



# Sustainability Report 2006

Common goals, community successes

Based on GRI G3 guidelines

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# Introduction

## Letter from the CEO

### Dear Reader,

It has become a tradition in recent years to provide a sustainability report of our last year's activities and achievements and thus comprehensive transparency in a structure that rests on three pillars: economy, society and the environment. This year's sustainability report has been drawn up in compliance with guidelines of the third generation Global Reporting Initiative (GRI G3).

Our vision is that, as the leading company in the telecommunications and information technology industry in Hungary, we network society for a better future through the highest quality, efficiency and innovation, to the benefit of our customers. In every respect. This endeavour of ours is in harmony with the principle of sustainable development. The priorities we have identified in our business strategy are confirmed in all areas by our approach to sustainability. For me, all this clearly translates into the conviction that this kind of approach is indispensable for our long-term success. I trust you will be equally convinced of this by reading the contents of this sustainability report.

Apart from the fact that our stable performance is important in terms of our operation and for our investors, it is of equal significance for society as a whole. If we want to add value, first we must create that value. In this respect, too, we can look positively at the year behind us. In the face of powerful competition we managed to retain our leading position in our key business lines. Having achieved our annual targets we increased by 9% our revenues and by 1% our EBITDA.

One of the major milestones of last year was the merger of Magyar Telekom Plc. and T-Mobile Hungary on March 01. The aim of the merger was to set up an integrated telecommunica-

tions company that will bring benefits to our customers, shareholders and employees alike. The first positive impact of the integration made itself felt already in 2006, mainly in the areas of sales and customer retention.

Apart from effective operation legal compliance is also important to us, an indispensable tool for efficient control. Our independent auditor revealed in early 2006 at our Montenegrin subsidiary consulting contracts, which an independent investigation has so far been unable to demonstrate resulted in the provision of service of a value commensurate with the payments made under those contracts. The investigation having been launched in this regard revealed several defects in our control environment. As a response to this, we have implemented and continue to implement several measures to improve internal control and legal compliance.

Our socially responsible approach may only improve if we demonstrate it within the company and our employees are also aware of it. We also realised the need to publish new policies and regulations in order to promote social interests. Therefore, in 2006, we designed and published our Diversity Policy, Social Charter and Code of Conduct.

In order to sensitise the company to the issue of equal opportunities, we launched the "Szabad az Á" film club, in which our employees become familiar with problems of various social groups and can experience these issues by watching the various films and then discussing them.

Our efforts were recognised in 2006 when the Capital City Local Government granted our company the „Including Workplace” Prize granted on an annual basis. The jury emphasised our program series "Family and Job", which helps harmonise life at work and at home through providing atypical forms of employment that are flexibly adapted to the employees'



varying conditions of living, such as integration of disabled people operating at T-Mobile, or standard setting cooperation with employees' interest representations and NGOs.

We have won another recognition, the "Diversity Award" of Deutsche Telecom open for companies spearheading equal opportunity efforts. Our winning application was singled out according to the following four criteria: apart from serving growth and efficiency, the projects introduced reinforce company culture, promote customer guidance among services, and improve service quality. Beyond all this they promote the assertion of diversity and equal opportunities.

In 2006 the "Digital Bridge" program continued at small villages with the aim of providing equal digital opportunities in areas where infrastructure is less developed. Our volunteers visited 72 small settlements by 2006 to demonstrate benefits of the Internet to the local population. It is also in the sphere of equal digital opportunities that T-Mobile's Fix Internet service has been launched providing broadband Internet service based on W-LAN technology to 120 rural areas. The Egálnet initiative has been set up to support NGOs engaged in helping underprivileged social groups. The mission of the program is to help virtual communication and cooperation of the organisations eligible to participate and thus improve their efficiency.

Given the nature of its core business, the company group does not belong to the group of companies that significantly pollute the environment. Irrespective of this, given the imperative of our leading role in social responsibility and business interests, we pay special attention to the protection of the environment. Guided by this imperative we have launched early in the year the Group's Environmental Protection Policy adapted

to the topical environmental protection issues in solving which our company group also intends to participate.

Apart from our efforts to constantly reduce the carbon dioxide emission of our activities (we managed to reduce it by 4.5% from 2005 to 2006), we also help others to do so with the help of our info-communication technology (ICT). In the resulting WWF-ETNO cooperation our group of companies plays a leading role. An outcome of this cooperation has been a bulletin titled "Saving the Climate @ the Speed of Light" demonstrating how dramatic reduction of 50 million tonnes/year of CO<sub>2</sub> emission can be achieved with the help of the widespread use of ICT solutions. In line with earlier organisational changes the structure of certification of environmentally focused systems has also changed, which resulted globally in the growth of areas "covered" by environmental management systems based on ISO 14001 (EMS). In addition, EMS has been implemented in additional subsidiary companies of the group.

Sustainability, in our interpretation, is the harmonisation of social, economic and environmental interests. According to this, in our business decisions we try to integrate these three elements, and utilise the synergies between them. Survey results corroborate the correctness of our sustainability approach. Magyar Telekom won first place in the Terra Idea survey of July 2006, which compared leading Hungarian companies' Internet communication of corporate social responsibility (CSR) issues. Another indication of our leading role in social responsibility has been our first place ranking in the Accountability Rating Hungary 2006 index.

The public has recently become increasingly aware of the sustainability concept, which poses potentials as well as risks for us. Sustainability awareness is a potential in the sense that once an inclusive community is created, the company's sustainability achievements and leading role will translate into a driver of long-term business success. Yet it also poses a risk, as our competitors will also gradually recognise the potentials inherent in sustainability and will try to achieve competitive advantages in this regard, too.

Sustainability is a common goal to us all. Therefore it is extremely important that communication should not be one-sided and that we receive feedback from all constituents. It is only in this way that long-term economic, environmental and social success can be ensured.

I hope that this year's report will also contribute to the communication of information related to sustainability and generate a dialogue while setting an example through the demonstration of our activities and ideas for companies that are only now becoming familiar with the sustainability concept. We trust that ICT potentials will open up new paths towards sustainable development.

Budapest, August 28, 2007.

Sincere regards,

Christopher Mattheisen  
Chairman-CEO

## 2.2. About the Report



After last year's (2005) Social and Environmental Report from 2006 we publish a Sustainability Report again that completely presents the Group.

When preparing the Report we aimed at compliance with the GRI

G3 Guidelines to ensure the most transparent, complete and auditable Report. All in all we used GRI Indicators in level B+.

When disclosing information we placed emphasis on completeness, importance and the sustainability context. For this reason the Annual Report covers in geographic terms Hungary, Macedonia and Montenegro; in terms of content the service activity along the three pillars of sustainability. The Report does not include the data of member companies whose activity is not important in terms of sustainability and the data of newly acquired companies whose sustainability impacts will be analyzed later. In some cases we provide information only about the Company, because member companies can not provide satisfactory information on the issue. We keep on working to improve supply of data.

T-Mobile's integration in 2006 resulted in a significant change in Magyar Telekom Plc.'s size and data which however resulted in a change in the structure of the Group but not in its size. This should be taken into consideration when comparing figures with earlier years' figures.

When preparing the Report we aimed at disclosure of information where quality and reliability is ensured through compliance with the guidance on accuracy, balance and comparability. However in some cases information con-

nected with practices earlier applied and well proven are repeated due to their unchanged importance and for easier use of the Report. In some cases when it is evident links refer to actual data. We believe and hope that with the annual publication, acting according to the requirements for clarity and timeliness, we make available such facts and data on the Group which help answer questions raised and find necessary information. To ensure credibility we engaged again an external independent third party. This year, as in 2005, the Hungarian Association for Environmentally Aware Management (KÖVET-INEM Hungária) audited the report and made a declaration on credibility of the information contained. The relevant certificate is shown in the Chapter 'Certification'.

Classification of data shown in the Report (by period and source):

- economic data on the financial year 2006 (the same as calendar year) were taken from the Annual Report
- social data were taken from the Annual Report and data supply within the Group
- environment related data were taken from the process of regular data supply within the Group

The leaders of the organizations supplying the data assumed liability for the accuracy of data shown in the Report.

When the 2006 Sustainability Report was prepared we used the structure of the 2004 Report, retained the objective to use classification according to the three pillars of sustainability, to ensure completeness in geographic terms and in respect of the data disclosed even with the difficulties resulting from change in the structure and composition of the Group during the three-year period generally used for presentation of data.


### The Chapters of the Report cover the following items:

GRI G3 Indicators	Report elements in core additional and telecommunications specific indicator categories
Introduction	Chairman-CEO's letter, introduction to the Report.
The Group	Presentation, company history, portfolio; Group ownership structure, Group organizational structure, LoBs, member companies, information about the topmanagement, Management Committee, Board of Directors, Supervisory Board.
Policies, strategies	The Group's approaches on which our activity is based in the fields of economy, society and environment.
Management systems	The Group's processes – corporate governance, management systems (quality and environment management) – which are one of the pillars of reliability of the Report.
Stakeholders	Information connected with market and non-market stakeholders.
Activities in the light of development approaches	This section ensures evaluation of our performance; classification by sustainable economic, social and environmental aspects.
List of abbreviations	Explanation of abbreviations used in the text.
Certification	Certificate issued by an independent third party to reflect credibility.

Being an innovative infocommunication Group – that considers corporate social responsibility a key task – and a key economic player we assumed to set and implement goals serving the interests of future generations too.

We publish the annual Sustainability Report to satisfy the interest of all – external and internal – stakeholders.

Our Report is published primarily on the Internet (dematerialization), but, on the basis of previous years' experience, we make it available upon request of our stakeholders also in paper-based form in a limited number (about 200 copies).



Éva Somorjai  
Chief Human Resources and Legal Officer  
Senior Executive acting on behalf of the MC in  
connection with the Group Sustainability Strategy

We hope that you will share with us the thoughts that came to you while reading the Report to directly contribute not only to continuously improving the quality of the Report but also to shaping the sustainability activity of the Group.

It is important for us to get to know the opinions of all parties whether they are positive or negative.

For this reason we welcome all proposals, opinions, contacts and questions at the following addresses:

(e-mail: [fenntarthatosag@telekom.hu](mailto:fenntarthatosag@telekom.hu))



Katalin Szomolányi  
Leader of Corporate Sustainability Group  
Professional Supervisor of the Group  
Sustainability Strategy





## The Group

### 3.1 Introduction

Magyar Telekom Group holds a leading position in all segments of the telecommunications market in Hungary. The Group members and thereby the full portfolio of the telecommunications market in Hungary is presented on the following website: <http://www.magyartelekom.hu/english/aboutmagyartelekom/main.vm>

The member company's area of operations: Hungary, Macedonia, Montenegro, Romania, Bulgaria and the Ukraine. The headquarters of the Group is located in Budapest (I. Krisztina krt. 55).

Further information about the Group's products and services are available on the company's website: <http://www.magyartelekom.hu/english/services/main.vm> and information is supplied to partners also in customer care service offices.

Further information about the Company's history is available on the following website: <http://www.magyartelekom.hu/english/aboutmagyartelekom/companyhistory.vm>

### 3.2. Group ownership structure

Magyar Telekom's ownership structure by percentage in 2006 (as shown in the company's Share Register on December 31):

Table 1 – Group ownership structure

MagyarCom Holding GmbH*	59.21%
Foreign institutions	33.65%
Other	1.66%
Domestic institutions	3.70%
Domestic individuals	1.24%
Treasury shares	0.24%
Local governments	0.30%

\*Gesellschaft mit beschränkter Haftung

Information about Magyar Telekom's shareholders is available on the following website: <http://www.magyartelekom.hu/english/investorrelations/shares/ownershipstructure.vm>



### 3.3. The Group's organizational structure

Magyar Telekom Plc. and T-Mobile Hungary Ltd. were merged as of March 1, 2006. As a result of the merger an integrated telecommunications company was created that offers palpable benefits to customers, shareholders and employees.

Magyar Telekom Group's activity covers three business fields: wireline services, mobile communications and services provided to business customers.

The Group's organizational structure shown in Figure 1 and the list of major member companies and associated companies is available on the following website: <http://www.magyartelekom.hu/english/aboutmagyartelekom/companygroup.vm>

#### 3.3.1. The Group's LoBs in 2006

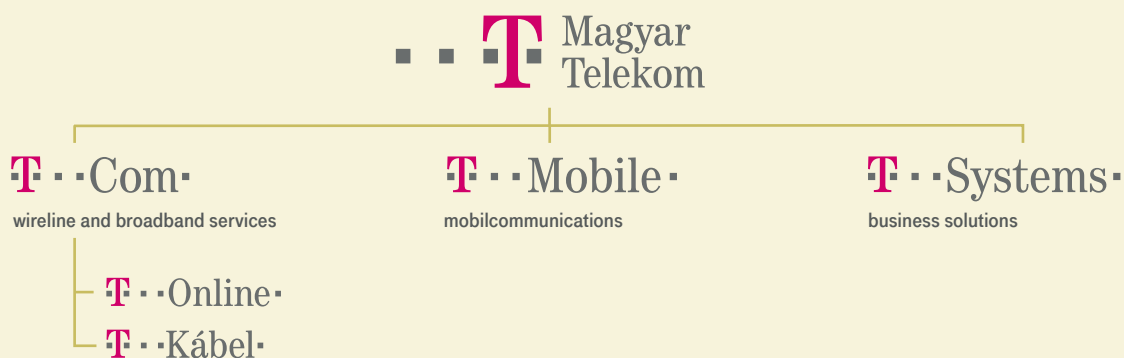
The LoBs managing the Group's core activities – Wireline, Mobile and Business Services – leverage Group level synergies and created an integrated mode of operation to promote service excellence and achieve efficiency by creating the conditions of growth through expansion.

Further information about Magyar Telekom Group's LoBs and their 2006 results is available on the following websites: <http://www.magyartelekom.hu/english/investorrelations/main.vm>  
<http://www.magyartelekom.hu/english/investorrelations/reports.vm>

Additionally summary information about the LoBs' results is available on Page IV of Magyar Telekom's Annual Report 2006.  
[http://www.magyartelekom.hu/english/doc/2006evesjelentes\\_eng.pdf](http://www.magyartelekom.hu/english/doc/2006evesjelentes_eng.pdf)

The map showing Magyar Telekom Group's international presence is available on Page V of Magyar Telekom's Annual Report 2006.

Figure 1 – Magyar Telekom Group



## 3.4. Topmanagement

Information about the Group's senior executives, Management Committee, Board of Directors, Supervisory Board is available on the following website:  
<http://www.magyartelekom.hu/english/aboutmagyartelekom/seniorexecutives.vm>

### 3.4.1. Management Committee

The Group's Management Committee consists of the Chairman-CEO and Chief Officers. At the time of preparing the Report the Committee had seven members.

### 3.4.2. Board of Directors and Supervisory Board

On the basis of a resolution adopted at the Annual Ordinary General Meeting of the company held on April 26, 2007 the Board of Directors and Supervisory Board members were approved according to the special requirements for the composition of Supervisory Boards of companies listed on the New York Stock Exchange and the relevant provisions of Hungarian laws. The Supervisory Board members are independent of the Board of Directors. Out of the 12 members of the Supervisory Board 8 are directors independent of the Group, 4 are employee representatives.

Currently the Board of Directors includes two members who are members of the Group's Management Committee (Chairman-CEO and CFO), the other 7 members are not members of the management.

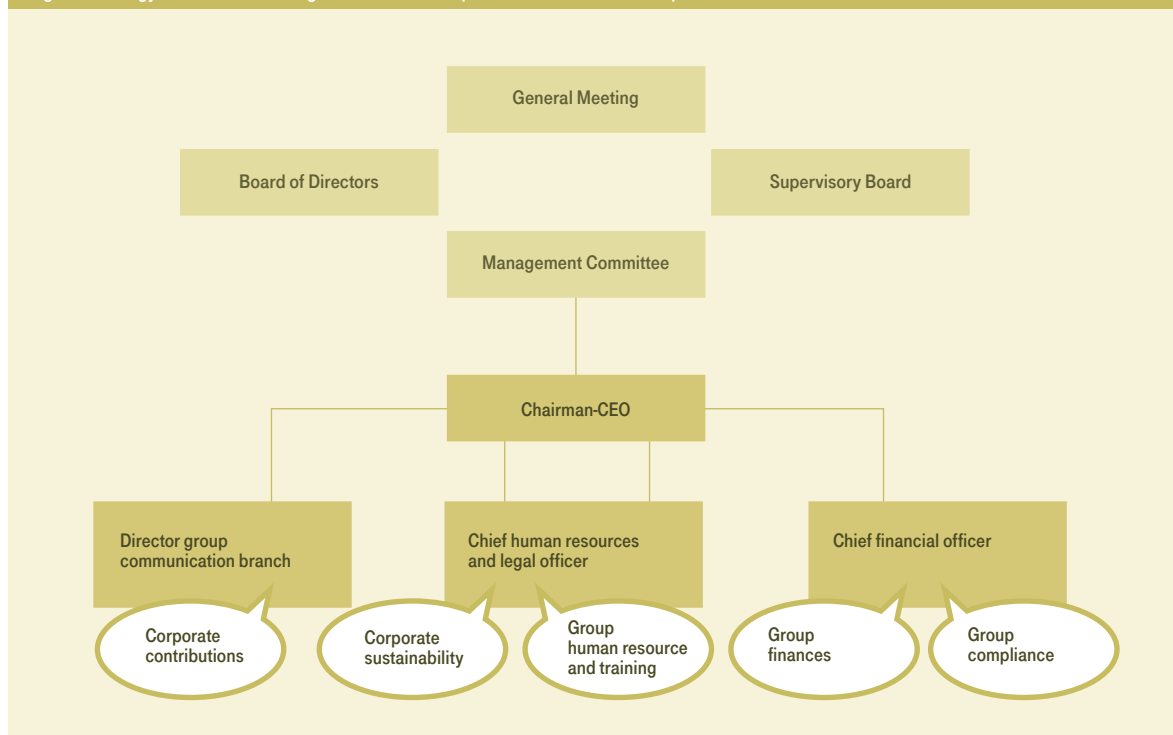
## 3.5. Corporate governance

The professional sphere and the investors require public companies listed on the stock exchange to state clearly what management model they use and how this is applied in the practice. Being a company listed both on the Budapest Stock Exchange and the New York Stock Exchange it is highly important for us to meet this requirement and the relevant statutory and stock exchange requirements. To ensure transparency of the company's management information about Magyar Telekom's corporate governance is available on the following website:  
<http://www.magyartelekom.hu/english/contributions/main.vm>

To avoid incompatibility the Group defined norms in the Code of Ethics, see: [http://www.magyartelekom.hu/english/doc/Code\\_of\\_Ethics.pdf](http://www.magyartelekom.hu/english/doc/Code_of_Ethics.pdf)

Group-level support to sustainability principles was implemented from January 1, 2007 with the following management.

Figure 2 – Magyar Telekom's management from the aspect of sustainable development



At the time of preparation of the Report the Magyar Telekom Group's topmanagement assigned the Chief Human Resources and Legal Officer with full responsibility and powers for the implementation of the Sustainability Strategy earlier approved by it, the Corporate Sustainability Group is responsible for professional management.

In connection with corporate governance management in 2004 the Magyar Telekom Group renewed its Code of Ethics that is available on the following website: [http://www.magyartelekom.hu/english/doc/Code\\_of\\_Ethics.pdf](http://www.magyartelekom.hu/english/doc/Code_of_Ethics.pdf)

The Code of Ethics, which is in compliance with the amended US Securities Exchange Act of 1934, applies to the CEO, CFO, Chief Accountant and persons performing similar activities, as well as Directors and other managers and employees.

On January 8, 2007 the Financial Code of Ethics was also introduced which applies to senior financial officials and is available on our website: [http://www.magyartelekom.hu/english/doc/Financial\\_Code\\_of\\_Ethics.pdf](http://www.magyartelekom.hu/english/doc/Financial_Code_of_Ethics.pdf)

The Magyar Telekom Group's Code of Conduct entered into force in May 2006 with the approval of the Management Committee. This document lays down the ethical and legal norms of the company's everyday operations. These regulations based on currently applicable laws describe the basic principles determining the correct behavior of employees on the basis of the values which already governed so far the Group's operations also in moral and legal aspects. With the introduction of the Code of Conduct the Deutsche Telekom Group and, as part of it, the Magyar Telekom Group make a commitment to compliance with transparent mandatory rules in all countries where they operate by making efforts to be a reliable and foreseeable partner for everybody with whom they maintain relations including customers, business partners and employees. The Code of Conduct is available on the Magyar Telekom Group's corporate website:

[http://www.magyartelekom.hu/english/doc/Code\\_of\\_Conduct.pdf](http://www.magyartelekom.hu/english/doc/Code_of_Conduct.pdf)



## Policies, strategies

### 4.1. T-Spirit

The Group's basic values are defined in the company's vision, T-Spirit. The strategy did not change in the last year, its details are available in the Code of Conduct:

<http://www.magyartelekom.hu/rolunk/doc/mukodesikodex.pdf>

### 4.2. The Group's strategy

Magyar Telekom builds its strategy on three pillars focusing on value-creating growth: service excellence – focusing on broadband products; increasingly efficient and integrated operation of LoBs; growth through expansion on markets converging with telecommunications and through international acquisitions.

Further information about the Group's strategy is available on the following websites:

<http://www.magyartelekom.hu/english/investorrelations/main.vm>

<http://www.magyartelekom.hu/english/investorrelations/corporategovernance/strategy.vm>

<http://www.magyartelekom.hu/english/investorrelations/reports.vm>

Additionally summary information about the strategy for 2006 is available on Pages 12 and 13 of Magyar Telekom's

Annual Report 2006: [http://www.magyartelekom.hu/english/doc/2006evesjelentes\\_eng.pdf](http://www.magyartelekom.hu/english/doc/2006evesjelentes_eng.pdf)

### 4.3. Group Sustainability Strategy

Implementation of the tasks of the Group Sustainability Strategy approved by the topmanagement in 2005 continued in 2006 together with the environmental elements integrated into it.

The major external requirements for the Strategy have not changed, continue to be the following:

- Compliance with Hungarian, EU and international regulations, laws, international agreements and recommendations (in the areas of economy, environment protection, society, employees, health and security)
- Social requirements for saving the environment, reduction of emissions and loads, shift towards sustainable development including enhancement of cooperation with Hungarian and international organizations, implementation of support to the society, etc.
- Economic requirements – in the area of the national economy, industry and competition market – for reduction of energy consumption, provision of environment-saving services, etc.



This Figure helps see the approach of the Group to the three pillars of environment-society-economy with its total complexity.

The Magyar Telekom Group's sustainability approach was accordingly defined around the following three principles which are interrelated and not independently implemented.

### Key statements of the Magyar Telekom Group's Sustainability Strategy

1. Magyar Telekom, being the leading infocommunication service provider in Central and Eastern Europe, reached a leading position in environment protection too and is making efforts to reach a leading position in the area of sustainability too while maintaining the former.
2. With the growing use of information and communication technology, products and services and through their operation their negative social and environmental impacts are also strengthening. The Group must aim at reduction of such negative impacts.
3. Sustainable management of information and communication technology products and services and using related opportunities.

