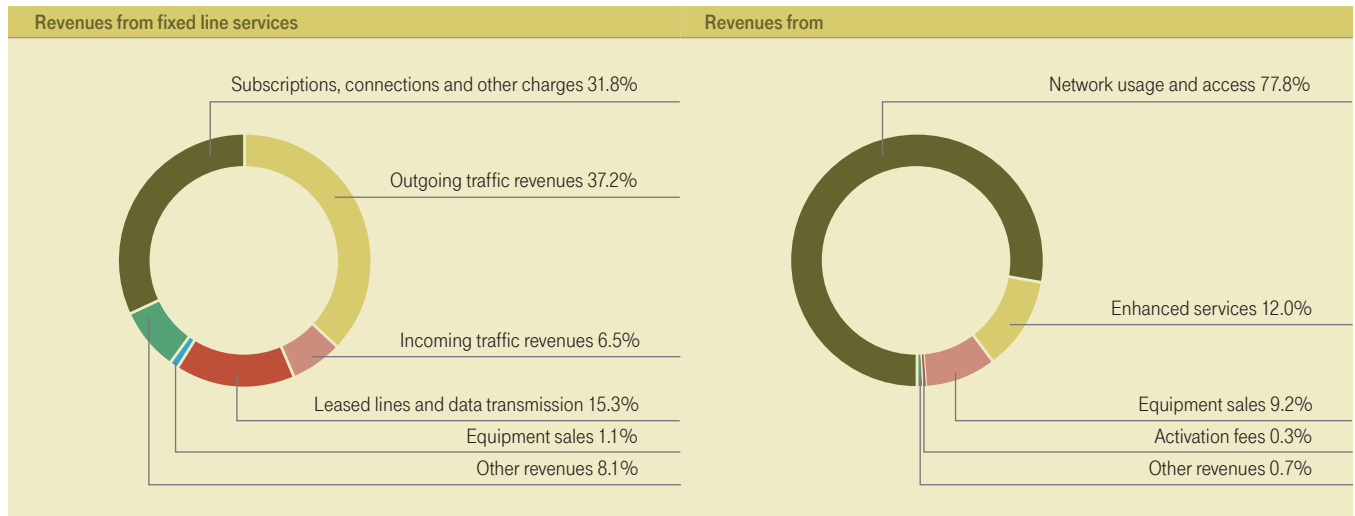
- MakTel had 626,000 fixed lines at the end of 2004.
- Sale of ADSL services, nearly 2,500 lines were connected during the year.
- Mobimak's customer base at the end of 2004 it exceeded 752,000 which meant 44% annual growth.
- Mobimak maintained its strong market leader position with 76% market share while mobile penetration grew to over 48%.
- The number of dial-up Internet customers grew by more than 32% to 65,000 during the year.
- The Internet business MTnet operates the most popular news-portal of the country called Idividi.

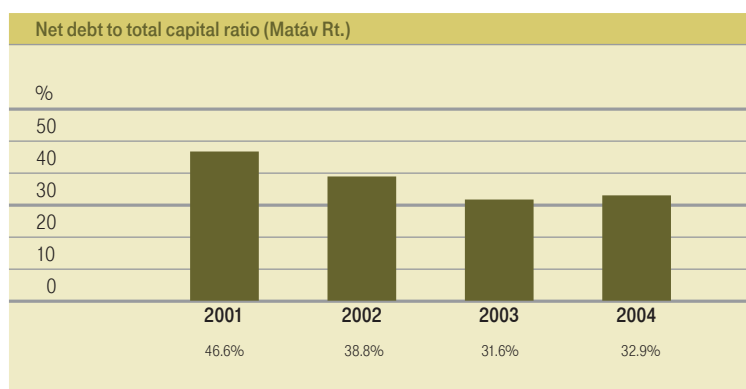
a) In the business communication market revenues.

b) Combined share of Matáv and Emitel in fixed lines.

c) Among ISPs in the dial-up market.

# Key financial and operating data of the Group in 2004





<b>The Matáv Group: Summary of Operating Statistics</b>			
	<b>Dec. 31, 2003</b>	<b>Dec. 31, 2004</b>	<b>Change %</b>
No. of fixed lines:			
residential	2,012,672	2,015,934	0.2
business	261,642	256,321	(2.0)
public	28,799	27,059	(6.0)
No. of ISDN channels ("B")	527,728	525,346	(0.5)
Total fixed lines	2,830,841	2,824,660	(0.2)
No. of fixed lines incl. ISDN, Emitel	78,638	77,705	(1.2)
No. of fixed lines incl. ISDN, MakTel	619,236	625,858	1.1
Network digitalization with ISDN	89.9%	92.9%	n.a.
Fixed line penetration* (Matáv Rt. service area, per 100 inhabitants)	37.5	37.5	n.a.
No. of Group employees (closing)	14,710	13,724	(6.7)
No. of fixed line employees (closing, Matáv Rt.)	8,071	7,740	(4.1)
No. of fixed lines per employee (Matáv Rt.)	350.7	364.9	4.0
No. of mobile subscribers, T-Mobile Hungary	3,766,274	4,032,045	7.1
No. of mobile subscribers, MakTel	523,664	752,462	43.7
Mobile penetration (Hungary, per 100 inhabitants)	78.5	86.4	n.a.
No. of Internet subscribers	210,680	266,020	26.3
No. of Internet subscribers, MakTel (inc. prepaid from Jan 1, 2004)	49,040	64,944	32.4
No. of cable television customers	362,366	383,904	5.9
No. of managed leased lines (Flex-Com)	11,480	10,467	(8.8)
Domestic outgoing traffic ('000 minutes)	7,958,292	7,670,611	(3.6)
International outgoing traffic ('000 minutes)	138,485	131,516	(5.0)
Domestic outgoing traffic, Emitel ('000 minutes)	152,614	139,846	(8.4)
International outgoing traffic, Emitel ('000 minutes)	2,253	2,257	0.2
MOU (Minutes of Usage per User/Month), T-Mobile Hungary	114	115	0.9
ARPU (Average Traffic Revenue per User/Month), T-Mobile Hungary	5,261	4,945	(6.0)

\* For 2003 penetration is different from the rate published earlier as the number of population in Matáv Rt. service area was modified in accordance with the latest figure released by the Central Statistical Office ("KSH").

## Senior Management

In December 2004, Matáv's Board of Directors made a decision to modify the Group's structure as of January 1, 2005 as part of the efficiency improvement program. As a result of the modification the Matáv Group's organizational structure simplified and its operation becomes more efficient. Through the coordinated activities of its member companies, the Matáv Group covers three business areas: services for business customers, wireline services and mobile telephony. Under the new management structure, the Wireline Services Line of Business was created to integrate the activities of Residential Services Division, Internet Services Division and Networks Division. The position of Chief Services and Logistics Officer will be eliminated with the activities of this area transformed and assigned to other areas. The Board of Directors had earlier eliminated the position of Chief Strategy and International Officer as of May 31, 2004. The Management Committee that is responsible for the Group's operative management will consist of 6 chief officers.

## Management Committee

Members of the Management Committee (since January 1, 2005). As in the previous report the members are presented according to the year of the publication.

### **Elek Straub**

Chairman and Chief Executive Officer

### **dr. Klaus Hartmann**

Vice-Chairman of the Management Committee and Chief Financial Officer

### **Christopher Mattheisen**

Head of Wireline Services LoB

### **dr. Tamás Pásztor**

Chief Human Resources and Legal Officer

### **András Sugár**

Head of Mobile Services LoB

### **Zoltán Tankó**

Head of Business Services LoB

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.<sup>1</sup>

## Board of Directors, and Supervisory Board

### **Members of Board of Directors**

Until May 31, 2007 or date of the General Meeting that will close business year 2006

Elected at the Annual General Meeting on April 28, 2004 and on April 27, 2005

### **Executive Board Members**

#### **Elek Straub**

Chairman and Chief Executive Officer

#### **dr. Klaus Hartmann**

Chief Financial Officer

### **Non-executive Board Members**

#### **dr. István Földesi\***

International business consultant

#### **Achim Berg**

(from April 28, 2004. until April 27, 2005)

#### **Michael Günther**

Member of the Board of T-Mobile International responsible for Joint Venture Management

#### **Horst Hermann**

Senior Executive Vice President, T-Com

#### **Gerhard Viktor Mischke**

Senior Vice President, Treasury and International Investment, Deutsche Telekom (from April 27, 2005)

#### **Dr. Mihály Patai**

Chairman and Chief Executive Officer of Allianz Hungária Biztosító Rt.

#### **Dr. Ralph Rentschler**

Member of the Board Management T-Com, Finance and Controlling Function

#### **Dr. György Surányi**

Chairman of CIB Bank Rt.

\*Representative of the Golden Share

The Annual General Meeting held on April 27, 2005 increased the number of members of the Supervisory Board from 9 to 12 in order for Magyar Telekom to meet both the special requirements concerning the composition of Audit Committees of companies listed on the New York Stock Exchange (NYSE) and the relevant provisions of Hungary's legal regulations.

<sup>1</sup> 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.



### Members of the Supervisory Board

Until May 31, 2007 or date of the General Meeting that will close business year 2006

Elected at the Annual General Meeting on April 28, 2004

#### **Géza Böhm**

Chairman of Hungarian Telecommunications Trade Union

#### **Attila Csizmadia\***

Ministry of Finance, Chief Counsellor

#### **Dr. Ádám Farkas**

assistant professor, Budapest University of Economic Sciences (from April 27, 2005)

#### **Arne Freund**

Senior Executive Vice President, T-Com

#### **Wolfgang Hauptmann**

Senior Executive Vice President, T-Com

#### **Gellért Kadlót**

Member of the Central Workers' Council

#### **Wolfgang Kniese**

Executive Vice President Accounting & Corporate Finance, T-Mobile International (from April 27, 2005)

#### **Dr. Thomas Knoll**

Senior Executive Vice President, Treasury and International Investment, Deutsche Telekom (from April 27, 2005)

#### **Joachim Kregel**

(until September 30, 2004)

#### **Dr. Klaus Nitschke**

Senior Executive Vice President, T-Com

#### **Dr. László Pap**

Budapest University of Technology, Professor

#### **György Varju**

Chairman of the Workers' Council at Technical Services, member of the Central Workers's Council, employee representative (from April 27, 2005)

#### **Péter Vermes**

Chairman of Magyar Telekom's Central Workers' Council

\*Representative of the Golden Share

### Members of the Remuneration Committee

#### **Horst Hermann**

#### **Dr. Mihály Patai**

#### **Dr. Ralph Rentschler**

### Members of the Audit Committee

**Wolfgang Hauptmann** (until June 2, 2005)

**Arne Freund** (from October 25, 2004 until June 2, 2005)

**Joachim Kregel** (until September 30, 2004)

**Dr. Ádám Farkas** (until September 30, 2004)

**Péter Vermes** (from June 2, 2005)

**Dr. László Pap**

## Corporate Governance

Public companies are increasingly expected to clearly state their corporate governance principles and to what extent those principles are implemented. As a company listed on both the Budapest Stock Exchange and New York Stock Exchange, we are highly committed to come up to these expectations and to meet legal and stock exchange requirements.

The Company has its own responsible corporate governance code whose elements are the Articles of Association and the Rules of Procedure of the Board of Directors 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 organization 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 eight 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.

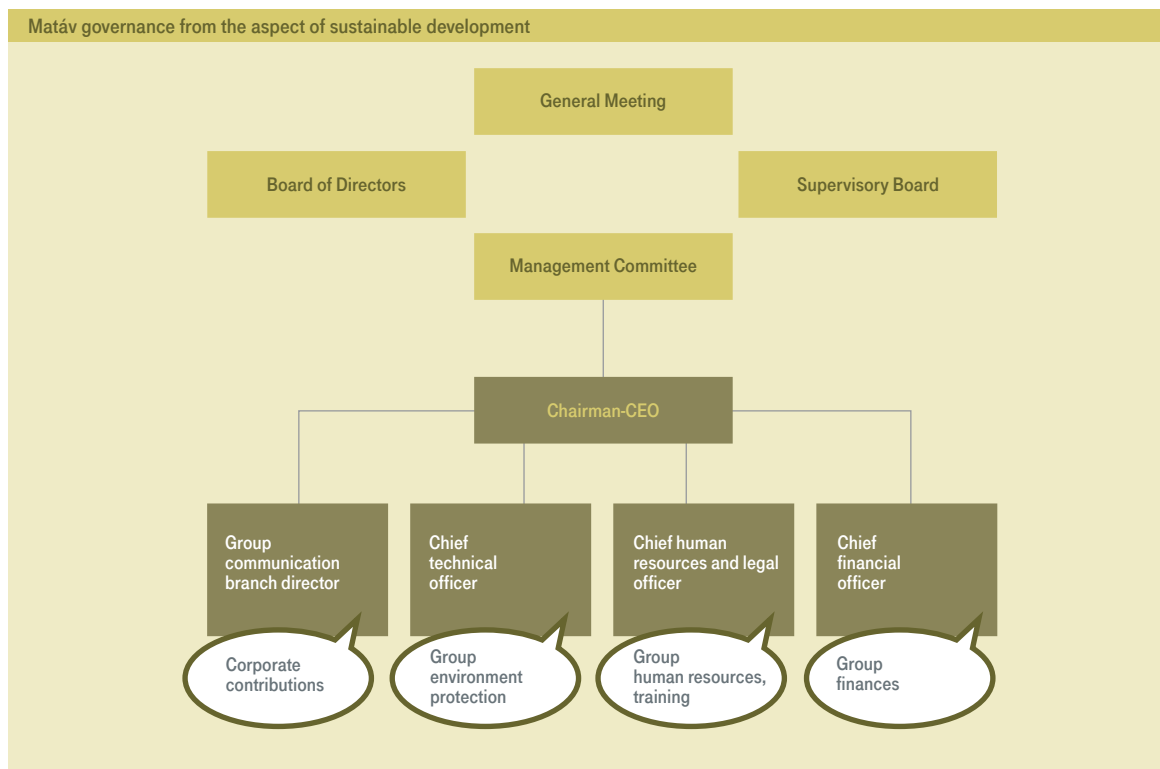
The "Rules of Procedure and Pre-approval Policy" was approved by the Audit Committee of Matáv's Supervisory Board on December 8, 2004. This requires all services, which are to be performed by our external auditors to be pre-approved. This may be in the form of general pre-approval or as pre-approval on a case-by-case basis. All services to be performed by the external auditors were subjected to the above policy and approved in advance. The Audit Committee has been regularly informed of the services and the fees to be paid.

Further informations on auditor are available on the following site:

(<http://www.magyartelekom.hu/english/investorrelations/corporategovernance/auditor.vm>)

The group-level support of the principles of sustainability in 2004 was implemented under the direction of the following organizations.

It is essential to declare that in time of the preparation of this Report, Magyar Telekom Group has a valid Sustainability Strategy approved by the senior management. With the coordination tasks of it was charged the Chief Technical Officer – now the Head of Network Division - with full authority and competence, professionally supported by Group Environmental Co-ordination Department.



# Policies, Strategies

## Mission

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.

## T-Spirit

In the frame of corporate culture change Deutsche Telekom elaborated its corporate values and developed its new vision, which was advertised to the entire Deutsche Telekom Group in Summer 2003 under the name of T-Spirit. Each letter of T-Spirit carries separate meaning and content.

The basic Matáv values implemented in 2001 and T-Spirit announced to the DT Group show practically hardly any difference in terms of the expectations regarding the workplace activities, behavior and everyday work of the employees. Both of them outline the same mentality the basic elements of which are as follows: (the first block contains the basic values of T-Spirit, while the second the basic Matáv values)

## Superior Value

**We constantly enhance the value of Deutsche Telekom.**

**Striving to fill in a key position in the development**

During the past decades Matáv raised Hungarian telecommunications to a world standard and accordingly - as the engine of the information society - it continues to be the first in the future in making the benefits of technological development available to its customers.

## Passion for our customers

**We delight our customers by providing them with excellent products and services.**

**Understanding and reliable partner**

The company considers its customers as partners and aims to win their confidence. Accordingly, they carry out their activities by taking into consideration the situation, demands of the customers and the challenges, by relying on a solid technological background.

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.

## Innovation

**We create a culture of innovation, in which we enjoy working.**

**Pioneering new paths**

Matáv is not satisfied with having laid down the foundation of the 21<sup>st</sup> century telecommunications in Hungary, but it is constantly renewing to solve the problems of the future.

## Respect

**We benefit from our cultural diversity, respect and help each other.**

**Value creator**

Creates new products and services which improve the quality of life and work for people and businesses by means of communication, which contribute to the birth of new values.

## Integrity

**We communicate in an open and honest way and deliver what we promise.**

**It is orienting an supporting in a rapidly changing world**

It assists, gives advises, offers solutions, patterns and selection opportunities to help us find our way in the world, it is teaching the customers.

## Top Excellence

**We think and act resolutely and strive constantly for greater efficiency with the right people in their jobs. We consistently reward performance while taking action against misconduct.**

**Internal forces and commitment are the drivers stimulating better performance.**

It is not satisfied with the results, seeks new challenges, constantly improves to increase its performance towards the customers.

### T-Spirit sponsor top-managers at the Group in 2005:

Superior Value:	Dr. Klaus Hartmann
Passion for our customers:	Christopher Mattheisen
Passion for our customers:	Co-sponsor: György Simó
Innovation:	Zoltán Tankó
Innovation:	Co-sponsor: Peter Janeck
Respect:	Dr. Tamás Pásztor
Integrity:	András Sugár
Integrity:	Co-sponsor: András Balogh
Top Excellence:	Elek Straub

## Strategy of the Group

### Value Creation Program: our medium-term strategy for 2005–2006

Since becoming a listed company in 1997 Matáv has maintained its leading position in the domestic fixed line and mobile telecommunications market, even in the intensively competitive environment that followed full liberalization. The company's successful domestic and international acquisitions contributed to Matáv's solid financial results. In August 2004 the medium-term strategy program was finalized on the basis of detailed analyses and its implementation was started. Matáv's medium-term strategy focuses on improvement of efficiency to further strengthen competitiveness and offer even more attractive products to customers in order to maintain Group growth. The three key components of our Value Creation Program are improving internal efficiency, exploiting Group synergies and capturing acquisition-driven growth opportunities.

### Organic development and performance improvement

The Value Creation Program covers improvement of the performance of all core businesses. In the fixed line business – after having stopped erosion of the customer base – the goal is to maintain the number of fixed lines and to boost this business with the launch of new competitive

products and tariff packages. Matáv brings attractive offers to market not only in its own service area but also in that of its competitors. Increasing Internet penetration through fast spread of broadband access and ADSL plays a key role in maintaining the number of fixed lines. Matáv is planning to continue dynamic growth after nearly 204,000 customers reached in 2004 so that the number of the company's ADSL customers is expected to top 400,000 in 2006. The Matáv Group's mobile business, T-Mobile Hungary has the strategic objective to maintain its strong market leadership position. The tools to reach this are clear pricing strategy, unique customer value management system and a high percentage of postpaid customers with higher traffic, T-Mobile's international product portfolio and the additional benefits that have become accessible with rebranding. A key element of the strategy is the Matáv Group's internal efficiency improvement and significant reduction of costs. This includes headcount rationalization and workforce efficiency improvement to raise Matáv Rt.'s fixed lines / employee ratio above 500 by the end of 2006.

### Integration and synergies within the Deutsche Telekom Group

Matáv's position as an integrated telecom company within the Deutsche Telekom Group will allow the company to reduce costs, capture additional revenues and improve its competitive positions by taking advantage of the synergies. A good example of this is the partnership agreement



between Matáv and T-Systems International concluded in March 2004, followed in July 2004 by the establishment of their joint venture T-Systems Hungary. Cooperation between Matáv and T-Systems Hungary creates added value through expansion on the outsourcing and system integration markets and additional growth in international carrier traffic. Strategic agreements were reached in October 2004 between Matáv and T-Com, Matáv and T-Mobile International to exploit synergies within the DT Group. A Shared Service Center (SSC) is operational in the financial area since January 2005 that integrates the financial and accounting processes of the Matáv Group's member companies. This new business solution can be successfully used to merge parallel activities in various units.

## Acquisition-driven growth

Growth through further value-enhancing acquisitions remains Matáv's priority in the future too. With the successful acquisition it has become an international group and there are seeking for further acquisition targets that increase shareholder value. The company is looking for attractive value-creating investment opportunities in the expanding markets of South-Eastern Europe. Its presence in the region and track record in restructuring monopoly companies to market oriented carriers create a good basis for the company to repeat the success story of Macedonia in other countries. The privatization of Telekom Crne Gore AD (TCG) seems to be an international acquisition that will

offer growth opportunity. Matáv made a successful bid in 2004, then as the first ranked in the tender it has acquired a 73% majority stake in TCG in March 2005.

## Increasing presence in the international markets

In 2004 Matáv's international market presence continued to grow through establishment of additional network interconnection points. With these steps it wants to raise the market share in the South-East European region in the sale of international wholesale telecommunications services. Matáv signed an agreement with T-Systems International in July 2004 to provide joint international network and carrier services through establishing network interconnection points in the South-East European countries. Matáv as a strategic partner of T-Systems Hungary is enabled to improve its international reach and portfolio also by serving internationally active companies in Hungary. The timing of the cooperation coincides with major growth in the Hungarian market resulting from its entry into the European Union.

# Human Resources 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 Contributions Strategy

Corporate social contribution and charitable activities are an integral part of the corporate culture of the Group. The Company-group believes that on account of our substantial economic weight, it owe responsibility not only to its customers but the entire society.

This is why it is trying to find ways of showing its human face, contributing with cash donations, charitable services or with the work of our own hands to helping the Hungarian society live a better, life and the Company is not doing this without interest, because this is in the interest of us all.

## Sponsoring

As outstanding supporter of Hungarian cultural and public life, the Group 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.

Matáv mainly appeared as sponsor in classical, jazz and quality light music events, theatre productions, mass sport and family leisure events.

It 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.

The goal is to bring as much pleasant experience and valuable entertainment to the customers as possible through its sponsoring activities.

T-Mobile took its share also in 2004 in the organization of cultural, sport and social events, scientific and professional conferences, exhibitions, fashion shows, balls, concerts of classical and light music, and played a role which was in line with its social and economic weight.

In all forms of sponsoring the aim is to extend implementation of our mobile communications values ( using T-Mobile telephone sets and services, SMS, MMS,

WAP, presentation of corporate brand values and image elements, logo and slogan) which are always accompanied by media presence.

By subsidizing the international events the Company aims to make the brand and activities known and increase their awareness beyond the boundaries of the country.

Such sponsored events are the followings:

- Indoor Athletic World Championship, Budapest (National Communications Partnership)
- Euro league Water Polo Final Four (denominative sponsor),
- Coach-riding World Championship, Kecskemét,
- Blue Ribbon Sailing Competition (the most significant competition in Central-Eastern Europe)
- Conference at the Academy of Science, Budapest (50 lecturers, from four continents, 16 countries, conference on mobile communication)
- International Opera Festival, Miskolc, etc.

## Institutional patronage

### Matáv Symphony Orchestra

Subsidizing the operation of Magyar Telekom Matáv Symphony Orchestra was the major element of the company’s cultural sponsorship activity.

### Foundation for the Museums of Posts and Telecommunications, Museum of Telephony

The goal of the Foundation for the Museums of Posts and Telecommunications established in 1990 was to provide for the funding of the nine museums operated in Hungary. The permanent and temporary exhibitions of the museums show visitors the history of Hungarian post, telecom and broadcasting.

### Post Museum – Budapest

Since 1972 the collection of the Post Museum established in 1890 has been located in the 1st floor rooms of the former Saxlehner Palace.

### Tivadar Puskás Telecom High School

The high school has a long and glorious professional history; the former school for apprentices with the adjoining workshop and pilot station was founded in 1906 by the Hungarian Royal Post of that time. Through the maintenance of the school Matáv contributes to the high standard training of the telecom and IT experts of the new century.

### **“With Telephone for the Needy” Major Public Benefit Foundation**

The foundation was created in 1990 to help disabled, blind, sight-impaired people and persons with special needs for health and social reasons to avail themselves of telecommunications services.

In May 2004 T-Mobile Hungary was awarded the prize of “the Maecenas of the Year” for its commitment to the society and simultaneously it was elected to the Club of Hungarian Maecenas counting 10 members.

Examples of activities as maecenas:

- With telephony for the Needy
- Breast Cancer Prevention Fund
- Hungarian Cancer Prevention League
- Hand in Hand Fund (for physically or mentally damaged children)
- Hungarian Maltese Charity Service

As a result of its professional and scientific sponsorship activity T-Mobile Hungary exceeded the national boundaries. The below mentioned examples are remarkable also on an international level:

- Mobile Technology and IT Department of the Budapest Technical University ( Mobile technology researches and development),
- Budapest University of Economy and State Administration (provision of IT services, professional lectures),
- Hungarian Academy of Sciences , Research Institute of Philosophy ( Several years of cooperation in research , on the social impact of mobile communications, publishing)
- Among the large Hungarian companies T-Mobile is considered as the committed representatives of unified environmental approach. The Company has acquired and renew year-by year the ISO 14001 quality certificate.

## Cash donations

The key focus of the donation strategy is to promote the solution of the most serious social and health problems.

The Company supports the solution of those problems which Hungarian statistics name as the number one cause of early deaths, including the screening and treatment of cancers, and ensuring the conditions for the effective treatment of cardio-vascular diseases.

Another priority donation target is the treatment of the health and social problems of children, the support of the sport activities of disadvantaged people and – being a telecommunications company – easing the everyday communication problems of people who live with a physical disability.

„Matáv Gives Back” programm contains the following arts of donation:

### **Charity Numbers**

Donations in a simple and transparent manner through the Matáv Donation Line.

By calling 1788, anyone could donate 100 HUF for the cause advertised, offering in each case assistance to the efforts of civil organizations intent on solving social problems.

### **Charity Services**

The Civil Tariff Package offers a 30% discount on the fees of wireline telecommunications service initiated within the country to public benefit or major public benefit non-profit organizations. These organizations can spend the money saved on purposes serving the benefit of the needy.

### **Matching Gift Program**

The importance of the Matching Gift Program (KEA) program is that the company matches with a specific amount the individual donations of our employees who think in a responsible manner about the problems of the society. This gives employees who are sensitive to social problems the opportunity to make a responsible decision about company donation.

Further employee donations programs:

- Collection of clothes
- Voluntary work

### **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.



# Group Environmental Policy

The senior management of the Group approved on February 19, 2003 the group-level environmental policy. 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. The annual revision of the Policy was fulfilled in 2004, but no modification were needed in it. ([http://www.magyartelekom.hu/english/doc/kornyezetvedelmi\\_politika\\_en.pdf](http://www.magyartelekom.hu/english/doc/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 Ohl**  
Chief Technical Officer

  
**Dr. Klaus Hartmann**  
Chief Financial Officer

  
**Dr. Tamás Pásztory**  
Chief Human Resources  
and Legal Officer

  
**Zoltán Tankó**  
Business Services LoB  
Chief Officer

  
**László Bodnár**  
Chief Services  
and Logistic Officer

  
**Horst Hermann**  
Chief Strategy  
and International Officer

  
**Christopher Mattheisen**  
Residential Services LoB  
Chief Officer

  
**László Drájkó**  
Internet LoB Chief Officer

  
**András Sugár**  
Mobil LoB Chief Officer

  
**matáv**  
beyond words

# Group 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 2003. The strategy was still in operation in 2004 without changes after its annual revision.

## Main external expectations influencing the Group Environmental Strategy:

- Domestic, EU and international regulations (Compliance with the statutory regulations; Compliance with international conventions, recommendations)
- 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)

## The principal representations of the Environmental Strategy of the Matáv Group 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 information and communication technology (ICT) its negative impact on the environment will also intensify, so the Group's important task is 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 focus points 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

## Quality management

The quality management Frame System elaborated by the Matáv Group was certified on December 16, 2002 by SGS (Société Générale de Surveillance SA), the world's largest independent quality inspection and certification body. With this Matáv obtained a Group-level ISO 9001:2000 certification that consists of 17 independently certified sub-systems and a Frame System that encompasses them. Although various companies have obtained an ISO 9001 certificate, the Group-level quality management system constructed as a result of a project lasting over three years and certified is unique in Hungary and rare by international standards considering the size and complexity of the Matáv Group.

The Matáv Group's objective with the introduction of ISO 9001:2000 certified quality management systems is to provide standard quality to its customers irrespective of time and place and continuously improve the quality services. In accordance with the basic principles of quality management systems the Group regularly measures and analyzes its activities and operations and continuously improves its quality management system.

By obtaining the international certificate issued by SGS, the world's largest independent quality inspection and certification body and through continuous improvement and operation of its quality management system, the Matáv Group wants to create value for its customers, shareholders and the society.

In addition to obtaining the ISO 9001 certificate, Matáv has introduced ISO 14001 compliant Environmental Management Systems in its functional areas having significant impact on the environment and obtained their certification. Although the Matáv Group's core activities are basically not polluting the environment, the telecommunications company is showing an example also in this area with its responsibility for and commitment to the society. About this issues more details available in the following chapter.

It is highly important for the Matáv Group to comply with quality requirements. In the past years our company and its functional areas have shown further evidence for this in many areas.

In 1998 the company's logistics area received the IISA SHIBA Award established by Professor Shiba, Japan at a competition for the creation of a process-based internal performance measurement and internal customer satisfaction measurement system in the logistics area. As a result of winning the competition our company was accepted in 1998 as member of the National Quality Club where the companies receiving National Quality Awards are invited in addition to the Shiba award-winners.

Our company was the first telecommunications company to have its compliance with the applicable laws, its own Code of Practice and authority requirements audited by a certification body called MÁTRIX Ltd. assigned by the Minister of IT and Communications.

The certificate first issued in 2001, and renewed in 2002 following the promulgation of the new Act on Communications, confirms the adequacy of the quality management systems and their audits, compliance with the required technical parameters at Matáv, the authenticity, accuracy and closed state of the billing system, as well as compliance with the regulations issued by the authorities in the protection of consumer interests.

A number of areas of the group implement self-assessment on the basis of the EFQM model in order to continuously improve their activities. In December 2004 Matáv Rt. was Recognized for Excellence in Europe by the Brussels-based EFQM foundation. In this field the mobile business of the Matáv Group, the independent member company T-Mobile Hungary also has considerable achievements to its credit. In fact, in addition to several other prizes, it has won the National Quality Award and later the European Quality Award too.



## 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's core business is 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. The systems have been operating and the periodic audits provided the platform of the continuous improvement of the environmental performance of the areas. In 2004 the systems were operating to serve the continuous improvement in the field of environmental performance of the areas.

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 and the accomplishment of Environmental Strategy.

# Stakeholders

The circle of Matáv Group's stakeholders include all those groups that influence, or are interested in, the attainment of the company's objectives. The Company with the survey of its management systems and benchmarking review has identified its stakeholders and maintains regular contact with them so as to be able to observe their interests in its everyday operations. The stakeholders of the company are the following.

## Market-based stakeholders:

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

## Non-market-based stakeholders:

- State bodies, local governments
- Industry and market organizations, research cooperations
- Local communities
- Environment and nature

## Market-based stakeholders

### Customers, individuals, groups, organizations, companies

#### Services, Universal Electronic Communications Service

Matáv as service provider is obliged to provide (publicly available) telephone service on the basis of the company's General Contract Conditions (ÁSZF).

Publicly available telephone service is a globally accessible electronic communications service, which allows call routing based on the domestic or international numbering plan, which allows generation or termination of domestic and international calls, and in each case allows access to the emergency service- and as the case may be - the access to other services (among others operator services, directory assistance, customer register and public telephone stations, premium rate services, services provided to people living with defects, and the services independent from the geographic location).

Based on the Act on Electronic Communications and the agreement concluded with the Minister of Communications Matáv provides universal electronic communications service.

Universal electronic communications service is a set of electronic communications services universally available to all the users at an affordable price, in defined quality, - in the primary areas where Matáv Rt. qualifies as universal service provider.

It contains access to telephone service on fixed line subscriber access points of the servicing areas, allowing the usage of line-switched service, sending fax message, initiating and receiving data transmission calls and providing internet access of at least 9600 bit/s speed provided on equal conditions with maximum 104 bit mistake-ratio.

The company - based on its obligation - operates not less than one public payphone station per one thousand population, in the smaller villages one public payphone station, furthermore, at least 3 % of the public payphone stations established on mandatory basis will be made accessible to physically disabled people and those with defective hearing.

When making decision about the site of deployment of the public payphone station accessible to people with defective hearing and physically damaged people, the operator will take into consideration the recommendations of the local governments of the localities, and the registered civil organizations of the disabled people.

Based on its obligation Matáv makes possible free calls (without means of payment) to the domestic emergency numbers (104, 105, 107) and the universal European emergency number (112) from the telephone stations.

When calling an emergency number neither congestion nor busy lines can hamper completion of the call. The time required for repairing the lines associated with emergency numbers shall not be more than 12 hours.

Those persons are entitled to subsidy on using universal

telecom service who are residential subscribers to the universal electronic communications service at the time of submitting the application for support and during the entire period of the support, submit an identifiable application for support and in the month preceding the submission received some form of social benefit or subsidy..

In the frame of the subsidy the Ministry of IT and Communications (IHM) agrees to cover HUF 1 thousand of the contra value of universal service - which shall not be more than the amount of the subscription fee – until the budget allocated for this purpose makes it possible. The support is considered as tax-free benefit.

To mitigate the burdens of the universal service provider incurred by the provision of universal service, the universal service provider is entitled to subsidy from the Fund of Supporting Universal Electronic Communications .

In line with the Act on Electronic Communication (Eht) effective as from January 1 2004, the support is based on the net avoidable expenses (NEK).

NEK-based contribution can be provided on the following:

- making available the register of subscribers
- access to the telecom networks in potential loss-making areas,
- operation of public payphone stations
- provision of nation-wide domestic directory assistance

Based on the reports developed by the operators the Ministry of IT and Communications assesses if provision of the universal service imposes inequitable burden on the operator.

Due to the complexity of the regulations and uncertainties associated with the payment of compensation Matáv thought that development of an audited cost analysis would be unreasonable therefore they calculated net avoidable costs only for the operation of public payphones but not for the list of subscribers , accesses and the directory assistance, which was submitted by June 15, 2005 by observing the regulatory deadline. The director of the Fund did not accept the calculations therefore – based on the recommendation he made to the Ministry – neither Matáv, nor any other universal service provider were eligible for the compensation in 2004.

### Service availability

Matáv ensures the subscriber rights relating to availability of the service and fault repair on the basis of the General Contract Conditions (ÁSZF) displayed on Internet and available in the Customer Service centers. Matáv grants its compliance with the published quality target values in providing services throughout the entire servicing area, which is tested by measurements, the methods of such measurements are published.

The company also defines the quality targets of the services provided on public payphone stations.

In the case of occurrence of faults of the service while using the service by the subscriber the fault management is made within process defined upon reporting and registration of the fault by the company, in accordance with the subscriber rights stipulated -among others – in the General Contract Conditions .Its elements are published in the General Contract Conditions.

The process elements include fault repair within 72- hours - subject to the result of the survey – and in case of sustained fault exceeding a specified period reduction of the subscription fee payable by the subscriber, and payment of penalty.

### Transparency of the fees and tariffs, wide scale accessibility of the service

The selection of Matáv tariff packages was extended with a number of easily understandable offers. XL tariff package launched at the end of 2003 offers unlimited local phone calls in off-peak periods. One of the 2004 novelties was the XXL tariff package based on the XL package, which offers free calls on the Matáv telephone lines of the country without call setup fee and call charge. At the end of 2004 the number of XL subscribers exceeded 100 thousand, while XXL subscribers amounted to 38 thousand. Starting from December Matáv ensures to the majority of our residential customers the Holiday (Szabadnap) discount automatically, where they are offered one night of free calls within the tariff zone.

Starting from June 2004 the new Relax tariff packages are available within the offer of T-Mobile, provided without monthly fee. Implementation of the Relax packages had a significant impact on the entire mobile market. The minutes of usage contained in the package are prepaid in one lot by the customer, and each prepaid minute can be used for phone-calls. The Relax package is transparent as it offers identical minute- and SMS fees on all the domestic networks, while within its international scheme all the mobile and fixed line subscribers of 29 countries of the world can be called at domestic rates. T-Mobile Magyarország has launched a new, simpler and more advantageous tariff package for its business customers in 2004. In the mobile data communication the costs of minute-based WAP usage have reduced as from March along with the GPRS packages launched in February. The Company offers the new GPRS 300 tariff package since December to the customers using mobile internet on regular basis.

As from July 2004. new tariffs were implemented for Combo 15, Combo 40 and Combo 100 modem internet

packages which are independent from the period of day and include the telephone minute fees used for Internet as well. Area coverage was also extended with the new packages, as they can be accessed from the areas of Monortel and Emitel as well, in addition to the Matáv and Invitel areas. Axelero has launched a new broadband service in June under the name of ADSL Play, which made available a 786 kb download bit rate for home users as well, which speed will be doubled as from November. The name of the new product refers to [origo>play] offering broadband content as user option. In December 2004 Sodexo Pass Internet voucher – a new service of Axelero – was launched, which is offered to employers supporting the internet usage of the employees free of tax and duties. The employees can use the voucher for Axelero residential ADSL, Kábelnet, Kombi and Mindenkinet services in the entire area of the country.

#### Availability, collection of market information

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 several 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.

#### Managing the legal and ethical aspects of content service

By now Internet has become public utility, accommodating various forms of exchange of knowledge, information and goods, comfort services, and entertainment as well. With the proliferation of broadband internet the habits of internet usage also change: customers use internet more intensely, fore frequently and in a versatile manner for accessing contents.

Axelero – the member state of Matáv Group operating [origo] portal – is a founding member of Hungarian Content Providers' Association (MTE) and accepts the Code of Content Providers as mandatory (the code can be downloaded from MTE's homepage).

The Hungarian Content Providers' Association (MTE) was established in 2001 as a self-regulatory body, established by the domestic internet content providers – among others Index and [origo] to allow for the content providers to contribute to the development of domestic internet market with coordinated, professionally established positions and by means of self-regulation.

The goal of MTE is to provide an institutional framework for the implementation of professional discussions regarding the regulation of internet content services, realize and exercise actively the techniques of self-regulation in the area of internet usage. In addition to that they also assume responsibility for elaborating and publishing to the wide public the rules and code of ethics of internet content provision, ensure development of a unified system of norms for internet content provision, implementation of clear and relevant regulations well known to the content consumers, for the operation of domestic content creator and publishing workshops, the association should represent the content providers in the negotiations of reconciliation with the various state organizations, contribute to the development of internet culture, and make internet safer and friendlier.

In respect of the [origo] databases all the user

authorizations are made by Axelero, in course of which the company – by aligning to the recommendations of the Content Provision Code – devotes special attention to the protection of privacy, safeguarding intellectual property, and ensuring compliance with the Code of Ethics of Content Providers.

### **Security of vulnerable groups and Internet security**

Internet is no longer the toolkit of useful and frequently used information of the parents, but it is also used by the children. By using Axer ChildrenInternet – an Axelero initiative – the children may ramble in the world of tales, read poems, play, learn the world within a couple of minutes. Children's internet borne by the cooperation of Axelero and Minimax offers edited, protected internet access to the children. A special user surface designed for children makes internet browsing simpler, the selected browser protected by the editor password of Axelero and Minimax subject to approval of the parents, prevent access to non-desirable internet sites, – while the internet sites allow only the access to contents that are both interesting and useful for children. Recently certain software applications proliferate, that call premium rate or international phone numbers to establish internet connection, while the users often do not know about it. The telecom operators are not to be blame for the existence of these so called dial-up reprograms but Matáv – as a company committed to support proliferation of internet steps up against the dial-up programs jointly with NETÉRT – the Association for Protection Net Users Interest. Prevention is the first, key step in provision of proper information to the users. The company has developed a free, so called “Beginners” internet training program available on the home page of the company designed to provide general information on internet and support beginners of internet usage. In the frame of the program we call the attention of users to the threat of dial-up switching programs as well. Matáv allows the users to make questions to experts and get responses regarding internet on the home page of the company, Matáv also warned its customers about the threat in Hírmondó newsletter mailed with the telephone bill. In addition to that, the theme was covered by the members of Matáv Group in a number of news programs and in Hiradó (news) as well.

Matáv is constantly monitoring the domestic and international traffic trends. If the traffic directed to a calling number shows an extreme increase, Matáv will contact the international telecom operator through its international carrier relations. If a phone number can be clearly identified to be used for fraudulent dial up switching programs, Matáv will apply ban on the automatic call setup option in respect of the given phone number but the number can be switched through the operator.

Matáv provides two types of call restriction services to its subscribers. Both of them can be applied either globally, in

respect of all the calls, or for certain call types, number domains. (e.g. premium rate, satellite, international or long distance calls) Calls restriction is one of the simplest protections against the dial-up programs, which offer two options, the password-based and the permanent calls restriction to be ordered with the service provider. The services can be ordered in the Matáv call centers, on internet (in e-mail or through chat on internet customer service site of Matáv.) or personally, in any MatávPont.

Perhaps everybody receives dozens of unwanted letters in the electronic mails: according to the estimations 60-70% of the e-mail traffic in the world is made by spams causing losses of hundred million dollars primarily to the internet operators, and a lot of annoy to the users. Large diversity of the spams makes the prevention difficult, although it is the joint interest of both the internet operators and users. Axelero plays an active role in the initiatives of self-regulation, and implemented a number of solutions in the area of services, which provides for subscriber protection, and in a wider sense of the word the protection of the community of internet users. Accordingly, it provides virus screening to all the subscribers and freemail users, applies a self-protective spam filtering solution on the server side, and offers a comprehensive spam protection solutions to the subscriber under the name of Axelero Internet security. In addition to the above they also apply certain technical solutions – including external authentication for spam protection – which notifies the customers infected with virus, and in extreme case it also provides for sorting out these customers.



## 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 (MC). 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. The goal is to ensure the opportunity of advance and experience gathering for the existing staff, so trying to fill as many vacancies as possible from inside sources. This is served by the fact that all emptied position is announced primarily in Freejob system on the group intranet, to which for all employees of Matáv and other subsidiaries of the Group free access is provided. In case of external search the positions are published on the internet site of the company. Data of the applicants to those -uniquely in Hungary – are recorded electronically in the SAP HR system, from what they could be filtered and visualised to positions opened later. For filling strategic positions, services of a recruitment/selection consulting company have been used, 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 excel development programs.

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 was 13724 (December 31, 2004), and of the Matáv Rt was 7740, and of the MakTel was 2795 from that.**

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

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

- Employee satisfaction survey (MIRROR) results, 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, which is approving our respect to T-Spirit's value "Passion for our customers". 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 which was established as a result of the 2002. MIRROR survey, 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. Since 2003 when the program was launched the CEO and every chief officer participated in such meetings on one or more 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 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.

The Matáv Group respects the rights of employees to privacy, religious and political inclinations, – and does not influence it in any way. Neither the business principles nor the Code of Ethics of the Matáv Group can provide either moral or financial support of any kind to political parties, political organizations or to the representatives thereof.

# Suppliers

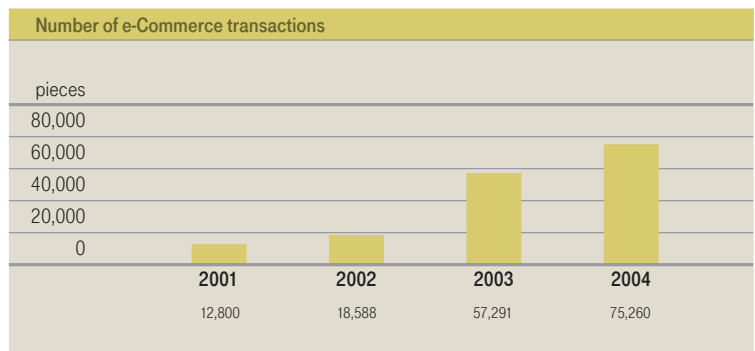
## Procurement-focused supplier relations

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.

### 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
- and increase the number of alternative electronic procurement solutions that result in shorter procurement processes



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. More than 90% 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 three 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. Before purchasing the products suppliers must provide declaration on environmental characteristics of those. 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. Since 2002, the elaboration of an environmental qualification system to be integrated in the supplier contracts, is operating.

Matáv also in its supplier relationships expects the ethical behaviour, so the suppliers are supposed to accept the Group Code of Ethics, and fulfillment of expectations included in it is required. This is also a part of the contract conditions, so both in the vendor qualification and consumer relationship qualifications processes are involved the topics of the ethical behaviour and, among others, the respect of human rights.

Matáv considers it a priority to meet its payment obligations in accordance with the deadlines stipulated in contracts and agreements. A general term of payment applicable to the supplier payments is the deadline of 45 calendar days on receipt of the invoice. This condition must be taken into consideration by all the Matáv organizations responsible for preparation and signature of supplier agreements. This deadline for payment is stipulated in the master agreements and orders of procurement, naturally, in certain concrete cases special payment conditions will be applied subject to the preliminary approval of Group Financial Branch. Matáv monitors on regular – monthly – basis the number of late payments compared to the deadlines for payment stipulated in the agreements, which is normally between 1 to 1.5 percent of the total payments, on the average.

#### **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.

Matáv Group in 2004 issued its new Code of Ethics, which, among others, contains the standards of conduct in accordance with the competitors. In the course of its operation Matáv and all of its employees - according to the Group Code of Ethics - 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, to promote the interests of the employees.

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 buying and 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 telecommunications services usage (the CSSZDK – group reduced service rates) also require the approval of the KÜT.

In 2004, Matász (Hungarian Telecommunications Branch Union), and Távszak (Union of Telecommunications Workers) this voluntary interest representation and interest protection organization of telecommunication employees operating on the principle of self-government, were in operation at Matáv with 2775 members.

### **Their 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 stakeholders

### State bodies, local governments

T-Mobile – as a member of Matáv Group – like in the previous years, provides assistance to the armed forces, and to the disaster prevention and emergency actions, protection against flood, to the protection of the population and the communities. The mobile operator provides both the telephone sets and the service free of charge to the National Directorate for Disaster Management

Due to the floods recurring in our country the coordinated actions of various organizations and private personalities are required, in course of which the fast, immediate communication is also inevitable. The nation-wide network of T-Mobile and the special GSM-pro system – which is unique among the domestic GSM operators – are available to the Hungarian Armed Forces and the National Directorate for Disaster Management also in the case of emergency. A major benefit of GSM Pro is that it offers dispatcher and group communication services as well, it combines all the benefits of the GSM networks and special professional mobile radio systems, and in addition to the traditional phone calls it allows for group and circular calls, and provides for immediate access to the dispatcher and emergency centers.

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 (NHH) 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.

### 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 more than twenty 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

Matáv is the member of a number of international organizations, or participates in the work of such organizations (FIINA, INMS, EUTELSAT, EWSD user forum). The major objective of these relations is to provide for cultural and infrastructure compatibility and ensure implementation of joint development projects. From among the international organizations the major partners are as follows: EURESCOM, ETSI, ETNO and ITU-T. The managers of the Matáv Group participate regularly in domestic and international conferences, in the workshops, symposia seminars organized by the partners (e.g. CISCO Expo, Siemens-, Ericsson-, Kapsch-, Alcatel- seminars, CEBIT, IIR (Institute for International Research) conferences, Forums of liberalization, Telecom and Marketing Forum, Controlling Academy) not only as participants but also as lecturers, and they are also involved in the activities of the most significant international telecom operators and the related working groups.

Matáv Group joined in 1998 the Environmental Charter of ETNO (European Telecommunications Network Operators' Association) and simultaneously with that the Environmental Working Group as well, what with widening of its activities, arranged to it changed its name to Sustainability Working Group, and in 2004 it issued its Sustainability Charta. The company group joined this Charter as well. According to the principles of the Charter Matáv agreed to the following:

Sustainable development is a global strategic goal, which seeks to achieve economic growth that promotes a fair and just society while conserving the natural environment and the world's scarce, non-renewable resources for future generations. It is a common belief that ETNO's joining companies can play an important part in making this happen.

Corporate Social Responsibility (CSR) is understood in the context of sustainable development, as the following:

Corporate Social Responsibility is the business contribution to making sustainable development happen, through the proactive management of a company's environmental, social and economic impacts.

The joining companies' approach is that as do our employees, customers, shareholders and governments, that today's world demands close attention to business principles and ethics, employee relations, human rights, environmental management, community investment and general working conditions, within a company and regarding its outside suppliers.

CSR commitment demands regular performance assessment. Thus, ETNO reports offer stakeholders a means to judge how effective the improvement

programmes have been.

Moreover, the spread and reach of telecommunications across contemporary society imposes on us, as responsible corporate citizens, the social obligation to demonstrate this commitment, to reflect how we run our businesses.

Collectively, member companies' combined turnover represents a significant proportion of European trade, which offers a unique opportunity for ETNO member companies to co-operate actively with policy-makers and Governments to make a real difference.

Charter signatories, among them Matáv individually and collectively, are committed to continuous improvement and the sharing of best practice via action in the following areas:

- Awareness,
- Regulatory compliance,
- Research and Development,
- Procurement,
- Accountability,
- Co-operation,
- Management Systems,
- Employee Relations.

In 2004 the First European Telecommunications and Sustainability Conference was organized by ETNO in Budapest where the above Charter was launched, and where ETNO formally joined the Global Compact initiated by the UN Secretary General.

For further information regarding the conference see the section "Activities in the light of sustainable development approach".

### Relations and cooperation with higher education institutions

Matáv fosters traditionally good relations with the higher education institutions (especially BMGE, Corvius University, Budapest), because these universities also mean a knowledge and workforce 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 an apprentice program under which several Hungarian and foreign graduate students are received every year for practical training.

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 the domestic innovation relations. Matáv, as a telecom service provider is 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 development of the knowledge-based society.

In its capacity of supporter of the work of the international students' association, in 2004 Matáv was involved as main sponsor in the AIESEC (International Association of Students of Economics) programs called "Sustainable Future". The interested students – besides participation in the lecture of the opening conference – could also participate in a factory visit.

## Local communities, environment and nature

The senior managers of Matáv devote special attention to the maintenance of social relations.

The chairman-CEO of Matáv is also the chairman of the German-Hungarian Industrial Chamber of Commerce, and also the president of the Hungarian Yachting Association. In addition to that he is also the member of the trustee of C3 Cultural and Communications Center Fund, the "Self-assistance – For the development of financial and investment culture" Fund established by the Budapest Stock Exchange, the management of MGYOSZ, the professional committee of the Tódor Kármán award of the Forum "With training for economy".

The head of the Mobile Line of Business is the member of the MGYOSZ board, co-president of the Hungarian Yachting Association and also represents the company in the board of the Hungarian Olympic Committee.

The Chief Financial Officer is the member of Am Cham - the American Chamber of Commerce, while the Chief Officer of Business Services is representing the company in the Budapest Chamber of Commerce, in the Association of IT Enterprises, and in the International Telecom Association.

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. (More details on this topic are available in the chapter "Corporate Contributions".)

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 devoted special attention to integrating the expectations and demands of the parties interested in its environmental performance. One of the parts of responding the environmental expectations of the society was that the company introduced an ISO 14001 standard environment-focused management system in its areas considered to have a major environmental impact (technical services, mobile area, network management, telecommunication development, real estate management, transportation and procurement areas).

Matáv Group has developed its Environmental Policy in harmony with its Mission, assuming responsibility for nature conservation and environmental protection and improving the state of the environment. The company has been preparing a comprehensive environmental strategy since 1998, which was adjusted to the new corporate structure in 2002 encompassing elaboration of synergies in the area of environment protection, too. Since 2002 the Group Environmental tasks are performed in a regulated manner, they are harmonized with the scope of responsibility and competence of the member companies and the participants.

Initiatives of the Matáv Group brought a number of positive results in 2004 with the implementation of the programs serving for proliferation of internet affecting the local communities, groups, internet utilization and bridging the digital gap. More detailed information on the programs are provided in the following chapter of the report.

In 2004, the company organized the seventh Environmental Round-table Discussion which was designed to coordinate the achievements and discuss the questions arising. Among the partners participating in the discussion the representatives of the Ministry of Environment Protection and Water Management, the Main Authority of Environment and Nature Conservation, the directorates of the national parks, environmental and nature conservation non-governmental organizations, research institutes, etc. and the Matáv Group were present. T-Mobile is outstanding among these organizations – beside the environmental achievements of Matáv Group - as contributed to development of cooperation of the forum participants with a lecture as well. First time in 2004 it was Deutsche Telekom that represented itself in the event where the current approach of environmental protection and nature conservation were outlined.



## A String of Awards and Recognition in 2004

- Corporate Donor of the Year (for the 2nd time)
- MTA (Hungarian Academy of Sciences) Mór Wahrmann Medal for promotion of social awareness of science
- Superbrand qualification in the international Superbrands program (Matáv and T-Mobile Hungary)
- Best Corporate Social Responsibility Special Award from Superbrands Hungary
- Golden EFFIE Award for the XL tariff package launch campaign
- Figyelő Top 200: Hungarian company with the best operating profit
- Figyelő Top 200: Hungarian company with the highest own capital
- Figyelő Top 200: Largest Hungarian telecommunications company
- Investor Relations Magazine: Grand Prix – Best Investor Relations in the region (for the 3rd time)
- Investor Relations Magazine: Best Investor Relations in Hungary (for the 3rd time)
- Investor Relations Magazine: Best Investor Relations Website (for the 2nd time)
- Investor Relations Magazine: Best Corporate Management
- Investor Relations Magazine: Best Corporate Social Responsibility (shared with MOL)
- Kreatív: 1st place for “corporate website Press Room quality”
- Süveg Award for University of All Knowledge
- Prima Primiissima Award for University of All Knowledge
- Figyelő–Hewitt Inside Consulting: Best Employer Award (T-Mobile Hungary)
- Reader’s Digest: T-Mobile Hungary is the Most Popular Mobile Carrier
- DT Group “Living Diversity” Award (2nd rank)
- Central European Environmental Reporting Award 2nd Rank for Matáv’s 2003 Sustainability Report
- Order of Merit of Germany, 1st Class, for Elek Straub
- Order of Merit of the Republic of Hungary, Officer’s Cross, for Elek Straub
- Order of Merit of the Republic of Hungary, Commander’s Cross, for András Sugár

# Activities in the light of the Sustainable Development approach

## First European Conference on Telecommunications and Sustainability 2004.

The First European Conference on Telecommunications and Sustainability organized by ETNO (European Telecommunications Network Operators' Association) was hosted by Matáv in Budapest on November 25-26 2004. ETNO has 41 telecom operator members from 34 countries. It focuses on the promotion of dialogue among its members and the other players interested in building the European information society. It also provides a forum for the members to discuss common problems. Its sustainability working group focuses on ICT and harmonisation its effect on economic, social and environmental interests, which was also the reason to organise the conference.

The aim of the event was to establish links between the telecommunications services, the various operators and sustainability.

Matáv has decided to host the conference in Budapest also because of paying attention on the fact that Hungary became European Union member on 1 May 2004 and bring the old and new members closer to each other.

This major event of telecommunications operators were attended by delegates from some 20 countries, including the representatives of telecommunications companies, EU DG Enterprise, DG Information Society, Hungarian government agencies, consulting firms, universities, public organizations

and United Nations. UN could present the ten principles of Global Compact also here in celebrating conditions, as ETNO and through this also Matáv joined to.

Also at the Budapest conference ETNO launched the Sustainability Charter. Matáv has joined along with 17 other companies.

Matáv made the event also available on Internet for four European universities. For the questions received from the students, the speakers replied in e-mails.

**The conference topics were grouped around the following sections:**

- ICT & Sustainability – Expectations and Challenges
- Sustainable Business Management
- Product and Service Impacts and Management
- Resource Management and Climate Change
- ICT as an enabler of improved social & economic growth at global level
- Panel Discussion about Communication on Sustainability Performance

### Welcome and introduction

Peter Janeck, Chief Technical Officer of Matáv defined sustainable development in his opening speech from different aspects, and highlighted that in its operation the three of economy – society – environment has a tight link. This means that if the economy is not healthy it has direct impact on the society and on the environment. In the same way affects environment on society and environment, or society on economy and environment.

Michael Bartholomew, ETNO director underlined the role of telecommunications sector to achieve European Union's Lisbon Strategy. The telecommunications industry contributes to the three pillars of sustainable development through concrete actions.

Dr. István Pomázi from the Hungarian Ministry of Environment Protection and Water Management, highlighted that the Hungarian government had launched its information strategy with a special focus on e-environment. One of the main goals was to publish e-environmental data on public portal.