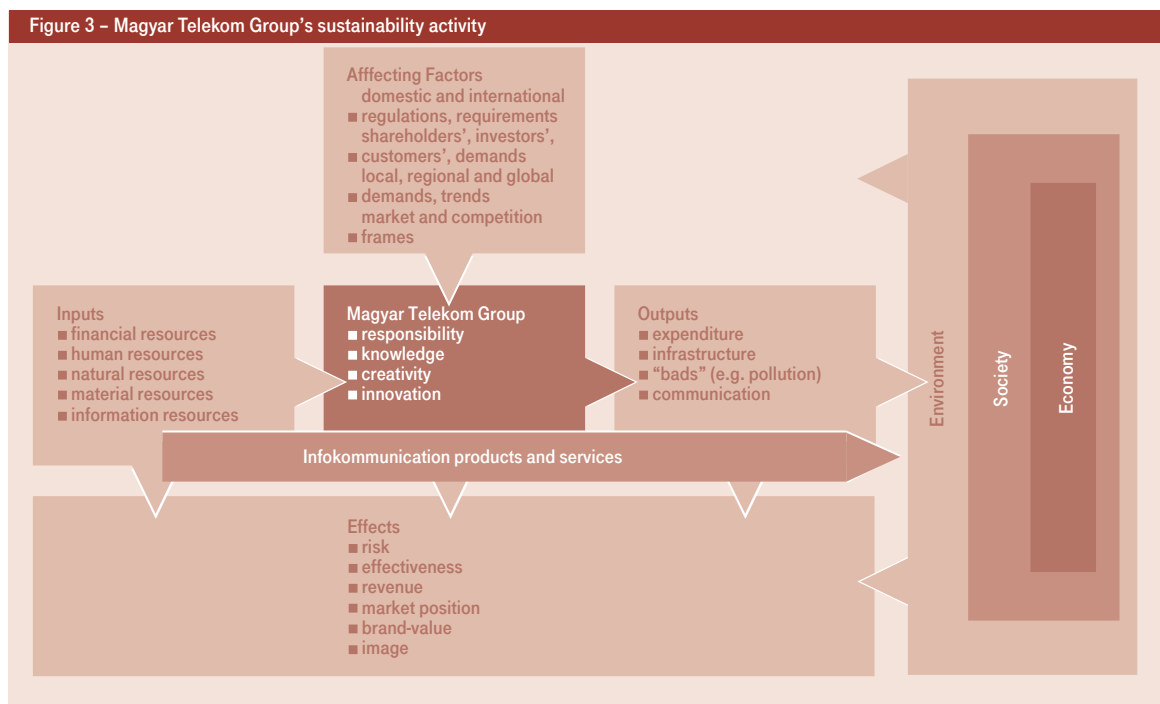
### Key strategic statements and activities connected with their implementation

1. To reach a leading role in sustainability (compliance with regulatory requirements, organizational-operational responsibility, communication).

A leading role in sustainability means not only obtaining customer awareness at national and international level, but also includes integration of the sustainability principle into the core business, revision of the operation of processes and organizations, application of international guidelines and creation of new communication and cooperation activities too.

The Magyar Telekom Group's Sustainability Strategy did not change in 2006.

For easier orientation the figure showing the structure of the Magyar Telekom Group's Sustainability Strategy is included again:



With this strategic objective the Group can become well-known with a new responsible attitude and can become attractive in the long term with perspectives with which the trust of Hungarian and European governmental and non-governmental bodies can be gained to promote development of Hungary and the region in addition to its own economic growth.

For this purpose the following activities must be carried out:

- Compliance with economic, environmental, social, employee, health and security requirements
- Operation of Group-level environmental and sustainability coordination (use of opportunities lying in cooperation within the Group, convergence of member companies)
- Raising the awareness of employees through strengthening internal communication
- Donations, grants, sponsorship
- Operation of a Group-level communication program (publication of values and results)
- Cooperation with other European ICT service providers and organizations (exchange of experiences)

## 2. Reduction of negative environmental and social impacts resulting from our operations

This target group includes controlling and when possible reducing the input and output factors, such as reduction of carbon-dioxide equivalent (through reduction of non-renewable energy sources), keeping electromagnetic radiation within limits, reduction of waste, efficient management, etc.

With this strategic objective the Group's risks can be reduced, operational efficiency and customer satisfaction can be improved.

Focus points in addition to compliance with environmental laws:

- Energy rationalization, economic use of energy types, application of low-consumption equipment and technologies
- Application of environmental criteria in procurements and contracts
- Reduction of the quantity of waste generated and exploration of possibilities for reuse
- Reduction of the emission of various pollutants, compliance with limits, monitoring
- Getting to know and when possible application of best practices
- Proactive approach to adoption of EU requirements
- Identification and management of issues impacting the society, groups and the environment to strengthen the Magyar Telekom Group's positive social judgement

## 3. Using the sustainability benefits of ICT products and services

Sustainability opportunities lying in infocommunication products and services (such as reduction of global

negative environmental impact – through reduction of the emission of greenhouse gases or dematerialization; enhancement of social welfare – knowledge-based society, access to information, working opportunities, etc.; and improvement of economic efficiency) must be used in lobbying, marketing, sales and communication activities. This can be done only when products are sufficiently analyzed and control is ensured on both the input and output sides. The boomerang effect of ICT must also be analyzed and communicated to ensure that customers, scientific experts, politicians and the society can avoid such boomerang effect.

With this strategic objective – when different stakeholders can be convinced – the Group's market opportunities and awareness can improve.

The following activities aim at implementation of the above:

- ETNO–WWF cooperation in issues concerning the ICT impact on greenhouse gases
- Product development through consideration of sustainability
- Bridging the digital gap project in small towns
- ICT support to equality of opportunities

## 4.4. Human resource strategy and human policy

The human resource strategy defined for the period 2003 to 2006 is centered around 5 focus points which are in line with Deutsche Telekom's HR strategy, as follows:

1. Managing diversity – We make efforts to leverage Group level synergies to maximize business profitability
2. Personnel cost management – We aim at cost-efficient personnel management based on market information and best international practice
3. Full remuneration – We aim at ensuring remuneration based on performance that is competitive on the market
4. Management of capabilities and skills – We give high priority to searching and managing skills and capabilities and supporting talents
5. HR efficiency and quality – We aim at providing high standard human resource services tailored to customers' needs

Magyar Telekom is continuously cooperating with the trade unions and the Works Council to ensure representation of employees' interests. When changes involving several employees are made the position of the interest organizations is always taken into account, in the case of differing opinions they make efforts to reach consensus.

The wage system regulated in the company's Collective Agreement is in line with Article 23 of the Universal Declaration of Human Rights which says: "Everyone, without any discrimination, has the right to equal pay for equal work."

Magyar Telekom grants a very wide range of welfare and social benefits. A certain share of them is granted with automatic entitlement, others are granted subject to certain conditions. The rules of granting social benefits and benefits without automatic entitlement are laid down in the Collective Agreement and the related regulations.

Magyar Telekom is committed to grant equal opportunities for its employees both in the selection process and the employees' career with the company irrespective of age, gender, ethnic origin, religious and political affiliation, and sexual orientation. When hiring new employees the company pays special attention to giving an opportunity primarily to its employees for horizontal or vertical promotion: this is ensured with FreeJob (database of internal positions: a job advertising system that can be viewed only by Magyar Telekom's employees) and the regulation to exclusively use internal search for 30 days. The company operates an Orientation Program to support the efficient integration of employees selected for a position.

Magyar Telekom pays special attention to fresh graduates with its Rajtkő (Starting Block) internship program whereby each year 15 to 20 fresh graduates are hired and offered internal training.

The company uses a Performance Management System (TM), which was introduced in 1997 and has since been continuously upgraded, to measure competence and knowledge, identify development areas and review individual tasks. For middle and top managers necessary developments are determined at the PPR (performance and potential rating).

Development and training are offered in the following forms:

- conventional training, „front” training within the company, (e.g. the training of technicians) and training outside the company (e.g. telecommunications MBA in cooperation with BKI-VKI)
- skills development training (individual and team programs with trainers, e.g. team-building, self-knowledge training)
- e-learning, that is individual distance learning with the help of the net (e.g. media training)

In the fields of promotion and talent management key objectives include ensuring management succession and development of professionals for which Magyar Telekom operates various talent management programs according to the given goals.

Magyar Telekom is committed to excellence: strengths and areas to be developed are explored through regular employees surveys and customer satisfaction surveys. The results of such surveys are taken into consideration for the improvement of its internal operation. Additionally the opportunities offered by modern technologies are used for reaching excellence: the company improves the efficiency of its operation through the development and use of advanced IT systems. The IT services offered by the human resources field are rolled out to a web interface, eHR solutions are continuously added to the scope of cost saving, efficiency improving and customer friendly services.





A key objective in Magyar Telekom's human resource strategy is to ensure non-discrimination and equal opportunity. Out of the nine core components of the SA8000 (Social Accountability) standard Magyar Telekom addresses non-discrimination with key priority. In respect of the other core components the company's practice is in compliance with requirements laid down in provisions of laws (among others the Constitution of the Republic of Hungary, provisions of the Labor Code and the Universal Declaration of Human Rights). The theoretical basis of fairness and equal opportunity is created by the basic norms laid down in the Code of Ethics issued in 1997 and revised in 2004 according to the SOX (Sarbanes-Oxley) Act. Practical implementation of equal opportunity is supported by atypical forms of employment: teleworking, part-time working, flexible working time, employment of people with reduced working abilities.

High level of safety of its employees is a key focus for Magyar Telekom, as is the observance of the requirements of providing safe working conditions for them that do not impair their health. For this reason a dedicated organizational unit addresses labor safety and occupational health issues through the elaboration of a labor safety strategy and target system. Additionally the company 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.

Magyar Telekom lays great emphasis on care for employees leaving the company; several solutions are used in the process of caring downsizing to reduce the number of employees dismissed unilaterally. In addition to the application of various atypical forms of employment the company operates an outplacement system called Esély (Chance) to support reemployment of employees leaving the company where the company offers training and helps job-seeking.

The social standards are transparent and mandatory for the whole Group through the Social Chart. The Social Chart is a voluntarily assumed obligation of the employers to comply with the scope of minimum social standards at the whole Group. It lays down basic principles for working relations and employment conditions. Compliance with standards is required also from our suppliers. The Social Chart is based on the values of Global Compact and the internationally recognized norms, guidelines and standards of ILO (International Labour Organization) and OECD (Organization for Economic Co-operation and Development).

The basic changes in our business environment – in particular demographic and cultural changes and legal requirements, such as the EU guidelines for non-discrimination and their application in the EU member states – continuously necessitate that we revise and extend the company's guidelines and policy. At the same time we consider it an opportunity to be able to handle in the

future various market segments with our best capabilities, to efficiently use the varying opportunities of individuals and groups and to create an environment that permanently promotes innovation. The Magyar Telekom Group defined its Diversity Policy on the basis of the above principles. The Diversity Policy emphasizes our commitment to consistent identification and use of development opportunities. Application of and compliance with the Diversity Policy helps us revitalize the corporate values and vision in such a way that benefits both the individuals and the whole Magyar Telekom Group. Diversity is characterized by basic dimensions resulting in differences and similarities. These basic dimensions – gender, age, disability, ethnic origin and race, religious affiliation, sexual orientation – have key importance in economic, demographic, legal and/or cultural respects. The Magyar Telekom Group recognizes the special importance of these dimensions and takes them into consideration when implementing the general diversity concept. Depending on the given context we pay attention also to further dimensions which are important for the special background and position of the Group and the business areas, such as education, parental role, marital status, culture, language, period of employment with the company, way of thinking or working. We consciously recognize the diversity of our employees, markets, suppliers, shareholders and the society where we live and encourage this diversity with a proactive approach to our business environment. This way we create and promote relations that enable us fully use all strengths and opportunities.

## 4.5. Corporate support strategy

The Magyar Telekom Group's corporate culture continues to integrally encompass corporate social responsibility and charity. Due to its significant economic role the Group is responsible not only towards its customers but also to the whole society. For this reason the Group is making efforts to find ways of showing its human side through sponsoring culture and sports, donations, provision of charity services or physical work of its employees to contribute to ensuring that Hungarian people can live better and nicer, and this is naturally not without interest: it is in the interest of all of us.

The company's current sponsorship programs and further information about the "Magyar Telekom Gives Back" program is available on the following website:  
<http://www.magyartelekom.hu/english/contributions/main.vm>

In the dictionary of Magyar Telekom we can differentiate three categories: institutional macenature, grant and sponsorship.

Institutional macenature is the long-term, non-profit financing of cultural, educational and sport institutions

founded or maintained by the company. Grant refers to the one-time support to foundations, associations, clubs working for common and charitable goals. Sponsorship means communication based cooperation with the sponsored beneficial for both sides related to some kind of a project (event, program...).

Magyar Telekom Group's donation strategy aims mainly at solving the gravest social and health issues. We treat as a key issue support towards programs aimed at the health and welfare issues of children as well as what is reported in Hungarian statistics as being the most frequent sources of premature death: screening and medication of malignant tumours, and assurance of conditions for the treatment of cardio-vascular diseases. A key area of our donation policy is to provide support for helpline agencies as well as towards reducing the gap of communities at a communication disadvantage, i.e. towards closing the digital divide and the assurance of sustainable development through the establishment of optimal environmental conditions in the long run, and environmental protection.

Magyar Telekom distributes over 100 million HUF cash donation for the above-mentioned purposes each year through various funds and associations. Distribution of the available amount is the competence and prestige of the „Magyar Telekom Hozzáad” (Magyar Telekom Contributes” Board of Trustees. Their decisions are regularly published in the program's Newsletter:

<http://www.magyartelekom.hu/english/contributions/contributes/main.vm>

The aim of sponsorship is to provide quality and valuable entertainment to our customers, and we frequently undertake roles in implementing professional conferences at a high level.

Being a key sponsor of Hungarian culture and public life the Group is ready to support events, performers and productions representing in their respective areas and genres the highest standard and contributes in a way and to the extent worthy of its economic role through its sponsorship activity to the fulfillment of social purpose initiatives.

T-Mobile acted in 2006 too as sponsor of numerous cultural, sports and social events, scientific and professional conferences.

We are making efforts in respect of all forms of sponsorship to present to the widest scope of people the possibilities of mobile communications, freedom and value creating feature of communication. T-Mobile's services such as SMS, MMS, WAP, videotelephony, broadband mobileinternet, HotSpot strengthened through numerous cooperation activities the positive image of T-Mobile as a brand and leading mobile carrier. T-Mobile was raising awareness of its corporate social contribution by presenting in addition to the possibilities and values lying in the services also the visual marks of the brand in its sponsorship relations and at the events sponsored. In addition to own events – e.g. Connection Concert,

Electronic Beats – and sponsored events – e.g. Internet Hungary Conference, ARC poster exhibition, cycling programs – many other useful initiatives serve value creation. The sponsored personalities and artistic groups are prominent members of their respective genres with long-standing popularity, the sponsored institutions have outstanding historical and cultural importance also by international standards.

The Macedonian member of the Group MakTel continued also in 2006 its earlier defined sponsorship strategy and as a major national company and responsible “citizen” sponsored sport, cultural, educational and health initiatives and events to improve the quality of life of its customers.

## 4.6. Group Environmental Policy

The Group Environmental Policy was renewed in 2006. Since January 26, 2006 – when the Group's topmanagement approved the Magyar Telekom Group's Environmental Policy – the renewed document sets the direction for the environmental activity.

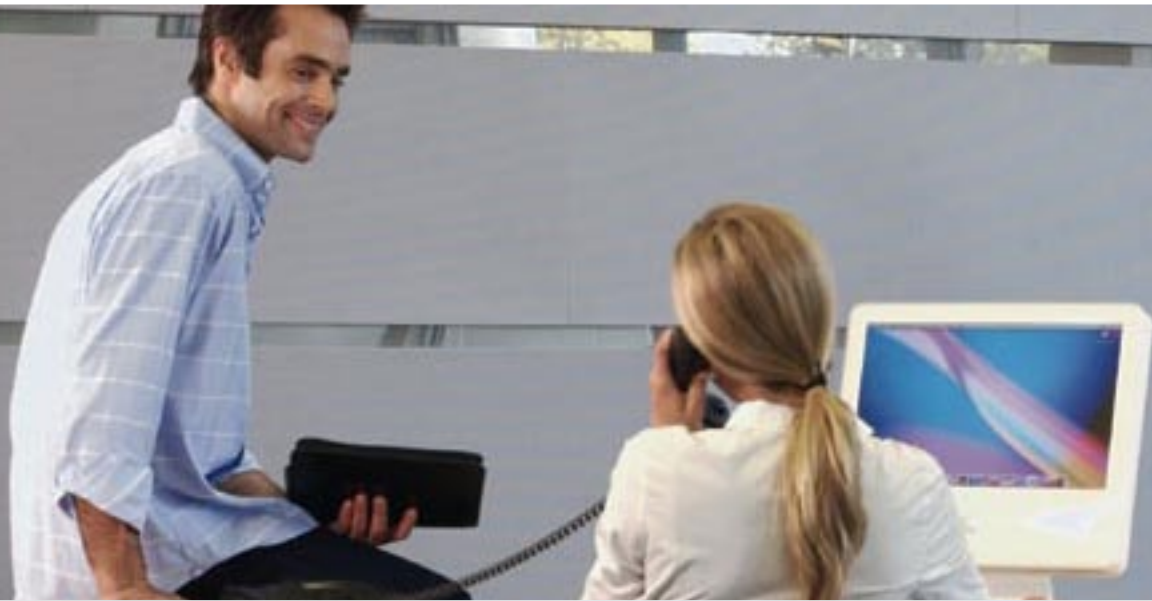
The Policy had to be reworded – in addition to the change of the Group's name – due to the increased focus on climate protection tasks.

The document – whose scope and role will not change – will remain mandatory for the whole Group and each of its units, provides a framework for the thinking of the Group – and the member companies, organizations and employees constituting the Group – connected with environment and nature protection issues.

The environmental policy of each organization and member company within the Group must be defined in harmony with and based on the major findings of the Group's Environmental Policy.

The Policy is available on the following website:

[http://www.magyartelekom.hu/english/doc/kornyezetvedelmi\\_politika\\_en.pdf](http://www.magyartelekom.hu/english/doc/kornyezetvedelmi_politika_en.pdf)



## Management Systems

Magyar Telekom's topmanagement approved in 1998 the overall quality concept whereby ISO 9001 based quality management, then in the areas relevant for environmental impacts ISO 14001 based environmental focused management systems were introduced in certain functional area of the Group. In the areas where management systems are based on both standards these systems are operated in an integrated way.

### 5.1. Quality management

Information presenting the Group's quality management is available on the following website:  
<http://www.magyartelekom.hu/english/aboutmagyartelekom/qualityguarantees.vm>

### 5.2. Environmental Management

Although it is well known that the Magyar Telekom Group's core operations basically do not pollute the environment the Group feels it necessary to show an example of responsibility and commitment to the society also in this area.

The Magyar Telekom Group introduced ISO 14001 based environmental focused management systems in the areas with significant environmental impact; the relevant system

building process was already completed earlier (in 2003).

In 2006 the structure of certification of the environmental focused management systems changed in line with the organizational changes, but all in all this resulted in an increase in the areas covered within Magyar Telekom Plc. by ISO 14001 based environmental focused management systems while they continued to include the areas with major environmental impact earlier targeted. Additionally in 2006 ISO 14001 based environmental focused management systems were introduced at several Magyar Telekom Group subsidiaries too. (Emitel Zrt., T-Kábel Magyarország Kft., BCN Rendszerház Kft.) Precise operation of these systems and leverage of growth opportunities – through regular audits – ensure continuous improvement of the environmental performance of the functional areas.

In 2006 the number of subsidiaries with ISO 14001 based certification increased through the Magyar Telekom Group's acquisition activity when the KFKI Group was acquired. All subsidiaries in the KFKI Group (KFKI-LNX Hálózatintegrációs Zrt., IQSYS Informatikai Zrt., ICON Számítástechnikai Zrt.) have certified environmental focused management systems.

Magyar Telekom Group's organizations having ISO 14001 based certificate:

- Magyar Telekom Plc. VLOB (T-Com) – Date of certificate: January 17, 2003.
- Magyar Telekom Plc. MLOB (T-Mobile) – Date of certificate: November 14, 2001.



Out of the Group's foreign subsidiaries MobiMak in Macedonia (from September 1, 2006 T-Mobile Macedonia) is a mobile telecommunications company that obtained in 2002 ISO 9001 certification, and now also has ISO 14001 environmental focused management system (used for the design, development and sale of mobile communication systems and provision of services, and sale, distribution and repair of mobile terminals and accessories) which was certified in January 2004. The company is developing its quality and environmental focused management systems towards integrated system based operation regime. MakTel and Telekom Montenegro are considering the introduction of ISO 14001 based environmental focused management systems, no decision has been taken yet on the introduction.

- EMITEL Co. Ltd. – Date of certificate: December 7, 2006.
- T-Kábel Hungary Ltd. – Date of certificate: December 8, 2006
- BCN Rendszerház Kft. – Date of certificate: January 26, 2007. (certification audit: December 2006)
- KFKI-LNX Rendszerintegrációs Zrt. – Date of certificate: July 4, 2006.
- IQSYS Informatikai Zrt. – Date of certificate: June 29, 2006.
- ICON Számítástechnikai Zrt. – Date of certificate: October 16, 2006.

Additionally as a result of repositioning of the organization that manages the Group's environmental coordination process and harmonization of the process with the activity performed the process was reintegrated into the Group Center's quality management system as its process „Sustainability management”.

Operation of the activity according to the elements of the sustainability management process which determine the environmental coordination and regular revision provides a basis for coordination of the environmental activities of the large number of subsidiaries with different activities, application of the principles and achievement of the objectives laid down in the Group Environmental Policy and implementation of the strategy.



## Stakeholders

The Magyar Telekom Group's stakeholders include all the groups which have an impact on achievement of the company's objectives or have a vested interest in it (Figure 4). The company identified through reviewing its management systems and benchmark audits the scope of stakeholders and keeps continuous contact with them to ensure that their interests are taken into consideration in the course of its operations. The company's stakeholders are the following:

### Market stakeholders

- Customers, individuals, groups, organizations, companies
- Shareholders, owners
- Management
- Employees (information about this issue is available in the Social Aspects section)
- Vendors
- Other telecommunications market players
- Trade unions, employee groups (information about this issue is available in the Social Aspects section)

### Non-market stakeholders

- State bodies, municipalities
- Industry and market associations, research cooperation groups
- Local communities
- Environment and nature

Figure 4 – Magyar Telekom Group's stakeholders

#### Market-based stakeholders

Customers, individual, groups, organizations, companies  
Shareholders, owners  
Management  
Employees  
Suppliers  
Other telecommunications market players  
Trade unions, employee groups



#### Non-market-based stakeholders

State bodies, local governments  
Industry and market associations, research cooperation groups  
Local communities  
Environment and nature



## 6.1. Market stakeholders

### 6.1.1. Customers, individuals, groups, organizations, companies

#### Services, Universal Electronic Communications Service

Magyar Telekom as a service provider is obliged to provide (publicly available) telephone service according to its General Contract Conditions whose essential content components have not changed.

The universal service provider is entitled to subsidy from the Universal Electronic Communications Fund established for this purpose to reduce its financial burden resulting from the provision of universal service.

According to the Electronic Communications Act (Eht.) that entered into force on January 1, 2004 subsidies are granted on the basis of net avoidable costs.

Net avoidable cost based subsidy can be used for the following:

- making a subscriber register available,
- access to telephone network in potentially loss-making areas,
- operation of public payphones,
- provision of national directory assistance service,
- discounts granted to the socially needy.

The Minister of Economy and Transport shall decide on the basis of the statement prepared by the service providers whether the provision of universal service results in unreasonable burden for the universal service provider.

Magyar Telekom calculated in its audited cost analysis the net avoidable costs of subscriber register, directory assistance service, operation of public payphones and discount granted to the socially needy and submitted it in compliance with the June 15, 2006 deadline required by law. The Fund rejected Magyar Telekom's request of subsidy in its resolution dated July 31, 2006. Magyar Telekom filed an appeal against this resolution, but the authority rejected the appeal also. The company did not request revision of the second instance resolution by court.