Michel Catinat, the head of Environmental Unit in European Commission's DG Enterprise presented the valuation of Lisbon Strategy (Kok report), which direct links to

Welcome and Introduction	Master of ceremony: Ms. Katalin Szomolányi, Matáv
Welcome by Matáv	Matáv – Mr. Peter Janeck, Chief Technical Officer
Welcome by ETNO	ETNO – Mr. Michael Bartholomew, Director
Welcome by Ministry of Environment Protection and Water Management	Ministry – Mr. István Pomázi
Keynote address by European Commission – DG Enterprise	DG Enterprise – Mr. Michel Catinat

sustainability. Europe has always taken leading position in environmental and social protection. He also highlighted that business actors should be take into consideration as a part of solution, not as a part of problem. Telecommunications sector has a special opportunity to help Europe in developing sustainable society.

## ICT and sustainability – expectations and challenges

Peter Johnston, head of unit at European Commission DG Information Society highlighted that we need a new paradigm of growth to meet both the objectives of Lisbon and those of the Sustainable Development Strategy. Information and Communication Technology sector is a key as can make a direct and indirect contribution to growth in competitiveness, decrease in environmental impact while can also help to improve quality of life. Justin Keeble from Arthur D. Little presented the results of a survey which let us take the consequence as sustainability has market opportunities for companies. For this a shift is needed to understand market, identify opportunities, and deliver environmental and socially beneficial products and services. Sustainability in this meaning is not only responsibility at companies, but also a business opportunity. Dennis Pamlin from WWF Sweden brought an NGO view point to the debate. He underlined that telecommunications has real opportunities to contribute in sustainable development. Among the examples were dematerialization, substitution of transportation, intelligent and increased energy efficient buildings, increased

transport efficiency, better information and new urban models. As expectation, he highlighted the information and communication about the environmental effects of telecommunications products and services. He also encouraged the co-operation with other business sectors, NGO-s and politicians. Danilo Riva, the chairman of ETNO Sustainability Working Group introduced the Sustainability Charter, signed by 17 telecommunications companies. This replaced the Environmental Charter published in 1996. He also pointed that in spite of economic difficulties, telecommunications companies have reached further positive results in environmental protection. According to the new charter's guidelines, new key-indicators have been defined for continuous measurement of improvement, which will be published as a report.

ICT and Sustainability – Expectations and Challenges		Chair: Mr. Michel Catinat, DG Enterprise
Trends in information society and sustainable development:		
A European perspective	DG Information Society – Peter Johnston	
Sustainable development: market opportunities for ICT	Arthur D. Little – Justin Keeble	
ICT & sustainable development – future trends and the role of ICT in Europe and the world	WWF Sweden – Dennis Pamlin	
ETNO Sustainability Charter: example of co-operation on sustainability in a highly competitive market	ETNO SWG - Danilo Riva	



## Sustainable business management

Sustainable Business Management	Chair: Michel Huet, ETNO EB
Sustainable business management and financial indexes: focus on ICT	SAM – Edoardo Gai
The intangibles: a bridge between financial and non financial performance in the Telecommunication sector	Telecom Italia - Paolo Nazzaro Bocconi University - Prof. Mauro Bini
Sustainability & Employment: the experience of Sectoral Social Dialogue	ETNO EH&S WG - Marco Buatier de Mongeot
Sustainable strategy and goals in DT CSR: Increasing the value of a Company Telefónica	DT – Reiner Lemke Telefónica – Rafael Fernández de Alarcón

Edoardo Gai, from Sustainable Asset Management presented his experiences gained in analyses in ICT sector for Dow Jones Sustainability Index. Among key sustainability challenges he listed the reduce of environmental footprint, the continuous improvement of workforce skills, the stakeholder engagement, the transparency, the recognised excellence by customers, the good governance and risk management, and the integration of sustainability into traditional business processes.

Paolo Nazzaro from Telecom Italia and Prof. Mauro Bini from Bocconi University talked about intangibles in their presentation. In addition to the value creating affect of sustainability, introduced the key indicators of Telecom Italia, the process of developing Sustainability Report, which includes the Financial report, and some of the key actions. Marco Buatier de Mongeot, from ETNO Employment, Health & Safety Working Group introduced sustainability from employment point of view. Sustainability, as responsibility, should be integrated into human resource management. He also presented the social dialogue of telecommunications sector, and its results.

Reiner Lemke, from Deutsche Telekom talked about the company's Sustainability Strategy and Goals. He also talked about some basic questions, as the depth of management involvement, corporate governance, risk management and business approaches, etc. The eight guidelines of sustainability strategy reach „our bas aim” through „for the

people”, „for the environment”, „for the future”. Among examples he mentioned the Social Charter, the climate protection principles, the sustainability action wall, etc. Rafael Fernández de Alarcón, from Telefónica gave a presentation about corporate responsibility and its additional value. In the process the company can reach long term value increase from risk management, through financial, responsible risks and less costs.

## Product and service impacts and management

Jack Rowley, the research and sustainability director of GSM Association in his presentation talked about sustainable mobile communication. In addition to health researches of electromagnetic radiation, he presented some results of different queries in different countries. Also showed examples on field of visual effect, energy consumption and recycling.

Mario Tobias, from Bitkom analysed the impact of information and communication technology's products, if it is a part of problem or solution from sustainability point of view. He listed up among the examples the automation and control, the transportation and mobility, the personal and health care, the education, and the economic growth. Rolf Frischknecht from ESU-services presented the results of life-cycle analyses of UMTS, where it was compared with GSM system. Based on this in data transmission point of view the environmental impact will be decreased, in customer point of view increases the impact. As strategic goals he highlighted to reduce the energy consumption of base stations, to increase the using time of mobile phones, and to use the renewable resources in the system operation.

Mark Dowling from British Telecom detailed the application problems of EU directive on electric and electronic equipment. The directive covers all the telecommunications and IT equipment, household applications and other electric and electronic equipment. He presented the cost increasing factors, and also some point, which should be stepped by telecommunications companies in time, e.g. involving suppliers, avoiding hazardous materials, etc.

Product and Service Impacts and Management	Chair: Danilo Riva, ETNO WG Sustainability
GSM in Society - delivering sustainable mobile communications	GSM Association – Jack Rowley
Impact of ICT products	Bitkom - Dr. Mario Tobias
Life Cycle Assessment of the Mobile Communication System UMTS	ESU-services - Rolf Frischknecht
Preparing for the WEEE Directive	BT - Mark Dowling

## Resource management and climate change

Resource Management and Climate Change		Chair: Peter Johnston, DG Information Society
GHG emissions and business Carbon Disclosure Project		Carbon Disclosure Project – Paul Dickinson
ICT and GHG Emissions		Matáv – Szomolányi Katalin
Alternative Energy Solutions		BT – Neil Winfield
Energy efficiency and CO <sub>2</sub> emissions at Swisscom		Swisscom – Dr. Dominique Singy

Paul Dickinson, coordinator of Carbon Disclosure Project called his colleague in Netherlands by a video-phone to introduce the project. Eckart Wintzen talked about the telecommunications' travel substituting potential. Katalin Szomolányi, head of Group Environmental Co-ordination at Matáv and manager of ETNO Sustainability Working Group's „ICT's effect on greenhouse gases” project, presented the results achieved by the work started in 2002. They analysed the total impact of telecommunications actors based on their energy consumption, converted to CO<sub>2</sub> – equivalent, summarising the best practices, and the CO<sub>2</sub> replacing opportunities of some services globally.

Neil Winfield, energy commercial manager at British Telecom introduced the emission reducing efforts of the company, reflecting to CO<sub>2</sub> emission. He also talked about BT's new „green” electricity contract, and about some new solution opportunities.

Dr. Dominique Singy from Swisscom presented the company's opportunities to achieve the goals until 2010 regarding CO<sub>2</sub> emission. Regarding the three highest energy consumption types – as electricity, heating, fuel – he listed up the different solutions taken into consideration.

## ICT as an enabler of improved social & economic growth at global level

ICT as an enabler of improved social and economic growth at global level		Chair: Dennis Pamlin, WWF Sweden
Globalisation: opportunity or threat?		UN Global Compact – Ellen Kallinowsky
The GeSI: how to organise the ICT industry's contribution to sustainability		GeSI – Chris Tuppen
Campaign for Digital Inclusion		BT – Mike Hughes
ICT services eliminate distances: examples of applications		FT – Jean-Marc Temerson
Flexible working - win-win		TeliaSonera – Kari Vaihia

Ellen Kallinowsky from UN Global Compact Office shared the view that globalization was an opportunity for all provided it was managed in a proper way. “Economies need to be embedded in a set of values and principles”. Chris Tuppen, the chairman of Global e-Sustainability Initiative introduced the members of the association, as the following: Bell Canada, BT, DT, Ericsson, ETNO, Motorola, O2, Panasonic Mobile and Vodafone. He listed the results achieved and highlighted the importance of supply chain management.

Mike Hughes, the head of environment and digital inclusion at BT Group presented the digital inclusion campaign. The project focuses on three topics, as connectivity, capacity and content. Analysing the social aspects it became clear that digitally excluded people needs to contact the government ten times more than averages. The project includes actions like everybodyonline, e-well being awards, free community web site build tool, BT community connections, etc. Jean-Marc Temerson, from France Telecom detailed the distance eliminating opportunities provided by information

and communication technology services. Defining distance it is not enough to take mathematic, physical approach into consideration, but also social approach should be defined. In this point of view the distance eliminating opportunities of services can be found in health care, educational culture, work, tourism, citizenship, transportation, etc.

Kari Vaihia, CSR director of TeliaSonera underlined the opportunities of flexi-work. Finn parliament intends to replace 20% of total working time 2010-re with flex-work, which would reduce the total CO2 emission with 0.12 % in Finland.

## Conference summary, future challenges

Katalin Szomolányi (Matáv) and Ignacio Campino (DT) in their summary presentation remembered 1996, when First European Conference on Telecommunications and Environment was hosted by DT. Since then the view increased with sustainability responsibility. Among the experiences of the conference the focus was mentioned which is shifting from direct effect towards indirect and systematic effect. We do not live in a sustainable society at the present, but we are building it together. Innovation is a key, which should focus rather on sustainability than technology. On the way towards we should be able to find our allies.

Michel Huet, chairman of ETNO Executive Board closing the conference summarised the presentations. „All signatories of the ETNO Charter on sustainable development have shown the exemplarity of the electronic communications sector in terms of a responsible management of resources, environment protection, economic growth and social dialogue. They also demonstrated that they are committed to a fruitful and efficient dialogue with all stakeholders for a positive contribution to Society. Our ambition is clearly to be part of the solution, rather than part of the problem.”

Summary, Future Challenges	Moderator: Katalin Szomolányi, Matáv
Expectations, challenges, experiences:	
a look into the future	Matáv & DT – Katalin Szomolányi, Ignacio Campino
Concluding remarks	ETNO EB - Michel Huet, chair



## Information society – “Digital bridge”

Under the term of digital gap we mean the differences of IT availability developed in our age and society between the different social groups with different opportunities to access the IT facilities ( due to their geographical location, social or other aspects). “Digital Bridge” is designed to mitigate its effect and prevent development of such gap.

Access to the information and communications technologies is indispensable to the economic development of our age. Nevertheless, transformation of the communication, the key to the social life makes it indispensable to understand new technologies and opportunities. Better communications opportunities ensure connection between individuals and forging together the society.

In the case of successful implementation and further development of the 2004-year initiatives of Matáv they can get involved in the implementation of the strategy on Hungarian broadband electronic communication, being in compliance with the objectives identified by the European Union.

## Connecting remote localities, people, groups living in small villages to the mainstream of Internet – “Digital bridge”.

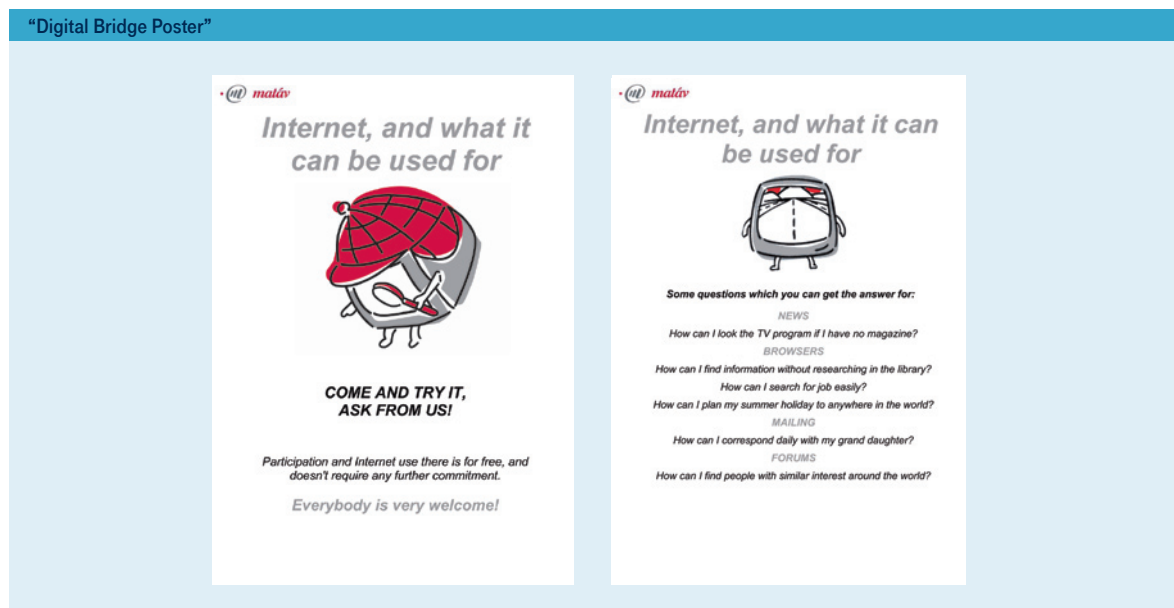
The goal of the initiative is to make the results and opportunities of information and communications technology widely known in the areas where digital difference is an existing problem, which can later turn into a gap. Therefore the primary target groups are small localities where the closing of IT and communications gap can contribute to the development of the locality and the region as well.

With the implementation of the events initiated in 2004 on experimental basis Matáv had the objective of provision of efficient and customized information and customized assistance.

The project adopted to the Hungarian conditions the initiative started in small localities on the basis of the project presented by British Telecom in the ETNO sustainability working group. The goal of the initiative, in line with the goals identified in the English document is as follows: Facilitate communication within the society, through which the lives of the individuals, families, communities and organizations can be improved, the future becomes more equitable and human.

As the first step of the initiative, the Environmental Coordination area of Matáv Group and the Technical Services Directorate started to contact in 2004 the

“Digital Bridge Poster”



localities of the areas with low internet penetration. The staff persons of technical areas started demonstration of internet usage during the week-ends, in the frame of self-organized programs, where they gave information about the opportunities implied. The presentations were implemented in close cooperation with the local governments and Lord mayors of the small localities and also with the residential population.

In 2004 ten localities were visited, 312 interested persons being in the age group between 3 to 72 set down to the computers. Nearly 60 Matáv staff persons participated in the event, on voluntary basis. The feedback received from the affected areas and requests for internet raised within a couple of weeks following the demonstration showed that the information provided along with practical training raised the interest for internet and highlighted the advantages of getting connected to the worldwide net from a number of aspects, for those representing the various groups of the society.

The successful experiment convinced the staff persons working in the affected areas of Matáv Group that in 2005 further remote localities of low internet penetration should be involved in the advertising and training program, facilitating with that the extensive application of the benefits of information society being available to everybody.

(The experiences of the particular events are displayed on the Sustainability home page of Magyar Telekom.)

## Internet training programs

The member companies of the Group, Matáv and Axelero launched a nation-wide free internet training program in 2004, to targeted groups of society, to assist them getting acquainted with Internet.

As one of the objectives of the program we target the implementation and proliferation of an advanced internet culture among the users, provision of information about and increase popularity of the opportunities offered by Internet ( e-banking, internet shopping, etc) and also demonstrate the opportunities of tele-education and tele-working.

The initiative reaches the target groups via a number of various channels.

### Programs of general accessibility:

- Basic program of the University of All Knowledge to beginners, ADSL training for the advanced learners ( a lecture of 1,5 hours each time with 100-150 participants)
- ADS focused training for small localities with ADSL access.

### Programs launched for special target groups:

- Training for the National Association of Physically Disabled people ( MEOSZ).
- Training for the National Association of Hearing Defects (SINOSZ).
- Training for roma minority population (in Budapest and also in the countryside).
- Association of Hungarian Internet User Women (Minők). (small group training (10-12 persons), in 4-5 hours, by using computer)

In the 2004-year courses – where highly positive feedback was received from the trainees participating in the courses where the skilled trainees of Matáv informed the interested customers about internet usage. We demonstrated the method of home internet usage by multimedia training material package. At the end of the training course the trainees received a useful multimedia CD containing 15 hours of Axelero internet access, the training materials and a set of links and a certificate from the organizers.

The programs - where the registration was made through the internet and employee organizations – in the locations of Budapest and the countryside 2177 students participated in the course in 2004, who acquired genuine knowledge, positive experiences with internet usage. Based on the evaluation of the initiative the success convinced Matáv Group about the continuation and extension of the course in 2005, about the involvement of new target groups, and further development of the training materials.

## Economic aspect

Data and information presented in this chapter based on group-level data published in Matáv Group Financial Report and 20F Report. In the details of the presented data, the Group is striving for displaying in the future group-level data also on regional-level.

## Responsible company management

### Responsibility and transparency

In compliance with the provisions of the Sarbanes-Oxley Act, and as a listed company, also with the regulations of the New York Stock Exchange (NYSE) and the Budapest Stock Exchange (BSE), Matáv has transparent and responsible corporate governance practices and from 2004, it publishes the relevant detailed information on its website and in its 20F format annual report. The Articles of Association, and the Rules of Procedure of the Board of Directors and the Supervisory Board as well as its Audit Committee, constitute part of Matáv's own responsible corporate governance code. In addition, Matáv has published the information on relations of the Board of Directors and the management with third parties, as well as the guidelines on insider trading and on the evaluation and remuneration of the management.

### New code of ethics

The Code of Ethics of the Matáv Group, which is also in compliance with the provisions of the Sarbanes-Oxley Act (SOX), entered into force in June 2004. The new Code of Ethics lays down the rules of conduct which the Group demands from its employees as being compliant with Group interests. The member companies will also integrate the Code of Ethics into their internal regulations and may supplement it with provisions or annexes specific to their own activities.

### Risk management

Matáv's risk management system covers the entire Group and extends to all material corporate risks, in addition to the financial ones. Matáv decided to develop its own risk management system in 1999, and in 2002 this system was integrated into Deutsche Telekom's system. The operating, financial, legal and other risks are explored and managed regularly, in the framework of a defined process. Following the adoption of the Sarbanes-Oxley Act, Matáv further developed its risk management processes. Every employee of the company gained knowledge of our risk management obligations and the relevant provisions of the Sarbanes-Oxley Act, with the help of a remote education program.

The material operational, financial, legal, environmental risks in the external and the internal environment are being assessed and managed in a well-defined process. After the acceptance of the Sarbanes-Oxley act Matáv improved its risk management processes. The company has supplemented its quarterly risk reporting activity with the so-called ad hoc risk report.

The risk management system of the Matáv Group covers the identification, numeric explanation, evaluation of risks, and in case of necessity elaboration, carrying out of risk management measures, and systematic control of those efficiency.

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.

All employees of the Company were participated on a training in what they acquired the duties related to risk management and instructions according to Sarbanes-Oxley Act .

## Milestones 2004

### Broadband internet access made a mass product

In December 2004 Matáv announced attainment of the target set one year earlier: connection of the 200,000th broadband Internet access (ADSL connection) representing almost 100% growth. We plan further growth of 100,000 lines in each of the following years too, so by the end of 2006 we can have 400,000 ADSL connections. As a result of the large-scale investments made to spread broadband Internet access, this year we doubled the number of towns covered by ADSL service: the service is available in 375 localities where 80% of the population live. With this Matáv's ADSL coverage topped 75%. The share of broadband connections within all Internet subscriptions grew to 33%. In November the ADSL access maximum download rate was significantly increased for our customers. In December a volume-based ADSL scheme, better complying with consumer demand, was launched for our Internet service provider partners.

### Fixed line erosion stopped

By the end of 2004 Matáv was able to stop the drop in fixed lines – after three years of gradual erosion – and stabilized the number of connections at the 2003 level. With this the Company achieved an earlier strategic target: to maintain the number of analog and ISDN lines. In fixed line segment, churn was reduced to a minimum by the end of the year and the number of residential PSTN lines even rose to a slight extent. Fixed lines were connected in about



100,000 new households so at the end of 2004 there were 1,500 more households with Matáv line than at the start of the year. The success of discount tariff packages greatly contributed to stabilization of the number of fixed lines: customers decided for one of the tariff packages with 58% of all lines that makes up for 1.7 million subscribers. As the driving engine of the information society, the Group generated additional growth in the Internet market too. Year-on-year, the Group's Internet subscriber based grew by 26.3% to 266,000.

#### **Mobile: successful rebranding – 4 million customers – UMTS**

In March 2004 Matáv's Board made a decision to rebrand Westel, mobile business, to join a leading international mobile brand, T-Mobile. Since May 2004 the company's official name is T-Mobile Hungary, while it remains a fully-owned member company of the Matáv Group. Rebranding contributed to maintaining strong market leadership with over 46% share and to outstanding profitability. In December 2004 T-Mobile Hungary, that now has more than 4 million customers, obtained a 3G (UMTS) mobile service license for a period of 15 years. The company will launch 3G services at the end of 2005 on the new frequency.

#### **Year of strategy creation**

In August 2004 the Matáv Group announced its medium-term value enhancing strategy. The strategic program for the next two-year period gave a response to the greatest challenges mounting in 2004: intensifying competition,

saturation of the fixed line and mobile markets and new market regulation conforming to EU rules. The new strategy identifies the key targets to be attained by the end of 2006 and ensures further growth opportunities for the Group through efficiency improvement, synergies within the DT Group and further acquisitions. As part of the efficiency improvement program, in December 2004 the Board made a decision on restructuring of the Group's management from January 1, 2005. As a result of the modification, the Matáv Group organizational structure will be simplified and its operation will become more efficient. The Group's operations are based on three LoBs: Wireline Services, Business Services, Mobile Services.

#### **2005: Renaming and rebranding preparations**

On January 20 Matáv's Board made a decision on changing Matáv's name. The company's official name is Magyar Telekom and the Matáv Group brand structure is expected to follow the Deutsche Telekom Group brand structure. The final decision on rebranding was adopted by the Extraordinary General Meeting on February 22, 2005. The Shareholders' Meeting also made a decision on full introduction of the T-brand in Hungary. After the successful introduction of the T-Mobile brand in May 2004 now leading brands known worldwide such as T-Com, T-Systems and T-Online can also come to Hungary. Renaming and rebranding as additional steps towards integrating the Matáv Group's services into the Deutsche Telekom Group are expected to increase the company's corporate value and competitiveness.

## Position in the competitive market

### **Strong fixed line market competition**

Liberalization of the Hungarian telecommunications market was completed in 2004. The competitive environment created by the Electronic Communications Act made the Hungarian telecommunications market attractive, so new investors and service providers entered the fixed line residential market too. Competition intensified among service providers within each segment, while fixed line and mobile service providers are also competing with each other.

In September 2004 competition in fixed line telecommunications received a new impetus with the roll-out of carrier preselection and opening the market of local calls.

In 2004 the Group offered various new products and solutions in both the residential and business markets with which it was able to keep the customers and stable market leader position in spite of the strong competition in all the key business areas – residential, business, mobile and Internet services. With this the Group attained one of its key 2004 targets.

### **Market boosting regulatory environment**

The primary objective of the Electronic Communications Act which entered into force in January 2004 is to stimulate the market, promote competition and create a customer-focused regulatory environment, as well as to implement the new EU regulatory package. The regulation positioned Matáv as a service provider with significant market power, operating in the market as a universal service provider, too. The universal service providers are obliged to sign customer contracts and to ensure anywhere the possibility of making phone calls and accessing the Internet through the telephone network. The regulator declared one of Matáv's most popular tariff packages, Felező to be the universal package. The universal service tariffs remains regulated by a government decree. The government encourages expansion of the broadband network with preferential taxation regulations, such as allowing deduction of 35-50% of such investments from the tax. Development of the mobile market and competition will be rearranged by the UMTS tender closed in November 2004 where a Matáv Group member company, T-Mobile Hungary also obtained a license for 3G services.

### **With broadband for the information society**

The Matáv Group also played a key role in 2004 in the development of the information society. The key objective was to increase Internet penetration and improve the quality of Internet access with the spread of broadband

connections. The success story in 2004 was a significant increase in broadband Internet access numbers. Numerous campaigns were launched and new solutions were introduced with which not only ADSL coverage was extended, but the quality of service provided to the customers was also improved. From November the Group increased significantly and free of charge the ADSL access download rate. In December 2004 Matáv announced a new wholesale structure whereby its Internet service provider partners can offer volume-based ADSL access package for customers.

### **Matáv offers in the area of domestic fixed line competitors**

A good example of opportunities that promote stronger competition is carrier preselection enabling customers to select a service provider offering the best conditions for them. Matáv widened its offerings in the areas of competitors, too. Since September 2004 Invitel, Monortel and Hungarotel customers can use Matáv's services not only for long-distance, but also for local and regional calls and Internet access. All Matáv tariff packages include this possibility. The Csevegő Partner tariff package, Ritmus package family, 1515 Előhívó and Ritmus100 Előhívó services are offered to competitors' customers in most cases with lower tariffs than those of the local carrier.

### **Number portability rolled out**

Number portability also contributed to boosting the telecommunications market and ensuring full competition for the customers. In 2004 customers were enabled in various steps to keep their existing telephone numbers when migrating to another telephone service provider. According to the new regulation – with the investment subsidy of the Ministry of IT and Communications – Matáv ensures number portability from January 2004 when the customer migrates to another service provider while staying at the same geographic location. In May number portability was introduced in addition to mobile telephone numbers also for non-geographic (blue, green, premium rate) numbers. In July 2004 Matáv launched its relocation with unchanged telephone number commercial service with which customers can keep their Matáv telephone number also when moving to another address within the same primary area.

## Main results, group level operating costs, tax relieves, loans

### Major results:

Total revenues of Matáv Group decreased by 1.0% to HUF 601.4bn (EUR 2.4bn using the 2004 average exchange rate of 251.68 HUF/EUR) as a result of lower fixed line and higher mobile revenues.

Matáv has modified its segment disclosure. The primary segments are based on the business lines (fixed line and mobile operations), which include both Hungarian and Macedonian activities. In addition, the Company's secondary format for reporting segment information is geographical segments.

External revenues from fixed line services decreased by 6.8%. The ADSL-driven growth of leased lines and data transmission revenues continued and could partially offset the decline of traffic revenues recognized in both Hungary and Macedonia. The number of ADSL lines at Matáv parent company almost doubled in 2004. Traffic revenues were adversely impacted by the increased Hungarian competitive and regulatory pressure and the drop in Hungarian domestic transit between mobile and fixed line local telecom operators. In 2004, no revenue was recognized from the Universal Telecommunications Support Fund. In Macedonia, the macroeconomic limitations together with growth in mobile use have resulted in lower fixed line traffic.

External revenues from mobile services increased by 7.5%, reaching HUF 267.3bn primarily driven by a higher customer base. T-Mobile Hungary's subscriber base increased by 7.1% to 4.0 million with a market share of 46.2% at the end of 2004. As a result of the significant increase in Macedonian mobile penetration in 2004, MobiMak customer base increased by 43.7% to 752,462 revenue producing customers equaling a market share of 76% at the end of the year.

Group EBITDA amounted to HUF 222.9bn with an EBITDA margin of 37.1% including HUF 20.7bn restructuring charges and additional employee benefits relating to future terminations primarily recognized in the fixed line segment. Excluding the restructuring charges of HUF 20.2bn, EBITDA was HUF 243.1bn with EBITDA margin at 40.4%. The restructuring program is aiming to improve internal efficiency with headcount rationalization mainly at the fixed segment.

Key financial data of the Matáv Group			
	2003	2004	Change
	HUF million	HUF million	%
Total revenues	607,252	601,438	(1.0)
EBITDA*	250,398	222,930	(11.0)
Operating profit	122,064	85,264	(30.1)
Net income	57,475	34,641	(39.7)
No. of shares outstanding (millions)	1,038	1,038	0.0
Basic earnings per share (HUF)	55.4	33.4	(39.7)
Total assets	1,058,837	1,029,558	(2.8)
Long term debt	121,344	226,070	86.3
Net debt	291,654	283,153	(2.9)
Total shareholders' equity	560,110	516,567	(7.8)
Net debt to total capital	31.6%	32.9%	n.a.
Gross additions to tangible and intangible fixed assets	90,788	91,748	1.1
EBITDA margin	41.2%	37.1%	n.a.
Operating margin	20.1%	14.2%	n.a.
Net income margin	9.5%	5.8%	n.a.
ROA	5.4%	3.3%	n.a.
HUF/EUR (year end)	262.23	245.93	(6.2)
HUF/EUR (average)	253.42	251.68	(0.7)
HUF/USD (year end)	207.92	180.29	(13.3)
HUF/USD (average)	224.55	202.63	(9.8)

\*EBITDA - Earnings Before Interests, Taxes, Depreciation and Amortization

Net cash from operating activities decreased to HUF 189.8 bn due to the combined impact of the decline in EBITDA and higher interest paid. Net cash utilized in investing activities increased to HUF 100.8 bn. This was due to higher gross additions to tangible and intangible assets (primarily at the mobile segment as a result of the UMTS licence fee) together with higher investments in subsidiaries and associates (T-Systems Hungary, purchase of additional minority stakes in Stonebridge) and partly offset by increased proceeds from real estate sales. Net cash used in financing activities was HUF 72.1 bn, mainly explained by the higher dividend paid at the parent company and increased borrowing as a result of this. Net debt has been reduced by HUF 8.5 bn since the end of December 2003 and the net debt ratio (net debt to net debt plus equity plus minority interest) stood at 32.9% compared to 31.6% at the end of 2003.

#### Analysis of the Group-level operating costs

Employee-related expenses increased considerably from HUF 87.920 bn of 2003 to HUF 109.497 bn of 2004 primarily driven by the restructuring charges and additional employee benefits relating to future terminations (HUF 20.7bn including HUF 14.2bn provisions) and annual wage increases. At the end of 2004, total group headcount amounted to 13,724 representing a 6.7% decline compared to 14,710 at the end of 2003.

Employee related expenses include salaries, bonuses, contributions to defined contribution pension and other welfare funds, social security and other employee related taxes as well as termination benefits payable to employees.

Payments to defined contribution pension plans are included in employee related expenses and amounted to HUF 2,712 million in 2004 (HUF 2,537 million in 2003 and HUF 2,218 million in 2002).

Depreciation and amortization amounted to HUF 137.7bn, compared to HUF 128.3bn in 2003 (an increase of 7.3%) primarily due to the higher impairment losses related to telecom exchanges reaching HUF 5.3 bn (mainly driven by impairment of managed leased line node equipment and operational system) and HUF 4.4bn impairment of the Westel brand name (resulting from the T-Mobile Hungary rebranding). Amortization of goodwill (mainly from the acquisition of Westel and the MakTel Group) was HUF 13.9bn in 2004 compared to HUF 13.8bn in 2003.

Payments to other network operators amounted to HUF 87.6bn, compared to HUF 84.4bn in 2003 (an increase of 3.7%). Higher mobile penetration resulted in increased traffic to the second Macedonian mobile service provider, Cosmofon and higher mobile traffic to the Hungarian operators Pannon GSM and Vodafone Hungary. International mobile roaming was also up. On the other

hand, Hungarian domestic transit volumes were lower, Hungarian fixed line interconnection fees and Pannon GSM mobile termination fees decreased along with average international settlement rates limiting the growth of this expense line.

Gross additions to tangible and intangible assets excluding the UMTS licence fee and the impact of the investment tax credit were HUF 84.9 bn. (Including these items the amount was HUF 95.2 bn.) Of the HUF 84.9 bn, the portion relating to the fixed line segment reached HUF 40.4 bn, with mobile (excluding the HUF 17.1 bn UMTS related licence fee) at HUF 33.8 bn and MakTel reporting HUF 10.7 bn.

Other operating expenses were HUF 140.5bn, compared to HUF 143.7bn in 2003, a decrease of 2.2%. This was primarily driven by the reduced role of the Universal Telecommunications Support Fund. In 2003, HUF 5.1bn expenses were recognized due to the Fund compared to no expense in 2004 except for the net HUF 0.5bn modification recognized on reimbursements and obligations after the year 2003 that were different from those anticipated. Some of the major expenses increased including consultancy, the marketing costs and agency fees relating to for example the ADSL campaigns and the enhanced and content services.

Net interest and other charges were HUF 36.1bn in 2004 compared to HUF 40.0bn in 2003. The decrease is mostly due to the lower average loan balance in 2004 and a loan prepayment charge of HUF 1.7bn in 2003. At the end of 2004, loans remained almost exclusively Hungarian Forint-denominated. The net debt to total capital (net debt plus equity plus minority interest) ratio was 32.9% with a net debt of HUF 283.2bn at the end of 2004, down from HUF 291.7bn at year-end 2003.

Income tax expense decreased in line with lower profit before tax and lower Hungarian statutory corporate income tax rate (down to 16% in 2004 from 18%).

Matáv and T-Mobile Hungary qualified for a reduction in income tax payable on meeting certain conditions. The reduction in the tax payable amounted to a 100% allowance for five years from the date of qualification, and a 60% allowance for a further five years. Through 1998, Matáv Rt. and T-Mobile qualified for the 100% allowance. From January 1, 1999, Matáv Rt. utilized the reduced allowance of 60% (effective tax rate of 7.2%), 2003 being the last year of tax reduction.

### Investment tax allowance

In order to increase broadband internet penetration in Hungary, the Hungarian Government decided that companies investing over HUF 100 million in internet broadband assets (e.g. ADSL lines) in 2003 and in 2004 can apply for a corporate tax reduction. The potential reduction of the corporate tax charge is defined as a percentage of the companies' capital investment in broadband internet assets. In 2004 Matáv invested HUF 8.9 billion (HUF 6.6 billion in 2003) in broadband assets. As a result of this new tax incentive, Matáv Rt. is entitled to a total corporate tax reduction of HUF 6,849 million (HUF 3,879 million from 2004 and HUF 2,970 million from 2003), which can be used by Matáv Rt. in the years 2003–2008, of which Matáv used HUF 33 million in 2003. As the recoverability of these tax credits was uncertain in 2003, no deferred tax asset was recognized in 2003. Due to the change of the assessment of the recoverability, Matáv recognized a deferred tax asset of HUF 6,849 in 2004. As these investment tax credits are of a governmental grant nature, Matáv recognized the deferred tax asset against the cost of the related investment.

In December 2003 the Hungarian Parliament passed the new tax law in which the corporate tax rate was reduced from 18% to 16% from January 2004. Deferred tax balances of the Group were amended accordingly at the end of 2003.

### Dividends paid to the shareholders

Based on the Resolution of the Annual General Meeting of Matáv held on April 28, 2004 a dividend of 70 HUF was paid on the ordinary stocks with face value of 100 HUF, while on the preference stock with face value 10,000 HUF a dividend of 7,000 HUF was paid on account of the 2003-year retained earnings. After deduction of the dividend of HUF 72,653,819,000 from the after tax income, the remaining HUF 2,520,165,296 was allocated to profit reserve.

### Loans and other borrowings

The current portion of loans and other borrowings decreased by 51.0% from December 31, 2003 to HUF 94.5 bn at December 31, 2004. This decrease in current loans and other borrowings reflects the strong cash generation of Matáv, which allowed to repay the maturing HUF 12.5 bn EIB Telecommunications Project II/B loan with value date June 25, 2004 and to repay HUF 23 bn under the HUF 126.6 bn Deutsche Telekom intercompany loan. Non-current loans and other borrowings increased by 86.3% from December 31, 2003 to HUF 226.1 bn at December 31, 2004. This increase is mainly due to the loans taken from DT International Finance BV to finance the dividend payment of Matáv Rt. and the fact that the HUF 76.6 bn part of the HUF 126.6 bn intercompany loan matured on August 23, 2004 was mainly refinanced from medium- and long term intercompany loans.

At December 31, 2004, almost 100% of the loan portfolio was HUF denominated. At the end of 2004, 44.2% of the loans bore floating interest rates. The gearing ratio defined as net debt divided by net debt plus equity plus minority interest was 32.9% at December 31, 2004 compared to 31.6% a year earlier.

(Further information regarding the theme is contained in the 2004-year Annual Report of Matáv (consolidated balance sheet, profit and loss statement, cash flow analysis, supplementary annex) and the 20F report of the company.)



## Public – Social Aspect

Data and information presented in this chapter based on group-level data published in Matáv Group Financial Report and 20F Report, and informations recorded by systems of group-level human resources and communications areas. In the details of the presented data, the Group is striving for displaying in the future group-level data also on regional-level, and for broaden the circle of data collected by group-level systems.

### Human resources and management training

#### Milestones 2004

##### Competitive and efficient headcount planning

As a part of its mid-term strategy, the Matáv Group has decided to carry out headcount reduction of around 20% (32% at the parent company) along with an organization restructuring. In September 2004 Matáv and the employee interest organizations reached an agreement stating that in 2005 and 2006 Matáv Rt.'s headcount will be reduced by a total of 2,600 of which 800 will be employed by the companies performing outsourced activities. Headcount reduction will be made in several steps. At Group level (including MakTel) the headcount rationalization plan will affect about 3,750 people. With this by the end of 2006 the fixed lines per employee indicator will reach an internationally competitive level, above 500 at the parent company (Matáv Rt.). Executive positions will be terminated at a higher rate than that of the average headcount reduction.

##### Greater chance with care

Matáv lays great emphasis also on care for those who leave the company. Various solutions are applied in our outplacement program that reduce to a large extent unilateral dismissals. Parents with many children or single parents are offered 6-hour employment instead of 8 by the company. For part-time employees, 3-year employment will be granted. A favorable reserve base was created for employees over 50 who still do not have the service time needed for retirement. The earlier proven Esély (Chance) program is designed to support departing employees with training and help in finding a new job through its 3 offices in Budapest and 7 in other cities.

##### Matáv for diversity and equal opportunities

In September Matáv held a conference on Diversity in Society, Economy and Scientific Life, with the support of the government and the German-Hungarian Chamber of Industry and Commerce. Matáv, caring about equal

opportunities for employees and diversity, offers partial teleworking opportunities for its employees and operates an insurance-based welfare system. As a responsible corporate citizen Matáv launched in 2004 several programs that speed up the process of ensuring equal opportunities in the society and the economy. Round table discussions were held at the University of All Knowledge on diversity and free Internet courses were started for the disadvantaged.

##### Expanding online services

Matáv developed its electronic administration of human resources into a complex system that is unique in Hungary and is accessible via the company's intranet. In 2004, 9 new modules were added to the system's internal services, such as online modification of own personal data, filling in tax return statements and application for holiday service. The employees can at any time access their own updated job description. Protection and security of personal data was enhanced with the introduction of a new IT platform. In 2004 the Matáv Group was present at numerous job forums with its Rajtkô (Starting block) program for interns that attracted almost 400 fresh graduate economists and engineers who made applications on Matáv's website. Out of this number, 20 fresh graduates admitted to work as interns for 7 months in Rajtkô program of the Group.

##### Professional forums and trainings

The series of Academic Days, started in the previous year, in 2004 covered all member companies and during the year 12 programs were held with more than 560 participants. This event proved its worth by strengthening Group-level thinking. A Sales Master Course was launched in November 2004 for executives playing a key role in the Matáv Group's results. Another professional forum operating at Group level is the Customer Relations Round Table where member companies are offered joint professional consultation and coordination and review of opportunities for development to promote their business success.

##### Marketing training program on several levels

To support marketing activities, marketing-focused training is provided to all Matáv Group employees with specific subjects tailored to the needs of given job groups. The basic level training was designed for employees working in non-marketing areas with distance learning materials and related courses. People with marketing education are offered a refresher program with the involvement of university lecturers on subjects selected on the basis of a previous survey. At the third level specific development training was launched in 2004 for the sales

staff, primarily for the shop personnel, then in 2005 account managers, call center operators, official partners and sales managers will be involved.

### E-learning and distance learning

In the area of professional training on the web, e-learning and distance learning Matáv launched new initiatives primarily for faster and more efficient further training of the employees. The use of distance learning materials and training courses became a general practice in 2004. As a good example, over 8,000 employees successfully completed the personal data protection skills distance learning program in a few weeks. A distance learning version of ECDL (European Computer Driving Licence) subjects meeting the new requirements was also elaborated. A multimedia CD-ROM was prepared to support the nationwide Internet courses for the disadvantaged. Accessibility on the Internet of the training program materials has been ensured.

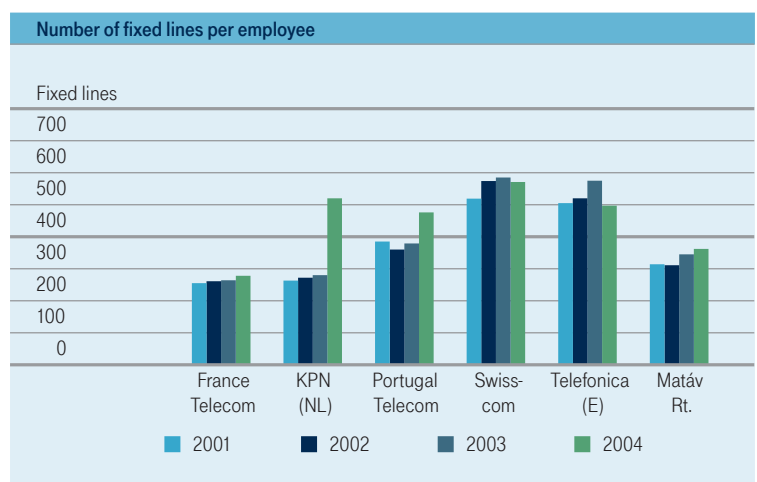
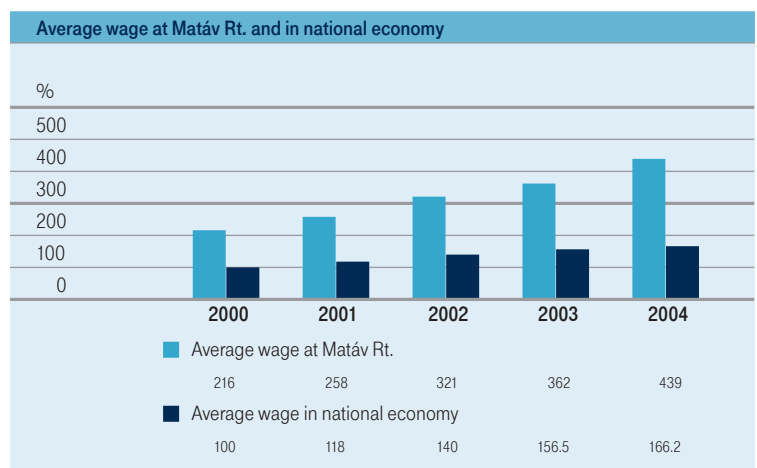
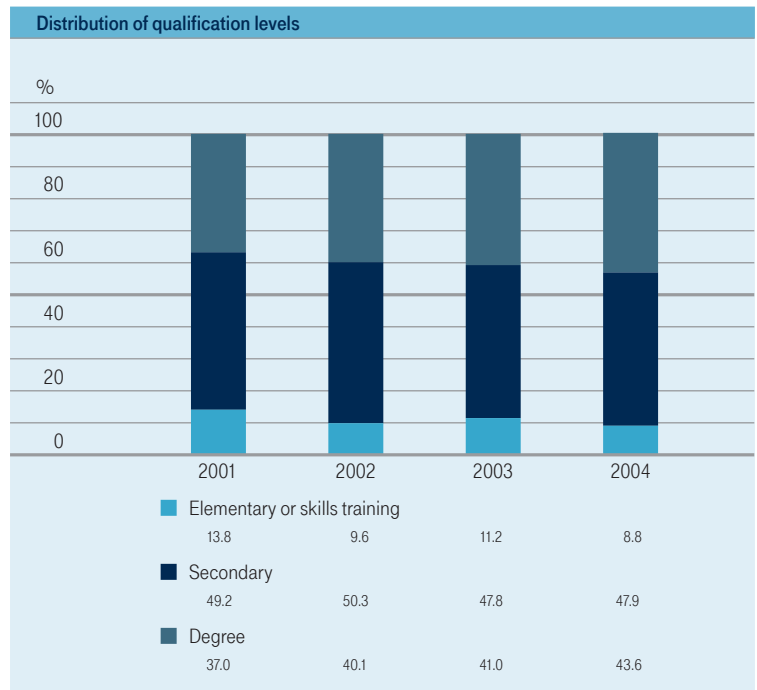
### Employment and decent work

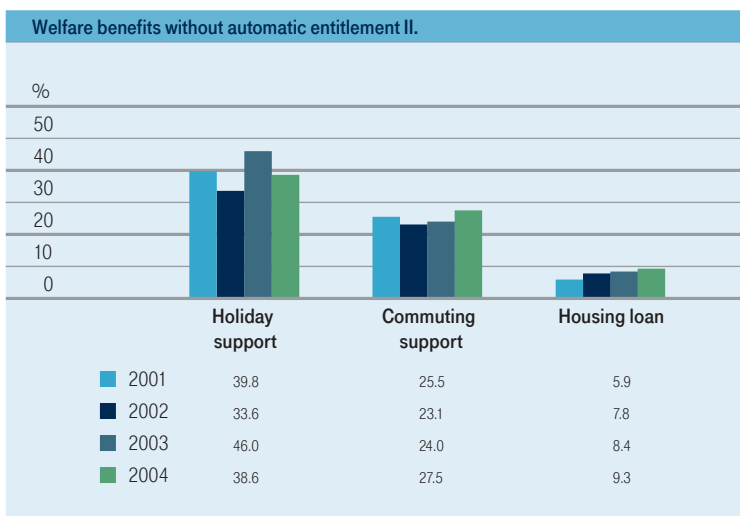
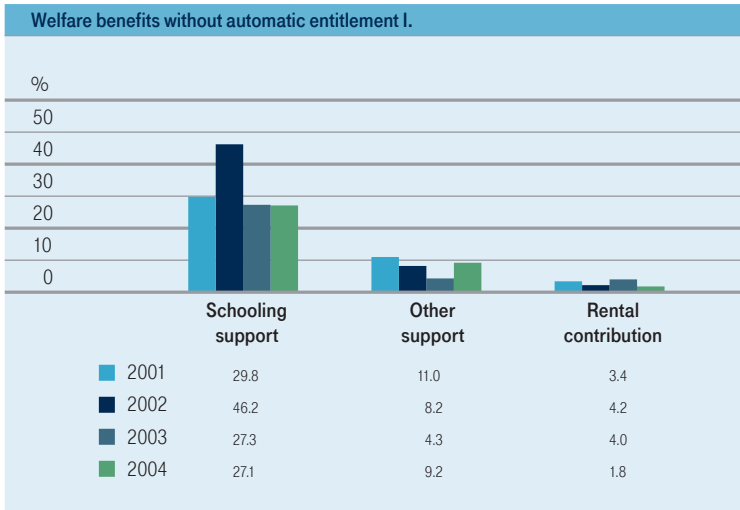
In the context of its employees the Matáv Group devotes special attention to the questions of training, health and security.

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.

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 company benchmarks the per employee number of direct lines on other telecommunications companies, this is a kind of efficiency indicator.





As the 2004-year result of the Best Workplace Survey conducted by Hewitt-Figyelő has won repeatedly the title of the "Best workplace".

The range of social and welfare benefits provided by Matáv Group 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 extent 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 DIMENZIÓ 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 DIMENZIÓ Insurance Association. The life, pension and health insurance schemes, and the self-support 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, contribution to housing, 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 compete in different sports. In 2004 1817 individual sportsmen participated in the events and 299 groups to allow comparison of their talents in the various sports. 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 extent of social benefits granted on employee right is increasing.

Majority of the Matáv employees are members of the DIMENZIÓ Group. The chart shows membership by branch compared to the overall headcount.

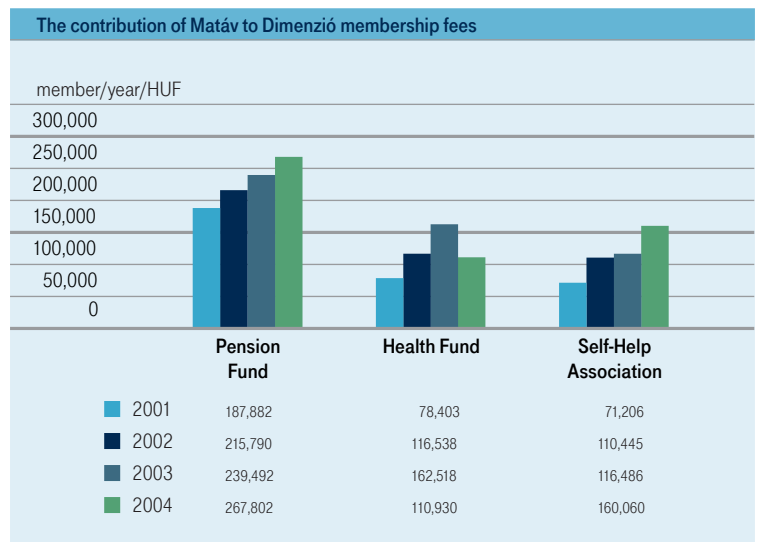
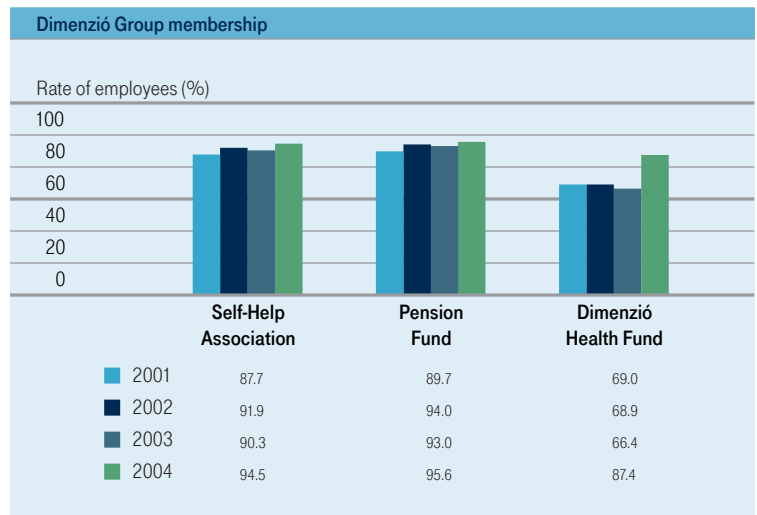
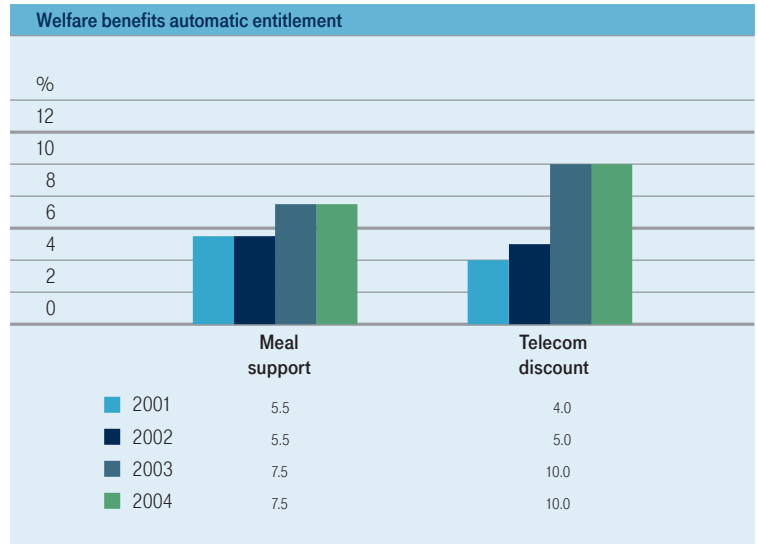
Matáv supplements the employees' own contribution to the branch DIMENZIÓ schemes.

### Employee representations

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

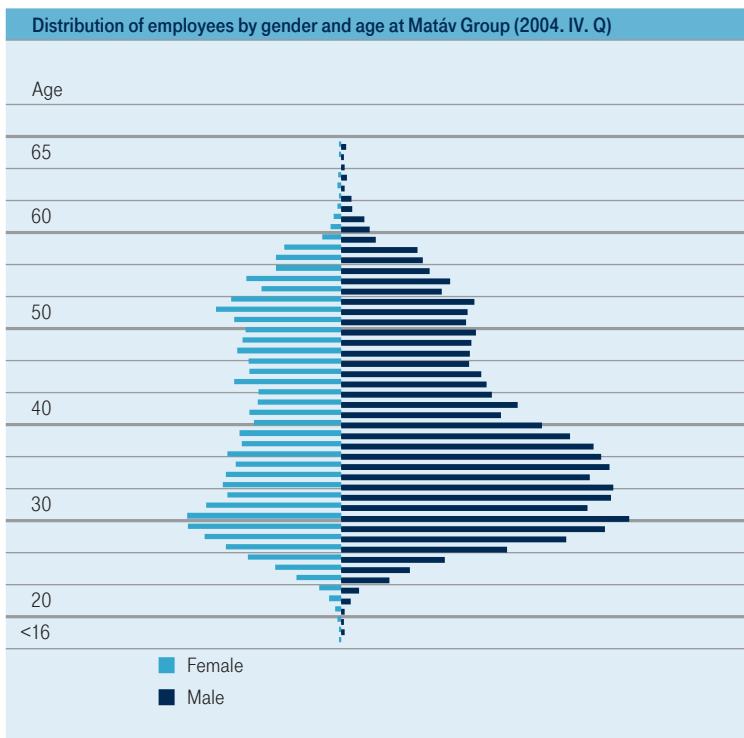
The planning relating to headcount and personnel expenditures implemented in an annually repeated, regulated process documented in the quality management system implemented in the spirit of "T-Spirit" "Superior Value". The Human resource planning and controlling manual was issued in 2003 and reviewed in 2004.

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 (Marsh & McLennan Companies), 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.





Distribution of employees by gender and age at Matáv Group (2004. IV. Q)



### Diversity and equal opportunities

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 chart sets forth the distribution of the Matáv Groups' employees according to age and gender.

The ratio of the employees in Matáv employment defined for labor contracts of definite and infinite period are set forth by the following figure.

In 2004 on Matáv Group-level 279 employees were in determinated time employment, what is 2% ratio to the total headcount.

In 2004 the rate of harmful fluctuation (termination of employment on the initiative of the employee) at Matáv Group was 2.15% (which means that 296 employees left the company on their own initiatives).

The number of newly hired employees was 531 at the Group, (which means 3.87% compared to the 2004-year closing headcount).

At Matáv the basis for fair treatment and equality of opportunities is established by the basic norms defined in the Code of Ethics issued in 1997, and surveyed in 2004 in accordance with the Sarbanes Oxley Act (SOX).

The employees of the Group met the Group Code of Ethics via the internet page of the Group, and on acquisition and keeping its regulations made a written statement.