The General Contract Conditions are available on the following website: <http://www.magyartelekom.hu/english/services/main.vm>

#### Service availability

Magyar Telekom grants subscribers' rights connected with service availability and fault repair on the basis of its General Contract Conditions that is available on the Internet and in customer care service offices. The company guarantees in it compliance with the published quality targets in the process of service provision in the total service area which is controlled with tests, and the methodology used for testing is published.

The company sets forth in it also the quality target figures of service provided by public payphones. Faults in the service detected by the subscribers in the course of using the service are managed, among others in line with their rights laid down in the General Contract Conditions, according to the procedure determined for the period after the detection and registration by the company of the fault.

The General Contract Conditions are available on the following website: <http://www.magyartelekom.hu/english/services/main.vm>

The availability and quality requirements and target figures for our mobile services are set forth also in our Codes of Practice whose fulfillment is continuously measured and published on the following website:

<http://www.t-mobile.hu/english/customerservice/regulation/index.ehtml>

#### Transparency of tariffs, wide availability of services

The scope of the Magyar Telekom Group's tariff packages widened in 2006 as well. The Group made efforts to make offers the most unequivocal and make them accessible to the widest scope of customers.

Information about the tariff packages offered by Magyar Telekom's LoBs is available on the following websites:

<http://www.t-com.hu/english/residential/tariffpackages/main.vm>

<http://www.t-online.hu/ajanlataink/english/index.html>

<http://t-systems.magyartelekom.hu/english/services/main.vm>

<http://www.t-mobile.hu/english/tariffs/>

**Availability and collection of market information**

The Magyar Telekom Group collects market information for two purposes:

- by the LoBs and member companies to improve their own business
- by the Group for strategic planning

Information used for achievement of daily targets is collected on a daily, weekly and monthly basis, Hungary's macroeconomic indicators (KSH, MNB), economic analysts' forecasts (Reuters, EIU) and facts on the telecommunications sector (KSH, NHH, H-PIR, EIU) are collected on a quarterly basis, while long-term forecasts of national economy analysts for the Hungarian and Western European macroeconomic and telecommunications sectors (Gartner, Ovum, EIU) are annually collected and processed.

**Management of legal and ethical issues of content services**

Today Internet has become a public utility that accommodates various forms of exchange of knowledge, information and goods, comfort services and entertainment. With the spreading use of broadband Internet access Internet usage patterns also change: customers use the Internet more intensively, more frequently to access more varied contents.

Magyar Telekom Group member company T-Online – that operates the [origo] portal – is a founding member of the Hungarian Content Providers' Association (MTE) and accepts as binding on itself the Code of Content Provision (the Code is available on MTE's website: <http://www.mte.hu/mss01/alpha>).

The Hungarian Content Providers' Association (MTE) is a self-regulating body established in 2001 by the Hungarian Internet content providers – including Index and [origo] – to ensure that content providers contribute with coordinated professional position statements and the means of self-regulation to development of the Internet market in Hungary.

MTE's objective is to provide an institutional framework for professional debates on regulation of Internet content service, to implement and actively use the techniques of self-regulation in the area of Internet self-regulation. Additionally it considers its task to elaborate and bring to the wide public the rules and code of ethics of Internet content service provision to create unified norms for Internet content services, to ensure that rules which are known to the content users are clearly and traceably applied to the activities of Hungarian content producer and publisher workshops, and that the association represents the content providers in negotiations with various state bodies to contribute to development of Internet culture, and to make the Internet safer and more friendly.

T-Online holds the license to grant all rights of use for [origo] databases whereby the company follows the recommendations of the Code of Content Provision to greatly protect privacy and intellectual property and to ensure conduct according to the Code of Ethics of the content providers.

**Protection of sensible groups and Internet security**

The Magyar Telekom Group has taken various measures to protect children.

Today Internet is a useful everyday information store not only for parents but also for children. Children can easily wander in the world of tales, play and learn about the world with T-Online's initiative Handabanda Children's Internet. T-Online's children Internet site offers edited content and protected Internet access for children. The user interface specially designed for children enables simple Internet surfing, the browser protected with a password approved by the parents hinders access to undesirable content and allows access only to contents which are useful and interesting for children.

T-Mobile classifies adult content services in categories. Additionally chatrooms are continuously monitored with the involvement of operators (participating in chatting). To determine the age of users two options are offered before using adult content services: aged over 18 or not.

Recently software programs are spreading which call premium rate or foreign telephone numbers for establishment of the Internet connection – often without the knowledge of the user. The telephone service providers are not responsible for the existence of dialer programs which enable such abuse, but Magyar Telekom, being a committed advocate of Internet, jointly acts against dialer programs with the Netusers Internet Association (NETÉRT).

The first step of protection is supply of appropriate information to the users. To offer general information about the Internet the company created a free Internet course on its website to help beginners in which the users' attention is called to the danger of dialer programs. Magyar Telekom enables Internet users to ask questions and receive answers about the Internet on its website. Magyar Telekom warned customers about this danger in Hírmondó, a newsletter mailed together with the telephone bill. Additionally the Magyar Telekom Group members addressed this issue in various forums and news.

Magyar Telekom continuously monitors the volume of national and international traffic. When traffic to a given telephone number suddenly jumps Magyar Telekom contacts the foreign telecommunications service provider through its international partner provider relations. When it can be clearly established that a given telephone number is used for abuse with dialer programs Magyar Telekom bans automatic connection to the given telephone number, but the telephone number can still be called with operator assistance.

Magyar Telekom offers two types of calls restriction to its subscribers. Both can be used globally for all calls or only for certain calls types, numbering fields (e.g. premium rate, satellite, international or long-distance calls). Call restriction is one of the simplest methods of protection against dialer programs; its two types are password-based (which can be ordered from the service provider) and permanent call

restriction. These services can be ordered from Magyar Telekom's call center, on the Internet (by e-mail or even chat in Magyar Telekom Internet based customer care service) or personally in any T-Pont shop.

Certainly everybody has already received dozens of unsolicited mails: it is estimated that currently about 60-70% of the e-mails in the world are spams which cause hundreds of millions of dollars damage primarily to Internet service providers and additionally much inconvenience to users. The diversity of spams makes protection against them rather difficult – although this is in the joint interest of Internet service providers and users.

T-Online plays an active role in self-regulation initiatives and introduced in its services numerous solutions serving the protection of the subscribers and in wider sense of the community of Internet users. For example virus search is offered for all subscribers and freemail users, basic self-protection antispam solution is used on the server side and a full antivirus and antispam solution is offered to the subscribers of T-Online Internet Security. Additionally they use technical solutions – among others sender authentication – which help reduce the spreading of spams and reduction of abuses, and supply information to infected customers and in extreme cases ensure their filtering.

Magyar Telekom Plc. respects and protects the personal data of users contacting it on its website.  
(<http://www.magyartelekom.hu/english/dataprotection.vm>)

#### **Product liability, data security**

Our product liability activities rested on the same principles in 2006 as earlier.

Magyar Telekom 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 specified 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.

In 2006 the group did not violate any laws concerning diligence and use, therefore it was not fined.

Information reach the technical area from several directions (verbally, from the technicians, sales staff, on the phone and in writing) and are relayed to 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 is 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.

The liability of the Magyar Telekom Group extends to the entire life cycle of the products belonging to the services, so the group provides for the organized take-back of the used sets – see section 7.4.5.

#### **Data security and information protection**

As player of the infocommunications industry, the Magyar Telekom Group is not only user of the information. The essence of its business operation is to play a content, platform and mediation role in the value chain of the information industry. In addition, it has been present in the business segments of the market with expressly IT security services for several years. Considering the expectations of the different interested parties, the vision of the Group concerning its future place in the information society, and the international experience suggesting that in the long term no service provider can assure the protection of the information of its customers at higher level than permitted by its own operating culture.. We consider a strategic objective to implement and operate the ISO 27001 information security management system at group level. Accordingly, a feasibility study was prepared in 2006 on the basis of which a group-level project was set up on February 1, 2007 for the establishment of the ISO 27001 information security management system in Hungary, and for having it certified by the end of 2008.

#### **Marketing communication**

Magyar Telekom is investing serious efforts to deliver advertisement to the customers so that they are not suitable for misleading them. Having drawn the lessons of advertising so far and in consideration of GVH 's guidelines we submit the text of advertisements to be delivered to customers to preliminary legal control before they are published and thus the Communication area is in a position to formulate them always in consideration of both business and legal aspects. We inform our customers through various communication channels so that an increasingly broader pool of them receives increasingly more precise information about the services and products we intend to advertise.

#### **Favorit II.**

The authority has found a few parts of the service prejudicial just as the previous year during the investigation and it fined the Company for 30 million HUF. The problematic part of the communication text has since been changed by the Company and it is according to the guidelines of GVH.

#### **Introduction of naked ADSL**

Concerning ADSL binded with fix line subscription GVH accepted that the Company would soon introduce the naked ADSL with similar conditions (introduction: the 30.th of March 2007).



**Continous change to ISP**

Our company voluntarily introduced continous change to ISP on the 20.th of August, therefore the Authority considered the unset of modems violating the law only before this date. Therefore no fine was assessed.

**6.1.2. Shareholders, owners**

The largest telecommunications service provider in Europe, Deutsche Telekom, is Magyar Telekom's majority owner that is present in Hungary since the start of the company's privatization, almost since fifteen years ago. As a strategic investor they have proved during this period their long-term commitment to the future of the largest telecommunications service provider in Hungary.

**Identification of owners' and investors' requirements**

The requirements of the company's investors are surveyed on an annual basis with questionnaire. An external analyst company is assigned with the production of the perception study that surveys the investors' requirements and expectations with a detailed list of questions and representative samples. The analysis results are used for the production of a presentation to the company's senior executives that is presented at the Management Committee (MC) meeting, and then the MC submits the document to the Board of Directors where the majority owners are also informed. Another method used for investor relations and survey of investors' requirements is participation at personal meetings, roadshows and thematic conferences (telecommunications, CEE countries) organized by international investment banks and analysts (e.g. Merrill Lynch, ING Bank). Comparative analyses are prepared to survey the correctness of the investors' requirements and the company's strategic direction. Regular meetings are organized for investors and analysts. They obtain information about the major financial indicators and facts of the company's operations at roadshows and conferences. Contacts are kept also with supervising authorities and the New York and Budapest Stock Exchanges. General Meetings and ad hoc and regular reports are determining elements of keeping contacts. A key element of keeping contact with the majority owner is direct involvement in the company's management. Magyar Telekom is also an owner by holding a subsidiary portfolio and needs to integrate the needs and interests of its co-owners into its strategy and business policy. We learn about the needs and interests of the co-owners in the course of portfolio management. When necessary the desk officers responsible for the portfolio (Strategy area staff) hold consultation meetings, request information and prepare Magyar Telekom's executives for higher level coordination meetings with co-owners.

The Magyar Telekom Group wants to satisfy the needs and requirements of responsible investors too, in addition to that of conventional investors. For this reason the Group makes efforts to implement the most sustainable operation on the basis of its sustainability strategy.

**6.1.3. Management**

The principles, goals and approaches connected with the management did not change in the last period. The key of Magyar Telekom's success is that the company's management tasks are carried out by a well prepared committed recognized management team with appropriate training and experience. The numerous tools and processes introduced by the company ensure that the most suitable candidates occupy vacant management positions.

Our objective is to ensure the existing employees the possibility of promotion and gathering experience. For this reason our objective is to fill most of the vacant positions from internal sources. For this purpose when there is a vacant position it is primarily offered through the company's intranet Freejob system to which all Magyar Telekom employees and other member companies of the Group have access. In the case of external search the positions are offered on the company's website. The data of candidates for such positions are – uniquely in Hungary – electronically entered in the SAP HR system where they can be filtered and presented for positions later offered. A recruitment consulting company helps fill in positions of strategic importance to ensure that the knowledge of the best professionals on the market can be obtained for Magyar Telekom.

When succession decisions are taken the responsible professional committee assesses the candidates' professional skills, performance and proven human and managerial abilities. Assessment is based on the Performance Management System used by the company and the Unified Competence System.

The Performance Management (hereinafter referred to as 'PM') System introduced in 1997 and since that time continuously developed by Magyar Telekom is used to assess the management and set, trace and assess performance and development targets. The process used by it was certified according to the ISO 9001/2000 standard. The PM system is a tool for communication of strategic goals, breakdown of resultant corporate tasks and elaboration of individual professional targets. It ensures ongoing personal development through determination of training directions and frameworks. The PM system is directly linked to the remuneration system, more exactly the management bonus system.

The Unified Competence System (EKR) was developed through analysis of the behavior of professionals and executives at the company and includes all behavior patterns which are in compliance with Magyar Telekom's values and ensure successful operations of the company. Competences are continuously evaluated and developed in the PM system.

In 2006 the Personnel Round Table earlier introduced in the management succession process was replaced by Performance and Potential Assessment (PPA). This method, like the Personnel Round Table, assesses the concerned persons on the basis of their performance and competences and focuses on development based on such results. The

novelty in this method is that executives are assessed through comparison with predefined competence requirement levels. Performance assessment is more detailed and specific. The essence of the process is that a group of executives who know the best the work of the assessed manager jointly assess the performance and potential of the assessed manager on the basis of predefined criteria. Then the assessors jointly determine the potential career and the development targets necessary thereto. Further training of executives and employees with potential identified on the basis of the assessments is ensured through priority development programs. Members of the company's Supervisory Board and Board of Directors are nominated by the shareholders and elected by the General Meeting according to the provisions of the Business Associations Act and the company's Articles of Association.

The Board of Directors exercises employer's rights over the members of the Management Committee (MC) according to the Rules of Organization and Operations. The Board of Directors exercises this right with the support of a Remuneration Committee established according to international practice.

The Remuneration Committee consists of three members of the Board of Directors and holds meetings at least three times a year. At these meetings they discuss matters connected with succession, performance management and remuneration of the MC members, then submit proposals to the Board of Directors for approval. This thoroughly elaborated system ensures that succession related decisions are taken after a wide reconciliation process, in a transparent way.

One of the most tangible proofs of the top management's self-assessment is the use of the Balanced Scorecard (BSC) system.

Namely, the Balanced Scorecard system is comprised, in a unified structure, of key indicators relevant for the strategy of any given year (e.g. revenue, EBITDA, number of ADSL lines, etc.). Achievement of the indicators is continuously monitored on a monthly basis. Results are assessed by the management and reported to the relevant area of the parent company, and also they are incorporated in a regular report prepared for the Board of Directors. If necessary, action plans are designed on the basis of the evaluation to drive target achievement. The Balanced Scorecard system is operated by the Central Strategy Organisation.

Further information about this matter is available on the following website: <http://www.magyartelekom.hu/doc/MTELEKOM060428OR01H.pdf>

#### 6.1.4. Employees

Information about this issue is available in the Social Aspect section.

#### 6.1.5. Vendors

##### Procurement focused vendor relations

Magyar Telekom's procurement focused vendor relations management is performed by a centralized organization certified according to the ISO 9001:2000 standard within the Group Centre's Quality Framework System. Group-level coordination of vendor relations is directed by the Group Procurement Board established in 2002 and operated by the functional leaders of the key member companies, coordination is carried out by the member companies' functional organizations.

Vendors are selected through regulated, transparent, structured and documented procurement procedures that comply with laws and ensure competition and fairness of competition. The company is making efforts to create mutually beneficial value-creating partner relations in its contracts. To ensure cost-efficient operation the company is continuously rationalizing its processes and the number of vendors whereby a stable scope of high quality vendors is created.

The objective aimed at with the improved efficiency of the procurement activity is

- To reduce the number of active vendors at a higher rate than the change in the order volume:  
While in 2006 the order volume dropped to 95% of the base year 2001, the number of active vendors decreased in the same period to 63%.
- To use in a high percentage qualified vendors for the performance of orders:  
Currently 95% of the annual number of orders and more than 78% of the order value is delivered by qualified vendors.
- To increase the number of alternative electronic procurement solutions resulting in reduced procurement time:  
The ratio of electronic procurement transactions was continuously rising over the last years, currently it reaches 66% of all ordered items.

Vendors' references, financial position, quality and environment related capabilities are assessed in a prequalification system, contractual performance is assessed in a postqualification system and on the basis of the results vendors are classified in categories (A, B, C, D). Qualification results are key factors in the vendor selection process. The company procures products and services primarily from qualified (category A and B) vendors.

The Procurement Directorate's website offers interactive pages for vendors where after registration they can directly access newsletters, calls for bids, the vendor qualification system, make a certain share of their official declarations connected with procurement tenders and obtain information about the company's requirements for ethical

conduct, operations and social matters. Registered vendors are informed on a quarterly basis about their results achieved in the vendor qualification process to ensure mutual development.

The procurement procedures accounting for a major share of vendor contacts are implemented with integrated IT systems support. The selection process is supported by an Internet-based call for bids and auction tool (e-RFX), an Internet-based electronic commerce solution (WebEDI) is used for delivery to vendors and confirmation of orders. The number of transactions is rising year by year.

Since 1996 each year a Vendor Conference is held for the vendor partners playing a key role in the operations where the previous year's results are mutually evaluated and procurement strategy directions and new trends are presented. To recognize the performance of the best vendors the "Vendor of the Year" award is presented. Vendor satisfaction is also surveyed at the conference. Its results provide important feedback to Magyar Telekom.

Current directions of improving vendor relations: electronization that ensures benefits for both parties, more in-depth use of Group-level synergies and Group-level management of key vendor relations under the management of the Group Procurement Board.

Magyar Telekom addresses environment protection as a key criterion for procurement processes. Before products are procured the vendor is required to make a statement on their environmental factors. To prevent damage when hazardous materials or products are procured the material is directly delivered from the vendor to the internal customer with the exception of justified minimum stocking and storing.

Magyar Telekom purchases materials, tangible assets and services only through regulated procedures. The vendors' activities are evaluated every six months through postqualification, non-compliance results in termination of contract. Environmental qualification of vendors is also performed since 2002. There are no policies and practices preferring local vendors because of the assurance of free competition.

Ethical conduct is important for Magyar Telekom therefore that company requires its vendors to accept the Group Code of Ethics and comply with its requirements which are laid down among the contractual conditions as well. For this reason issues connected with ethical conduct and among others respect of human rights are included among the components of qualification both in vendor and customer relations. This way qualification also means human rights screening and its ratio is the same as that of qualified vendors': Currently 95% of the annual number of orders and more than 78% of the order value is delivered by qualified vendors.

Magyar Telekom gives priority to payment to its partners upon the schedule laid down in contracts and agreements.

A generally applicable payment condition – payment within 45 calendar days of reception of the invoice – is applied for payments to vendors. This condition must be taken into consideration by all Magyar Telekom organizations preparing or signing a contract. This payment condition is used also in procurement contracts and order forms, but naturally it can occur in particular cases that differing special payment conditions are used with the prior approval of the Group Treasury.

#### **6.1.6. Other telecommunications market players**

In 2006 Magyar Telekom continued its activity according to the earlier practice in the areas of partner meetings and coordination meetings on amendments of laws.

To ensure protection of the environment and transparency we are cooperating with our competitors in conducting joint tests and creating databases that strengthen social communication connected with electromagnetic fields.

<http://www.emf-portal.hu/portal/>

During its operations Magyar Telekom – and all its employees – respect the rights of competitors according to the Magyar Telekom Group's Code of Ethics and reject any action restricting fair market competition. There have been so far 9 court cases against Magyar Telekom for the alleged misuse of economic supremacy. Four of them have been completed without imposing any fine, and four cases are still in front of the court.

The Group keeps in mind the requirement for clean and transparent operation and rejects any form of corruption, bribery, money laundering and inside trading by any market player.

Further information about this matter is available on the following website:

[http://www.magyartelekom.hu/english/doc/Code\\_of\\_Conduct.pdf](http://www.magyartelekom.hu/english/doc/Code_of_Conduct.pdf)

[http://www.magyartelekom.hu/english/doc/bennfentes\\_en.pdf](http://www.magyartelekom.hu/english/doc/bennfentes_en.pdf)

#### **6.1.7. Employee interest organizations: trade unions, Works' Council**

Information about this issue is available in the Social Aspect section.

## 6.2. Non-market stakeholders

### 6.2.1. State bodies, municipalities

The new social and environmental challenges that the fast developing and globalizing societies are facing necessitated the coordination and improvement of the communication activities of law enforcement and emergency services throughout the world. Terrorism, organized crime, rising number of violent acts, law enforcement in war zones, risks of flood, inland water, hurricane, earthquake, avalanche, landslide, the increasing number of volcano eruptions, nuclear disasters, fires, mass disasters and their growing intensity urge the nations to provide efficient, fast and secure solutions for disaster and emergency situations.

The Hungarian government ordered through Government Decree No. 1031/2003. (IV. 09.) the construction of a unified digital radio telecommunications system in compliance with the Schengen Treaty requirements and the European Telecommunications Standardization Institute standard to ensure satisfaction of the radio communication needs of the emergency services and government users. The purpose of the closed radio communications system that ensures very high availability is to implement professional connections between various emergency and law enforcement bodies that enable faster, more efficient and secure performance of certain actions.

The winner of the public procurement tender invited for the construction EDR, the T-Mobile – Magyar Telekom Plc. consortium, guarantees the provision of the following services according to contract through its company established for the performance Professional Mobile Radio Limited Company (Pro-M Zrt.):

- construct the TETRA network in Budapest until April 5, 2006,
- install 39 base stations and 2 relay stations in Budapest,
- make available to the users\* 14,000 pieces of terminal equipment in the Budapest network through rental,
- bring into operation the entire national TETRA network until January 31, 2007 (in line with Government Resolution No. 1053/2005) to ensure 94% coverage of the territory of Hungary,
- construct about 200 – 300 base stations throughout Hungary until early 2007,
- at the time of the national bringing into operation the system will be able to manage 28,000 pieces of terminal equipment, but not all these equipments will be provided by the winning bidder,
- 99.9% national availability per year, downtime: 8 hours/year.

Contract term: 10 years.

\* Planned users of EDR in Hungary: Police, Border Guard, Fire Department, Disaster Prevention Service, National

Environmental, Nature Preservation and Water Management Authority, Ministry of Finance, Ministry of Justice, Prime Minister's Office, National Security Services, Ministry of Health, National Ambulance Service, Army.

Magyar Telekom Group member company Pro-M Zrt. successfully completed by the end of the January 2007 deadline the national construction and technical handover of EDR (Unified Digital Radio Communication System).

Magyar Telekom maintains relations with municipalities, as regulators, in the course of its activities involving local communities. Such cases can be licensing processes. Successful cooperation with municipalities is in the interest of the Group too. For this reason key attention is paid to compliance with regulations.

### 6.2.2. Industry and market associations, research cooperation groups

#### 6.2.2.1. Relations and cooperation with higher education institutions

To continue decades' traditions Magyar Telekom keeps close contacts with higher education institutions in Hungary, the Technical and Economic University of Budapest, Kandó Kálmán Electric Engineering and Neumann János IT Departments of the Technical College of Budapest and Corvinus University of Budapest. Out of universities in other cities Pázmány Péter Catholic University, University of Miskolc, Janus Pannonius University of Pécs and Szent István University of Győr have graduating students who obtain diploma thesis subjects from us and thereby are involved in the practical development activity carried out at PKI Telecommunications Development Institute. As a result of this cooperation that is mutually beneficial for both parties we can achieve that the content requirements of the competitive sphere are increasingly strongly represented in research and education subjects.