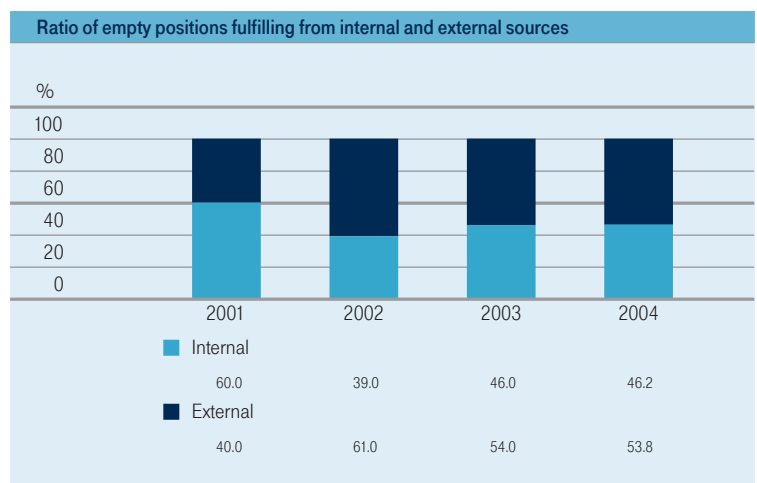
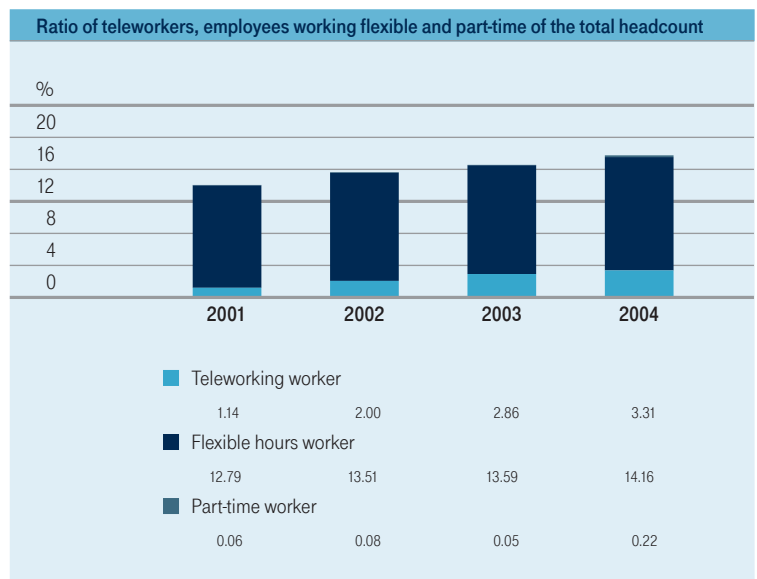
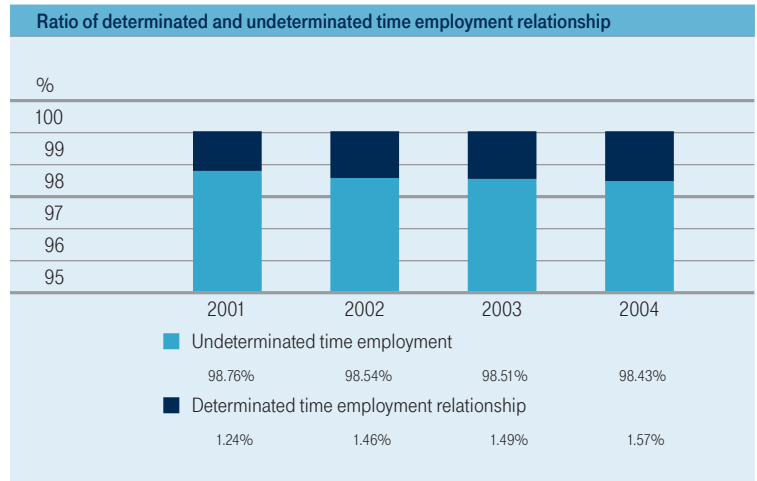
The initiatives promoting equal opportunities are: teleworking, part-time work, flexible working hours, employment of persons with reduced abilities, support of disadvantaged people (through foundations), children's vacations, training.

The results of the initiatives aiming to ensure equal opportunities are set forth in the figure:

"Respect" value of T-Spirit, the principle of equitableness are demonstrated in HR policy by the following:

- System of welfare benefits, wide range of benefits granted on employee right.
- Competence-based approach with a focus on 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 higher severance than specified by law. In addition, the vacancies are filled from inside as far as possible, with employees recruited from the downsized areas, reducing also in this way the number of employees who have to be dismissed.



The company has been providing outplacement service („CHANCE program”) since 2001 in an effort to help the downsized employees in finding 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 consulting, and from 2003 also psychological assistance and labor market training. In 2004 Matáv Group has launched its so called “Self management training” offered to the employees who could not find a job in the labor market within six months, and who need further support. The availability and nation-wide coverage of the services have improved with the growth of the number of the program offices and both 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.

At Matáv on senior management-level (directors classified into categories S11-S14) ratio of women was 17.9 % and men 82.1 % in 2004.

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

At Matáv Rt. the physically disabled persons (in more than 67 % reduced ability at work) were 0.1 % of the total headcount in 2004.

### Health and Safety

In the case of employees working at outdoor sites – those involved in provisioning, operation, maintenance at the sites of towers, base stations, at the locations of cabling, and other external plants – the conditions of labor safety and health security are regulated in a number of special rules, regulations, standards and internal technological directives. The regulations defining the conditions of work and working environment, prescriptions of labor health can be considered as unified in all the professional areas. Nevertheless, the requirements of labor safety are regulated in most of the cases in EU standards, in corporate technological and professional regulations and in the related directives. The technological directives specifying certain regulated activities are contained in the related prescriptions of labor safety ( conditions of work, protective tools, methods, etc) .

All the functional areas are aware of the relevant system of requirements, the employees are provided labor safety trainings. The Labour Safety Office supports such activities by contributing to the development of training materials preparation of professional materials of information and updating them in course of risk assessment procedures of the particular workplaces.

### 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. For this purpose a dedicated organization in the Chief Human Resources and Legal Officer's management area deals with the questions of labor safety and occupational health, and with the elaboration of the labor safety strategy and goals. 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; labor safety focused revision of machines, equipment and technological facilities before bringing into operation; making labor safety reports, statistics; planning non-personnel labor safety expenditures, supporting and monitoring the expenditures; 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 for each workplace. 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 Article 54 of the Labor Safety Act,
- 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 hazardous equipment.

The Labor Safety Act 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 Article 56 of the Labor Safety Act and on the Ministry of Health Decree 65/1999. (XII. 22.), specify the procedure of provision of personal safety equipment and list the equipment of compulsory use. Matáv's Labor Safety Office is responsible for determining the facilities granted for each activity and job, because under the legal regulations this activity qualifies as labor safety activity.

#### 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 environmental 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.

In 2004 was developed and issued the Group Operative Environmental Regulation to serve the unified actions, what also contains regulations on preparation and actions on emergency situations.

#### Rates of absence for sickness and 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, in 2003, 3.96 and in 2004, 4.63.

The number of sick days was 58,220 in 2001, 51,072 in 2002, 51,806 in 2003 and 47,642 in 2004. In 2001 absence for sickness accounted for 2.4% of the working days, in 2002 for 2.1%, in 2003 for 2.5% and in 2004 for 2.3%.

At Matáv in 2003 and 2004 were no fatalities according to workplace-related criteries.

In compliance with Article 64 of the Labor Safety Act, 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 Article 65 of the Labor Safety Act 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 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

#### 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-Aid	2.2%	1%
Voluntary Pension	5% +HUF 2500/member/month	min. 1%
Life and Accident	HUF 500 per month	-
Health Fund	2%	0.5%



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 doctors are happy to advise the employees on matters of health preservation (e.g. chronic diseases, acute contagious diseases, allergy, AIDS information, etc.).

### Education and training

In an effort to bring new knowledge into the company, Matáv has been operating the Rajtkő (Starting Block) Internship Program since 1995, under which it hires 20 new graduates each year. The Internship Program contributes to employee development through work practice with a 5-month learning phase spent at organizational units.

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 areas to 136 students (on the average 45 per year), while in 2004 to 63 students, mainly from Budapest.

In 2002 Matáv developed the Iránytű (Compass) Program to help the new entrants learn the company faster and integrate into it with the aid of the intranet. 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 can be implemented in the following forms:
  - conventional training, „front” training within the company, (e.g. the training of technicians) and training outside the company (e.g. telecommunication MBA in cooperation with BKI-VKI)
  - skill development training (team programs with trainers, e.g. assertivity, self-knowledge training)
  - e-learning, that is individual distance 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 on-the-job training and learning is that, as a result of the process, the participants directly integrate their experiences into their daily work and improve their skills. Last year 33 managers participated in the international management exchange program jointly developed with DT. Another practice of on-the-job learning is professional rotation whereby the employees widen their skills and knowledge in new positions while using the earlier obtained skills.

The value of T-Spirit Innovation, 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 (e.g. the Szikra (Spark) complex idea management system, the Hoppá (Oops) intranet-based idea-sharing page and the annual problem solving competition). This learning process is implemented through the joint thinking of employees delegated by several areas – in an inter-organizational form.

The Diagram “Training costs and training days per person” shows the per employee budgeted and actual training costs and the number of student days per employee. (Per employee training costs are calculated for internal trainings with internal prices, per employee student days include distance learning.)

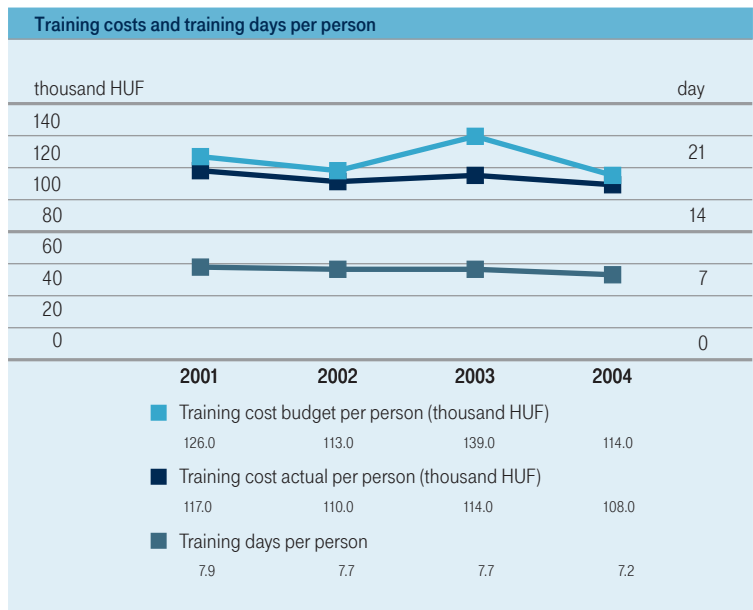
The following chart shows days of training (6hours of training/day) per year per employee by category of employees at Matáv in 2004.

The following figure shows the proportion of conventional and distance learning days.

To promote cooperation within and between various organizations of the Group and to improve the efficiency of team work in projects a rising number of the employees participate in team building (Figure "Ratio of employees participating in team building to total headcount").

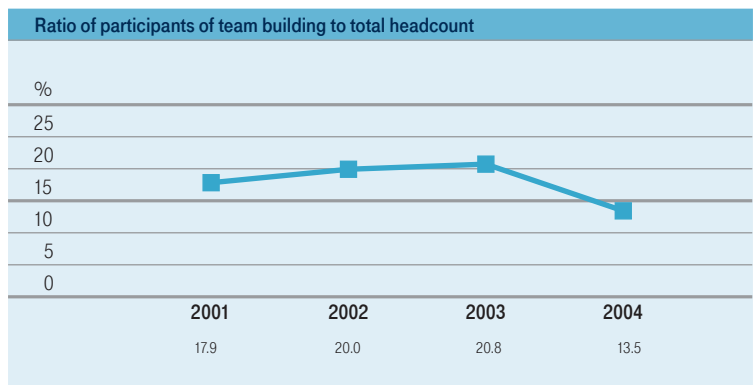
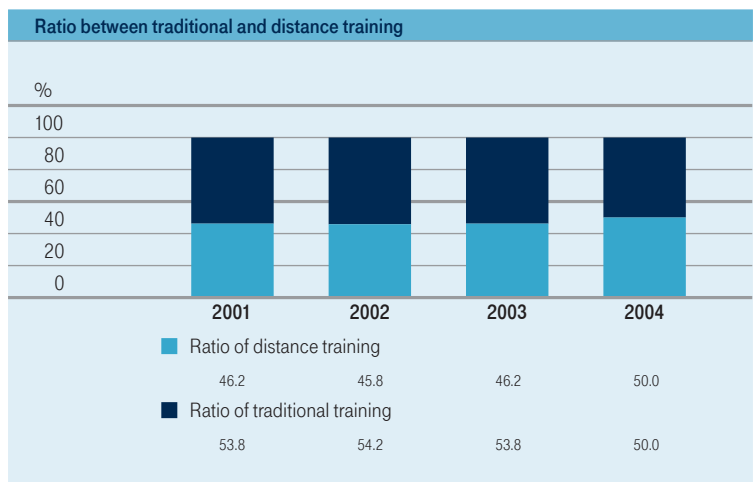
For those employees who do not yet possess the competencies needed for the implementation of tasks requiring key authorization, the TM system offers the possibility to identify the missing knowledge and to define focus points.

In the TM process regular feedback and the processes built upon one another ensure constant development. The TM ensures continuous personal development of the employees by setting the training directions and frameworks. The ratio 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 additional 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.



**Days of training per employee per employee category at Matáv in 2004**

Category of employees	Days of training per employee in 2004
Middle management	6,4
Foremans	4,6
Senior management	6,3
Associates	6,6



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

To identify the requirements for the employees – needed for holding the given positions – in 1994 the company developed a job category system elaborated on the basis of the Hay methodology applied also internationally, then in 2003 it was revised and simplified. The position descriptions completed in 2004 were added to these definitions.

Various new initiatives were launched for the involvement and widening the authorization of the employees. In 2003 the integrated Szikra (Spark) complex idea management system was developed.

With this system the employees can add their creative, innovative ideas to the knowledge of the Group.

The "Hoppá" (Oops) forum of special ideas is the most popular element of the Szikra 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 a supporting system used for the collection, evaluation and utilization of marketing and product ideas coming from the employees.

The Ulrich Schaumann Award managed by the Foundation for Matáv's Technical Development helps the implementation of the employees' innovative ideas. It can be applied primarily in technical areas for the recognition of products that directly or indirectly generate additional revenue for the company or result in cost saving, or lay the foundations of new strategic directions leading to the former.

The Creative Award for Telecommunications was founded for the financial reward and recognition of employees successfully contributing to innovation and creativity in telecommunications with the elaboration of implementation of new ideas, services, methods or processes. It can be granted 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 contribution

### We are leading in corporate social contribution

Matáv offers sponsorship in the Hungarian cultural life that reflects its economic role and is one of the greatest corporate donors in the non-governmental sphere too. Over the last three years Matáv contributed to the development of more than 400 non-profit organizations. With our corporate social responsibility strategy we have been sponsoring for 10 years initiatives aiming at solution of serious social and health problems.

### Matáv Symphony Orchestra

Since 1992 Matáv has been financing alone the operation of the earlier Hungarian Symphony Orchestra. In May 1995 the orchestra received a dedicated home, Zeneház (Music House) at 9th district, Páva u. 10-12. The members of the Association of Art Patrons operating with the orchestra – brought to life by Music Director András Ligeti – are internationally recognized famous artists, such as Jenő Jandó pianist (Chairman), Dénes Gulyás opera singer, Csaba Onczay violoncellist, József Vajda bassoon player. Over the last decades the orchestra received several invitations to perform abroad and paid key attention to the music education of young people. As a result of its persevering professional efforts in the last years the Matáv Symphony Orchestra made it to the ranks of the best Hungarian orchestras according to the opinion of both the professional scene and the audience.

### Puskás Tivadar Secondary Technical School for Telecommunications

The school, workshop and experimental station with a long high-standard professional past was built in 1906 by the then Hungarian Royal Post. Textbooks were written by the best professionals of Hungarian Royal Post always at the standard required by the technology of the given era. In 1951 the apprentice school was upgraded to a secondary technical school and adopted the name of Tivadar Puskás, the inventor of the telephone exchange. In 1974 the secondary technical school with traditions was renamed to Secondary Technical School for Communications. In 1994 the well-established school located at Gyáli út regained its initial shining name and is

called again Puskás Tivadar Secondary Technical School for Telecommunications. The successor of the founder, the Telecommunications Education Foundation created by Matáv assumed full financing of the institute. As a result of these efforts the school was renovated both in the inside and the outside, the laboratory instruments are constantly upgraded and the intellectual resources of the school were also renewed – today it is one of the best equipped educational institute in Hungary.

### Post and Telecommunications Museum Foundation, Telephony Museum

Out of the three founders of the Foundation (Matáv Rt., Hungarian Post Rt., Antenna Hungária Rt.) Matáv contributes with the highest amount, offers 50% of the operating expenses. In Hungary the first telephone exchange was constructed in 1881. The Telephony Museum presents with an exhibition structured around an exchange that is still operational the history of telecommunications from the noise tree to the world wide web. (Budapest, I. Úri u. 49. Phone: 201-8188)

### Post Museum – Budapest

The history of Hungarian Post is presented with original equipment, working tools, furniture, vehicles, documents, maps, photos and other articles. Temporary exhibitions on various subjects direct the attention of visitors to illustrious anniversaries of the history of post. The offerings of the museum are widened by cultural and art programs. (Budapest, VI. Andrásy út 3., Phone: 268-1958)

### Matáv Gallery

Over the last years we could welcome in the Gallery among others a group of roma naive painters, graphic artist István Orosz, painter Ernő Tóth, artist ef. István Zámbó. Visitors can enjoy the works of renowned artists, like Balázs Béla award winner photographer Demeter Balla, ceramic artist Éva Kun, iron artist László Virágh, textile artist Bori Tóth, or the young but Europe-wide well known painters Eszter Radák, Zsombor Barakonyi, Levente Baranyai, Gábor A. Nagy.

In 2004 the Gallery was opened to the great public to enable access to arts for the widest audience. (Further information is available on the following site: <http://www.magyartelekom.hu/galeria.vm>)

### “Telephone for the Needy” Foundation of Major Public Benefit

The foundation was established in 1990 with the objective to help the mobility-disabled, blind, sight-impaired and the needy for health or social reasons have access to telecommunications services. (Board of Trustees of the “Telephone for the Needy” Foundation of Major Public Benefit, 1107 Budapest, Zágrábi út 1-3., Phone: 458-0459)

### **New program: “Matáv Gives Back”**

Matáv’s diverse donation activity is carried out since March 2004 under the “Matáv gives back” program in a structured unified way to ensure that the around HUF 200 million worth donations to the non-governmental sphere in 2004 are delivered to the most needy.

Decisions on donations are taken by the Board of Trustees of the program. The program is based on four pillars:

- „Really important donations” – direct financial donations;
- „Charity numbers” – free services for the collection of residential donations;
- „Really important calls” – reduced-price telephone accesses and crisis line services;
- „Matáv employees give back” – individual donations of our employees.

### **“Really important donations”**

Donations in the “Matáv gives back” program helped among others provide life-saving mobile breathing device to the National Ambulance Service, incubator to the National Health Center, ECG device for the Baranya County Hospital and Hospice Foundation, baby-mother rooms for the Tűzoltó utca children’s clinic and tumorous disease screening device to the Schöpf-Merei Hospital. Matáv, like several leading Hungarian large companies, offered HUF 10 million for the construction of homeless hostels.

The Board of Trustees of the “Matáv gives back” program is responsible for distribution of the available funding.

Decisions are regularly published in the Newsletter of the program.

(Further information is available on the Corporate Contribution web site of Magyar Telekom.)

### **“Charity numbers”**

The Matáv Donation Line was the first charity number in the “Matáv gives back” program. Customers calling the 1788 number can donate HUF 100 for the published purpose to support the work of public benefit organizations. The company provides this service free of charge, transfers the full donated amount, so the company does not generate any revenue and even pays the costs (VAT) and offer great help to the organizations for the communication campaign in the collection period (e.g. production of TCR film, organization of television and other press presence). From May 2002 until December 2004 more than HUF 117 million donations were collected for 18 non-profit organizations with the help of the Donation Line. The Donation Line is a unique initiative also by European standards. The face and spokeswoman of the Matáv Donation Line Klári Katona helps with her personality, heart and thoughts the foundations collect the most money for their work. Matáv achieved another success with the introduction of the 1771 charity number:

In May 2004 more than HUF 70 million donations were collected on this number for the Heim Pál Children’s Hospital.

(Further information is available on the Corporate Contribution web site of Magyar Telekom.)

### **“Really important calls”**

In March 2004 the Civil (non-governmental) Tariff Package was introduced to offer national fixed-line telecommunications service to non-profit foundations and organizations with average 30% discount. These organizations can spend the money saved thanks to this package on causes really serving the interests of the needy. The discount tariff package can be used annually by 100 non-governmental organizations selected by a competition. A precondition to application is that the organization can prove the degree of public benefit of its operations, the telephone line assigned to this tariff package is operating on the name of the organization and the organization has no charge debt to Matáv.

At the November competition more than 400 non-governmental organizations without broadband connection yet were selected to receive free ADSL access for one year. This support is worth more than HUF 50 million. Thanks to Matáv these organizations can more efficiently perform their job with the broadband internet connection.

(Further information is available on the Corporate Contribution web site of Magyar Telekom.)

### **“Matáv employees give back”**

The Individual Donations with Added Funds means that the company adds a specified amount to the individual donations of employees feeling responsibility for the society. This enables employees sensible to the problems of the society to take a responsible decision on corporate donation (the company adds double of the donation up to HUF 25,000, the amount of the donation in the range HUF 25,000 to 100,000 and HUF 100,000 for donations over HUF 100,000).

The last three years proved that this system successfully gave impetus to private people for charity: until December 31, 2004 almost HUF 23 million donations were given to various non-profit organizations, primarily operating in health, education, art and care for underprivileged children, with the help of our employees.

Thanks to the program operating for the fourth year the readiness of Matáv employees to give donations is continuously rising.

### **Collection of second-hand clothes**

Second-hand clothes (and toys) are collected among Matáv employees every second year. The employees are given an opportunity to bring to us their clothes that they do not need any more but can still be used by the needy.



The collected things are given to the Hungarian Red Cross.

In 2000 and 2002 we collected 350 sacks of donations that included in addition to clothes also toys for the children living in hard circumstances.

#### **Voluntary work**

Several times it was found that social work, that was forced in the last era, can generate community building values and feelings that people enjoy, and the target achieved with joint manual work is much more appreciated and is sometimes worth more than money. In the period 1999 to 2001 the colleagues constructed 18 playgrounds in various cities in Hungary. They dug the foundations of the playgrounds.

(Further information is available on the Corporate Contribution web site of Magyar Telekom.)

#### **WWF – Matáv: Bird Protection Program**

In September 2004 started the cooperation between Matáv and WWF Hungary to contribute with the joint work to stopping illegal hunting and trading of protected birds. Matáv contributes with HUF 15 million donation and continuous communication to the “Take care of the bird” bird protection program, from which in the first year provided 5 million HUF.

#### **Traditional successes**

The University of All Knowledge started its 5th semester in September 2004. So far 94 lectures were given in 5 semesters under the joint educational project of the Matáv Group and the Hungarian Academy of Science. There is an estimated 250 – 300 thousand weekly audience of the lectures on television.

In April the Matáv Vivicitá city run was held with the largest ever participation, more than 8,500 competitors. In three cities (Budapest, Debrecen and Szeged) conventional running was accompanied also by walking.

In 2004 already for the third time children and their parents were invited at early summer week-ends to the free series of events at the Matáv Children’s Island. Stage performances, music and sport programs and novelties, such as the Ability Park that brought people with disabilities closer, attracted a record of almost 100,000 visitors.

### Friends of the future

Axelero contributed also in 2004 to the development of training and culture and gave donations to support the work of organizations caring for people with disabilities and underprivileged children where internet offers an opportunity for a fuller life and catching up. Another of Axelero's partners is the Future-friendly Foundation whose voluntary workers helps young people exposed to drugs, alcohol and other addictions with community and sport programs and broadband internet access.

### Sport

T-Mobile Hungary is a Diamond Grade Main Sponsor of the Hungarian Olympic team and sponsors the best soccer, handball and water polo clubs. The company is the greatest sponsor of sports in Hungary. Sponsorship is based on quality. The amounts offered are much beyond the level that is expected from the business scene and this fact reached deep public awareness.

As a result the company's executives hold major social and sport positions to represent the company in national and international sport organizations in sport diplomacy roles.

András Sugár CEO – one of the leaders of the Hungarian Olympic Committee,

Dr. Zsigmond Bodnár CFO – leading official of the International Water Polo Federation.

In Hungary the most popular sports are soccer, water polo, handball, basketball and kayak-canoe. In most cases sponsorship is given to a popular team of a region.

The sportsmen selected for sponsorship strengthen the company's image with their personal example, successes and popularity. Sponsored associations:

- Hungarian Olympic Committee
- Hungarian National Sports Association
- Hungarian Athletics Federation
- Hungarian Water Polo Federation
- Hungarian Pentathlon Federation
- Hungarian Sailing Federation
- Hungarian Tennis Federation

### Culture

Aid to the Opera House and the National Széchenyi Library play a key role in T-Mobile's cultural sponsorship that includes also help for staging productions in numerous cities in the countryside. T-Mobile's social sponsorship is managed jointly with the Maltese Charity Service.

In addition to the sponsored events – like the Europe Internet Ship, Internet Hungary Conference, T-Mobile Day with a Sting concert at Felvonulási tér, ARC poster exhibition, T-Mobile Cycling Day – many other useful initiatives serve value creation. The sponsored persons and art groups are prominent in their respective genres with long-standing popularity. The historical and

cultural importance of the institutes is outstanding also internationally.

The Macedonian Group member MakTel continued also in 2004 its earlier defined sponsorship strategy and as a major national company sponsored sport, cultural, educational and health initiatives and events. Such as the „Zlatno Slavejce” Children's Festival, Ohrid Summer Festival and the „Music Youth of Macedonia” initiative, as well as several outstanding Macedonian sport teams and events – e.g. „Vardar 2000” basketball and „Tekstilec” handball teams and the Ohrid Swimming Marathon – and the Macedonian Euro-Atlantic Club, „DECUS” Conference and „TELEDOM” program.

## Product liability, data security

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 concerning 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: the information received (verbally (from the technicians, sales staff), on the phone and in writing) reaches 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:**

- Measures the satisfaction of the residential and the business segments semi-annually since 1999.
- 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 telecommunications 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. A new regulatory cycle started with the restructuring of the Group Security Branch. Existing regulations were revised and updated and a new regulatory structure harmonized with 21st century information technology development was created. One of its first pillars was issued in 2004. In the area of data security a process of management of customers' personal data that complies with statutory requirements was elaborated under a corporate project with dedicated regulations, and the company established a dedicated organization responsible for overall data security.

Data security and protection of information has been regulated in the following codes and directives what are operative for Matáv and Hungarian subsidiaries of the Group:

- Group Security Code on the protection of business information issued as a CEO Group Directive.
- Regulations on the conditions of data transfer on magnetic and optical media and in digital form were issued in 1998 and are now being updated (will be issued in the first half of 2005).
- A CEO directive with overall standard regulations on IT security was issued.
- Group Security Branch Director's directive on issuance of IT rights management regulations.
- The Group's Password Management Regulations and Encryption Regulations were issued in 2004.
- The CEO directive on issuance and application of Matáv Rt.'s Data Security Regulations on personal data security was amended according to the needs and requirements.

So the security processes are regulated. 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 and electronic signature. The general requirements for access authorization in the IT systems and systems supported with IT tools are specified in a CEO directive, while the conditions of withdrawal of access authorizations on termination of the employment are regulated by a joint directive of the Security and the Human Resource Directors. Access authorizations are granted through a dedicated IT system via Lotus Notes mailing system or the intranet site of the Group Security Branch.



## Environmental aspects

Data and information presented in this chapter based on group-level data published in Matáv Group Financial and Report 20F, and informations recorded by systems of group-level environmental areas. In the details of the presented data, the Group is striving for displaying in the future group-level data also on regional-level, and for broaden the circle of data collected by group-level systems.

### Linkage between operations and environment protection

#### Environmental coordination

The Group's organized environmental operations established in 2002 on the basis of the Group environmental coordination process continued in 2004 both within Matáv Rt. and in cooperation with the member companies.

The environmental coordination activity based on the operation of two earlier established virtual organizations was operating also in 2004 according to the applicable CEO directive, in compliance with the requirements and challenges.