The Training and Knowledge Management Directorate participates, in addition to management of the Group's knowledge management activity and training sessions, in the elaboration and management of research programs. To perform their tasks it is important to be able to contact and keep relations with Central and Eastern European media and communication researchers and research centers. The Media Education and Research Center and CEU offer appropriate help and scientific background for the creation of this wide international network.

The Media Education and Research Center (MOKK) is a joint project of Magyar Telekom and the Technical University; today it is one of the most successful examples of cooperation between universities and industry players. In the field of higher education in Hungary MOKK is a key institution that determines the directions of education and research investigating the social impacts, innovative usage and community natural language processing. Since its establishment the Central y applications of Internet technologies and a key player of projects dealing

with digital archives an European University (CEU) is a key research and knowledge center of the region. Some major results of cooperation between CEU and Magyar Telekom: An international academic res I for Communication, Oxford University, London Stanhope Center and Cardozo Law School. Special earch network was built with the following major pillars: Pennsylvania University Annenberg Schoo education in telecom regulation (CMCS) was created which is unique in Europe. Its purpose is to understand the processes and new phenomena of media and communication, and use a scientific approach to it from political sciences, law, sociology and other academic disciplines.

In 1995 T-Mobile established jointly with the Technical and Economic University of Budapest a Mobile Communications Laboratory to further raise the standard of technical education and ensure theoretical and practical application of state-of-the-art telecommunications knowledge and solutions. In the initial phase the scope of research projects was connected with GSM, then in the following years new technologies were added, such as UMTS, WLAN, HSDPA. As a result of continuous cooperation laboratory training and research can keep pace with the continuously changing industry and further novelties that determine the future can also be tested. With the laboratory devices sponsored by T-Mobile engineering students can graduate from university with knowledge that can be used on the international scene too and is useful for the telecommunications industry and the whole country.

#### 6.2.2.2. Cooperation with standardization organizations

European Telecommunications Standards Institute (ETSI) is one of the European Union's official standardization institutes. Magyar Telekom is a full member of the Institute since years ago. International interoperation of telecommunications networks is based on ETSI standards and specifications. Magyar Telekom regularly participates at ETSI TIPHON (Telecommunications and Internet Protocol Harmonization over Networks) and SPAN (Services and Protocols for Advanced Networks) committee meetings. To improve the efficiency of working processes these two committees were merged under the name TISPAN. Within TISPAN Magyar Telekom is working in Working Groups 2 (Architecture) and 4 (Numbering Addressing and Routing).

Standards elaborated by the International Telecommunications Union organizations ITU-T and ITU-R guarantee global compatibility of telecommunications networks and services. A PKI staff member participates in the work of Study Group 11 elaborating NGN network signaling and protocol recommendations and access network technologies.

**Both ETSI Working Group TM6 and ITU Study Committee 15 are working on the standardization of DSL technologies.** Participation in these works helps us prepare with the latest experience for the introduction of higher speed user connections, i.e. installation of ADSL2, ADSL2+, VDSL, VDSL2, HDSL and SHDSL systems.

#### The Magyar Telekom Group is member of ETNO (European Telecommunications Network Operators) and participates in its working groups with full consulting right.

One of the objectives of R+D membership is to learn about the development efforts and projects of the other European telecommunications operators and search and identify cooperation possibilities. Another important task of this working group is to harmonize developments to be launched under EU research and development programs, make proposals for project and tender subjects and give comments.

Magyar Telekom is member of the GSM Association through T-Mobile. The Association plays a key role in the elaboration of international roaming rules and guidelines for settlement between operators. Our staff members actively participate in the work of BARG (Billing, Accounting and Roaming Group), IREG (Inter-Working, Roaming Expert Group), DG (Devices Group) and TADIG (Transferred Account Data Interchange Group). These working groups primarily elaborate regulations connected with interoperation of devices and networks, roaming testing of services, exchange of data needed for settlement and settlement itself which are mandatory for all operators. Without such rules it would be impossible to manage T-Mobile's interoperation with 382 networks in 178 countries on 5 continents.

#### We participate also in the work of the UMTS Forum and The Wireless Broadband Alliance.

The former is responsible for elaboration of standards connected with UMTS to promote the widest global usage of the system, while the latter is a professional organization dealing with high-speed wireless networks managed by telecom operators with the objective to elaborate recommendations and guidelines.

#### 6.2.2.3. International project type cooperation

In the last years international cooperation within the DT Group to leverage synergies within the Group, in particular to adapt development results to the Hungarian market, to share experience with introduction of products and to coordinate vendor relations and procurements – if they are reasonable on the basis of business considerations – came to the focus.

Cooperation in development matters plays an important role in harmonization of wireline and mobile network development and O&M projects of Telekom companies in Hungary, Croatia, Slovakia and Germany and MakTel. The primary objective is to ensure infrastructure compatibility, to implement related joint development projects and to build DT Group level cost-optimized networks, e.g. common terminal equipment portfolio, preparation for the introduction of new technologies (e.g. VDSL2, GPON), strategic level harmonization of new generation network concepts. Jointly launched development projects enable leveraging Group level synergies with efficient financial and human resource management and involvement of common contractual partners. This is supported by the common procurement strategy framework system elaborated for key technological platforms.

#### 6.2.2.4. Joint international research projects

PKI participates in two international research associations on behalf of Magyar Telekom: in EURESCOM and DSL Forum. While EURESCOM is an organization that establishes special working groups for the solution of permanent and current problems, DSL Forum focuses on the solution of a single key problem.

EURESCOM (European Institute for Research and Strategic Studies in Telecommunications) was established in 1992, since that time Magyar Telekom Plc. is a shareholder of the Institute. The majority of European network operators joined the Institute either as shareholder or user. In the last years joint development projects produced numerous future-oriented results for the shareholders. However transformation of EURESCOM from a membership based organization to a modern project management and telecommunications consulting company was started while keeping in mind business interests.

We were involved in the following projects in 2006:

- P1652 – Convergent application of service-oriented architectures to server platforms
- P1657 – Internet vision – vision of services

**DSL Forum** is a consortium of 200 leading operators, equipment manufacturers and non-profit organizations. The purpose of this international cooperation is to guarantee broadband access for subscribers with reliable easy-to-operate devices at affordable prices to enable satisfaction of mass demand. Currently Magyar Telekom is a Principal Member and actively participates in the standardization work carried out in the DSL Forum. The two key areas of participation are standardization of the architecture and CPE functionality of DSL systems. In 2006 two standards were completed: standard TR-101 that regulates Ethernet based system technology solutions and standard TR-124 that regulates CPE requirements. PKI professionals made contributions to the standards in the fields of overall system technology requirements, security and Multicast based transfer. The results of work in the standardization organization were used for the introduction of IPTV service both for the design of system technology and definition of subscriber connections.

A joint international research by the Hungarian Academy of Science and T-Mobile entitled '21st century communication' conducts analysis of the social impacts of mobile telephony and related researches.

As a result of cooperation between the Academy and T-Mobile in the research program 160 lecturers from about 35 nations held presentations at eight scientific conferences from 2001 to 2005. The three Hungarian, one German and five English language books published after the conferences include the works of 134 authors from 26 nations. These books follow the mobile history from 2001 to today, that is certainly the most dynamic evolution in the recent history of technology and society. First of all they represent the basics, self-awareness, self-reflection of a young science – mobile social science.

#### 6.2.2.5. Participation in research consortiums

The Magyar Telekom Group is consciously making efforts to add on its existing research resources both in professional and financial terms. For this purpose, in addition to involvement of external resources based on bilateral agreements, we joined with our partners research and development projects financed by the state where the results can be directly used in the short and medium term. Establishment of R+D consortiums offers an excellent opportunity for adding new resources.

In 2006 we participated in the following consortiums:

##### **Adaptive media flow service architecture for the latest mobile telecommunications systems (NKFP tender)**

Participants: ETIK, BME Telecommunications and Media IT Department, BME Communications Department, Magyar Telekom Plc. T-Mobile, Ericsson Hungary Communications Systems Ltd., Magyar Telekom Plc. PKI

The project consists of basic research, applied research and experimental development tasks. Its objective is to develop a media flow service architecture with which high quality media flow (streaming audio and video) services and applications can be provided to subscribers in a scalable way, flexibly tailored to users' needs and changes in the status of the network in a mobile and fixed-mobile convergent environment.

##### **Establishment of Mobile Communication Research and Development Center and Innovation Center – Mobile 2004**

Participants: ELTE, BME, PPKE, Ericsson, Siemens, HP, SUN, Microsoft, NOKIA, MTA SZTAKI, Pannon Telecommunications Ltd., Magyar Telekom Plc. PKI Magyar Telekom Plc. T-Mobile

The process of network design requires – among others – algorithms that can determine the traffic carried on given relations on the basis of measurable network traffic figures and the network topology, i.e. the network traffic matrix. The research work included a study of procedures based on various principles, their comparison in terms of accuracy of results, convergence and speed and data requirements. The methods developed in this research task are used in IP/NGN network design and network resource dimensioning works.

##### **Video information transmission optimization in fixed and wireless infocommunication networks**

Participants: ELTE, Intermap GIS Ltd., Magyar Telekom Plc. PKI

The objective of this research project was to find solutions for quality assurance, efficient operation and fast fault repair in the IPTV service launched at the end of 2006.

##### **Evaluation of the quality of IP telephony, videotelephony and video applications on the basis of measurable network parameters**

Participants: Collegium Budapest, external participant Magyar Telekom Plc. PKI

The objective of the joint research work planned for several years is to evaluate the quality of various voice and video applications over IP on the basis of measurable network parameters.

### **Detailed elaboration of the reference architecture of the intelligent optical backbone network in the MUPBED project**

Participants: Deutsche Telekom TSystems, Telefonica (Spain), Telecom Italia, Marconi, Juniper, research institutes (7 institutes from 5 countries, none of them Hungarian)

The primary objective of the MUPBED project is to examine and present advanced network technologies and solutions which help build future ultra-broadband research networks and basically guarantee the competitiveness of European research networks.

### **Services over up-to-date optical networks, performance in 2006, GVOP tender**

Participants: Alcatel Hungary, BME TMIT Department, Magyar Telekom Plc.

The 2-year project examines up-to-date optical networks from a service-oriented point of view. Its primary objective is to present the way from current transport architectures to fully optical service-driven intelligent optical networks. Objectives included support to advanced services with high capacity requirement with end-to-end quality guarantees and reliability.

Further information about these matters is available in the Magyar Telekom Group's Annual R+D Report "R+D Activity 2006".

<http://www.magyartelekom.hu/english/aboutmagyartelekom/innovation/report.vm>

### **6.2.3. Local communities, environment and nature**

The Magyar Telekom Group pays high attention in its Sustainability Strategy and during its actions launched to implement it to getting to know and when possible satisfying the needs of local communities and the society and the environmental requirements. Further information about these matters is available in the Chapters 7.3 Social aspect and 7.4 Environmental aspect. Our cooperation with NGOs also testifies this. Our company is member of the HBLF (Hungarian Business Leaders Forum) non-profit organisation, the aim of which is to have social responsibility and sustainable development aspects integrated in everyday business practice.

### **Sustainability Round Table**

The traditional Round Table was not held in 2006 due to lack of proposed subjects of wide interest.

### **DT Group Sustainability Forum**

The DT Group's first Sustainability Forum was held on May 18, 2006 in Deutsche Telekom's headquarters in Bonn. Deutsche Telekom and T-Mobile subsidiaries' representatives from England, Netherlands, Czech Republic, Croatia, Slovakia, Macedonia, Poland and Hungary participated at this event.

Presentations on various issues (e-waste, service provider chain management, corporate code of conduct, communication issues, etc.) connected with sustainability were on the agenda of the one-day forum. The participants could ask questions and express their views on the presentations.

Then the participants learned about the DT Group's sustainability strategy for the period until 2008 and discussed related questions raised.

### **DT Sustainability Day – Fair Play**

This year the Deutsche Telekom Sustainability Day was held under the title "Fair Play – rules of the game for working days" in close connection with the DT Group Sustainability Forum on May 19, 2006 with almost 200 participants in DT's headquarters in Bonn.

### **DT Sustainability Workshop**

The DT Group's traditional Sustainability Workshop was held on November 16-17, 2006 in Budapest with Magyar Telekom as host. The event – where all areas of the DT Group were represented – included in addition to presentations and discussion of daily activities and sharing of best practices also discussion of e-waste, network energy efficiency, corporate donations and health and environmental issues of safety at the workplace in various sections.

### **Researchers' Night**

We participated at the discussion forum of the program "Researchers' Night" organized by the "University of All Knowledge" and the exhibition held simultaneously. The 2006 event addressed sustainable development. Further information about this issue is available on Page 37 of the Annual Sustainability Report 2004.

The Annual Sustainability Report 2004 is available on the following website:

[http://www.magyartelekom.hu/english/doc/sustainability\\_report\\_2004\\_kicsi.pdf](http://www.magyartelekom.hu/english/doc/sustainability_report_2004_kicsi.pdf)

#### 6.2.4. Awards and recognition in 2006

In 2006 Magyar Telekom's activity was recognized with several awards:

- Receptive Workplace Award (Budapest Municipality)
- Biker Friendly Workplace Award (GKM)
- TOP 200 „Donor of the Year” Award (Figyelő)\*
- Braun & Partners Accountability Rating Hungary 2006: 1st place
- Deutsche Telekom Diversity Award
- Most Trusted Brands (T-Mobile, T-Online): Readers' Digest
- CSR Online 2006: Terra Idea

Having won the special prize in 2005, Magyar Telekom won the first prize of the for profit category in the competition announced by the Capital City Local Government in the topic of „**Including Workplace**” in 2006, in recognition of the company's outstanding achievements in the area of equal opportunities at the workplace.

Sponsoring the idea of creating workplaces and agencies that are suitable to host and cater for employees and customers riding bicycles the government announced a competition for **Bicycle-Friendly Workplace**. In assessing the competition the Ministry of Economics and Transport took the following criteria into consideration: safe storing and guarding of bicycles, provision of dress rooms and sanitary facilities for those who ride bicycles, organisation of events and programs focused on bicycle riding. Magyar Telekom won a certificate of recognition for T-Mobile's outstanding sponsorship of cycling.

In the **TOP 200 Gala of Figyelő** (Observer) six rewards were handed out to acknowledge firms having developed and increased most their profitability. When selecting winners in 2006 the jury brought its decision in consideration of a ranking compiled on the basis of objective indicators, while also accommodating non-quantifiable considerations. **The sponsor of the year of 2005** was Magyar Telekom Plc.

**Accountability Rating Hungary** assessed the importance 31 major Hungarian companies attached to the efficient management of the social, economic and environmental challenges and how they integrate these criteria in their business strategy in an open manner, on the basis of information available to their stakeholders, and to what extent do these companies involve their stakeholders in their decision making processes. Another important consideration was how companies kept their environment informed on all this; therefore evaluation was based on publicly available documents. Magyar Telekom came out first in the ranking with an assessment of 52 per cent, which would have classified it to the 10th place in an international ranking.



Magyar Telekom obtained the Deutsche Telekom **Diversity Award 2006** (Diversity 2006) offered to companies playing a leading role in granting equal opportunity. This prize is granted every two years by Deutsche Telekom to affiliate companies and organisations of the Group. In 2004 Magyar Telekom ranked second. The title of the competition in 2006 was „Building values, adding values”. This time Magyar Telekom applied to the competition with an application introducing 13 projects. The professional jury selected eight from the several dozens of competitors and Magyar Telekom's was among them. The thirteen projects introduced by MT included ones like harmonisation of family and job, atypical forms of employment, integration of people living with disabilities, programs promoting alternative forms of training, as well as the Issue, the Donation Line, the NGO Tariffs and the Digital Bridge program.

**Reader's Digest** European „Reliable Brands” survey is one of the largest and most comprehensive consumer surveys in Europe. In 2006 the survey covered 15 European countries and its primary focus was to assess which brands commanded the greatest amount of confidence among readers of Reader's Digest Europe. Readers were asked to rank brands on a scale of one to five along four criteria (quality, price, product image and meeting consumer needs). T-Mobile and T-Online were ranked first on the Hungarian list of **reliable brands** in 2005 and 2006.

**CSR Online 2006** assessed the on-line communication of social responsibility among 100 Hungarian businesses generating the highest sales revenue. The set of indicators the assessment was based on scrutinized the CSR content and appearance of home pages applying varying weighting to the several particular areas in consideration of their importance. The companies having been assessed reached 36% on average. Magyar Telekom reached the first place with its 84% result.





## Activities in the Light of the Sustainable Development Approach

### 7.1. Information society – Digital Bridge

Digital gap means the gap between the possibilities of various strata to access information (caused by differing geographic location, social or other differences). The Digital Bridge aims at reduction of its impact or hindering its creation.

Magyar Telekom is making efforts, in line with its commitment to sustainable development, to eliminate the negative consequences lying in the spreading use of information and communication technology and promote positive impacts. Today economic development requires access to information and communication technologies. Transformation of communication, that is the key to social life, requires knowledge and usage of new technologies and possibilities.

Construction of the Digital Bridge interconnects certain strata of the society, which are underdeveloped and isolated for social reasons or due to their geographic location, with the information society and thereby creates equal opportunity for achieving higher standard of life through access to information.

Without reaching a helping hand to these strata the society would split resulting in isolation and division.

T-Mobile's Fixed Internet service aims at improvement of Internet coverage in rural areas. The objective was to cover 200 areas where the T-Group does not plan to



### Telekom Digital Bridge

introduce broadband service. W-LAN technology meant the cheapest alternative both for customers and service providers. The service was officially introduced on April 1, 2006.

Use of the service does not require GSM subscription, the necessary devices are installed and controlled by the service provider when requested. In comparison to other Internet service providers its tariffs are in the lower middle category. Currently 120 areas are covered with W-LAN and T-Mobile has 1,300 Internet Fix subscribers.

#### 7.1.1. Involvement of people and groups living in remote or small towns into the Internet – Digital Bridge

The objective of Magyar Telekom's Digital Bridge builders is to present the results and opportunities of information and communication technologies in the areas where there is a digital difference that can grow to a gap. The program aims at enabling underdeveloped underprivileged small towns with less than 3,000 inhabitants to catch up in terms of communication and this way promote local and regional development. Our voluntary professional team offers under this program efficient customized education and IT training for people living in villages.

**By 2006 already 72 small towns were involved in the program.**



In 2006 the event was visited by 642 people who were helped by 107 Magyar Telekom staff members in using the web. Competitions held at the events to support training and learning in a playful form had a great success. Children, adults and elderly participating in the program welcomed this opportunity. Their opinions and comments are available on Magyar Telekom's Sustainability website: <http://www.magyartelekom.hu/english/aboutmagyartelekom/sustainability/digitalbridge.vm>

As a result of giving information and practical guidance we obtained numerous new subscribers in the areas concerned.

In many cases the mayors of the towns requested us to repeat the event. Therefore we want to continue this series of events in 2007.

#### 7.1.2. Internet education programs

T-Com and T-Online, being Magyar Telekom Group members, has been supporting initiatives promoting the information society for years.

This way the company continued in 2006 the initiatives earlier started:

- Learning for Grandmas offered in 2006 still only in Budapest to promote the use of Internet for the elderly in a 25-hour course. About 140 elderly people participated in the 5-day course held at 16 venues.
- Free Internet Training Program introduced with great success that can be obtained through bidding. The program includes free training at the venue offered by the customer for beginner and advanced

Internet users. The participants receive at the training sessions information supported with practical experience – with the help of computers – about the possibilities of using the web and how they can capitalize on them. In 2006 about 1,100 students participated at almost 100 training sessions held primarily at venues in rural areas and micro regions in more than 400 training days.

#### Objective of the Internet Training Program

- to introduce and spread advanced computing and Internet usage culture
- to present and popularize the opportunities offered by the Internet
- to mentally prepare people for distance learning and teleworking opportunities
- to support ADSL spreading and awareness

#### Form of support

Free 1-, 2- and 5-days training sessions where Magyar Telekom gives the learning material, the instructor for the total period of training and when necessary also the computers. Multi-day training sessions are held on consecutive days.

Each participant at a training course receives a diploma.

#### Scope of bidders

Municipalities, church and non-profit institutions and organizations (e.g. schools, kindergartens, foundations associations) can bid.

#### Scope of participants in training programs

Employees and members of the winning institutions and organizations (e.g. teachers and other employees of schools, employees of municipalities, etc.) and private persons involved by them.

#### Activity in 2006

- „Granny, Learn” was a series of program organised first in Budapest in 2006, promoting in 25 hours the use of the Internet among elderly people. Around 140 elderly students participated in 5-day training programs organised on 16 different locations.
- The free Internet Training Program has been introduced with a hit and is available through competition. Applicants have to provide the facilities where we conduct free of charge training for users at beginners and advanced levels. Participants in the training are provided information with the help of computers and supported with practical experiences on the potentials inherent in the use of the world net and on how these potentials can be tapped. In 2006 as many as 1,100 learners participated in over 400 training days in programs organised at close to 110 mainly rural and small area locations.

### 7.1.3. Internet for Equal Opportunity (Egálnet) Program

At the end of 2006 we established a community portal with the objective to support the operation of organizations dealing with various underprivileged groups by using the opportunities offered by the Internet. Egálnet.hu is a community site where registered organizations can establish and keep contacts with each other. Organizations not having an own website can create it with the use of a simple program. Organizations having own website can also join the community site. The target groups of the program are communities with social disadvantage or disability and non-governmental organizations representing their interests and supporting them: unemployed young people, schools, groups supporting fresh graduates, minority communities and other foundations and associations created to solve social problems.

The project is used as a tool for the target group – interest communities, non-governmental organizations – with which they can develop themselves and their communication capabilities to promote their personal and professional development. We enable communities and non-governmental organizations to improve their awareness, exchange information and experience with organizations of similar interests and thereby collect more donations. Further information is available on the following websites: <http://www.magyartelekom.hu/english/aboutmagyartelekom/sustainability/digitalbridge.vm>  
<http://www.egalnet.hu>

## 7.2. Economic aspect

The data and information shown in this Chapter are based on the Magyar Telekom Group's Annual Report and the Group-level data on Magyar Telekom's 20F Report. We continue to make efforts to present data with such depth that enables presentation of regional level Group data too.

### Management approach

Magyar Telekom is Hungary's largest telecommunications service provider. Magyar Telekom provides a wide scope of wireline telephone, data transmission and value-added services and is Hungary's leading mobile communications and Internet service provider. The company is majority owner of MakTel, Macedonia's exclusive wireline service provider and subsidiary of the leading mobile carrier T-Mobile Macedonia. Magyar Telekom holds a majority share of Crnogorski Telekom, Montenegro's largest telecommunications service provider where the company provides wireline, mobile and Internet services to its customers.

### Economic performance

The Group achieves economic results on the basis of major policies like the Code of Conduct and Code of Ethics.

Code of Conduct: [http://www.magyartelekom.hu/english/doc/Code\\_of\\_Conduct.pdf](http://www.magyartelekom.hu/english/doc/Code_of_Conduct.pdf)

Code of Ethics: [http://www.magyartelekom.hu/english/doc/Code\\_of\\_Ethics.pdf](http://www.magyartelekom.hu/english/doc/Code_of_Ethics.pdf)

In 2006 the Group completed a successful integration (T-Mobile as independent company -> T-Mobile as Magyar Telekom's Mobile Services LoB) with the following result perceivable for everybody: the first combined wireline-mobile offer was made on the market.

We retained our leading position in our major LoBs. Both revenue and EBITDA increased according to the annual goals. In terms of headcount efficiency we achieved our target, at mother company level the number of lines per employee reached 500 by the end of February 2006. International wireline and mobile LoBs achieved excellent results both in Macedonia and Montenegro thereby supporting profitability of the Group. Our goal for 2007 is to retain the 2006 revenue and EBITDA level on a HUF basis.

Strategic level tasks identified for improvement of our economic performance which will be given key priority in the future:

- to achieve excellence through strengthening customer-orientation and significantly improving service quality
- to improve efficiency, structure of operating costs and headcount efficiency and to leverage new integrated revenue generating opportunities
- to use growth opportunities in the forms of value-creating acquisitions both in Hungary and in the region.

Further information: <http://www.magyartelekom.hu/english/investorrelations/corporategovernance/strategy.vm>

### Market Presence

Magyar Telekom, being Hungary's largest telecommunications service provider, is present on all segments of the market (wireline, mobile, Internet), holds a leading position on the wireline telephone and Internet services market and mobile communication and business communication market.

We want to compensate decrease in wireline service usage revenues through increasing system integration and IT revenues and further spreading of broadband services. (The number of broadband connections increased by 60% on 2005 figures.) We continue to lay emphasis on flat-rate contracts with loyalty period to ensure customer retention. Our goal is to further increase broadband penetration with new offers and band widening in the following years. The IPTV service introduced in November 2006 that offers interactive entertainment for the customers also promotes this objective. We widened our offering of content services through the acquisition of iWiW, the leading Hungarian community site.

System integration and IT revenues grew in 2006 primarily as a result of consolidation of Dataplex Kft. from April and the KFKI Group from mid-September. With the help of these companies we obtained a strong position on the growing IT, system integration and telco-outsourcing markets. (Our role in this segment will further strengthen due to our majority ownership obtained on January 1, 2007 in T-Systems Hungary.)

#### Indirect economic impacts

Out of these impacts first we should mention the Group's research and development activity, in particular our cooperation with various higher education institutions, Hungarian and international professional organizations

which currently have only indirect impact on our economic situation but in the near or distant future they can have greater impact on our profitability.

Although in an even more indirect way our corporate social responsibility should also be mentioned here since sponsorship means specific commitments, and a positive image of the company can have a positive impact on our judgement (and thereby on later economic results).

#### 7.2.1. Magyar Telekom Group's key financial and summarized operation data in 2006

The Magyar Telekom Group's key financial and summarized operation data are shown in the following tables and figures.

Table 2 – Magyar Telekom Group's key financial figures

	2005 HUF million	2006 HUF million	Change (%)
Total revenues	615,054	671,196	9.1
EBITDA*	256,440	258,640	0.9
Operating profit	141,754	136,391	(3.8)
Net income	78,415	75,453	(3.8)
Number of employees (closing)	11,919	12,341	3.5
No. of shares (millions)	1,043	1,043	0.0
Basic earnings per share (HUF)	75.5	72.5	(4.0)
Total assets	1,082,948	1,131,595	4.5
Long term debt	226,215	206,129	(8.9)
Net debt	296,588	229,202	(22.7)
Total shareholders' equity	527,567	526,039	(0.3)
Net debt to total equity and net debt	33.2%	27.9%	n.a.
Gross additions to property, plant and equipment and	103,587	96,790	(6.6)
EBITDA margin	41.7%	38.5%	n.a.
Operating margin	23.0%	20.3%	n.a.
Net income margin	12.7%	11.2%	n.a.
ROA	7.4%	6.8%	n.a.
HUF/EUR (year end)	252.73	252.30	(0.2)
HUF/EUR (average)	248.05	264.27	6.5
HUF/USD (year end)	213.58	191.62	(10.3)
HUF/USD (average)	199.66	210.51	5.4

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



Figure 5 – Revenue breakdown before internal eliminations

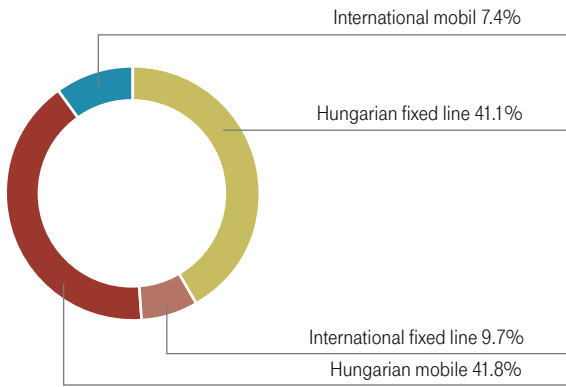
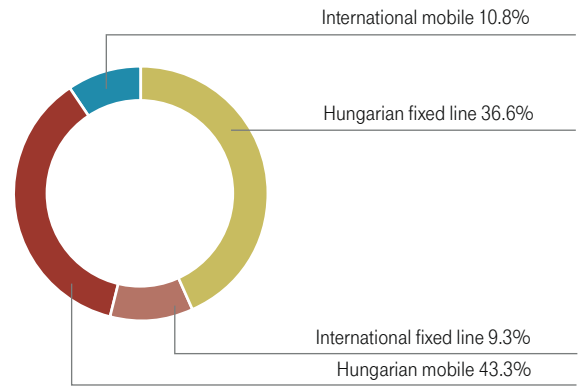


Figure 6 – EBITDA by segment



**Wireline segment: growth in broadband, system integration and IT services**

Figure 7 – Total number of fixed lines

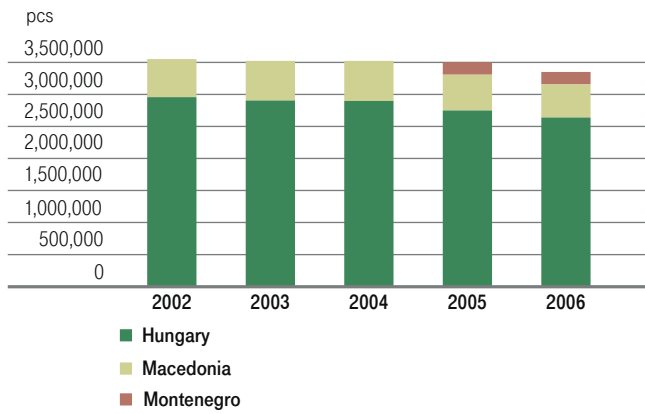
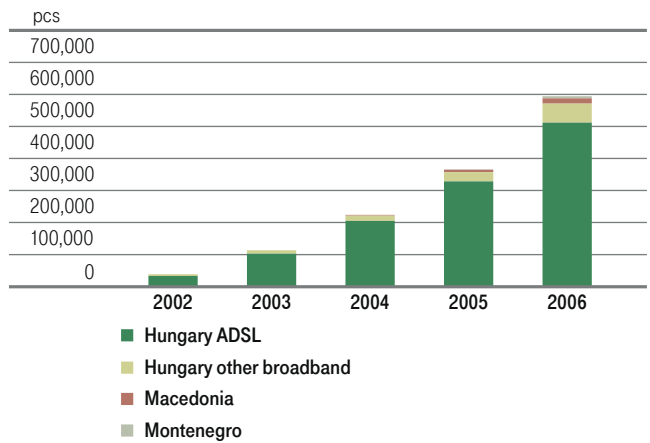
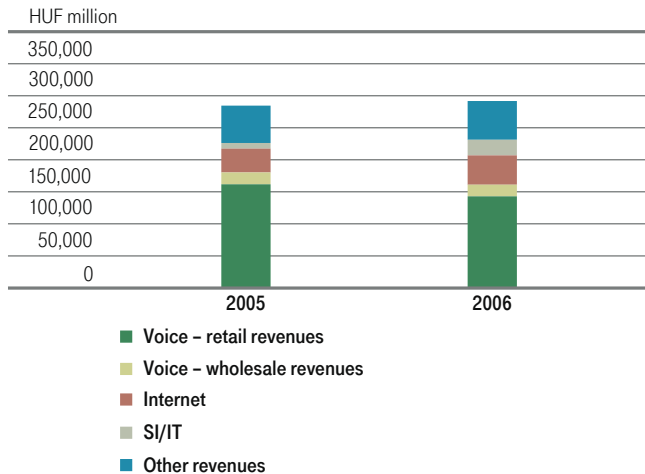


Figure 8 – Total number of broadband connections



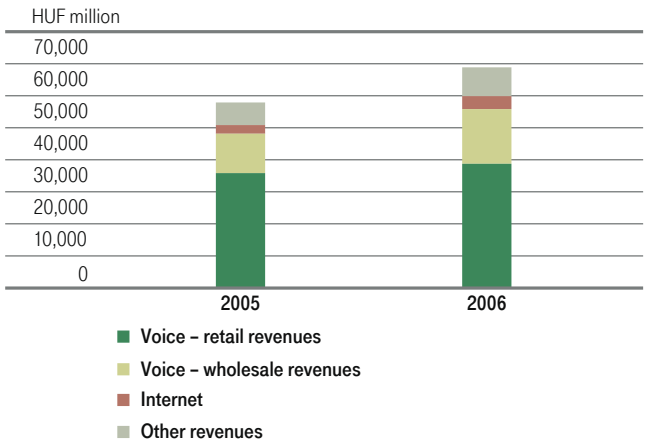
**Hungarian wireline services: revenues increasing as a result of successful initiatives**

Figure 9 – Revenues of wireline services in Hungary



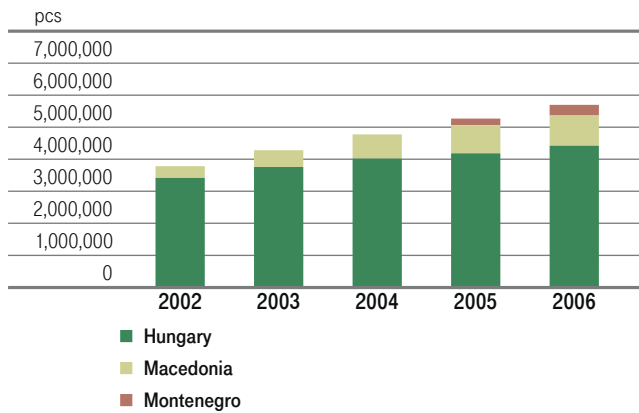
**International wireline services: significant efficiency improvement**

Figure 10 – Revenues of international wireline services



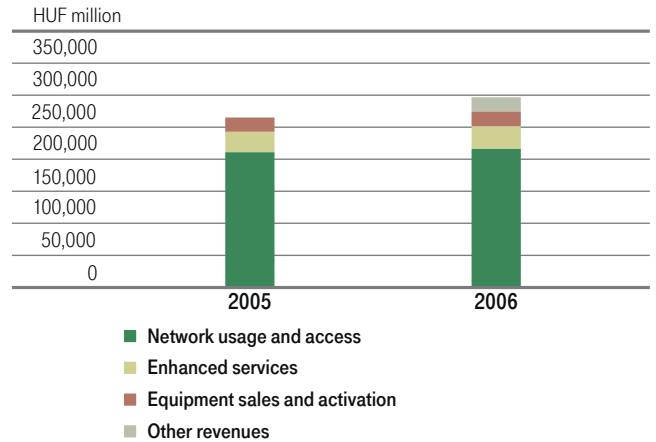
Mobile segment: increasing contribution to Group revenues

Figure 11 – Number of mobile subscribers



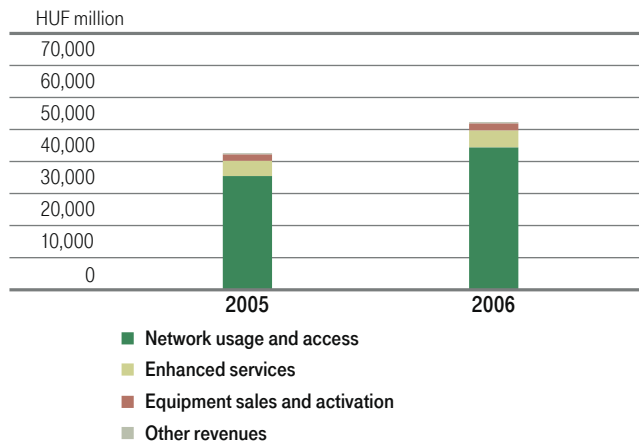
Mobile services in Hungary: retained our clear market leader position

Figure 12 – Revenues of mobile services in Hungary



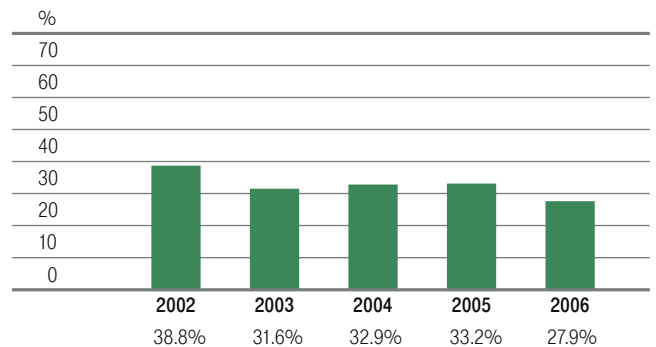
International mobile services: significant revenue and EBITDA increase

Figure 13 – Revenues of international mobile services



Cash-flow

Figure 14 – Net debt to total capital



Further information is available in Magyar Telekom Annual Report 2006 on the following website:  
[http://www.magyartelekom.hu/english/doc/2006evesjelentes\\_eng.pdf](http://www.magyartelekom.hu/english/doc/2006evesjelentes_eng.pdf)

### 7.2.2. Milestones 2006

Magyar Telekom Group's notable performances in 2006:

- In terms of headcount efficiency we achieved our target, at mother company level the number of lines per employee reached 500 by the end of February 2006.
- The number of broadband connections increased by 60% on 2005 figures.
- Construction of the TETRA (Unified Digital Radio Communications) system serving emergency bodies was completed in January 2007.
- Rebranding of the Macedonian LoB and the Montenegrin wireline and mobile LoBs was carried out in 3Q2006.

Further information is available on pages 4-5 of Magyar Telekom Annual Report 2006.

[http://www.magyartelekom.hu/english/doc/2006evesjelentes\\_eng.pdf](http://www.magyartelekom.hu/english/doc/2006evesjelentes_eng.pdf)

### 7.2.3. Competitive market positions

Magyar Telekom, being Hungary's largest telecommunications service provider, holds a leading position on all segments of the telecommunications market (wireline, mobile, Internet) on the wireline telephone and Internet services market and mobile communication and business communication market.

Further information about this issue is available on pages 12 and 13 of Magyar Telekom Annual Report 2006 on the following website:

[http://www.magyartelekom.hu/english/doc/2006evesjelentes\\_eng.pdf](http://www.magyartelekom.hu/english/doc/2006evesjelentes_eng.pdf)

### 7.2.4. Economic performance

#### 7.2.4.1. Operating profit

Information about the Magyar Telekom Group's key results is available in the Consolidated Balance Sheet and Consolidated Profit and Loss Statement and Consolidated Cash Flow Statement on pages 42 to 44 of Magyar Telekom Annual Report 2006.

[http://www.magyartelekom.hu/english/doc/2006evesjelentes\\_eng.pdf](http://www.magyartelekom.hu/english/doc/2006evesjelentes_eng.pdf)

#### 7.2.4.2. Analysis of Group-level operating expenses

The Magyar Telekom Group's aggregated operating expenses are shown in the following table.

In 2006 personnel expenditures amounted to HUF 95.3 billion while in 2005 to HUF 92.8 billion (2.7% increase). The primary reason is the consolidation of the costs of new subsidiaries, such as Pro-M Zrt., Dataplex Kft. and the KFKI Group. In 2006 Crnogorski Telekom's expenditures increased due to provisions generated for lay-offs on the basis of the headcount reduction program and Magyar Telekom's expenditures also increased due to higher severance pay expenses. Group level headcount ("person based") increased from 12 042 on December 31, 2005 to 12 462 on December 31, 2006.

Increase in personnel expenses was compensated by MakTel's lower expenditures resulting from higher severance pay expenses at the end of 2005.

For more details see:

[http://www.magyartelekom.hu/english/doc/2006evesjelentes\\_eng.pdf](http://www.magyartelekom.hu/english/doc/2006evesjelentes_eng.pdf)

Depreciation increased by 6.6% from HUF 114.7 billion on December 31, 2005 to HUF 122.2 billion on December 31, 2006. The major reason for the increase is Crnogorski Telekom's consolidation and write-off of the brandnames Monet, TCG and Internet CG due to rebranding in Montenegro in September 2006. Additionally as a result of capitalization of the UMTS concession and increased gross value of telecommunications and IT equipment T-Mobile Hungary had higher depreciation.

Payments to other network operators increased from HUF 88.6 billion in 2005 to HUF 93.2 billion on December 31, 2006. The major reason for the increase is that as a result of higher mobile penetration and increased traffic T-Mobile Hungary's payments to other mobile carriers in Hungary significantly increased. With the introduction of flat-rate packages the number of calls to the other mobile carriers in Hungary increased which resulted in higher payments by TMH. Consolidation of the costs of Crnogorski Telekom and Orbitel also contributed to the increase. Magyar Telekom Plc.'s higher international payments were caused by the forint weakening against the euro which is partly compensated by the lower average settlement prices and lower traffic. The increase was partly compensated by significant fall in Magyar Telekom Plc.'s payments to mobile carriers as a result of lower traffic and lower termination fees payable for fixed to mobile calls. Magyar Telekom Plc.'s interconnection traffic with other wireline network operators also reduced as a result of retroactive application of lower RIO-based tariffs.

Table 4 – Magyar Telekom Group's operating expenses

	2004 (in HUF millions)	2005 (in HUF millions)	2006 (in HUF millions)	2006 (million USD)
Employee related expenses	(109,497)	(92,783)	(95,253)	(497)
Depreciation and amortization	(137,666)	(114,686)	(122,249)	(638)
Payments to other network operators	(87,483)	(88,587)	(93,154)	(486)
Cost of telecommunications equipment sales	(40,971)	(37,221)	(59,714)	(312)
Other operating expenses	(134,577)	(148,032)	(168,010)	(877)
<b>Operating expenses</b>	<b>(510,194)</b>	<b>(481,309)</b>	<b>(538,380)</b>	<b>(2,810)</b>



Procurement value of telecommunications equipment sold increased from HUF 37.2 billion in 2005 to HUF 59.7 billion on December 31, 2006. The major reason for this significant increase is Pro-M Zrt.'s activity. Magyar Telekom Plc.'s procurement value of equipment sold increased as a result of various network construction and system integration tenders. Increase of T-Mobile Hungary's procurement cost of telecommunications equipment sold was caused by the higher number of new subscribers and higher average procurement price of equipment which was partly compensated by the lower equipment sale rate. The rise in BCN Rendszertér Kft.'s equipment sales and consolidation of Orbitel's and the KFKI Group's costs also contributed to the increase.

Further information is available in Magyar Telekom Annual Report 2006 (page 87 – Personnel expenditures)  
[http://www.magyartelekom.hu/english/doc/2006evesjelentes\\_eng.pdf](http://www.magyartelekom.hu/english/doc/2006evesjelentes_eng.pdf)

Other net operating expenses increased in the last year by 17.4% in 2006. Other operating expenses include material and maintenance and marketing costs, fees paid for services, outsourcing fees, energy costs and consulting fees. The increase was caused primarily by higher fees paid in connection with outsourced services (e.g. real

estate management, transportation, customer care service and IT) and various projects. Material and maintenance costs significantly rose as a result of consolidation of new subsidiaries (such as Dataplex Kft. and the KFKI Group). In 2006 TMH paid higher concession fees due to the higher UMTS fee and T-Mobile Macedonia's frequency fees increased. In 2006 Magyar Telekom Plc.'s marketing costs not connected with rebranding significantly increased as a result of stronger advertising activity. Other net operating expenses include the HUF 4.1 billion one-time cost incurred in connection with the investigation conducted at Magyar Telekom.

Further information is available in Magyar Telekom Annual Report 2006 (page 89 – Other operating expenses)

[http://www.magyartelekom.hu/english/doc/2006evesjelentes\\_eng.pdf](http://www.magyartelekom.hu/english/doc/2006evesjelentes_eng.pdf)

#### 7.2.4.3. Investment tax benefit

The following table shows the key elements of taxes

	For the year ended December 31,		
	2004	2005	2006
	(in HUF millions)		
IFRS profit before income tax	59,469	110,583	111,684
Tax at 16%	(9,515)	(17,693)	(17,869)
Impact of different tax rates	491	435	(323)
Tax on items not subject to tax	2,091	1,394	2,405
Tax on non deductible expenses	(3,204)	(1,093)	(1,955)
Impact of tax incentives	584	897	778
Other income taxes	(8,455)	(8,366)	(8,529)
Impact of tax deductibility of other income taxes	1,691	2,008	2,701
Withholding tax	-	-	(2,034)
De-recognized deferred tax on tax losses	-	-	(255)
Broadband tax credit accretion	175	560	861
<b>Income tax expense</b>	<b>(16,142)</b>	<b>(21,858)</b>	<b>(24,220)</b>

Tax benefits in line (d) include the tax impact of major investments in tangible assets in Macedonia that can be deducted from the corporate tax base.

The following table shows the Magyar Telekom Group's details tax benefits (in HUFm):

**Table 6 – Magyar Telekom Group's tax benefits**

Earned in year	Amount of broadband investment	Amount of tax credit earned	Tax credit utilized	Accretion recognized in tax expense to date	Tax credit carried forward at December 31, 2006
2003	6,356	2,765	(171)	745	3,339
2004	7,115	3,174	(90)	569	3,653
2005	13,959	5,563	(2,204)	282	3,641
2006	12,347	3,844	(177)	-	3,667
<b>Total</b>	<b>39,777</b>	<b>15,346</b>	<b>(2,642)</b>	<b>1,596</b>	<b>14,300</b>
			Expires in	2007	3,339
				2014	7,242
				2015	1,124
				2016	2,595
					<b>14,300</b>

It should be mentioned that in order to promote wider use of broadband Internet since 2003 the government of the Republic of Hungary enabled deduction of the corporate tax base for companies investing more than HUF 100 million in broadband Internet equipment (e.g. DSL lines, UMTS equipment). The tax deduction rate is determined as a percentage of investment made in broadband Internet equipment.

Further information is available in Magyar Telekom Annual Report 2006 (pages 76–77)

[http://www.magyartelekom.hu/english/doc/2006evesjelentes\\_eng.pdf](http://www.magyartelekom.hu/english/doc/2006evesjelentes_eng.pdf)

#### 7.2.4.4. Dividend paid to owners

The company paid from its 2006 profit HUF 70 dividend on each ordinary share of HUF 100 face value, while HUF 7,000 dividend on each priority share of HUF 10,000 face value. The company paid from the HUF 88,399,617,408 profit after tax calculated according to Hungarian accounting rules HUF 72,993,782,050 dividend and puts the remaining HUF 15,405,835,358 to profit reserves.

Dividend payment starting date: May 24, 2007.

**Table 7 – Magyar Telekom Group's dividend payment**

Dividend payed after one equity share:	
Year	HUF
2002	18
2003	70
2004	70
2005	73
2006	70

Further information is available in Magyar Telekom Annual Report 2006 (page 47)

[http://www.magyartelekom.hu/english/doc/2006evesjelentes\\_eng.pdf](http://www.magyartelekom.hu/english/doc/2006evesjelentes_eng.pdf)

### 7.2.4.5. Credits and loans

The following table shows the Magyar Telekom Group's credits obtained from external parties:

Table 8 – Credits and loans obtained from external parties		
	At December 31, 2005	At December 31, 2006
	(in HUF millions)	
Current bank loans	43,196	28,846
Non current bank loans	13,278	18,250
<b>Total bank loans</b>	<b>56,474</b>	<b>47,096</b>
Current other borrowings	406	759
Non current other borrowings	937	2,447
<b>Total other borrowings</b>	<b>1,343</b>	<b>3,206</b>
	<b>57,817</b>	<b>50,302</b>
Total falling due within one year	43,602	29,605
Total falling due after one year	14,215	20,697
	<b>57,817</b>	<b>50,302</b>

All bank loans are forint based, in 2006 the weighted average interest rate of bank credits was 7.86%.