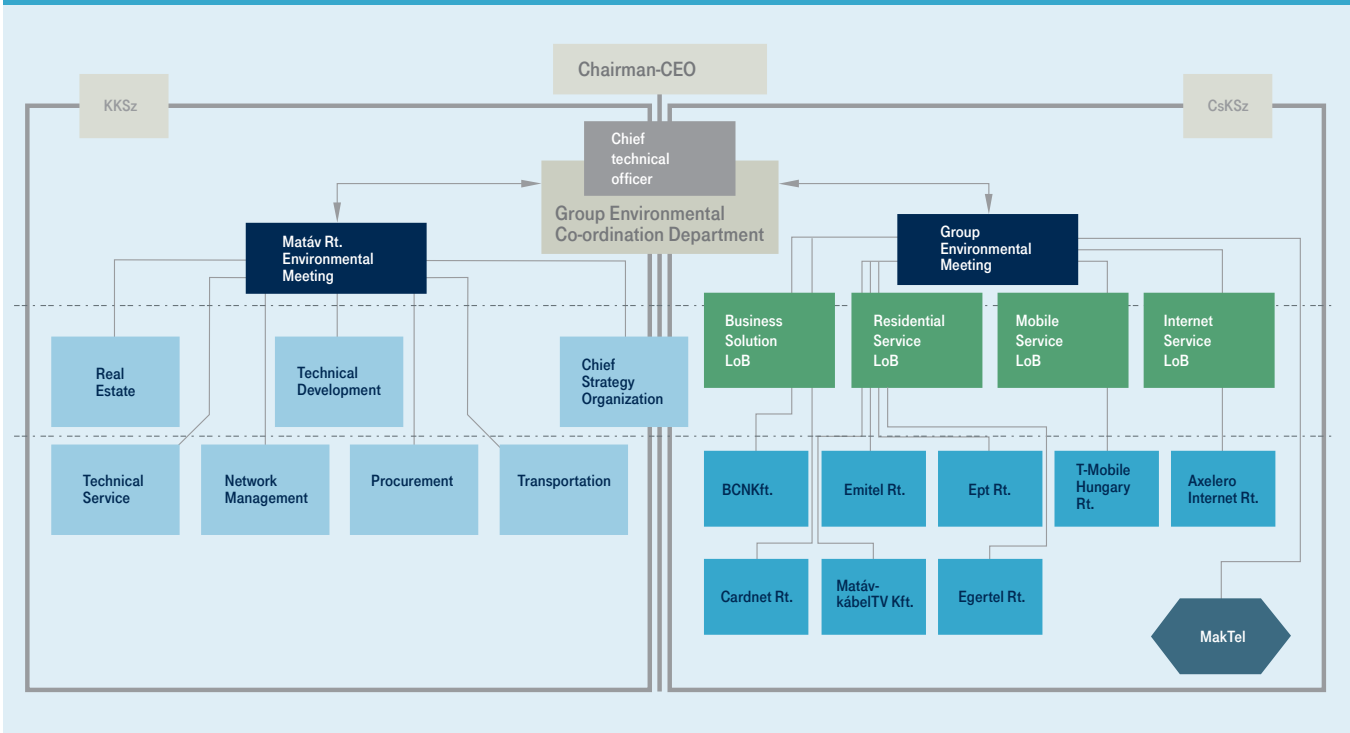
The Central Environmental (virtual) Organisation (KKSz) is for co-ordinating the environmental tasks withing Matáv Rt. The organizations check the fulfillment of the tasks every second month on the regular meetings. The following organizations belong to KKSz:

- Group Environmental Co-ordination Department – responsible for professional management and Group Environmental Strategy.
- Real estate management area – responsible for operative environmental functions
- Technical development area – responsible for environmental developments
- Business process management area – responsible for implementation of ISO systems
- Technical service area
- Network management area
- Procurement area
- Transportation area

The Group Environmental (virtual) Organisation (CsKSz) is for co-ordinate the environmental tasks within Matáv Group. The companies check the fulfillment of the tasks quarterly, on the regular meetings. The following companies belong to CsKSz:

- Matáv Rt. Group Environmental Co-ordination Department manages the Group's environmental tasks and strategy.

Structure of the organization managing the Matáv Group's environmental operations in 2004



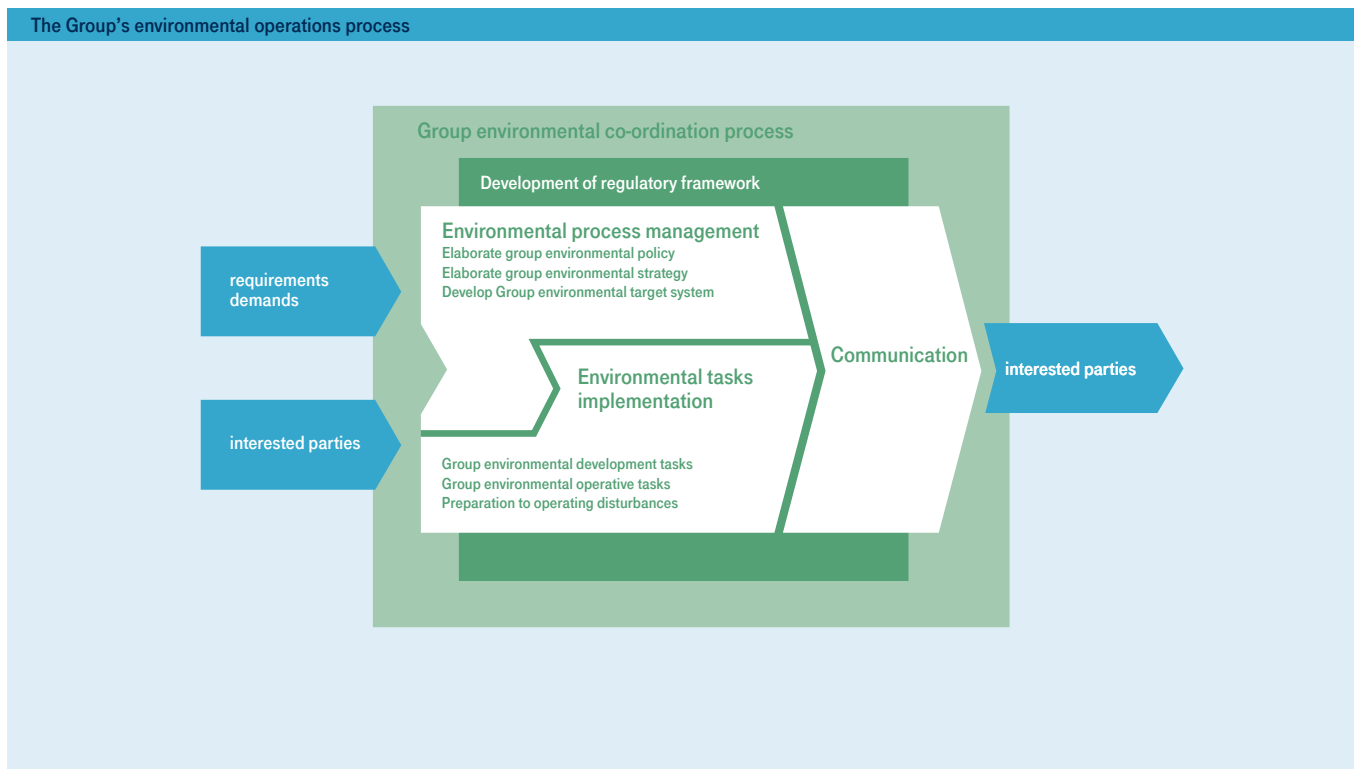
- Business Solutions LoB: one delegate, who co-ordinates the tasks within the LoB , and:
  - BCN Rendszerház
  - Cardnet
- Residential Services LoB : one delegate, who co-ordinates the tasks withing the LoB, and:
  - Emitel
  - EPT
  - MatávkábelTV
  - Egertel
- Mobile LoB – T-Mobile Hungary co-ordinates
- Internet Services LoB – Axelero co-ordinated
- MakTel – because of its physical distance the Macedon member does not participate the working meetings, but the strategy and goals are related to them, too.

**The process underlying the Matáv Group's environmental operations**

The Group Environmental Coordination Process, that encompasses the entire environmental activity of the Matáv Group, is an independent process of the Group quality management framework and obtained Group-level ISO 9001:2000 certificate from SGS (Société Générale de Surveillance SA).

The linkage between the subprocesses and activities of the process are demonstrated by the following Figure.

Both the KKSz and CsKSz are led by the chief technical offices, who has the responsibility to report to the Management Committee annually about the strategy's fulfilment.





The Group-level environmental activity was carried out also in 2004 according to this process. Neither the subprocesses constituting the process, nor their operation required major correction, apart from updating the target system and the resultant tasks.

The ISO system gives high priority to compliance with laws and documented tracing of these processes. This is kept in mind when addressing compliance with laws where the company group found that the Matáv Group members were fined only in one case – T-Mobile Hungary by the Aggtelek National Park Directorate. To avoid such cases in the future a draft proposal was elaborated and approved by the senior management of the Group.

In addition to the above the authorities reminded the Group members to eliminate minor cases of non-compliance, such as noise load on the population, lack of urban landscape restoration and ragweed removal. The member companies fully complied with the reminders within the specified time.

#### **Result of the Group Environmental Process**

In 2004 the regulating directive was issued, environmental officers were appointed, environmental organizations were established and environmental activities were set forth in the Rules of Organization and Operations at each Group member company.

In order to have ongoing senior management control and keep the senior management abreast of the processes and activities the number one managers of the member companies and the chief officers of the affected lines of business continue to receive regular reports on the meetings and the results.

The senior management of the Matáv Group, the Management Committee, receive annual reports from the Chief Technical Officer on the status of implementation of the tasks of Group Environmental Strategy (or if necessary, immediately). In 2004 the fulfillment of Strategy was presented on January 28, and on October 7 the Sustainability Report for approval, finally on December 16 the DT Group Sustainability Strategy.

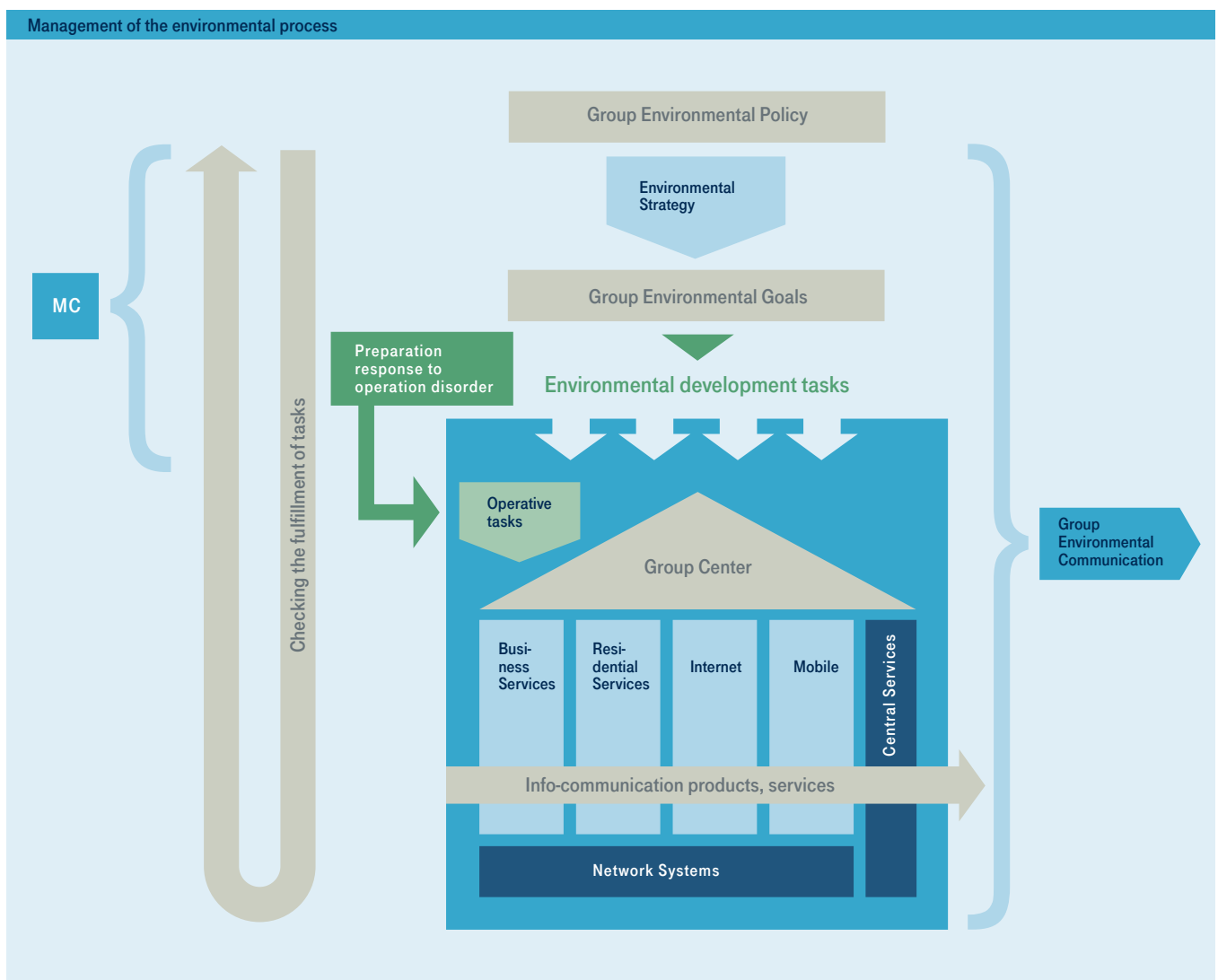
### Management of the environmental process

The above chart – already known from the earlier report – shows the hierarchy of the Matáv Group's environmental activities, which is included also this year for better orientation. This shows that the strategy is deduced from the environmental policy, and the environmental targets and development tasks are deduced from the updated strategy (fulfillment see below). The operative tasks are the responsibility of the relevant organizations of the Group. The CEO directive of Matáv, publishes on 28. December, 2004, regulates the Group's operative environmental tasks. According to the regulation the organizations and companies responsible for realization of activities are also responsible:

- For the environmental impacts arising from their activities, and for planning and realizing the decrease of these negative impacts;
- For monitoring the environmental elements and significant environmental impacts, influencing them in a positive way;
- For the up-to-date knowledge regarding environmental regulations and for the regulatory compliance linking to their activities.

Communication, as the report – what is one element of it - in this case, is based on these.

The Management Committee controls all activities on the basis of the reports received.



## Fulfillment of environmental protection strategy target system by end of 2004

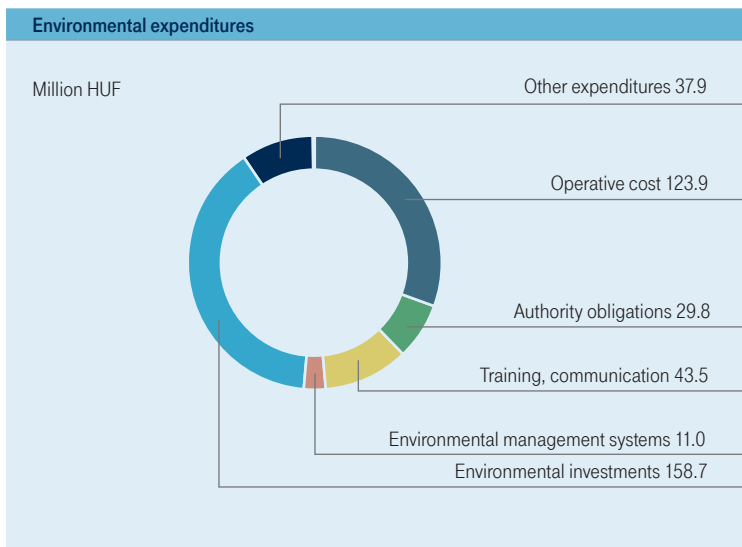
The table below shows the 2004 fulfillment status of target system which is broke down from Group Environmental Strategy.

Goals / activities	Deadline	Status of implementation	Explanation
<b>Retaining the leading position in Central Europe</b>			
<b>Communication (to target groups, on the basis of communication plan)</b>			
Publication of Annual Environmental Report	ongoing	✓	built in the Group Sustainability Report since 2004
Preparation of Sustainability Report	2006	✓	Moved forward to 2004. The Group Sustainability Report 2003 won a second prize of CEERA Award
Organizing environmental protection forums /Internal and external/ , participation in external forums	ongoing	+	7th Environmental Round-table Discussion (30. March 2004), AISEC conference, etc.
Internal communication			
Development of employee awareness	ongoing	+	Training and awareness raising through the internal communication surfaces.
Group environmental coordination home page on the Intranet	2005	✓	Fulfilled, continuously updated
Efficient publication of the environmental benefits of or products and the results of our environmental projects to the target groups	ongoing	+	Realised on Intranet and Internet, and also on conferences
Elaboration of EMF communication strategy	2004	✓	Fulfilled, planned to be updated in 2005.
<b>Organization</b>			
Operation of Group-level environmental coordination organization	ongoing	+	Group environmental virtual organization, meets quarterly with the member companies
Development of environmental organizations for the Group members and development of their scope of responsibility	2004	✓	Ready: T-Mobile, Emitel, EPT, BCN, Axelero, Egertel, MatávkábelTV
Implementation of ISO 14001 management system in the significant impact related organizations .	2006	↗	No changes in 2004.
Roll out of application of the Environmental Process supporting system (KörTE) within the group	2006	↗	The development of KörTe has been finalized in 2004, providing reading authorization to the group members is planned for 2005.
<b>International cooperation</b>			
Acquire European awareness through ETNO	ongoing	✓	First European Conference on Telecommunications and Sustainability, Budapest, November 24-25 2004.
Supporting other DT Group companies in Central Europe, aligning Matáv member companies	ongoing	+	Cooperation with the member companies in environmental areas is continuous

Goals / activities	Deadline	Status of implementation	Explanation
<b>Reducing the burden on the environment caused by our operation</b>			
<b>Procurement</b>			
Define environmental requirements, guidelines for the procurements	2006 ongoing	↗	Launching and implementation has been fulfilled at Rt.-level in 2004 for products and suppliers.
<b>Waste management</b>			
Development of complex waste management	2004 ongoing	↗	Development of conception has been finalized in 2004. The implementation starts in 2005
Reduce the amount of hazardous waste.	ongoing	+	We could not achieve reduction due to the replacement of technological equipment in 2004 and soil restoration
Reduction of paper consumption	ongoing	+	Because of many electronic internal process the decrease was significant.
Implement selective waste collection	2005	✓	Fulfilled, ongoing.
Implementation of substituting/replacement solutions	ongoing	+	Examples: e-payment bills, official e-mailing, etc.
Recycling, take-back ( equipment, phone books)	2006	↗	Take back of phones is continuous at Matáv Rt. and also at T-Mobile.
<b>Energy consumption</b>			
Increase and disseminate alternative solutions to sort out traveling	ongoing	+	Audio- and video-conference application, e-learning
Implementation, monitoring of combined, renewable resources	ongoing	+	Monitoring the combined solar panel and wind generator in Magyarsarlós.
<b>Minimize other burdens on the environment</b>			
Identify areas of reducing environmental burdens, develop and adopt the guideline	2004	✓	Guideline has been finalized in 2004.
Renewal of oil tanks (regulatory obligation)	ongoing	+	In 2004 7 oil tanks were double-walled, 9 tanks' permission plans and 12 replacement have been reslised.
Sharing the infrastructure within the group	ongoing	+	Sharing base stations and real estates.
Optimize the operating telecommunications network	ongoing	+	Replacement of AR exchanges
<b>Benefit from our products , services</b>			
Implement the elaborated environmental impact analysis methods in the product development process at group level.	2006	-	In 2004 the Group-level work did not start
Implement info-communication systems in the field of environment protection and nature conservation.	ongoing	+	Informing the interested parties about the opportunities continuously

- Legend:**
- ✓ completed by deadline
  - + performance has been started, regular
  - ↗ performance has been started
  - performance has not been started yet

## Expenditures



In 2004 the Matáv Group's environmental expenditures amounted to HUF more than 400 million. These expenditures included the following items:

Operative expenses that include amounts expended on waste management, costs of environmental tests and surveys and minor environmental procurements. In 2004 operative environmental expenses amounted to HUF 123.9 million of which about 80% was spent on waste management.

Fees payable to authorities that include environmental product fee, environmental load fee and vehicles' environmental test fee. In 2004 we paid HUF 29.8 million fees to authorities of which 68% was environmental product fee.

Training, education and communication costs include in addition to the amounts spent on education, also study contract costs, conference organization costs, expenditures on environmental publications and costs of purchasing professional journals. In 2004 HUF 43.5 million was spent for these purposes.

The member companies spent more than HUF 11 million on the maintenance and operation of environmental management systems. This cost was shared by three member companies. In 2004 T-Mobile spent the most on the maintenance of its environmental focused system (repeated audit of the system was held in 2004), HUF 5.6 million, while Matáv Rt. spent HUF 4.9 million and MakTel's MobiMak HUF 0.4 million.

In 2004 environmental investments accounted for about 40% of environmental expenditures that amounted to HUF 158.7 million. The largest share of capex was expended by Matáv Rt. on renewal of oil tanks. This type of expenditure was used to finance development of the environmental inventory system, purchase of a document shredder and heat camera.

As other environmental expenditures item can be mentioned the amount expended on dismantling networks out of service, HUF 37.9 million in 2004.

The diagram shows the distribution of the above-mentioned expenditures.

## Improving environmental awareness

The Group considers important the environmental education and development of environmental awareness of its employees. With the application of the “knowledge is a good investment” principle the employees can be expected to deliver more conscious, more efficient and better performance also in the area of environmental work.

In 2004 new regulations entered into force and the number of dedicated environmental courses held in 2004 to present them to the employees was by 28.5% higher than in 2003. Due to the fall in the total Matáv Group headcount the rise in the number of courses did not result in an increase in the number of trainees in the independent environmental modules.

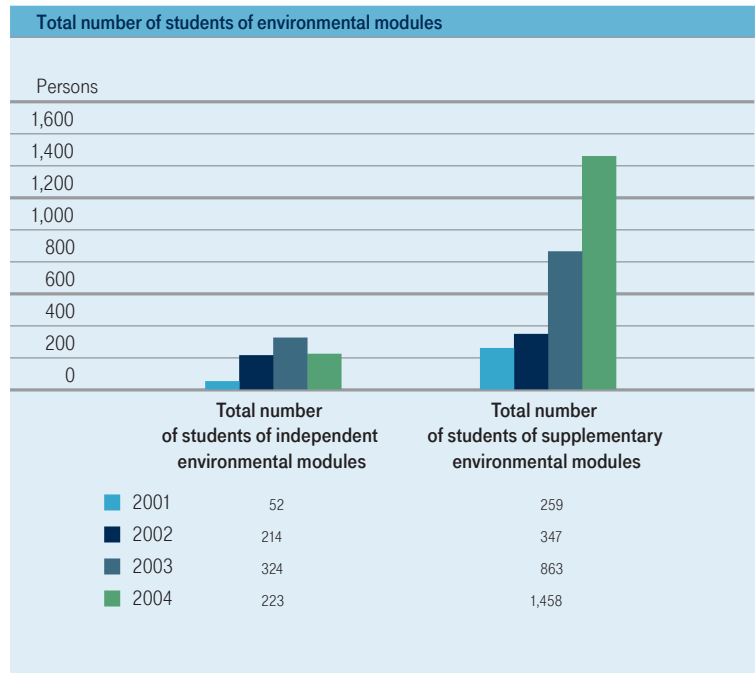
The Group considers also important to present in professional courses the environmental aspects of this area, and environmental impact connected to their activities and their environmental regulatory background. The number of supplementary modules in 2004 significantly reduced, while the number of trainees increased by almost 70%.

### The member companies' professionals attended in addition to internal training courses also:

- waste management conference
- presentation of laws on product fee
- conferences organized by social organizations

The visitors of Environmental Round-Table Meeting and the First European Conference on Telecommunications and Sustainability 2004 are not added into the total amounts.

The Matáv Group organizations having major environmental impact operate environmental management systems and for this purpose some employees attended senior auditor training.





# Environmental indicators

The following table summarizes the environmental indicator figures.

Environmental indicator	2004	Change in % – 2003/2004 (+/-)
Number of dedicated environmental courses	😊	+28.5%
Number of supplementary environmental courses	😐	-75.3%
Total number of courses	😐	-52%
Number of trainees at dedicated environmental courses	😐	-31.1%
Number of trainees at supplementary environmental courses	😊	+68.9%
Total number of trainees	😊	+41.6%
Paper consumption	😊	-23%
Paper-based telephone directories replaced with CD	😊	+8.5%
Electricity consumption	😐	+3.8%
Matáv Group's electricity consumption per 1000 lines provided <sup>2</sup>	😊	0%
Matáv Group's electricity consumption per revenue	😐	+5.7%
Gas consumption	😊	+0.39%
Vehicle mileage	😊	-6.4%
Total vehicle fuel consumption	😊	-3.2%
Total vehicle diesel oil consumption	😊	-1.08%
Vehicle unleaded petrol consumption	😊	-0.8%
Vehicle leaded petrol consumption	😊	-79%
Travel replaced with audio- and videoconference	😐	-3.35%
Water consumption	😐	+2.9%
Net Storey Area (NSA) <sup>3</sup>	😊	
Amount of hazardous waste	😐	+65.6%
Amount of hazardous waste recycled	😊	+17.9%
Amount of communal waste	😊	-8.8%
Amount of paper waste recycled	😊	-8%
Amount of telecommunications and other waste recycled	😐	-8.9%
CO <sub>2</sub> emission resulting from energy and paper consumption	😊	-1%

**Legend:**

- 😊 positive change exceeding 2%
- 😐 change under 2%
- 😞 negative change exceeding 2%

<sup>2</sup> Number of lines = total of fixed, mobile, internet and cable television subscribers

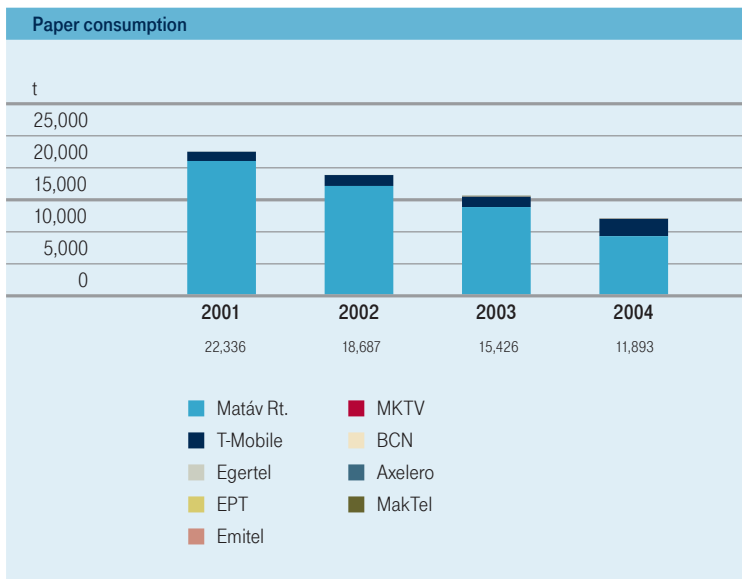
<sup>3</sup> This indicator cannot be interpreted due to new data suppliers

### Explanation:

- **Number of courses, number of trainees:** Although the number of courses dropped – due to restructuring of the course curriculum– the number of trainees attending the courses significantly rose.
- **Paper consumption:** Significantly fell because at Group-level mostly e-based applications are used and the impact of headcount rationalization is also reflected in this figure.
- **Paper-based telephone directories replaced with CD:** Shows increase due to higher PC usage by enterprises and households and the increasing popularity of CD based directories.
- **Electricity consumption:** Increase was caused by widening service areas of some member companies, installation of new systems and satisfaction of higher user demand, also important reason is the constructions have been started.
- **Matáv Group's electricity consumption per 1000 lines provided<sup>4</sup>:** As the proportions increased parallel, there was no real change against the previous year.
- **Matáv Group's electricity consumption per revenue:** Per revenue consumption increased partly due to on the decreasing revenues, partly due to the above explained increased amount of electricity consumption.
- **Gas consumption:** Notwithstanding the higher area used only slight increase was experienced, which explanation is that the started building operations were not finished, so there were no demand on heating.
- **Vehicle mileage, total vehicle fuel consumption:** Mileage considerably fell against last year, consequently fuel consumption also dropped.
- **Travel replaced with audio- and videoconference:** Lowering due to headcount reduction and the total demand of travelling. Relative usage of these systems increased since usage fell to a less extent than the employee headcount.
- **Water consumption:** Increased due to higher area used and construction works.
- **Net Storey Area (NSA):** Establishment of branch offices at some member companies and T-Mobile's large-scale construction works are behind the rise.
- **Quantity of hazardous waste, quantity of recycled hazardous waste:** The higher quantity of hazardous waste includes large-size batteries used in various technologies which were replaced – which results in significant increase in recycled hazardous waste because they are recycled – and polluted soil produced through soil restoration in 2004 which increases the amount of non-recycled hazardous waste.
- **Quantity of communal waste:** Decrease was caused by successful selective waste collection and certainly headcount reduction is also a reason.
- **Quantity of paper waste recycled:** Decreased due to wider usage of e-applications and fall in paper consumption.
- **Quantity of telecommunications and other waste recycled:** Telecommunications waste is produced mostly through replacement of obsolete technology (replacement of old equipment) which was lower in 2004 than in the previous year.
- **Total CO2 emission resulting from energy and paper consumption of the Group:** – this is first shown among the indicators – shows a welcome decrease primarily due to lower paper consumption and use of recycled paper.

<sup>4</sup> Number of lines = total of fixed, mobile, internet and cable television subscribers

## Materials



The Matáv Group member companies, as service providers did not directly manufacture products either in 2004, and like that material consumption is not a real topic in their case.

Paper consumption is used for office work, telephone book publication and bill issuance.

In 2004 the Matáv Group organizations procured and used 11,892,922 kg paper, that is by 23% lower than in 2003.

Additional 60.9 tons of recycled paper was purchased.

As a consequence of the organization streamlining, electronic administration, data processing and the reduced headcount the quantity of procured paper shows a constantly decreasing trend as reflected by the following diagram.

In paper consumption Cardnet's data are not available, as the consumption is so small that the company does not monitor it.