The following table shows the Group's credits obtained from connected companies:

Table 9 – Credits obtained from connected companies				
	Carrying amount	Interest rate	Fixed / variable	Repayable
	(HUF millions)	(%)		
	20,000	7.55	fixed	Jan 2007
	14,000	10.20	fixed	May 2007
	20,000	7.61	fixed	May 2007
	20,000	7.45	fixed	Dec 2007
<b>Due within 1 year</b>	<b>74,000</b>			
	5,000	9.68	fixed	Sep 2009
	25,000	9.61	fixed	Oct 2009
	20,000	7.53	fixed	Oct 2009
	28,000	8.91	variable	Oct 2009
	60,000	8.56	fixed	May 2012
	47,432	8.35	variable	Jan 2013
<b>Due after 1 year</b>	<b>185,432</b>			
	<b>259,432</b>			

Credits from connected companies were obtained from DTIF, Deutsche Telekom's Treasury Center and are forint based. In 2006 the weighted average interest rate of bank credits obtained from connected companies was 8.45%. Further information is available in Magyar Telekom Annual Report 2006 (pages 83–85)

[http://www.magyartelekom.hu/english/doc/2006evesjelentes\\_eng.pdf](http://www.magyartelekom.hu/english/doc/2006evesjelentes_eng.pdf)

### 7.2.5 The Investigation

In connection with their audit of our consolidated financial statements for the year ended December 31, 2005, PwC, our independent auditor, identified two consulting contracts entered into by two of our subsidiaries for which it was unable to identify a proper business purpose. A subsequent independent investigation, carried out by the law firm of White & Case under the supervision of our Audit Committee, and which is still ongoing, concluded that four consulting contracts were entered into by us and our subsidiaries without there being adequate documentation of a proper business purpose for them. The investigation was also impeded by the destruction by certain employees of documents relevant to these four contracts.

The independent investigators' Initial Report of Investigation further identified several contracts at our Macedonian subsidiary that could warrant further review. In February 2007, our Board of Directors determined that those contracts should be reviewed and expanded the scope of the independent investigation to cover these additional contracts and related transactions.

The investigation has revealed certain weaknesses in the design and operation of our internal controls and procedures. Accordingly, we have approved and are currently implementing certain remedial measures designed to enhance our internal controls and to ensure compliance with Hungarian and U.S. legal requirements and NYSE listing requirements. First, the position of Magyar Telekom Group Compliance Director has been created, reporting directly to the Audit Committee and with direct access to the Supervisory Board, Board of Directors, the Company

Chief Executive Officer, the Company Chief Financial Officer, and other members of senior management. In conjunction with this new position, we are reviewing, with the assistance of U.S. counsel, our compliance and corporate governance policies and are establishing a comprehensive compliance-training program, with a focus on our code of ethics, insider trading policy, document retention policy, regulatory matters, and compliance with U.S. securities laws and the U.S. Foreign Corrupt Practices Act. Second, we are revising our internal controls relating to procurement, including centralized access to all SAP systems of subsidiaries and a requirement that all contract approvals pass through uniform rules and procedures. Third, we have revised our mergers and acquisitions process, including dividing accountability for M&A between the Strategy Group, which remains responsible for business development, and the area of the Chief Financial Officer, which is responsible for execution of M&A transactions. All M&A activity requires Board approval and will be reported to the Audit Committee on a semi-annual basis. Fourth, we are reviewing, and modifying where necessary, all other significant procurement, compliance, governance, M&A, and disclosure-related Group directives. Fifth, we are undertaking a significant compliance and governance assessment of our Hungarian and non-Hungarian subsidiaries. This assessment includes a review of all significant governance and compliance-related policies and the implementation of the new and revised Group-level policies and directives.

Additional information on Magyar Telekom corporate governance and the investigation is available in the 2006 20F report: [http://www.magyartelekom.hu/befektetoknek/doc/20F\\_2006.pdf](http://www.magyartelekom.hu/befektetoknek/doc/20F_2006.pdf)

## 7.3. Public-social aspect

The figures and information in this chapter are based on the group-level data of the Annual Report and 20F Report of the Magyar Telekom, as well as on the data contents of the information systems of the group-level human resource and communications areas.

Within the public-social aspect management responsibility is shared in the following pattern:

- Labor practice and fair working conditions: Chief Human Resources Officer
- Human rights: Chief Human Resources Officer
- Society: Chief Human Resources Officer, Chief Financial Officer, Group Communication Director

### Management approach

#### In the respect of labor practice and fair working conditions (LA), Human rights (HR) and Society (SO)

“Committed professionals with independent initiatives are the key factor for the Magyar Telekom Group's business success.” This is the human resource vision of the Magyar Telekom Group, in line with the mission and the strategy. According to our mission, our major goal is to ensure that our company has the most professional human resource organization in Hungary that is considered by its customers as an internal partner and consultant and is contacted by other companies with trust, as the first resource when they want to gain experience.

The human factor is one of the key constituents of the outstanding success, prestige and recognition of the Magyar Telekom Group in Central and Eastern Europe: the work of the qualified and dedicated colleagues, the customer-focussed company culture and the ability to adjust to the constantly changing environment.

The Magyar Telekom Group expresses in its **human resource policy** that it keeps cooperating with the trade unions and the Workers' Councils in order to represent the interests of the employees. When the changes affect a larger number of employees, it always takes into consideration the position of the interest representation organizations and in case of conflicting views, seeks compromise. The company wage tariff system is in compliance with article 23. of the Universal Declaration of Human Rights, which pronounces: „Everyone, without any discrimination, has the right to equal pay for equal work.” Both in the selection process and during the career of the employees at the company, the Magyar Telekom Group is committed to ensure equal opportunities for its employees regardless of age, gender, ethnicity, religious and political affiliation or sexual attitude. Ensuring equal opportunities and an approach free from discrimination are key focus of the Human Resource Strategy of the Magyar Telekom Group. Among the nine basic elements of the SA8000 (Social Accountability) standard the Magyar Telekom Group devotes special attention to non-discrimination. In the respect of the other basic elements the company is in conformance with the Hungarian laws and regulations. The principles of **justice and equal opportunities** were laid down by the norms stipulated in the **Code of Ethics** issued in 1997 and revised to comply with the Sarbanes-Oxley (SOX) Act, in the Code of Conduct issued in 2006, in the **Social Charter** and in the **Diversity Policy**.

Through the **Social Charter** the social standards are transparent and obligatory for the entire group. The Social Charter is a voluntary obligation undertaken by the employer to comply with the minimum social standards at the entire group. It contains basic principles for the working relations and the employment conditions. We also expect our suppliers to comply with the standards.

The radical changes in our business environment force us to review and expand the guiding principles and policy of



our company time and again. It is in this spirit that the Magyar Telekom Group has drawn up its **Diversity Policy** which emphasizes our commitment to the consistent identification and utilization of the development opportunities. The employment of, and adherence to the Diversity Policy help us fill the company values and vision with life in such a way that it will be to the benefit of both the individual and the Magyar Telekom Group as a whole, acknowledging and respecting all along such fundamental dimensions as gender, age, disability, ethnicity, race, religious or sexual preference which represent outstanding importance from economic, democratic, legal and/or cultural aspects alike. Furthermore, we are also focusing on dimensions like education, parental role, family status, culture, language, the length of time spent in the service of the company, mentality and the way of doing work. We consciously recognize the diversity of our environment (employees, markets, suppliers, shareholders and the society at large) and by adopting a proactive approach to our business environment, we encourage this diversity.

### 7.3.1. Human resource management and training

#### 7.3.1.1. Milestones 2006

##### T-Mobile integration

In 2006 the single biggest challenge for the human resource area, similarly to the other areas of the company, was presented by the organizational integration of T-Mobile Hungary Ltd. The implementation of the integration was preceded by a lengthy coordination process with the interest representation organizations, which was closed by an Agreement with the Conciliatory Council. Ten projects were launched at group level in order to address the tasks of the integration process (e.g. develop a common shop network or standardize the procurement processes. In addition to solving the organizational and personnel questions raised by the integration, the different systems and regulations also had to be harmonized. In addition, the continuity and seamless operation of the human resource administration processes also had to be ensured in SAP HR and the related IT systems.

##### Magyar Telekom for diversity and equal opportunities

In an effort to promote the equal opportunities of the employees and diversity, Magyar Telekom offers partial teleworking option to its employees and operates an insurance-based welfare system.

As responsible corporate social player, Magyar Telekom launched several programs and initiatives also in 2006 which are designed to promote the implementation of equal opportunities in the society and the economy. It was in this spirit that the conference entitled "Life after the Gyes (child-care leave) was organized by Magyar Telekom Plc. in the spring of 2006. The conference was meant to give the affected parties (mothers with young children, company HR managers) the opportunity to share experiences and best practices on how to promote the re-entry to the labor market of young mothers after having spent time at home with their small children. In 2006 Magyar Telekom organized several round table discussions with the participation of big Hungarian companies about diversity issues. In the autumn of 2006 Magyar Telekom, as first among the

big Hungarian companies, started a film club promoting equal opportunities under the title of "Szabad az Á" (appr. free trespassing).

This initiative is aimed at shaping the attitude and sensitivity of the employees of the Magyar Telekom Group in an unorthodox and indirect manner, and thus creating an environment that will accept and foster diversity.

Magyar Telekom also makes continuous efforts to provide equal opportunities for its employees: these efforts were rewarded with a first prize in the "for profit" category of the "Integrating Employer" competition invited by the Metropolitan Government in 2006 (after having won a special prize in 2005). This prize recognizes outstanding achievements in the field of equal opportunities in the place of work. In October 2006 Magyar Telekom hit the top place of the Accountability Rating Hungary 2006, a comparative listing of the top Hungarian companies in terms of corporate social responsibility. Magyar Telekom has won the Diversity Award 2006 international recognition for its efforts to offer equal opportunities for its employees. This award is given by Deutsche Telekom every other year for the member companies and organizations of the group. In October 2006 the Magyar Telekom Group adopted its Diversity Policy and Social Charter in which documents it has declared its commitment to the principles of equal opportunities, diversity and social approach. For the Social Charter of the Magyar Telekom Group please refer to the following site:

[http://www.magyartelekom.hu/english/doc/Social\\_Charter.pdf](http://www.magyartelekom.hu/english/doc/Social_Charter.pdf)

For the diversity policy of the Magyar Telekom Group please refer to the following site:

[http://www.magyartelekom.hu/english/doc/Diversity\\_Policy.pdf](http://www.magyartelekom.hu/english/doc/Diversity_Policy.pdf)



Figure 15. Poster for the kick-off of the "Szabad az Á" equal opportunities film club

### Expanding on-line – e-HR – services

Magyar Telekom has developed a complex system of electronic administration of human resources unique in Hungary, which is accessible to all employees via the company's intranet network. In 2006 the internal services of the system were expanded through the addition of 12 new modules which enable, for example, application of test mobile phones, choice of meal vouchers, request for salary advance and the filling in of various forms (e.g. incompatibility statement) electronically. The managers can also access their own and their subordinates' updated job descriptions through the appropriate IT application. From 2006 one element of the personnel evaluation of the employees, the so-called 360 degree evaluation, is also being prepared in this system, with the forms filled in electronically via the intranet, the Internet and the analyses set up by this system (360 degree evaluation means not only the evaluation of the employee by the chief, but also the employee evaluates the chief and his/her colleagues).

### Professional forums

The Sales Academy programs, first launched in 2003, provide an opportunity to present to the participants the new trends, methods and research results that influence the life, operation and business performance of the company. At the Sales Academy Days, held monthly (with 30-50 participants / occasion) and the Telekom Academy held quarterly (with 40-60 participants / occasion) managers and employees collect the latest information, have their questions answered and engage in joint thinking.

The special presentations, forums focusing on a given functional area provide opportunity for the participants to learn the activities of the connected organizations (technical conferences, infodoc presentations, demonstration of customer service processes).

### Multi-level training programs

service process, which gives the individual opportunity for continuous development so as to be able to perform his work at higher and higher level (junior, senior and master levels) Besides organized training, the individual can also utilize the knowledge acquired through self-learning and experience gathering (open examination).

In addition to the target group-specific training programs, the company also operates a multi-level structure of mastering knowledge in the marketing and project management areas and the knowledge so mastered can be used to good advantage in the project operation of the company.

### Managing everyday life

The harmonization of job and family life is a key question of personal efficiency. The Family and Job programs, launched in October 2005, are designed to help the employees manage their everyday life efficiently by sharing with them the latest research results and practical experiences in this field and giving them consultation opportunity. In 2006 eight discussions were held, primarily on the topic of starting a family and raising children.

### E-learning and distance learning

E-learning, this modern form of distance learning supported by infocommunications tools, plays decisive role in Internet-based professional training. Magyar Telekom participates with innovative solutions which it offers on an ongoing basis and in a trendsetting manner, primarily in the field of the faster and more efficient further training of its employees. The share of distance learning has for years been stable around 40-50% in the overall training portfolio of Magyar Telekom Plc. The year 2006 was an exception because, as a consequence of the extra workload presented by the integration, employee participation decreased in the various training schemes, and the share of distance learning also grew smaller within the overall volume of training. For the relevant figures please, refer to 7.3.1.7. of the Report.

The e-learning technology can be used eminently to support data and opinion collection through on-line questionnaires and to efficiently evaluate them. The materials of the training programs and the e-learning infrastructure as service environment are available on the Internet, so the complex e-learning solution of Magyar Telekom offers a competitive alternative for the business sphere and individuals alike. Today, e-learning means a genuine business solution within the group. We have already sold teaching material development know-how and virtual classroom and distance learning system support services to several partners.

#### 7.3.1.2. Employees

The number of the employees of the Magyar Telekom group is 12,462 (closing headcount as of December 31, 2006). The three biggest members of the group are: Magyar Telekom Plc. – 7,090 people; MakTel Group – 2,191 people; Telekom Montenegro – 1,146 people. The remaining 2,035 employees are distributed over twenty member companies.

In the first quarter of 2006 T-Mobile Hungary Ltd. merged into Magyar Telekom Plc. During 2006 the Magyar Telekom Group integrated the following new subsidiaries: Orbitel (Bulgaria), Dataplex Kft., Iwiw, Adnetwork, KFKI Group, Mfactory.

In the strategy-making process much stress was laid on the following instruments that identify the expectations of the employees:

- The findings of the DT Group level employee opinion survey (earlier: MIRROR) on which various action plans were based, so indirectly the employees were also involved in the strategy-making process.
- Employee forums, intranet forums where the participants can share with the functional area their opinions and proposals on the human resource area.
- Internal customer satisfaction survey about human resource management and services, to demonstrate compliance with the T-Spirit value "Passion for our customers". The first such survey was conducted in 2000, then in 2003 and in 2005.

Magyar Telekom lays much weight on communication with the employees, on learning the requirements of the employees, on enhancing their loyalty and on preparing mutually beneficial developments.

The company's communication activity has since 1995 been directed by the communication director.

The guidelines for improvement and upgrading the communication are defined in the communication strategy which rests on the Magyar Telekom Group strategy in line with the communication demands.

To identify the needs the communication organization is monitoring the employees' opinions expressed on the intranet forums and analyzes the questionnaires completed after the company's communication events and the results of the group-level employee survey concerning communication.

Besides, they study the possibilities of expanding the channels at communication conferences here and abroad.

This is enabled both by (two-way) personal and on-line communication ensuring feedback.

#### **(Two-way) personal communication tools that ensure feedback:**

- Functional meetings with a schedule regulated specially at each organization. The starting point of these meetings is the work meeting of the senior managers of the company. The information communicated at this meeting is broken down by the leaders of the organizations to their respective areas and is used to hold meetings for middle managers weekly or bi-weekly. The information communicated at these meetings is transferred by the middle managers in each professional area to the employees.
- The Employee Forums held by the senior management several times a year which any employee of the given functional area can attend, and to where occasionally the representatives of the internal "customer organizations" are also invited, provide the opportunity for the participants to ask relevant questions from the executive holding the forum.

The Employee forum, and later the other programs providing for informal dialogue between managers and employees, have emerged as a result of the Culture Change Questionnaire, which was subsequently replaced by the MIRROR, and later by the **DT Group-level employee surveys**.

The (two-way) on-line communication tools that ensure feedback are the senior management forums and professional forums accessible on the intranet.

The professional forums are anonymous so they offer opportunity for the exchange of opinions without registration and identification by name.

The Magyar Telekom Group intranet, one of Magyar Telekom's major communication tools, provides a platform for one-way communication too.

The purpose of the intranet is to provide fast and authentic information for the Group employees about the operation and structure, current tasks and results of their workplace, and to deliver news that can be used in their daily work.

#### **Further channels of one-way communication:**

- The most important internal communication publication is Telmondó which has been published every two weeks for 14 years and which, since January 2002, has been distributed not only to Magyar Telekom employees, but also to the employees of the member companies in response to demand.
- Lotus Notes circular letters are an important communication channel.
- Important interfaces for professional communication are the professional sites on the intranet. Most of the organizations have an own site on the corporate intranet where they present their activities and services.
- Information about strategic targets is provided directly to the employees at the Kick-off meeting.
- The events aimed at enhancing team spirit and cohesion include the Magyar Telekom Group Olympic Games, the Magyar Telekom Group Children's Day and the Magyar Telekom Group on the Podium.

The Magyar Telekom Group respects the rights of its employees to privacy, religion and political affiliation and does not interfere in them in any way. In compliance with its basic principles, internal regulations and Code of Ethics, the Magyar Telekom Group may not provide any material or moral assistance for political parties and organizations or their representatives.

#### **7.3.1.3. Employment and decent work**

In the context of its employees Magyar Telekom devotes much attention to the questions of education, health and security.

The scope of the welfare and social benefits provided for the employees of Magyar Telekom Plc. essentially remained unchanged in 2006 in comparison to the previous year.

The scope of the welfare and social benefits offered by the Group is extremely wide by domestic standards. Some of these are granted on automatic entitlement, while others are subject to certain conditions. The rules of granting social benefits and benefits without automatic entitlement are laid down in the Collective Agreement and the related regulations.

The amount of benefits is determined annually, at the interest conciliation negotiations. Benefits with automatic entitlement include canteen meals, employee discount from the charges of the services of the group and certain benefits offered by DIMENZIÓ with the consent of the employee.

In addition to the traditional elements of the welfare policy, the company also offers insurance services based on the shared risks of company and employee through the DIMENZIÓ Insurance Association. The life, pension, health insurance and self-aid benefits are available to all those employees who register for membership in the association. A large percentage of the employees are member of one or more DIMENZIÓ organizations.

Benefits without automatic entitlement include vacation contribution, tenancy contribution, aids, housing contributions, contribution to commuting to work, uniform and working clothes.

Magyar Telekom promotes mass sports by supporting the programs invited by various sport clubs and amateur ath-



Figure 16 – Social benefits granted on non-automatic entitlement I.

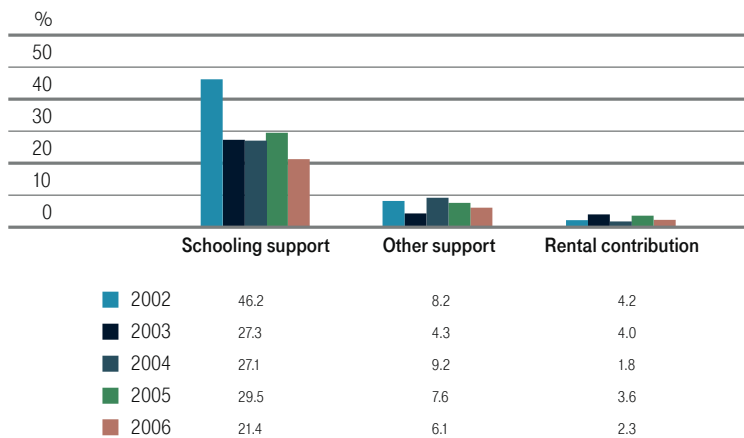


Figure 17 – Social benefits granted on non-automatic entitlement II.

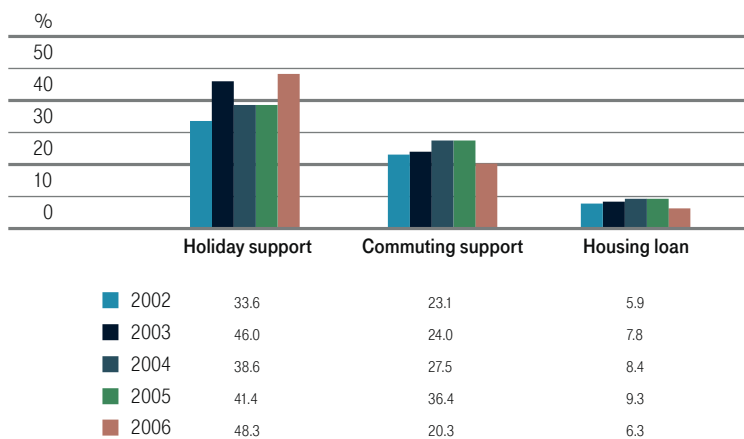
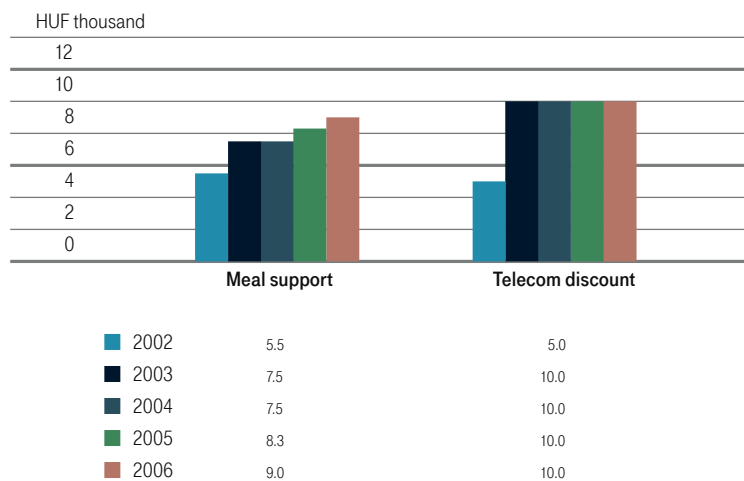


Figure 18 – Social benefits granted on automatic entitlement



letes have the opportunity to match skills at the annual Magyar Telekom Group Olympic Games. In 2006, 1,440 employees entered the individual events and 237 teams the team events.

The following two figures shows the recipients of social benefits on non-automatic entitlement.

The percentage of social benefits granted on automatic entitlement has increased.

The majority of the employees of Magyar Telekom Plc. are members of the DIMENZIÓ Insurance Group. The following figure shows the percentage of members in the different organizations compared to the overall membership.

Wellfare benefits without automatic entitlement are according the following figures:

Note: The substantial variation of the figures from the 2005 data is explained by the organizational integration of T-Mobile Hungary and the resultant increase in employee levels.

The data above are about the Company, but we intend to expand the scope to the whole Group.

#### 7.3.1.4. Employee representations

In compliance with the relevant laws and regulations Magyar Telekom Plc. ensures the operation of the trade union and the Workers' Council in order to promote the appropriate representation of employee interests.

The employer must consult the interest representation organizations before each major organization reshuffle in order to provide for the appropriate placement of the liberated staff and inform the affected employees about any planned organization restructuring or staff downsizing measures at least 30 days before taking such measures.

#### Trade unions

The trade union is a legal entity which has a membership and organization separate from the employer. It recruits its members itself.

In 2006 two trade unions had representations at Magyar Telekom Plc.: TÁVSZAK (Telecom Union) and MATÁSZ (Hungarian Telecom Industry Union) with a total of 2565 active and 948 retired members.

Pursuant to the Labor Code, the single most important right of the trade unions is to bargain the Collective Agreement, its modifications and appendices. The modifications of the Collective Agreement are signed by the presidents of TÁVSZAK and MATÁSZ, and on behalf of Magyar Telekom Plc., by the Chief Human Resources Officer. The Collective Agreement of Magyar Telekom Plc. has no definite term. It determines the relations of employer and the unions, stipulates the rights and obligations of the employees and the ways of practicing them, the relevant procedures, specifies the benefits due to the employees, the rules of eligibility, the elements of the wage and the rules of job classification.

In addition to the above, the unions may also practice other rights specified in the Labor Code, such as comment the measures of the employer, access information on the employer's economic status, on wages, salaries, etc. In addition to the above, the union represents its entire membership or a large part thereof vis-a-vis partner employers and other organizations, and is involved in the settlement of matters affecting the interests of telecom employees. It takes action against unfair decisions, measures and, with the tools available to it, enforces the interests of the members and gives consistent voice to its position on public forums.

### Workers' Council

The Workers' Council is an organized form of employee involvement at the place of work. The Workers' Councils are elected every three years. The last election took place in 2004.

Magyar Telekom Plc. has a two-tier workers' council. Eighteen organizations have their own independent local workers' council. The local workers' councils delegate a representative in proportion to their staff number to the Central Workers' Council (CVC). The CVC elected in 2004 has 23 members.

According to the Labor Code, the strongest mandate of the workers' council is the co-decision right in matters of utilization of the welfare funds, facilities and properties specified in the Collective Agreement.

Accordingly, the co-decision of the CVC is required at Magyar Telekom Plc. in the following matters, for example: allocation of home purchase or building support, places in the company holiday homes, changes in canteen meal support, aid regulation, working clothes and uniforms distribution and CsSZDK regulations. The parties address the majority of the questions belonging to the scope of co-decision in the form of regulations. The regulations are signed by the president of CVC and by the chief human resources and legal officer. These regulations are the following: Housing Support Regulation, Working Clothes Regulation, Aid Regulation and Vacation Regulation.

The workers' council (both the local and the CVC) also has other important mandates specified in the Labor Code, such as the right to comment, the right to inspect, the right to request information, etc.

### Interest coordination talks and the Conciliatory Council (CC) agreement

The regular annual interest coordination negotiations and the interest conciliation agreements (CC) that lay down the results of these negotiations are integral elements of the interest representation system.

The negotiations are attended by the representatives of the unions and CVC, and on behalf of the executive management of the company, by the manager of the human resources and legal area, and the managers and employees delegated by them. The ÉT agreements specify the extent of the company wage increase, the wage policy and headcount efficiency measures, the effective date of the wage increase and the amount of the minimum wage.

Figure 19 – Dimenzió Insurance Group Membership - Magyar Telekom Plc.

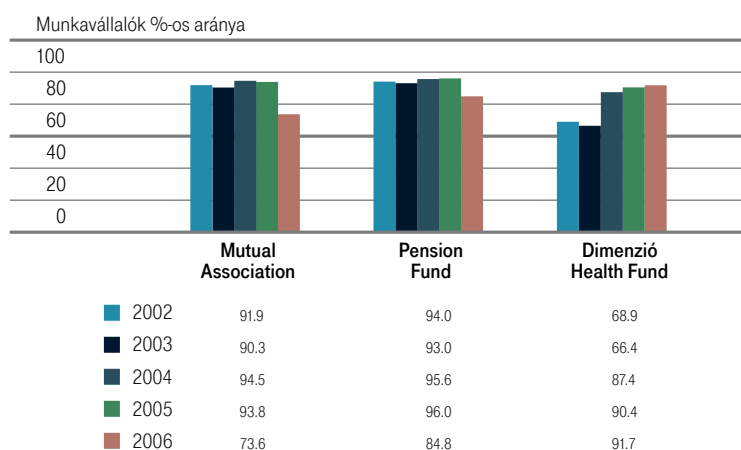
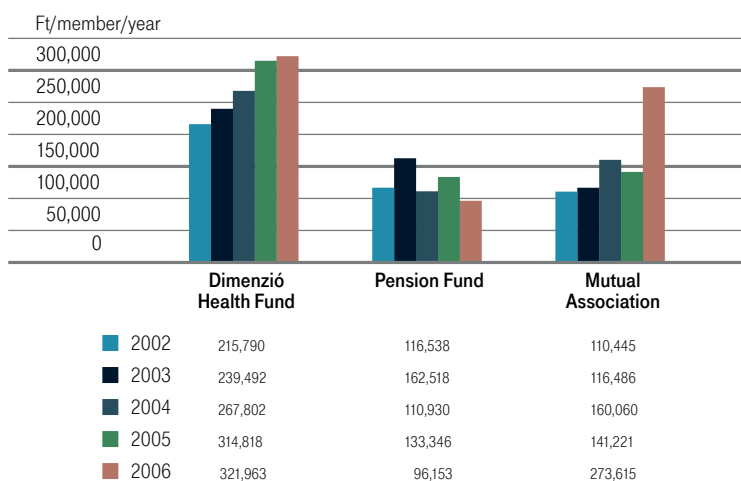


Figure 20 – The contribution of Magyar Telekom to Dimension membership fees



The ÉT agreements are made for a definite term and cover a definite scope of measures.

The employees are informed about the content of the ÉT agreements on internal forums (intranet, Telmondo, KÜT, Union sites).

**Headcount and personnel-type expenditure planning**

Headcount and personnel type expenditures related planning is an annually recurring regulated process documented in the quality management system as a process implemented in compliance with the T-Spirit "Supreme Value". The organizations' headcount plans are elaborated in close cooperation with the organizations, with top-down, bottom-up method according to a schedule determined each year by using the results of the benchmarking project carried out jointly with MERCER. This headcount plan is coordinated with the interest representations at the different levels. Headcount and personnel type costs and the ways of their spending are regulated by CEO and Chief Officer directives which are coordinated with the functional areas before issuing. Then the regulations are issued by taking into consideration the opinions and proposals. All these enable continuous revision and improvement of the planning process.

**7.3.1.5. Diversity and equal opportunities**

Both in the selection process and during the career of the employees at the company, the Magyar Telekom Group has always ensured equal opportunities for its employees regardless of age, gender, ethnicity, religious and political affiliation or sexual attitude.

The following figure shows the age and gender distribution of Magyar Telekom Plc. employees.

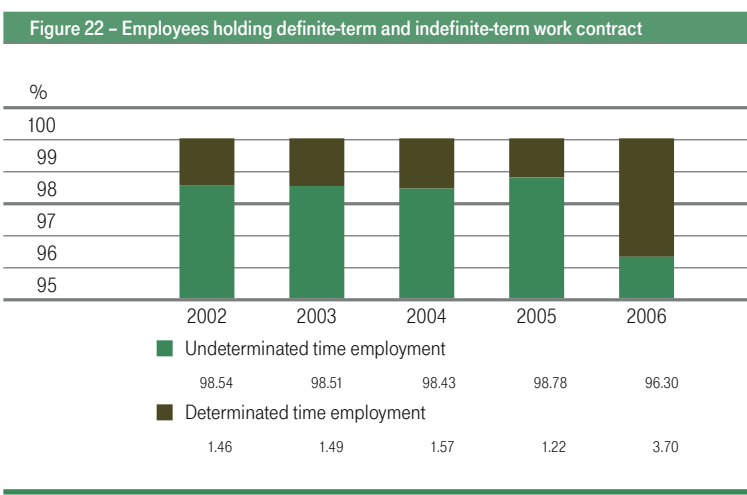
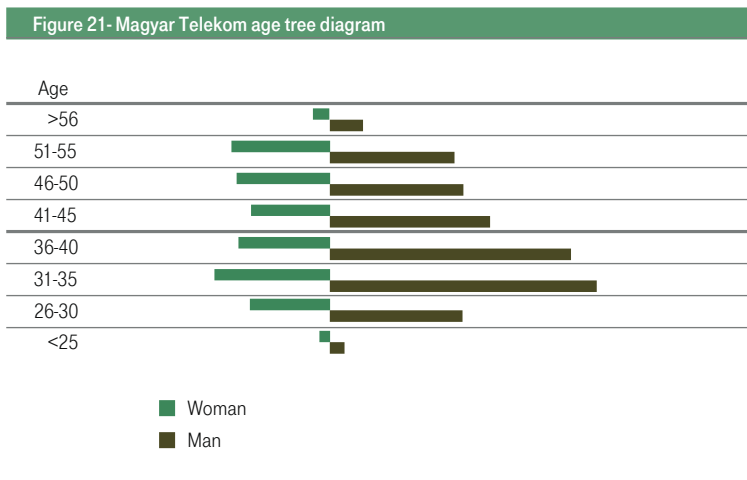
The following figure shows the distribution of the employees of Magyar Telekom Plc. by definite-term and indefinite-term work contract.

In 2006, 262 employees of Magyar Telekom Plc. held definite-term work contract, which means 3.7% of the overall staff. This meant growth compared to the 1.2% (68 employees) in 2005 which was due to the integration of T-Mobile Hungary.

There are no specified procedures for the employment of local people. The Group is not a typical global one, but the the policies and chartas mentioned before refer to this issue as well.

In 2006, the fluctuation rate was 6.95% (517 employees) comparing to 2005 closing headcount while detrimental fluctuation rate (termination of employment by the employee) was 2.73% at Magyar Telekom Plc. (which meant that 203 employees left the company by their own decision).

Last year 2,159 employees entered the company's employment, including 1,843 people who came with the integration of T-Mobile Hungary (compared to the 2005 closing headcount of 2,906 and discounting the impact of the integration, the staff increase was 5.66%).



The basic principles of **justice and equal opportunities** are laid down by the basic norms stipulated in the **Code of Ethics** issued in 1997 and revised to comply with the **Sarbanes-Oxley (SOX) regulations**, in the **Code of Conduct** issued in 2006, in the Social Charter and the in the Diversity Policy.

Each employee learned the content of the Code of Ethics on the Group's Internet site and subsequently signed a statement that they have learned its content and agree to abide by its provisions. The Code of Conduct is obligatory for all employees and it is the responsibility of the line manager to have each and every employee learn its content. The Social Charter and the Diversity Policy are available for everyone on the Magyar Telekom Internet site, and for the employees on the intranet site of the human resources area.

**Initiatives promoting equal opportunities:** teleworking, part-time working, flexible working hours, stand-by status, employment of handicapped people, support of underprivileged people (through foundations), vacation packages for children, training.

The following figure shows the initiatives taken to ensure **equal opportunities** for the employees. The impact of the integration can be observed here too, primarily on the heavier decrease of the number of employees employed in flexible working hours at Magyar Telekom Plc.

T-Mobile, as member of the consortium of the HEFOP (Human Resource Development Operative Program) project, has given opportunity to people with disabilities and with diminished working ability to participate in the "Integrated customer relations assistant" training and employment program.

On July 12, 2006, fifteen graduates employed by our company received a certificate on completion of the program.

Already during the project the work contracts of three HEFOP participant colleagues were modified to give them higher wage and additional benefits. After the expiry of the definite-term work contracts we offered part-time job to five people, which all of them accepted.

In 2006, the human resource area devoted special attention to keeping contacts with young mothers on child-care leave (GYES/GYED). A uniform communication system was developed through which these employees are regularly updated about the changes affecting their status and about company events. In an effort to help the re-integration of mothers on child-care leave, in the spring of 2006 Magyar Telekom, in cooperation with the Women in the World of Labor Association, organized a conference entitled "Life after the GYES" to discuss relevant questions and problems and adopt company best practices.

The T-Spirit value „Respect”, the principle of fairness and equitableness, is manifested in the following areas in the human resource policy:

- Welfare benefits system, a wide range of benefits granted to all employees on automatic entitlement.
- Competence-based approach used in selection, performance evaluation and individual development aiming at objectivity.

Figure 23 – Teleworkers and employees working part-time and flexible hours in atypical employment

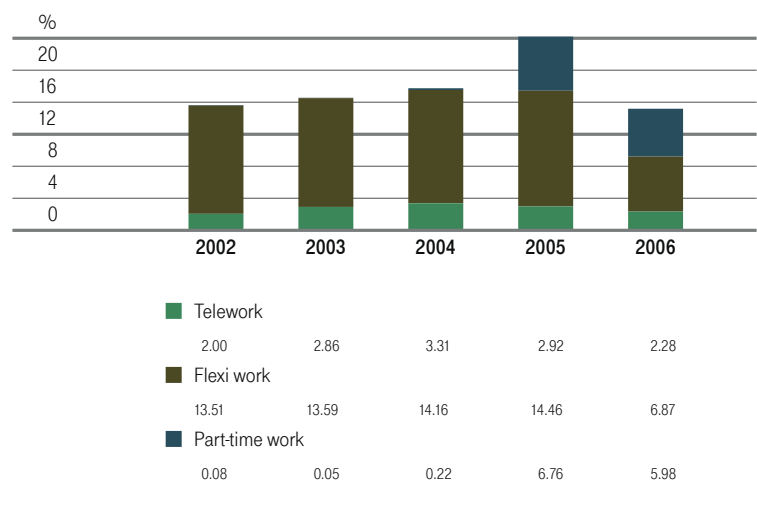
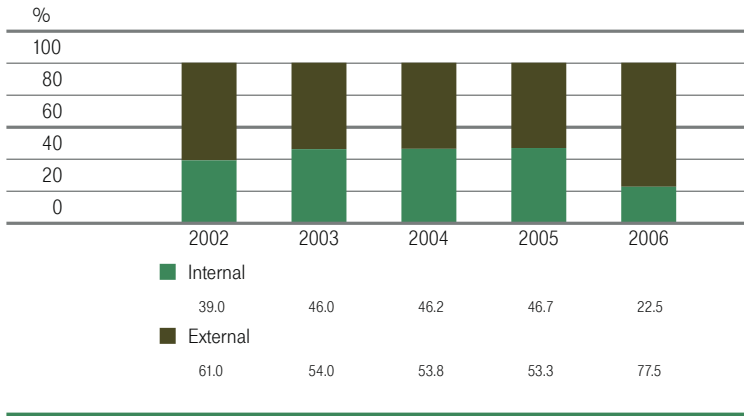


Figure 24 – Vacancies filled from inside and from outside sources



The payment of multiple of the severance pay required by law in the case of headcount reduction also aims at justice. Additionally, vacant positions are filled primarily through recruitment within the company – from the areas affected by the headcount reduction – in an effort to reduce the number of employees to be laid off. Since in 2006 no major downsizing was implemented at Magyar Telekom Plc. The percentage of vacancies filled from inside was smaller than in the previous years.

The Magyar Telekom Group promotes diversity through programs designed and developed specially for groups of disadvantaged social situation and background (widest possible use of teleworking, part-time work, etc.) In addition, it pays distinguished attention to the selection practice in a way to ensure equal opportunities for the employees in everyday work. (This was declared in 2006 in the Diversity Policy and the Social Charter).

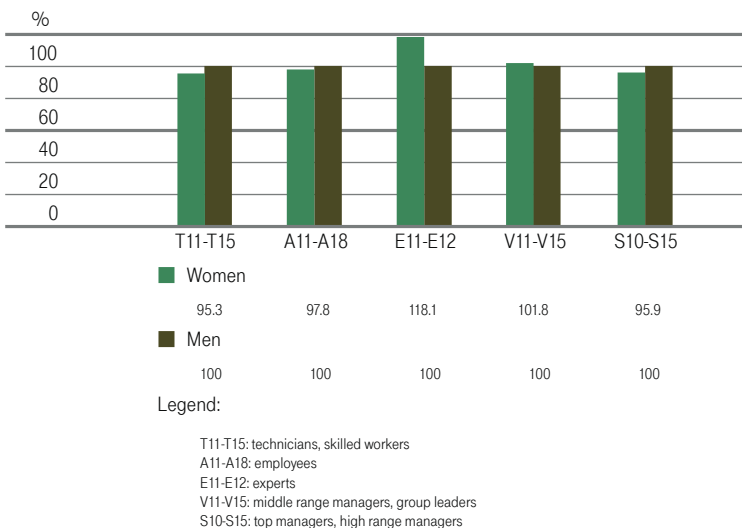
It is a good example for the efforts of the company in this field that it employs disabled employees in the Call Center of the Mobile Services Line of Business.

In 2006, people with working disabilities accounted for 0.3% (19 people) of all employees of Magyar Telekom Plc. It means more than 67% decrease since 2005.

Women held 14.6% of the director-level jobs (S11-S14 management categories) at Magyar Telekom Plc. (an increase of 2.8% over 2005), while men held 85.4% of these positions in 2006.

The following figure gives a comparison of the basic wages of men and women at Magyar Telekom Plc. in 2006.

Figure 25 – Basic wages of women and men by job categories



**7.3.1.6. Health and safety**

Several separate regulations, standards and internal technology directives regulate the labor safety and occupational health conditions of the field workers who install, operate and maintain towers, base stations, lay the cables and carry out other network jobs. The regulations determining the working conditions and circumstances, or the occupational health regulations can be considered as uniform for all functional areas.

In contrast, the labor safety requirements mostly appear in EU standards and company technological and industry regulations and related directives. The labor safety requirements concerning a given work process are specified in an integrated manner in the technological instructions regulating the activity in question (conditions, tools, protective devices, methods of the job, etc.).

Every functional area is aware of the requirements that apply to it and the employees learn the relevant information in labor safety training. The Labor Safety Office is involved in the development of the training materials. It provides information materials and updates them in the risk assessment procedures of the workplaces.

In 2006, the labor safety situation of Magyar Telekom Plc. matched the expectations. No serious accident or occupational disease requiring immediate reporting occurred during the year. The audits carried out by external organizations did not reveal any such deficiency or negligence that would have called for prompt action, nor were any fines levied. All employees were provided with the

safety gear required by their job and the employees working in front of computer screens have been issued protective glasses as required.

During the occupational health consulting hours and also in the health preservation program of the DIMENZIÓ Health Insurance Fund, the doctors are kindly advise the employees on matters of health preservation (e.g. chronic diseases, acute contagious diseases, allergy, AIDS information, etc.)

Table 10 – Magyar Telekom Plc. support granted to the preservation of the health of its employees in 2006 through DIMENZIÓ Insurance Group services

Branch of insurance	Magyar Telekom PLC contribution	Fee paid by the insured (member)
Self aid	2.20%	1%
Voluntary pension	5% +2 500 Ft/person/month +1 000 Ft/person/month over age 47	min. 1%
Life and accident	574 Ft monthly	-
Health Fund	2%	0.50%

### Medical screenings

In the framework of the complex health preservation program launched eight years ago, Magyar Telekom finances the medical screenings of its employees each year. These include screenings for heart and vascular diseases, stroke, cancer, stomach, intestines and digestive organs and dental checks.

As a result of the annual medical screenings the risk of coronary diseases of the employees has decreased, the average absolute risk decrease of coronary events over 8 years is 2%.

In 2006, 16 398 screenings were ordered but only 7,931 were actually implemented. The most employees take advantage of the dental screening opportunity every year. The screening program was popular with the employees until 2002, but this cannot be said for 2006.

Figure 26 – Health Screens in 2006

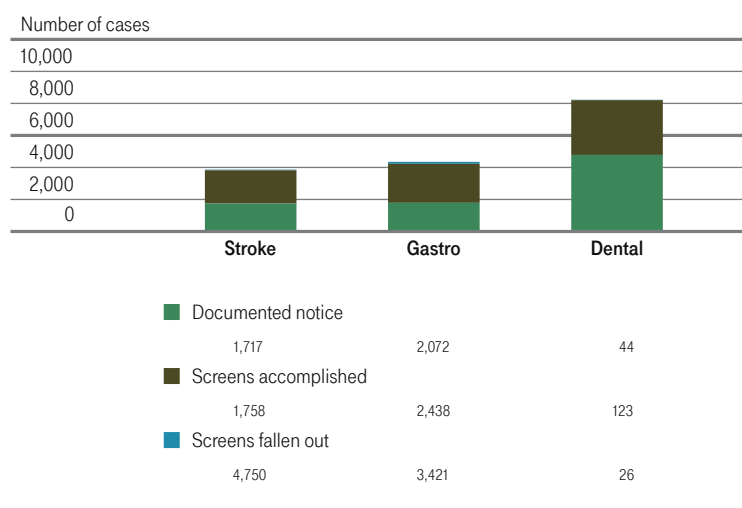
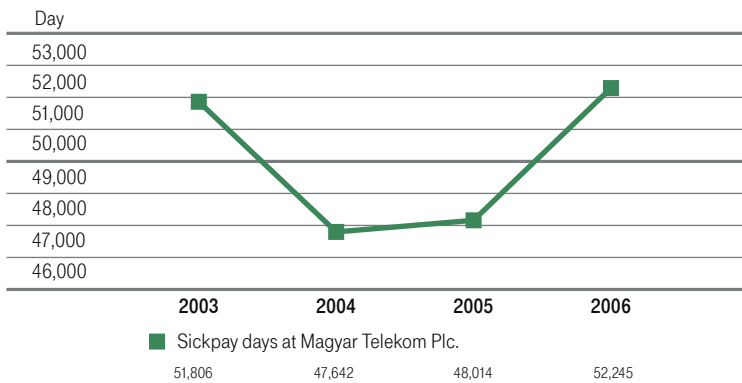


Figure 27 – Work accidents at Magyar Telekom Plc.



Figure 28 – Sickpay days at Magyar Telekom Plc.



#### Rates of absence for sickness and workplace accident

In 2003, Magyar Telekom recorded 35, in 2004 38, in 2005 21 and in 2006 23 work accidents.

According to the statistics of the Labor Safety Office, in 2003 there were 4.17 accidents to 1000 employees, in 2004 the corresponding figure was 4.75, in 2005, 3.29 and in 2006, 3.37. In 2006 there were 45.56 sickpay days per one work accident, which indicates the seriousness of the accidents. There was no fatal accident from 2003 until 2006. All accidents are reported by the Safety Office according to Labour Safety Act 64§. All sicknesses and extreme exposures are treated according to Labour Safety Act 65§. In 2003, Magyar Telekom recorded a total of 51,806 sickpay days, in 2004 47,642, in 2005 48,014 and in 2006 52,245. The increase compared to 2005 is due to the higher headcount figure resulting from the integration.

In the years 2003-2006 no fatal work accidents occurred in the scope of operations of Magyar Telekom Plc. 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.

#### 7.3.1.7. Education and training

In an effort to bring new knowledge into the company, Magyar Telekom has been operating the Rajtkő (Starting Block) trainee program since 1995, under which it hires 20 new graduates each year. After a two-month period spent learning the general company functions, the trainee program contributes to employee development through a five-month work practice at the organizational units. In 2006 Magyar Telekom was present with its Rajtkő trainee program at the job fairs of the Budapest University of Technology and Economics and the Corvinus University Budapest, winning several hundred freshly graduated economists and engineers to enroll in it. After several rounds of selection, 20 applicants were accepted in 2006, as well. Besides the professional experience the program has the advantage to offer a job if the trainee shows good performance and there is vacancy.

Since Magyar Telekom 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. In the past five years 100 diploma theses were prepared across the country under the professional guidance of Magyar Telekom officials. The company also provides opportunity for a fairly large number of students (on average 50 annually, since 2001), mainly from Budapest, to spend practice at the company.