In 2004 the Matáv Group issued 48,840,450 paper-based bills. Paper, envelopes and foils used for the bills:

Paper: 80,695,998 sheets

Envelopes: 45,343,169

Foils: 40,474

The two-side billing method started by the Matáv Group in 2003 was exclusively used in 2004.

In 2004 the Matáv Group issued 732,099 electronic bills that still did not replace paper-based bill issuance, but were used parallel. The Group plans to introduce after the 2004 pilot function in 2005 billing only in electronic form.

In 2004 T-Mobile Hungary Rt. continued for its major customers the so-called Electronic Traffic Information (EFT) service, with the help of which an electronic image of the bill and call itemization can be downloaded through the Self-service Customer Service. The EHR (Electronic Call Itemization) service is fully operational 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. For this sake the assessment concepts have been developed in 2004.. The key data of the telecommunication equipment selected and procured subsequently are entered in the Environmental Planning and Inventory System (KörTe). The frames of the report does not let to introduce these materials and suppliers because of their huge number.

### Materials collected from the consumers

Customers could return old obsolete telephone sets to Matáv Points also in 2004. In 2004 12,537 telephone sets were collected and recycled, i.e. by 5% more than in 2003.

In 2004 T-Mobile collected 648 kg mobile phones and 2,278 kg batteries from the customers. T-Mobile recycles 100% of the collected phones through its contracted partners that currently process the phones in Germany. In 2004 Matáv Rt. continued collection of telephone books and yellow pages. For logistical reasons in 2004 collection was possible only in Budapest, 45,000 kg telephone books 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 in 2004 for the telephone books was not yet recycled paper.

The product of the Group can be taken back and recycled in 100%, but because of the long life-cycle and turning back time the ratio of products taken back of total amount of products is not relevant.

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

To continue the earlier started process paper-based telephone books are replaced to a growing extent by CD telephone directories. As a result of the efforts 141,000 kg paper usage could be saved by publishing nationwide by 8.5% more CD telephone directories.

With the assistance of Axelero, an internet telephone directory was put on the home page that offers more content than paper-based telephone books: mobile telephone numbers database, e-mail and web addresses and simple search criteria. This service started the operation in 2003, and continued in 2004.

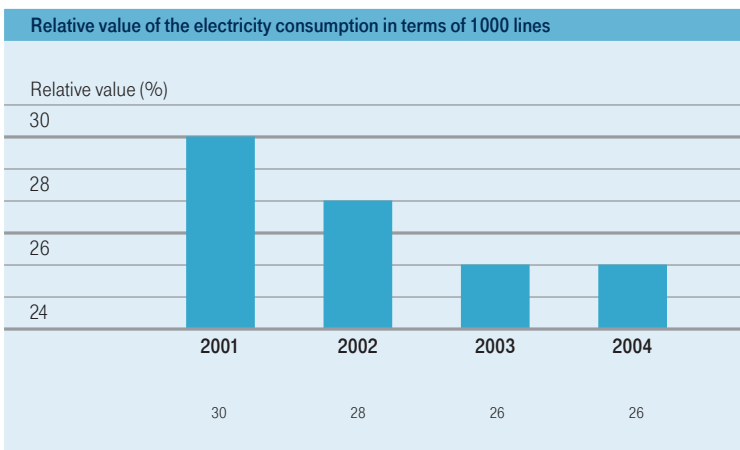
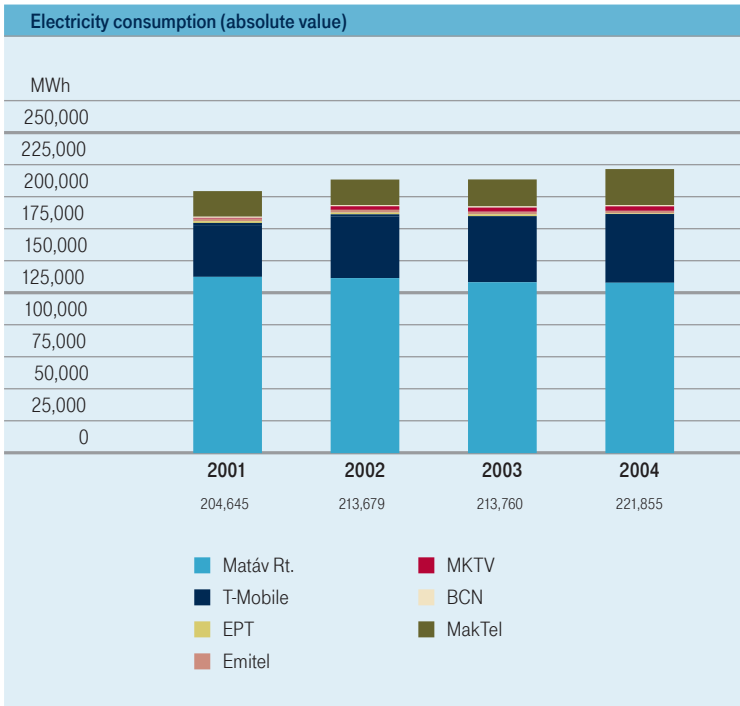
## Energy

### Electricity

Electricity is required for the operation of telecommunications equipment so the company's consumption is high. In 2004 the Matáv Group's total consumption was 221,855 MWh that is by 3.8% higher than in the previous year. Increase was caused by widening service areas of the member companies, construction of new office buildings (e.g. T-Mobile). MakTel produced the highest increase: 33%. In Macedonia development of fixed-line telecommunications started in the earlier years whereby numerous new customers were connected to the network that naturally results in higher electricity consumption. Today there is widespread use of mobile phones, cable television services attract many new subscribers so the development need in these areas significantly rose which also requires additional energy. In view of these facts the growing energy consumption (MatávkábelTV by 7.6%, T-Mobile by 3.9% and BCN by 3.4%) is justified.

Over the last years the number of fixed lines was stagnating or in some cases falling which has little influence on the network side's electricity consumption, as the exchanges must be operated also in lower capacity level. Emitel could achieve 1.3% decrease and Matáv Rt. 0.28% fall in 2004. This decrease resulted also since for the company-group the energy consumption is economic and environmental issue, and it launched projects to reduce electricity consumption that will produce major results in the next years.

In the assessment process the electricity consumption in rented offices has not been taken into consideration, so data of Cardnet and Axelero are not presentable. The electricity consumption of Egertel is included by Matáv Rt's data.



The electricity consumption was analyzed again against the number of customers that shows stagnation at Group level against 2003, while consumption against total revenues – inverse proportionally to the decrease of revenue - rose by 5.7%.<sup>5</sup>

Summary: the Group's widening service area and the number of subscribers justified the above explained growth in electric energy consumption.

**Efforts to reduce energy consumption**

In 2003 Matáv Rt. drew up a plan for the reduction of energy consumption in telecommunications, 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.

On the basis of the project results launch of the following 6 energy rationalization actions were prepared for 2005:

- revision of service contracts
- comparison with a basic database
- temperature optimization in exchange rooms
- optimization of power supply and air-conditioning equipment reserves
- elaboration of internal regulation
- using external air for cooling

<sup>5</sup> Calculation of relative figures includes only the member companies where electric energy consumption, number of provided lines and revenues are known. When any of these figures is not available the member company is not included in calculation of the relative indicator.

### Gas consumption

The Group uses mostly gas boilers for building heating while remote heating service is also used to an insignificant extent. Although in 2004 the area used increased by 44.5% gas consumption rose against the previous year to a minor extent only by 0.39%. As a result of the efforts – replacement of old boilers, installation of temperature regulators – the 2% growth experienced in 2003 could be reduced.

Out of the member companies MatávKábelTV's consumption went up by 60% against the previous year due to the higher number of branch offices, but this figure is not perceivable in the Group-level summary due to the company's low consumption volume. BCN is neither a large consumer within the Group, but its usage increased by 55% against the previous year. Emitel Rt.'s consumption also rose (by 16%) and T-Mobile's consumption increased by 17% as a result of more heating caused by bad weather.

The Group's largest consumer, Matáv Rt. achieved 1% decrease in gas consumption resulting also from the lower headcount and office area used.

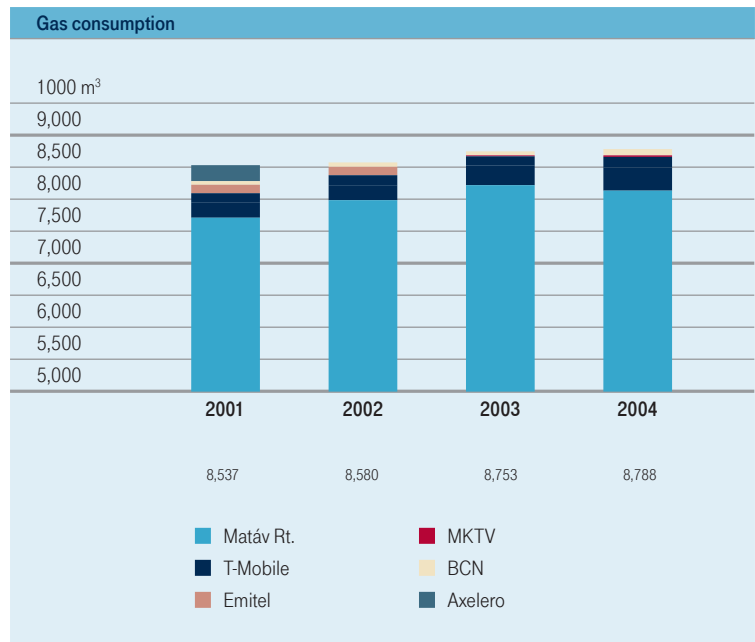
During the assessment the has consumption of rented offices has not taken into consideration. Therefore Cardnet and Axelero have no data available. The gas consumption of Egertel and EPT is included by Matáv Rt's data.

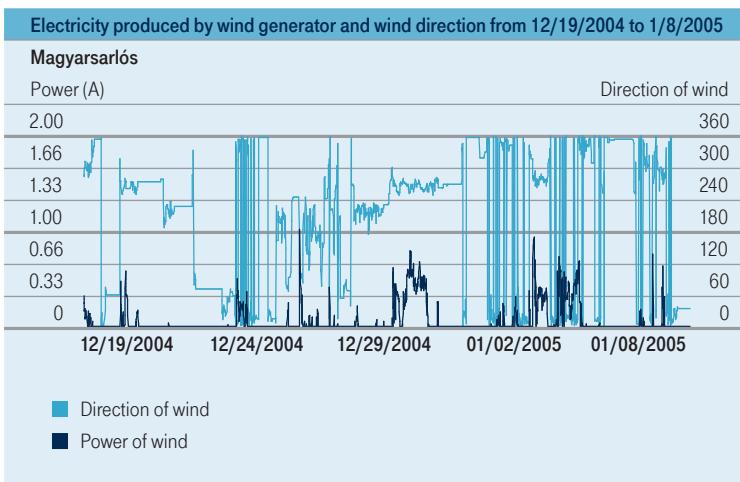
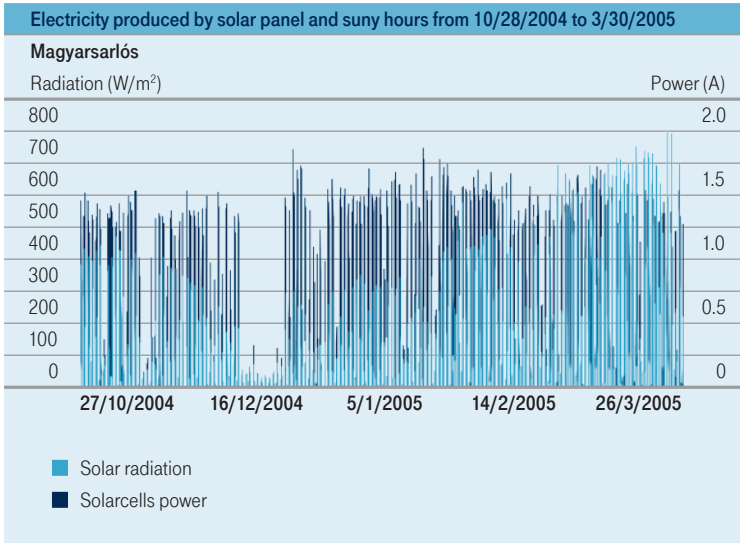
### Directly generated energy used for own purposes

No change has taken place over the past year in 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 emergency generators.

The gas engine providing for the energy supply of the Krisztina körút Headquarters, mentioned in the earlier reports, 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.





## Renewable resources

Combined renewable resources providing the energy supply for the Magyarsarlós IRT equipment (combination of solar panel and wind generator).

### Parameters of the telecommunications equipment serviced:

- IRT 1500 model microwave subscriber equipment
- Electricity consumption: 24 V, (1A) 1.5 A, (24 Ah per day) 36 Ah per day
- Installed in a container
- Located at a distance of approximately 500 meters from inhabited area

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

- Solar cell panel – 12 pieces, SM-12/2 S type, 40 W, 2.5 A (1000 W/m<sup>2</sup> radiation)
- Southward orientation, 65 degrees inclination angle
- 6 m<sup>2</sup> 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 approximately 24Ah/day

According to the operating experiences of the solar panel energy source in the period March – October the battery generates more than the consumption of 36 Ah/day, while in the November – February period the panel generates less than the consumption, in this case the wind generator and the energy stored in the battery supply the balance.

### Technical parameters of the wind generator (installed in 2003)

- 1000/1400 W nominal power at wind speeds of 10/12 m/sec
- 7.65 m<sup>2</sup> rotor surface
- rotor blades: 3
- 2.5 m/sec starting wind speed
- 12 m high tower

The integrated solar panel and wind generator system operates as an autonomous power source.

The electricity produced by the combined renewable resources was recorded, together with meteorology data, during trial operation. See some examples of measurement results in the diagrams.

The electricity produced by the solar panel is available each day also in winter months although sunny hours are much less. From December 8, 2004 to December 19, 2004 both sunny hours and produced electricity fell back probably due to clouded sky.



A comparison of the two diagrams shows that the regularity of energy production by the wind generator is behind that of the solar panel, but it can be used as supplement.

Analysis of the pilot operation period shows that in certain periods significant surplus energy is generated in the system that the batteries cannot store.

Another method of temporarily storing electric energy is feedback into the mains. According to current regulations the electricity provider is obligated to buy electric energy only from energy producers capable of providing higher than 100 kW power.

An upgrading step could be to construct an energy production unit with higher than 100 kW power that feeds back the produced energy to the mains. Strengths of this solution:

- using batteries could be avoided, as they on the one hand can store only limited energy, and on the other hand they require regular maintenance, and wear out in relatively short time (5 – 10 years), their replacement is expensive and results in impact on the environment;
- telecommunications facilities and renewable energy sources can be made independent of each other so the installation site can be optimally selected.

An investment with only own financing can excessively commit the company's funds; a solution could be to establish a national company with several committed companies that operate an "energy farm/power plant" in which costs are shared by the members and each company could decide whether to use or sell the produced electricity. Implementation of such system requires substantial level of state subsidy/assistance in Hungary for such investments and guarantee for purchase of the produced energy over a long period.

## Vehicle mileage

The service area of the Matáv Group extends to the entire country, and through MakTel, also to the entire territory of Macedonia. The activities – primarily fault repair, but in certain cases also customer contacts – require personal presence so distances have to be covered by vehicle, although the goals include reduction and replacement of travel with the use telecommunications tools where possible.

The Group's vehicle mileage could be reduced by 6.4% against 2003 which is a significant progress also from environmental point of view.

Out of the member companies MatávKábelTV's vehicle mileage significantly increased, by 40% against the previous year due to the larger service area. Slight increase was shown by T-Mobile (4% in line with the larger service area) and Cardnet (2%).



The other member companies reduced their travel volume. (BCN by 26.5%, Ept by 26%, Egertel by 24%, Matáv by 11%, Emitel by 5.6%, MakTel by 2%, Axelero by 0.7%)

The number of vehicles fell by 10% against 2003. The number of company vehicles dropped by 13%, while private vehicles rose by 4%.

## Fuel consumption

The 6.4% drop in mileage was accompanied by 3.2% decrease in fuel consumption to 6,562,527 liters in 2004. The highest decrease was achieved by Egertel with 24%, while the highest increase was found at MatávKábelTV by 64% due to its larger vehicle fleet and service area.

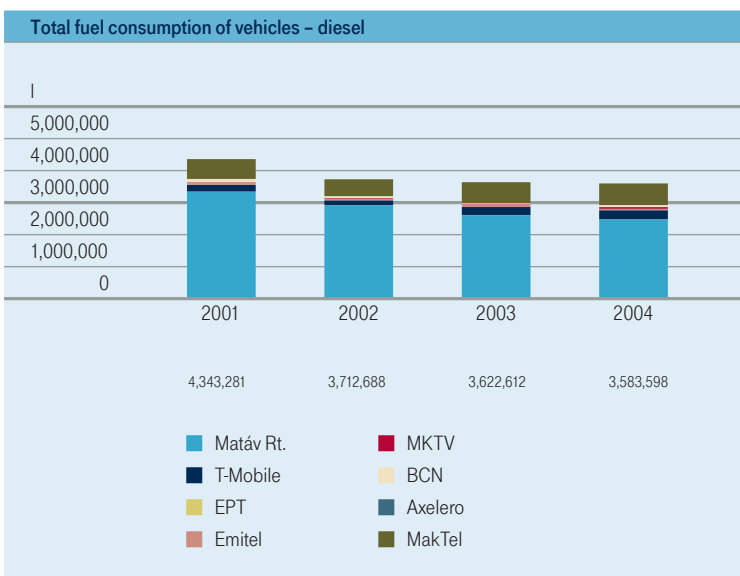
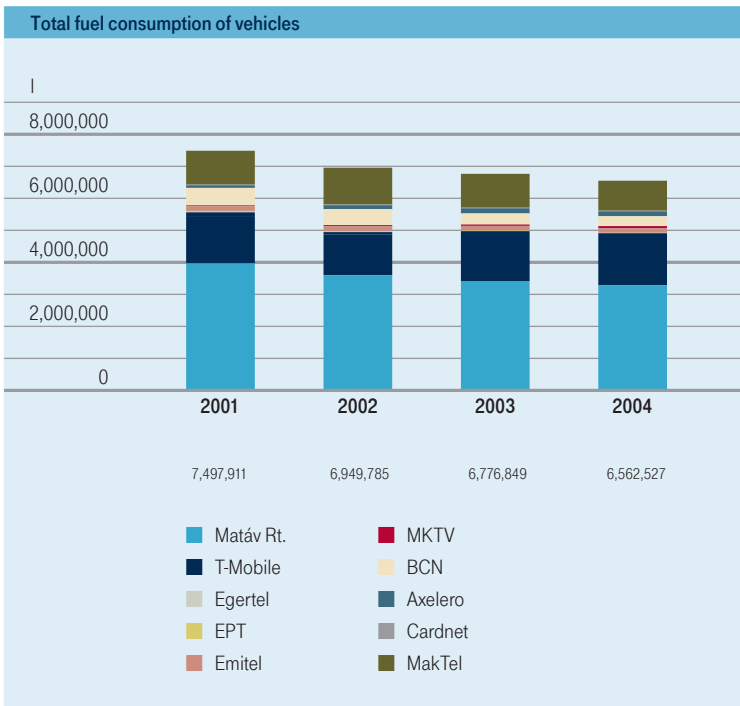
### Diesel oil consumption

A slight 1% reduction of diesel oil consumption could be achieved against the previous year, but it is reassuring that the falling trend started in 2002 could be continued, although to a small extent.

Out of the member companies Ept Rt. used more diesel oil fueled vehicles and consequently quadrupled its consumption, but this significant growth did not impact the Group level consumption since their consumption is low in comparison to the other large member companies that is well shown in the diagram. Growth was seen also at MatávKábelTV (100%) for the same reasons, at BCN (61%), at T-Mobile (10.5% due to the larger service area) and MakTel (3%).

Reduction could be achieved by Axelero (32%), Emitel (11%) and Matáv Rt. (5%).

Egertel and Cardnet did not use diesel fuel for their vehicles.



### Unleaded and leaded petrol consumption

After a rise in 2003 unleaded petrol consumption shows a slight 0.8% fall. The highest growth was found at MakTel (6.4%), while they reduced by almost 80% the consumption of leaded petrol – that is still allowed in Macedonia.

Growth is shown by Cardnet and T-Mobile (by 2% due higher vehicle mileage) and Matáv Rt. by 1.4%. This increase is not significant for any member company compared to the previous years.

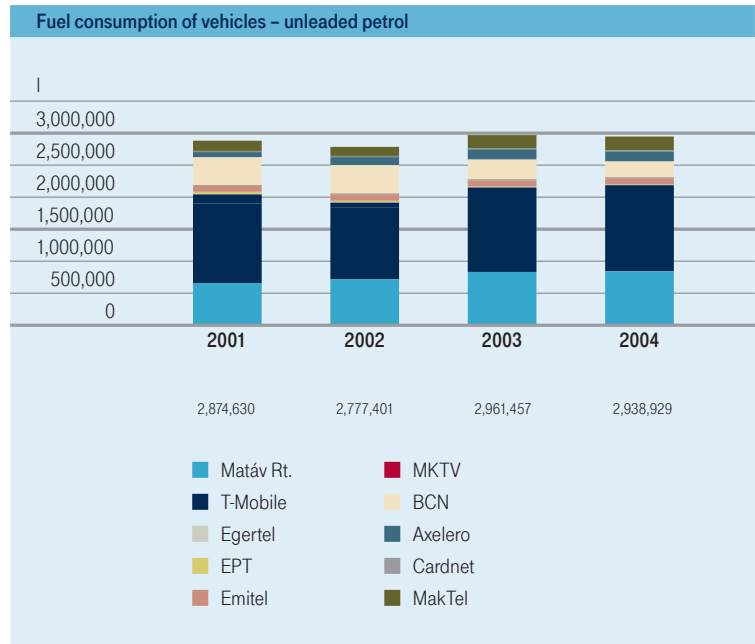
Ept. reduced its consumption by 36% through replacement of the majority of its vehicle fleet with diesel oil fueled vehicles. Egertel's 24% reduction in consumption is significant in itself. Reduction was achieved also by BCN (19.5%), Axelero (4.6%), Emitel (2%) and MatávkábelTV (0.8%).

## Solutions to replace travel

Naturally normal business operations – that assume the use of vehicles – must be ensured even with consciousness for environmental issues. However reasonable considerations with positive impact on both business and environmental efficiency must be given special priority. These solutions include for example out of the Group's services the application of audio and video conference. Although in 2004 Matáv Rt. saved by 3.35% less travel in km than in 2003 with the use of video conference, but the almost 300,000 km vehicle mileage and the resultant emission of pollution could be avoided which means higher CO<sub>2</sub> equivalent emission than in the previous year due to the change in the vehicles' average consumption.

According to the table virtual meetings at Matáv Rt replaced 62.77 tones of CO<sub>2</sub>, which is a neglectable, 0.3% increase regarding the previous year.

Matáv employs teleworkers. The number of teleworking employees increased almost by 6% against the previous year. Out of the teleworkers 5% work one day per week at the workplace, 80% two days, 14% three days and 1% four days – like in the earlier years. Experiences continue to be positive: both the managers and the teleworkers think that this form of working is useful and efficient. Another solution to replace travel is e-learning whereby employees can attend a course in a given time interval at their workplace on their own computer and the examination results are registered by electronically filling in a test. So the employees can save the time for travel to the education site and the saving of polluting material caused by travel is also significant for the environment.



**Solutions to replace travel**

	2002	2003	2004 <sup>6</sup>
Saved km	278,921	304,976	294,742
Average consumption [l/100 km]	8.8	8.3	8.6
Saved fuel [l]	24,545	25,313	25,348
Diesel oil / petrol ratio	55% / 45%	54% / 46%	55% / 45%
Saved diesel oil [l]	13,500	13,922	13,961
Saved petrol [l]	11,045	11,391	11,423
CO <sub>2</sub> equivalent [t]	60.69	62.59	62.77

<sup>6</sup> Calculation of CO<sub>2</sub> equivalent: saved km divided by the average consumption [l/100 km] calculated with the average vehicle mileage [km] and the consumed fuel [l] results in the saved fuel [l]. The saved fuel [l] is assigned to diesel oil and petrol in proportion to usage [l] results in the saved diesel oil and petrol [l]. The saved diesel oil and petrol quantities multiplied by the UNEP CO<sub>2</sub> conversion factor results in the CO<sub>2</sub> equivalent in tons. Earlier years' figures were corrected with this calculation method.

## Carbon-dioxide indicator

CO <sub>2</sub> load from energy consumption (tons)			
	2003	2004	Change against previous year (%)
<b>Direct energy consumption</b>			
Natural gas	16,772	16,839	+0.39
Fuel	16,711	16,217	-2.96
<b>Indirect energy consumption</b>			
Electric energy	77,381	80,311	+3.78
<b>Impact from total energy consumption</b>	<b>110,864</b>	<b>113,367</b>	<b>+2.25</b>

Factors, measurement units used for the calculation:			
	Unit of measure	Conversion factor	CO <sub>2</sub> conversion factor (UNEP)
<b>Direct energy consumption</b>			
Natural gas	m <sup>3</sup>	9.486 kWh/m <sup>3</sup>	0.0002020 t CO <sub>2</sub> / kWh
Fuel (diesel oil)	l		0.00268 t CO <sub>2</sub> / l
Fuel (petrol)	l		0.00222 t CO <sub>2</sub> / l
<b>Indirect energy consumption</b>			
Electric energy	MWh (kWh)		0.000362 t CO <sub>2</sub> / kWh

CO <sub>2</sub> load from paper usage			
	2003	2004	Change against previous year (%)
Paper usage (new paper) [tons]	15,426,134	11,892,992	-22.9%
Paper usage (recycled) [tons]	0	60,878	n.a.
CO <sub>2</sub> emission from paper usage (new paper) [tCO <sub>2</sub> ]	15,088.67	11,632.82	-22.9%
CO <sub>2</sub> emission from paper usage (recycled paper) [tCO <sub>2</sub> ]	0	57.41	n.a.
<b>CO<sub>2</sub> emission from paper usage (total) [tons]</b>	<b>15,088.67</b>	<b>11,690.23</b>	<b>-22.52%</b>

Total CO <sub>2</sub> load (tons)			
	2003	2004	Change against previous year (%)
Load from total energy consumption	110,864	113,367	+2.25%
Load from total paper usage	15,088.67	11,690.23	-22.52%
<b>Total CO<sub>2</sub> load resulting from energy and paper consumption</b>	<b>125,952.67</b>	<b>125,057.23</b>	<b>-1%</b>

In the following table we converted the amounts of energy utilized converted into CO<sub>2</sub> emission according to the UNEP (United Nations Environmental Programme) guidelines published in 2000 about greenhouse gas indicators and the conversion factors contained therein. The CO<sub>2</sub> emission derived from the energy consumption of the Matáv Group increased from 2003 to 2004 with 2.25%.

The CO<sub>2</sub> emission generated through change in paper usage by the Group decreased with 22.5%.

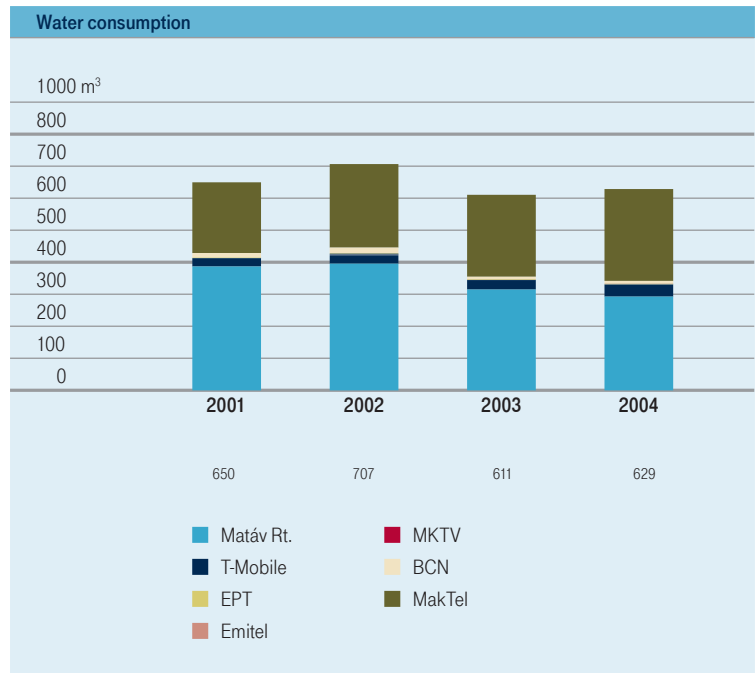
For these calculations also the data published by UNEP (United Nations Environmental Programme) has been used. Emission factor for electric energy production: 0.000362 [tCO<sub>2</sub>/kWh] and the data found on the KÖVET's tele-education material, published in the Internet. According to this energy needed for production of new paper: 13.9 GJ/t > 3861 kWh/t, energy needed for production of recycled paper: 13.4 GJ/t > 3722 kWh/t). With regard to the last years these figures were corrected with a 0.7 correction factor calculated on the basis of the data found on Dunapack's website with the assumption that the energy reduction data published by Dunapack are generally applicable in the entire area of paper production. So the energy needed for the production of new paper was calculated with 2702 kWh/t, the energy needed for the production of recycled paper with 2605 kWh/t. The change in the total CO<sub>2</sub> emission resulting from the Group's energy consumption and paper usage is -1%.

## Water consumption

The Group does not use industry water for the production of its services so the water consumption addressed below was exclusively for social purposes. This impact is not significant so it is addressed here only for completeness, and for keeping global problems in consideration. Consumption at Group level slightly rose due to the growing number of sites of some member companies and the new T-Mobile headquarters construction works. Consumption increase was found at T-Mobile (37%), BCN (14%) and MakTel (12%). Consumption was significantly decreased by Ept (66%) and Matáv Rt. (6.9%) due to headcount reduction. Consumption by Emitel and MatávKábelTV remained at 2003 level.

The following diagram clearly shows that the two largest member companies – Matáv (293,000 m<sup>3</sup>) and MakTel (287,000 m<sup>3</sup>) account for the largest share in total consumption.

In the assessment the water consumption in rented offices has not been taken into consideration as this data is not available. So, Cardnet and Axelero consumption is not included. The water consumption of Egertel is included by Matáv Rt's consumption data.



## Biodiversity

Provision of infocommunication services places only little load on the environment, but since the service area covers the entire territory of the country including protected nature reserves working on these areas is unavoidable. Before working in nature reserve areas network planners must take into consideration the opinion of conservationists in each case which they can learn on preliminary harmonization meetings, and in case it is reasonable they also must conduct an impact analysis for the permission.

Significant new fixed-line network construction is not expected any more, but the existing networks are continuously upgraded to new technologies and to achieve the quality service standard.

Provision of services requires accommodation of personnel and technical equipment. The table shows the change in total site area against the previous year.

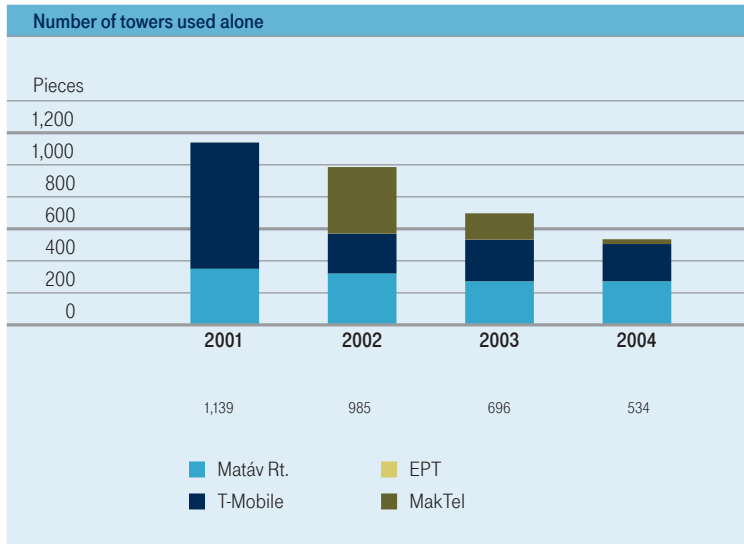
**The Group's total site area compared to 2003 figures**

Member company	2003 (m <sup>2</sup> )	2004 (m <sup>2</sup> )
Matáv Rt.	717,037	691,436
T-Mobile Hungary Rt.		614,048
Ept Rt.		1,865
Emitel Rt.	21,115	21,115
Axelero Rt.	5,500	5,500
MatávKábelTV Kft.	3,900	4,000
MatávCom Rt.	12,268	12,268
MakTel		120,295
<b>Net Storey Area (NSA)</b>	<b>1,017,531</b>	<b>1,470,527</b>

### Impact on landscape

It is an important goal for the Group to preserve as much as possible the original condition of the landscape and the environment when investment projects are carried out and that the constructions fit in the best with the given landscape, city or town.

According to the possibilities – where technically and financially reasonable – the technical area make s efforts to create the least impact on the landscape through construction of underground cable networks and in some cases relocation of existing aerial cables to under ground.



Provision of T-Mobile's services requires the use of antenna towers. The member company continued also in 2004 the process started in the previous year with the installation of towers fitted into the landscape – as allowed by financial considerations. It is important to make efforts to ensure that more than one service provider uses jointly the same towers so that construction of less towers is required. In 2004 the number of towers used alone decreased by 23% which meant 534, is shown on the following diagram, while the number of jointly used towers were 153.

Matáv Rt. reduced by 21% the number of base stations, that also contribute to the impact on the landscape, with the replacement of some wireless systems. T-Mobile showed 8.5% increase due to its larger service area.

The presence technical equipment in nature reserve areas and natural parks is unavoidable since the application of modern infocommunication technology is required also there to make available for example applications that help scientific research, such as monitoring systems and cartographic applications, etc. It is important to highlight the opportunity of fast connection between the authorities and remote sites and towns for the sake of avoiding disaster, or fast help in case of accidents, recovery and prevention works and successful detection of crimes. The internet enables researchers to publish scientific studies and education materials. The publication of tourism information, education and information materials can draw the attention to the values of a given area.

The infrastructure used for the Group's fixed-line services consists of networks. In 2004 the Group possessed 162,643 km overhead networks, that is by 2.4% more than in 2003 as a result of minor developments. As it was mentioned above cables were laid under ground where technically feasible and financially reasonable. MakTel has the longest overhead cable network since the geographic parameters of the country do not allow everywhere underground network construction.

The length of the underground cable network is 106,840 km that is by 2.6% longer than in the previous year. Due

to the higher demand for internet and cable television services the rise in the length of underground optical cable network is particularly high: 4.3%.

## Emissions

### Air pollution

The Matáv Group does not emit air polluting materials since its service provision technologies do not require the use of fossil fuel.

The emission of gas boilers used for heating and production of hot water at the sites is controlled on an annual basis. The emission figures – CO, NO<sub>x</sub>, which figures are so low that the frame of the report does not include it – of the boilers used with a power specified in relevant decrees are reported to the local environmental authorities. Old obsolete equipment were replaced in investment projects carried out over the last years with modern equipment with high efficiency and low emission of polluting materials. So it can be stated that only modern boilers meeting today's requirements are used in the Matáv Group's buildings.

The technologies used for the provision of the Matáv Group's services requires high volume of electric energy. To ensure continuity of service emergency diesel generators are in place in the exchanges that may not be used for more than 50 hours per month so their emission is not significant and are not required by the relevant decrees to be registered.

The use of materials depleting the stratospheric ozone layer should be mentioned here, of which use has been limited according to the relevant decrees and replaced with environment-friendly materials. Such materials are halon that is used in fire-extinguishing equipment and freon that is used in air-conditioning equipment. It is necessary to use fire-extinguishing equipment in the technological rooms due to the increased risk of fire and to use air-conditioning equipment to ensure the optimal temperature for the operation of the technical equipment. According to relevant decrees significant quantity of halon was removed from service by Matáv Rt. with high expenditures in 2004. Air-conditioning equipment were continuously replaced with equipment operating with environment-friendly materials. With these efforts the potential environmental impact was reduced significantly through air pollution that can be generated by the operation of equipment. There is no ozon depleting emission into the air.

This issue includes also the operation of moving air polluting sources (vehicles). In addition to the decree

regulating the pollution to air of vehicles the transportation units of the organizations regularly conduct such audit.

### Soil, surface and underground water pollution

The Matáv Group does not use industry water for technological purposes, water is used exclusively for residential purpose from the mains, so industry sewage water is not generated, the residential sewage water is conducted by the public sewage network. In the areas where this is not feasible due to lack of sewage network, leakage-free underground clarifying tanks are used. These sites are all unmanned centers where there is personnel only in certain cases, and maintenance staff for the time of repair, so the generated sewage water quantity is minor. The exception is Matáv Rt.'s site at Budaörs where a sewage purification plant with activated sludge treatment is in place. Appropriate operation of the equipment is regularly controlled according to the relevant decree with water chemical and bacteriological tests.

To ensure continuous service provision the Matáv Group uses emergency diesel generators. The fuel used for these equipment is stored in underground tanks.

Underground fuel tanks are a potential threat to the soil and underground water. The IKM decree regulating the safe operation of tanks requires the use of double-wall tanks with leakage alarm.

Matáv Rt. has been continuously restoring and replacing the tanks, this project is approaching completion. In 2004 7 oil tanks were restored, commissioning plans for 9 tanks were elaborated and at 12 sites the underground tanks were replaced with day-tanks installed in a closed room with less impact on the environment.

In line with regulations when restoration works are performed soil and ground water tests are carried out to detect potential pollution. When pollution is detected the soil is restored. In 2004 such kind of pollution did not happen.

### Noise and vibration load

The impact of two potential noise sources needs to be considered in connection with service provision. The first is the noise impact of outdoor air-conditioning equipment. These equipment produce significant noise load when incorrectly operating, such defects can be eliminated through continuous maintenance and control. Over the last years obsolete equipment were replaced with modern low-noise equipment and this way the risk of significant noise impact was significantly reduced.

The second is diesel generators used to produce electric energy. These engines were installed indoor and noise insulation was employed in all cases to eliminate excessive disturbing noise impact.

## Electromagnetic fields

Out of the Matáv Group member companies electromagnetic radiation affects primarily T-Mobile that provides mobile communications service.

In 2004 the number of mobile subscribers increased by almost 9% and the total number of subscribers exceeded 8.7 million. While these subscribers are served at high standard on the GSM networks in December 2004 UMTS licenses were granted to the Hungarian carriers. With these licenses in hand a new network will be constructed in the next years to offer new products and services. The new installation works and statutory regulatory issues will probably enhance the interest of communities in electromagnetic fields that will raise the importance of elaborating a corporate strategy for treatment of this issue.

The Hungarian limits on electromagnetic fields were determined according to the guide-lines of ICNIRP (International Commission on Non-Ionising Radiation Protection) that is based on recommendations made by most European countries and Recommendation 1999/EC/519. of the European Commission. As a result of the new Hungarian decree (63/2004. (VII.26.) ESzCsM) entered into force in August 2004 the legal situation in Hungary complies with the EU regulation on electromagnetic fields.

While T-Mobile ensures a level that is much below the limits determined according to the ICNIRP guide-lines both for handheld phones and mobile base stations, including the staff and the customers, the company is making efforts to further strengthen information and dialog with the concerned parties about this issue, as it is requested in the WHO EMF project (on electromagnetic fields) recommendations. So electromagnetic field related issues are treated in T-Mobile International's EMF policy, the "EMF Policy Recommendations" highlighting transparency, information supply, support to and participation in research.

To support these preventive measures T-Mobile is currently approving the Group-level EMF policy. (Further information about the EMF Policy Recommendations is available on T-Mobile International's website.)

To implement this policy T-Mobile Hungary efficiently manages complaints and requests of information. For this purpose people were assigned within the education area with responsibility for management of these issues and all employees are informed about electromagnetic field related issues at the mandatory orientation training. When necessary T-Mobile's compliance with statutory limits are controlled and tested by independent testing bodies. In 2004 tests were requested in 39 cases by municipalities

and 41 cases by customers and these were fulfilled and all resulted in levels below the limit for electromagnetic fields.

Additionally in 2004 a proactive communication strategy and plan targeting all concerned parties was elaborated by the company. Accordingly handbooks, fliers and other information materials were produced and are continuously updated. To make information about SAR figures on mobile phones available these data are shown on the packaging of phones in the list of information provided by the manufacturer.

Before the installation of any base station or tower T-Mobile holds consultation and cooperates with the concerned parties. When requested a residential consultation is held with the involvement of all concerned parties to reach an agreement. Additionally T-Mobile is making efforts to minimize the impact of base stations on the landscape. For this purpose the majority (more than 80%) of T-Mobile's sites with tower are jointly used which is among the highest figures in Europe.

Finally, all T-Mobile national companies are committed to support independent research that expands our knowledge about the impacts of electromagnetic fields. For this purpose T-Mobile International sponsors, in conjunction with carriers in the United Kingdom and Germany, an international research program since 2002 with more than 20 million euro and through GSM Association with additional 6 million euro. With this T-Mobile International is one of the largest sponsor of researches worldwide.

# Waste

## Hazardous waste

After a 16% decrease in the previous year the quantity of hazardous waste considerably increased by 65.6% which meant in amount 473,469 kg. The reason for the rise was removal of the soil generated through soil restoration carried out in 2004 which was 62,600 kg and 13.2% of the total amount, and replacement of obsolete open-cell acid batteries.

At Group level the quantity of recycled hazardous waste grew by 17.9% against 2003 which meant 281,780 kg, can be signed as a good result. The biggest ratio of the recycled hazardous waste arised from technology batteries in amount of 206,570 kg. This means 43.62% of the total hazardous waste generated by the Group.

Out of the member companies high quantity of hazardous waste was generated by Emitel, 3,541 kg. As mentioned earlier the reason for the increase at Group level was the replacement of high number of open-cell lead batteries with new environment-friendly jelly-filled batteries with longer life. With this investment project Emitel significantly reduced load on the environment.

MatávKábelTV tripled the quantity of collected hazardous waste that is explained by the scrapping of obsolete IT facilities.

In 2004 Matáv Rt. carried out soil restoration and made major investment projects to replace obsolete batteries so the quantity of hazardous waste was 339,000 kg, which means a 139% increase. More than half of the quantity generated in 2004 was waste battery which were fully recycled and 17% were polluted soil generated through restoration.

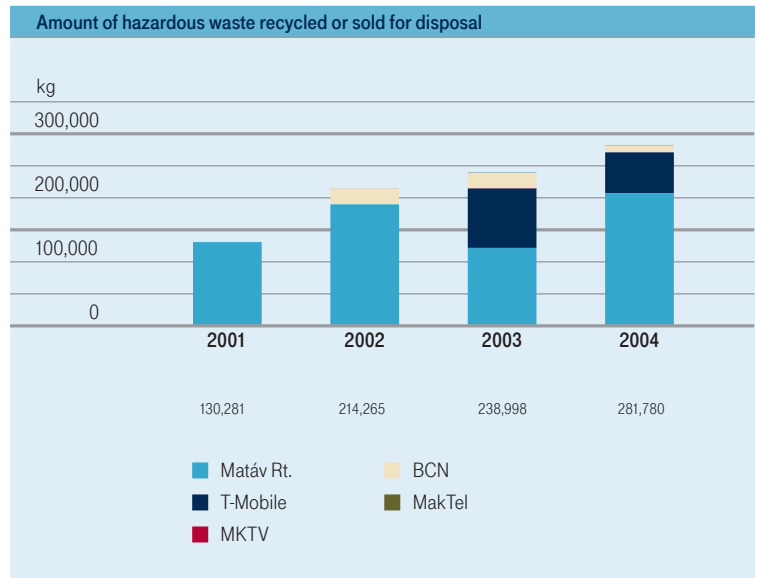
Growth was found also at Axelero (14%) although this is not significant compared to the above Group members, and the generated quantity was fully recycled.

BCN reduced the quantity of its hazardous waste by 55% and the total quantity was recycled. T-Mobile also achieved decrease (17%), but less hazardous waste was recycled than in the previous year (recycling rate fell from 87% to 73%) so the drop was accompanied by a shift to non-recyclable waste.

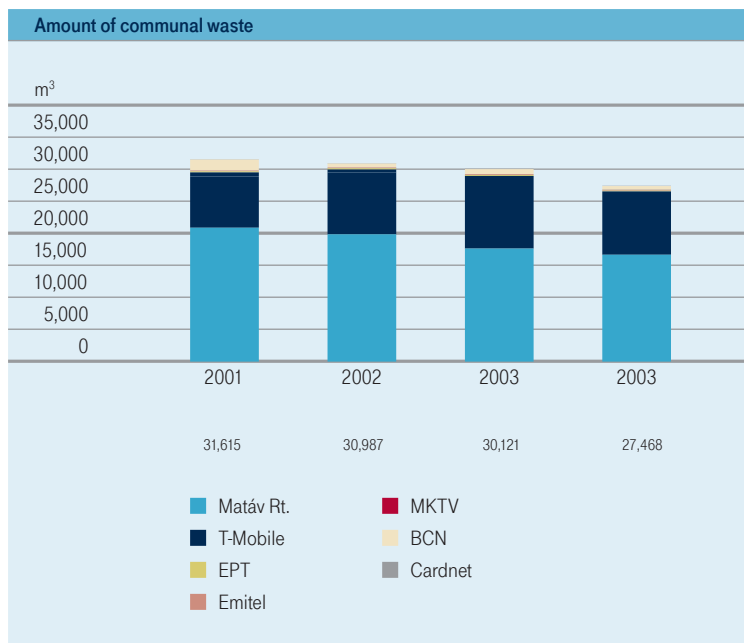
Cardnet's hazardous waste quantity remained unchanged compared to previous years.

The hazardous waste of Egertal and EPT is included by Matáv Rt's data.

The hazardous waste is handed over in every case to professional companies with permission for handling or recycling it. Handling can happen by incineration or landfilling depending on the type of the waste.







### Communal and paper waste

The Matáv Group's communal waste fell by 8.8% against 2003, was 27,468 m<sup>3</sup> which confirms the reasonability of efforts to ensure selective waste collection.

In the overwhelming majority of T-Mobile's sites full selective communal waste collection is used, the other member companies collect paperwaste selectively. In 2004 Matáv Rt. elaborated its waste management concept that is used to make preparations for the implementation of full selective waste collection in the next year.

Out of the member companies Emitel's communal waste quantity remained unchanged. MatávKábelTV is involved as new data supplier due to their enlarged service area (so far the rent of buildings included the cost of removing communal waste). The other member companies achieved differing decrease rate: BCN 28%, Ept 19%, T-Mobile 12% (in line with the rising selective collection rate) and Matáv Rt. 5.4%.

The Matáv Group's communal waste are disposed of through transport to a depot by the public utility company that reports the quantity of waste to the environmental authorities.

Selective paper waste collection dropped by 8% due to the significant headcount reduction at the Group and increasing use of e-applications.

Significant rise was achieved by Ept (36%) and T-Mobile (35%). The other member companies reported different decrease rates in 2004 against 2003: Emitel 70%, Matáv Rt. 54%, Maktel 24%, MatávKábelTV 23%.

Communal waste is handled by companies with valid permission in every case, which can happen by incineration or landfilling.

T-Mobile's selective waste collection in 2004 is shown on the table.

At the comparison of companies regarding communal waste data of Axelero was not taken into consideration (because the communal waste management fee is included by the rental fee in the rented offices and can not be monitored).

**T-Mobile's selective waste collection**

	2003	2004	Change %
Selective paper waste (excluding scrapped confidential documents), kg	24,000	38,661	+61%
Bottles, kg	3,945	4,895	+24%
Pet bottles, kg <sup>7</sup>	-	7,751	+174%
Plastic, kg	2,954	370	-
Mixed metal, kg	-	60	-

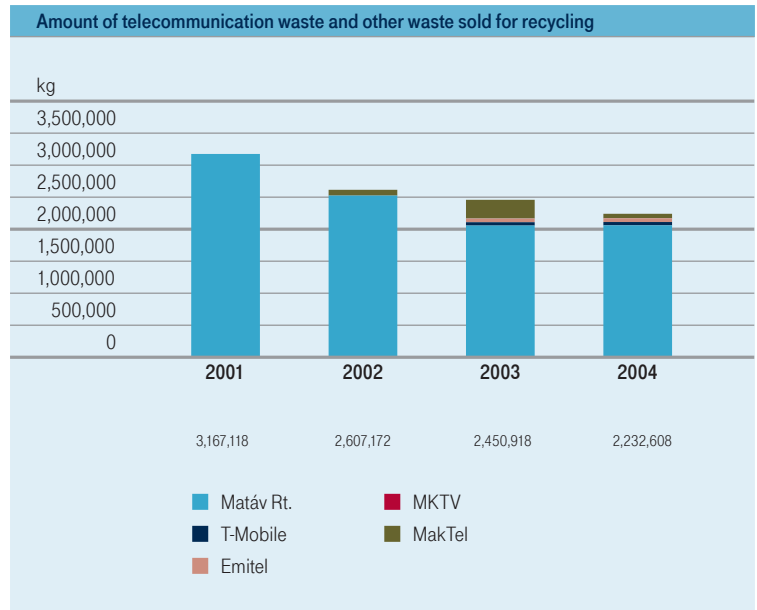
<sup>7</sup> In 2003 selectively collected Pet bottles were not recorded separately, but were shown together as plastic waste, so this year although we show them separately, we treat them together to determine the percentage.

### Telecommunications waste

The fast development of telecommunications technologies force the member companies to make developments and replace obsolete equipment, networks and facilities. The replaced facilities are sold to licensed companies to ensure reuse or recycling of facilities classified as waste. The amount of telecommunications waste was 2,232,608 kg in 2004.

The largest quantity of telecommunications waste is generated by Matáv Rt., more than 2,000 tons. The diagram clearly shows that after a huge drop in 2001 from 2002 a slow almost linear decrease is experienced and this trend can be prognostised also for the following years.

On the diagram only those companies are included which generates telecommunications waste. Like that Axelero and Cardnet, based on their activity do not generate such type of waste. The data of Egertel, EPT and BCN are included by Matáv Rt's data.



# Abbreviations

Abbreviations	
Abbreviation	Meaning
GRI	Global Reporting Initiative
EC	Economic Performance Indicators
EN	Environmental Performance Indicators
LA	Labour Practices and Decent Work
HR	Human Rights
SO	Society
PR	Product Responsibility
PA	Providing Access
IO	Internal Operations
TA	Technology Applications
AC	Assessment Center
ADSL	Asincron Digital System Line
AIESEC	Association Internationale des Etudiants en Sciences Economiques et Commerciales
AmCham	American Chamber
ÁSZF	Általános Szerződési Feltételek (General Contract Conditions)
BÉT	Budapesti Értéktőzsde (Budapest Stox Exchange)
CEERA	Central European Environmental Reporting Award
CEO	Chief Executive Officer
DC	Development Center
DECUS	DEC User Society
DG	Directorate General
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortization
EF	Emberi Erőforrás (Human Resources)
EFQM	European Foundation for Quality Management
Eht	Elektronikus hírközlési törvény (Electronic communication act)
EKR	Egységes Kompetencia Rendszer (Complete Competency System)
EMF	Electromagnetic Fields
ENSZ	Egyesült Nemzetek Szervezete (United Nations)
ETNO	European Telecommunications Network Operators' Association
ETSI	European Telecommunications Standards Institute
EURESCOM	European Institute for Research and Strategic Studies
EWSD	Electronic Worldwide Switch Digital
GKI	Gazdaságkutató Intézet (Economic Research Institute)
GVH	Gazdasági Versenyhivatal (Economic Competition Office)
ICNIRP	International Commission on Non-Ionising Radiation Protection
ICT	Information and communication technology
IHM	Informatikai és Hírközlési Minisztérium (Information and Communication Ministry)
IKM	Ipari és Kereskedelmi Miniszter (Industry and Trade Minister)
ILO	International Labour Organization
INMS	Institute for National Measurement Standards
ISDN	Integrated Services Digital Network
ISO	International Standardization Organization
ITU	International Telecommunication Union

Abbreviations	
KKE	Kelet Közép-Európa (Eastern Central Europe)
KSH	Központi Statisztikai Hivatal (Central Statistic Office)
KÜT	Központi Üzemi Tanács (Central Organisational Council)
KvVM	Környezetvédelmi és Vízügyi Minisztérium (Ministry of Environmental Protection and Water Management)
MBA	Master of Business Administration
MC	Management Committee
MEOSZ	Mozgássérültek Egyesületeinek Országos Szövetsége (National Alliance of Associations of People with Disabilities)
MERCER	Marsh & McLennan Companies
MGYOSZ	Munkaadók és Gyáriparosok Országos Szövetsége (National Alliance of Employers and Industrials)
MHKK	Csoport környezetvédelmi koordinációs osztály (Group Environmental Co-ordination Department)
MINŐK	Magyar Internetező Nők Egyesülete (Association of Hungarian Internetusing Women)
MISZ	Magyar Innovációs Szövetség (Hungarian Innovation Alliance)
MNB	Magyar Nemzeti Bank (Hungarian National Bank)
MSzT	Magyar Szabványügyi Testület (Hungarian Standardization Body)
MTA	Magyar Tudományos Akadémia (Hungarian Scientific Academy)
MTE	Magyarországi Tartalomszolgáltatók Egyesülete (Hungarian Contentproviders' Association)
NEK	nettó elkerülhető költség (Net avoidable cost)
NGO	Non-Governmental Organizations
NHH	Nemzeti Hírközlési Hatóság (National Communication Authority)
NSA	Net Storey Area
NYSE	New York Stock Exchange
OMIKK	Országos Műszaki Információs Központ és Könyvtár (National Technical Informational Center and Library)
OPQ	Occupational Personality Questionnaire
PC	Personal Computer
PSTN	Public Switched Telephone Network
RF	Radiofrequency
SAM	Sustainable Asset Management
SAR	Specific Absorption Rate
SGS	Société Générale de Surveillance SA
SINOSZ	Siketek és Nagyothallók Országos Szövetsége (National Alliance of Deaf and Hardly Hearing People)
SOX	Sarbanes-Oxley törvény (Sarbanes - Oxley Act)
SSC	Shared Service Center
TÁVVSZAK	Távközlési dolgozók szakszervezete (Union of Telecommunications Employees)
TCG	Telekom Crne Gore
TÉT	Távközlési Érdekegyeztető Tanács (Telecommunications Interestharmonising Council)
TM	Teljesítménymenedzsment (Performance Management)
UMTS	Universal Mobile Telecommunications System
UNEP	United Nations Environmental Programme
ÜB	Ügyvezető Bizottság (Management Committee)
VKI	Világgazdasági Kutatóintézet (World Economic Research Institute)
WebEDI	Web Electronic Data Interchange
WEEE	Waste of Electric and Electronic Equipment
WHO	World Health Organization

# Certification

**Deloitte.**

## VERIFICATION LETTER

Deloitte has completed the verification of Magyar Telekom Group's report titled "Annual Sustainability Report – 2004". The assessment process and the verification took place pursuant to the Global Reporting Initiative (GRI) Sustainability reporting guidelines.

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

Our review consisted of the following:

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

### Our conclusions

Group prepared its second sustainability report for the year 2004, 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.

Data transferred from the annual financial report 2004, audited on February 21, 2005., agree with those presented in the Sustainability report. The presented social and environmental costs and expenditures were appropriately supported. For accuracy of them Group's management assumes responsibility in the Management Representation Letter.

The sustainability indicators shown in the report give a true and fair view of the Group's activities.

The GRI and telecommunication sector 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 the Group's 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.

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 the 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:

- in order to comply with the principles of comparability and completeness, we suggest that the indicators used be expanded and broken down to countries/regions. All general indicators as well as the various sector specific telecommunications indicators should be extended to cover each member of the Group,
- we suggest that the designation of the unit responsible for the execution of sustainability coordination tasks shall be aligned with its role,
- we suggest - with respect to the "Stakeholders" chapter - that emphasis should be placed on the selection process of the stakeholders and communications with them, and all other information associated with stakeholders shall be included in the chapter on "Activities in the Light of the Sustainable Development Approach".



Dr. Judit Ladó  
Partner

Deloitte



Róbert Reiniger  
Environmental Director

Budapest, September 26. 2005.

**Audit. Tax. Consulting. Financial Advisory.**

Member of  
Deloitte Touche Tohmatsu

A Deloitte Touche Tohmatsu egy svájci "Verein", és mint ilyen, sem a Deloitte Touche Tohmatsu, sem a cégcsoporthoz tartozó társaságok nem tartoznak felelősséggel egymás tetteiért vagy mulasztásaiért. Minden egyes társaság különálló, független jogi személy, amely "Deloitte", "Deloitte & Touche", "Deloitte Touche Tohmatsu", esetleg más név alatt működik. Az itt bemutatott szolgáltatásokat az egyes csoportbéli cégek nyújtják, nem pedig a Deloitte Touche Tohmatsu Verein.

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