In 2006, Magyar Telekom Plc. renewed its Iránytű (Compass) program that has been successful for years. Its new element is a two-day training program which gives new entrants the opportunity to learn the operation and strategy of the company and obtain other useful information (e.g. benefits).

The company continues to operate the Performance Management™ system which is designed to measure the performance, competence and knowledge of the employees and identify areas in need of improvement. In 2006, 63.66% of the employees of Magyar Telekom Plc. were involved in the Performance Management system on the strength of the relevant internal regulations. This is because the PM is introduced in cases when PM and financial incentives are in close relationship, and the scope has broadened since that. In 2006, 95.5% of the employees obligatorily involved in the PM (Performance Management) system held a closed PM document. This means that more than 60% of the employees receive feedback on their performance in the form of an evaluating discussion with their line manager.

The company continues to use the Uniform Competence System (UCS), on the basis of which the simplified job family system has been developed.

Following the identification of the areas requiring improvement, the training is implemented through traditional training, or skill development training, or e-learning based on the Training Module System, which enables the implementation of dozens of different trainings.

With the introduction of career consulting in October 2006 Magyar Telekom implemented an initiative unknown to Hungarian companies heretofore. The program helps the employees develop a realistic self-assessment and identify their possibilities by providing them relevant information and advice. The company also provides the professional training needed to the personal development and advance of the employees, access to the relevant information and also gives the employees the opportunity to freely apply for any vacancy inside the Group. The employees must see clearly what they themselves can do for their own advancement. Through the consulting service, the employees receive information that help them select the training or development opportunities best suited to their needs, and also a list of actual vacancies both at the Magyar Telekom Group and at Deutsche Telekom. There is also practical information on how the selection is done, how to prepare for the job interviews, etc. A further element of the career consulting service is inter-active personal consulting by consultants with an extensive professional background and at home with human resource and psychology matters.

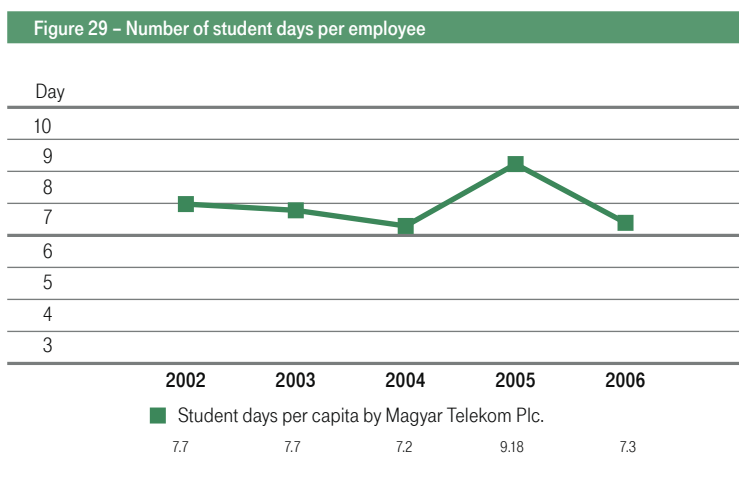
Development and learning through work experience are implemented in a similar manner (job rotation, individual, team work, etc.).

For the involvement of the employees we continue to use the "Spark" complex idea management program and the "Got it!" Internet-based idea-sharing page, the "Product idea box" forum for unorthodox ideas and, as every year since 1997, we organized in 2006 too the problem-solving competition which gives employees an opportunity to offer solutions for key problems affecting the entire group.

The Ulrich Schaumann Award managed by the Magyar Telekom Foundation for Technical Development also helps the realization of the innovative ideas of the employees.

The Magyar Telekom Creative Award for Telecommunications was founded for the financial reward and moral 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.

The following figure shows the number of student days per employee at Magyar Telekom Plc.



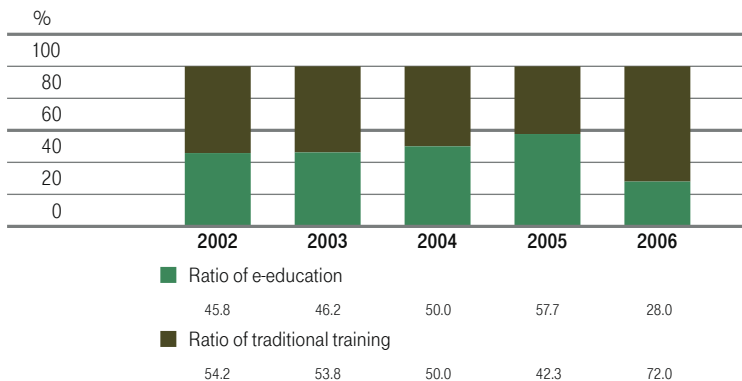


The following table shows the number of student days per employee category at Magyar Telekom Plc.

Table 11 – Number of student days per employee category\*

Employee category	Student day per capita – 2005	Student day per capita – 2006
Top manager	8.4	5.6
Manager	8.6	6.3
Workplace supervisor	9.7	5.3
Staff person	6.9	5

Figure 30 – Traditional and e-education by Magyar Telekom Plc.

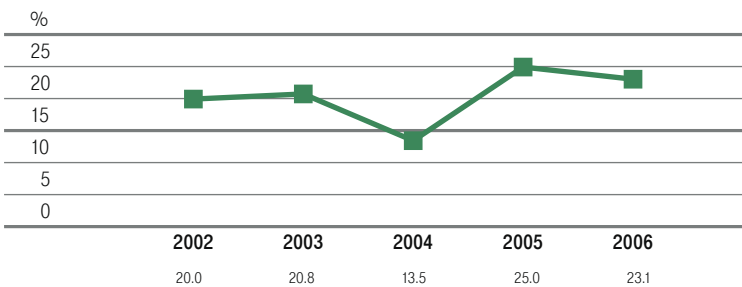


The following figure shows the percentage of conventional and distance learning days at Magyar Telekom Plc.

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 "Percentage of employees participating in team building in overall headcount"). The form of team building has changed a lot over the years. In 2006 team building exercises ranged from "conventional" classroom education to adventure trips.

\*Note: The substantial variation in the training figures is explained primarily with the integration of T-Mobile Hungary. (increased headcount, but participation in the training programs dropped due to other tasks connected with the integration)

Figure 31 – Percentage of employees participating in team building in overall headcount of MT Plc.



### 7.3.1.8. Human rights

In 2006 the Magyar Telekom Group continued to act according to the principles adopted and pursued in the earlier years in the respect of the observance of human rights.

Ensuring discrimination-free treatment, equal opportunities and diversity enjoys key priority in the human resource strategy of the Magyar Telekom Group. These principles were declared in the Magyar Telekom Group Diversity Policy and Social Charter adopted in October 2006.

The implementation of diversity fits into the company's objectives and strategy. Our diversity concept is a management method which greatly contributes to the success of the Magyar Telekom Group by recognizing, appreciating and taking into consideration the individual diversity and difference of the interested parties. (Such fundamental dimensions belong here as, for example, gender, age, deficiency, ethnicity and race, religion or sexual preference.)

The Magyar Telekom Group declared compliance with the nine basic elements of the SA8000 (Social Accountability) standard in the Social Charter. Among these nine basic principles it devotes special attention to discrimination-free treatment.

The other basic elements (child labor, forced labor, healthy and safe working conditions, free association and collective bargaining, disciplinary practices, working hours and compensation, management system), are either regulated in special internal regulations, in the Collective Agreement or, since the company does not use child labor and forced labor,

there is no special system or regulation in other documents of general effect like the Code of Ethics, the wage tariff system and the aid rules. On the other hand, 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).

### 7.3.2. Corporate social contribution

#### Leadership in corporate social contribution

Magyar Telekom, in addition to sponsoring the Hungarian cultural life in a way worthy of its economic role, has, over the past ten years, become one of the major sponsors of the non-governmental sphere too.

In 2006, similarly to the previous years, the Magyar Telekom Group contributed to the operation and activities of the following organizations:

- Magyar Telekom Symphony Orchestra
- Puskás Tivadar Secondary Technical School for Telecommunications
- Post and Telecommunications Museum Foundation, Telephony Museum
- Post Museum – Budapest
- Magyar Telekom Gallery\*
- “Telephone for the Needy” Foundation of Major Public Benefit

\*The Magyar Telekom Gallery’s predecessor – Matáv Gallery – was established in October 2000 with the objective to offer a space for the exhibitions of accomplished artists and less well-known talents. Since that time exhibitions are held here five times a year. Each exhibition is presented in the entrance hall of the headquarters building for one month.

For more detail visit: <http://www.magyartelekom.hu/english/contributions/patronage.vm>

#### Magyar Telekom Gives Back

Magyar Telekom implements extensive donation activity in the framework of the Magyar Telekom Gives Back program.

We identify social needs through regular opinion research and by monitoring daily news so as to be able to offer targeted assistance and solution to the problems of concern for us all. The four pillars of the “Magyar Telekom Gives Back” program are:

„A Magyar Telekom Hozzáad” program négy alappillére:

- monetary donations – direct cash donations
- charitable numbers – telephone services provided free of charge for the collection of donations from the citizens
- charitable services- telephone services provided at a discount
- employee donations – individual donations of the employees (and their supplementation by the company), voluntary work

The program rests on a strategy developed consciously ten years ago, which determines the scope of the beneficiaries: the single most important goal is to address the most serious social and health problems. We contribute to the solution of such problems which are quoted by Hungarian statistics as

the number one cause of premature deaths, like the screening and curing of tumor diseases and ensuring appropriate conditions for the treatment of heart and vascular diseases.

Further key donation areas are the health and social problems of children and the sport activities of disadvantaged people. Since we are a telecommunications company, the support of people who suffer from communication problems due to a physical handicap, as well as the initiatives aimed at closing the “digital gap”, not to mention the protection of the natural environment, are also high on the sponsoring list of the company.

#### Monetary donations

The decisions on awarding the donations are taken by the Board of Trustees of the “Magyar Telekom Gives Back” program. We regularly publish these decisions in the Newsletter of the “Magyar Telekom Gives Back” program and on the Internet.

<http://www.magyartelekom.hu/english/contributions/contributes/main.vm>

We distribute over 100 million forints annually among foundations and associations and also donate tens of millions of forints to support the communication activities of the organizations.

#### Charitable numbers

In a unique initiative in Europe, we launched the first “charitable number” service, the **Telekom Donation Line** in 2002 in the framework of the “Magyar Telekom Gives Back” program. The service is a simple and transparent form of helping people in need. By dialing 1788 anyone can donate 100 HUF for the advertised charitable purpose, which is always assistance to the work of a public benefit organization working towards the solution of burning social problems. The company provides this service free of charge, transferring to the beneficiary the full donated amount, so it does not generate any revenue and even pays the costs (VAT) and also offers 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).



By the end of 2006, 28 non-profit organizations received a total of 200 million HUF through the Telekom Donation Line. 2006 donations through the Telekom Donation Line:

1. January–February: goal: contribute to operating the crisis intervention cars of the Shelter Foundation assisting the homeless: result: 9,797,800 HUF donated by our customers.
2. March–April: collect donations for the Tölösi Péter Foundation to assist the work of the Pécs children's clinic treating children with leukemia and to buy medical equipment: result: 10,116,607 HUF donated by our customers
3. April–May: collect donations for the foundation of the Children's Center of Fót, to build a hydro-therapy center for the treatment of children with mental and motion disorders.  
result: 3,873,850 HUF donation
4. June–July: goal: develop the St. Martin Children's Rescue Service: result: 8,237,483 HUF donation
5. August–September: collection of donations for the Hungarian Hospice Foundation, to maintain the in-patient department.  
result: 6,544,000 HUF donation
6. November–December: collect donations for asset development at the International Pető András Public Foundation: result: 8,854,217 HUF donation

#### The Cause – a real-life reality show

The Cause is a charity program of Magyar Telekom. This "documentary reality show" has been initiated and financed by the company to present social problems and the work of those civil organizations that strive to solve them. Television spectators may vote to whom to donate the 5 million HUF offered by Magyar Telekom. In one series we present four goals and four organizations, and everyone wins: for those that do not finish in the first place the company donates 1 million HUF: The winner takes all the money collected from the 200 HUF per call votes of the TV viewers. In 2006 the program was aired in cooperation with the TV2 channel in two four-part series in June and December. Thanks to the June program, the Magic Lamp foundation could realize the dreams of seriously ill children, the football team of homeless people could travel to the world championship in South Africa, we could improve the working conditions of mentally handicapped artists and expand the shelter for retired horses with the donations of the viewers.

Fődíj: **5 millió forint**  
 2. díj: **1 millió forint**  
 3. díj: **1 millió forint**  
 4. díj: **1 millió forint**

A díjakról a Magyar Telekom gondoskodik.

az Ügy Mert adni jó...

As a result of the December series the Foundling Dog Shelter Association can now receive more animals, find new masters for them and thus save them from being put to sleep. The Blue Bird Foundation has built a bio restaurant employing handicapped people, the Roller Dance Group's wheelchair dancers have had several successful performances and the Mothers' Shelter Foundation continues to help battered mothers. The Cause continues in 2007 in cooperation with TV2.

#### Charitable services

The Civil Tariff Package was launched in March 2004 to offer national fixed-line telecommunications service to non-profit organizations with an 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 is available annually to 100 non-governmental organizations selected through applications. We treat as key priority the support of the operation of the helpline services by providing free calling opportunity for them; in 2006 this kind of support was worth 26 million HUF.

#### Donations of the employees

The Supplemented Individual Donations program means that the company adds a specified amount to the individual donations of employees feeling responsibility for the society. This enables employees sensitive to the problems of the society to take a responsible decision on corporate donation (the company adds double of the individual donation up to HUF 25,000, identical amount of the donation in the range 25,000 -100,000 HUF and 100,000 HUF to individual donations exceeding 100,000 HUF). The past three years have proved that this system successfully stimulates the employees, as private individuals, to act charitably: by December 31, 2006, thanks to the contributions of our employees more than 50 million HUF donations were given to various non-profit organizations, primarily operating in health, education, art and care for underprivileged children. This is the aggregation of employee donations with company supplements. The last three years employee donations were between five and six million HUF yearly. Thanks to the program operating for the sixth year willingness of the employees to give donations is growing continuously.

T-Mobile, as member of the Magyar Telekom Group, also takes its share of the charitable and support activities of the group, promoting the preservation of the values of the community in which it is present as service provider. The diversity of the civil initiatives, the creative people and solidarity have decisive importance for the entire society. As the biggest Hungarian mobile operator T-Mobile has set the goals of helping disadvantaged people, ensuring the freedom of creativity and promoting the preservation of health. In emergency situations, at times of disaster it takes an active role in helping people survive the effects by giving them state-of-the-art communication solutions, financial aid and the donations of its employees. In the spirit of these goals in 2006 it made donations for the Tölösi Péter Foundation, the Foundation for Children

with Leukemia and Tumor and the Foundation for Healthy Settlements. As communications partner it assisted the work of the following organizations by giving them valuable services and equipment:

- "Intenzív" Foundation
- Hungarian Maltese Charitable Service
- International Child Rescue Service
- National Accident Prevention Committee
- "Against Cancer, for Man" Foundation
- Hungarian Academy of Sciences
- Palace of Arts

### Successes with tradition

The University of All Knowledge (Encompass) started its 7th semester in September 2006. Numerous lectures were given in the 6 semesters so far under this joint educational project of the Magyar Telekom Group and the Hungarian Academy of Sciences. There is an estimated 250–300 thousand weekly audience of the lectures on television. In 2006 the T-Com Vivicitta City Protection Run opened the running season early April, which was followed by three more runs in April and May. In Budapest, Kaposvár and Eger thousands of people attended the Vivicitta runs. One of the biggest cultural events sponsored by Magyar Telekom the T-Com Kaláka Festival, was held for the 27th time in 2006. The festival itself was held in the Diósgyőr castle early July, but the accompanying programs, exhibitions, film showings began earlier and attracted audiences till late summer. Similarly to the previous years, the event featured many outstanding Hungarian and foreign music groups and individual performers who played before large audiences.

Traditionally, T-Com is one of the main sponsors of the Valley of Arts festival which attracts close to 200 thousand people every year. The T-Com World Music Stage was one of the most popular spots of the festival in 2006, featuring the best representatives of folk and world music. For the first time in 2006 Magyar Telekom opened the Space Communication Center of Taliándörögd for festival purposes, allowing the Krétakör (Chalk Circle) Theater to render a truly unique performance. Visitors could also inspect the instruments of the center which has been declared an industrial monument. The "Space Station" production of the Krétakör Theater sponsored by Magyar Telekom was listed among the ten best culture sponsorship projects at the Summa Artium Sponsors' Day gala in December 2006. For the fifth time in 2006 children and their parents were treated to diverse entertaining programs at early summer weekends on the T-Com Children's Island. The stage performances, music and sport programs, quiz games and creative entertainment attracted over 220 000 visitors.

### Friends of the future

The House of the Future exhibition, of which Magyar Telekom is gold sponsor, opened in January 2006. The group contributes to the exhibition with valuable telecommunications instruments and services. Magyar Telekom also joined as sponsor the School of the Future program which gives students of small localities the opportunity to attend the science history and science

education programs of the Budapest exhibition, providing for the free transportation of 1,200 country children to the Budapest exhibition.

In 2006, too, T-Online contributed to the development of training and culture and gave donations to support the work of organizations caring for people with disabilities and underprivileged children for whom the Internet offers an opportunity for a fuller life and keeping abreast of developments in the world. The C3 Foundation has been organizing the Free-style computer competition for years,



giving young people the opportunity to match skills in computer literacy and creativity. The jury awards prizes to those works which show that the young people can use the knowledge and skills acquired in an innovative and creative manner and offer unorthodox, individual solutions. Prizes are awarded by age category. The competitors can win valuable prizes and, thanks to T-Online, they can also receive scholarships. Through its art and research programs, events and publications the C3 Foundation has made great contribution to promoting the digital culture, the new communication techniques and the Internet and the media art in Hungary, and it continues to treat these goals as high priority.

### Industry cooperation

The World Telecommunications Congress, this most prestigious event of the telecom industry, was held in Budapest in May 2006. Magyar Telekom was Gold sponsor of the highly successful event.

T-Online, as market leading Internet service provider, lays exceptionally great weight on stressing its expert role and conveying its strategic messages. For years it has been chief sponsor of the Internet Hungary trade conferences, these prominent gatherings of Internet users and service providers, as well as IT and media professionals.

The topics discussed at the conference are usually selected by aspects of everyday practice. The market cannot do without research data. Before a subject is discussed, facts, figures and data are quoted for the given area. The speakers focus on those areas of everyday life, where the Internet is already broadly used and has strong influence on the traditional business, media, advertising and other activities.

## Sport

T-Mobile Hungary is Diamond Sponsor of the Hungarian Olympic team, a committed supporter of the bicycle sport, and it also sponsors the best handball and water polo clubs. The Mobile Services Line of Business of Magyar Telekom Plc, or T-Mobile, counts as the biggest Hungarian sport sponsor, awarding support on the grounds of quality. The amounts offered are much beyond the level that is expected from the business scene, and the relationship of sport and T-Mobile has reached deep public awareness.

As a result, the company's executives hold major public and sport positions to represent the company in national and international sport organizations in sport diplomacy roles. T-Mobile is represented in the most popular sports in Hungary, including football, water polo, handball, basketball and kayak-canoe, and is also present in regional sports life, sponsoring clubs that are local favorites.

The athletes selected for sponsorship enhance the company's image with their personal example, successes and popularity.

Organizations sponsored:

- Hungarian Olympic Committee
- Hungarian National Sports Association
- Hungarian Pentathlon Federation
- Hungarian Sailing Federation
- Hungarian Automotive Sport Federation
- Hungarian Kayak-Canoe Federation

By sponsoring international events, we also emphasize T-Mobile's cross-border services and its international dimension.

Such sponsorships include, among others:

- The Hungarian Pentathlon Federation (Pentathlon World Cup and European Championship)
- Hungarian Kayak-Canoe Federation (World Championship)
- Hungarian Swimming Federation (European Championship)
- Hungarian Sailing Federation (Sirocco, Blue Ribbon)

As sponsor of the Hungarian sailing sport, T-Systems agreed for the first time in 2006 to act as chief sponsor of the Hungarian Boat Division 49 and the T-Systems Hungarian Division 49 Grand Prix.

In the field of culture MakTel sponsored the Summer Festival in Ohrid, the Strumica Carnival, Esma Redzepova Teodosievska's concert and the first Macedonian publication of Encyclopaedia Britannica. In the area of sports their first major act was sponsorship of the Swimming Marathon in Ohrid. MakTel sponsors among others the e-Macedonia program to boost the information society in Macedonia, the Schools On Line program by providing broadband Internet connections and the Municipalities Online program by installing free broadband connections in cooperation with the competent ministry.

## 7.4. Environmental aspect

The data and information given in this chapter are based on the group-level data of the Magyar Telekom Group Annual Report and 20F Report, as well as on the environmental data stored in the relevant group-level systems.

We continue to strive for having the Group data displayed at regional level and to publish the data collected by the processes of the group-level systems in the widest possible circle.

### Management approach

The management approach concerning the environmental performance of the Magyar Telekom Group is best characterized by the renewed Group Environmental Policy approved by the executive management of the company on January 26, 2006 which pronounces: Our goal is to improve our environmental performance while reducing our environmental impact. For the implementation of this goal the Policy lays down in seven points the key task groups on which the group must act from an environmental aspect.

([http://www.magyartelekom.hu/english/doc/kornyezetvedelmi\\_politika\\_en.pdf](http://www.magyartelekom.hu/english/doc/kornyezetvedelmi_politika_en.pdf))

The executive management has given the chief human resources officer full responsibility and authority to coordinate the implementation of the Sustainability Strategy approved earlier, which also integrates the environmental strategy.

The group lays much weight on raising the environmental awareness of its employees, because it is convinced that with a conscious environmental attitude they can make significant contribution to the growth and positive perception of the group.

The Magyar Telekom Group attaches great importance to monitoring its environmental performance. For this end it employs an Integrated Management system in the highest-impact areas (besides the ISO 9001, the ISO 14001 Environmental Management System) the audited operation of which ensures the monitoring of the environmental performance of the functional areas.

The coordination of the environmental activities is a regulated and regularly audited process which operates as part of the MATMF-32 "Sustainability Management" process of the Group Central Quality Framework.

The environmental responsibilities are carried out by a so-called virtual organization, the Group Environmental Coordination Council (CsKkT). This body controls and supervises the implementation of the tasks at regular quarterly meetings.

At executive management level, the relevant activities are controlled by the Management Committee on the basis of reports submitted to it.

Vendor relations management at Magyar Telekom is carried out by a centralized organization certified under the ISO 9001 standard.

The suppliers are selected in compliance with the laws, in procurement procedures that ensure fair competition, transparency and structured and documented processes, and using predominantly electronic commerce solutions. In its contracts the company seeks to develop mutually



advantageous, value-creating partner relations.

At the procurement processes Magyar Telekom places much emphasis on the environmental aspects; before making any purchase the supplier must also make statement on the environmental impacts of the products.

Ethical conduct is important for Magyar Telekom, so questions concerning ethical conduct, like respect of human rights, are also listed among the criteria of vendor selection and customer classification.

(<http://www.magyartelekom.hu/rolunk/doc/etikaikodex.pdf>)

The strategic tasks include such environmental factors – with their desired changes which occasionally mean an expected tendency and occasionally concrete target values – the implementation of which the group annually reports by publishing the required and the attained environmental indicators.

The most important aspects are the following:

#### **Materials**

The material requirement of the service activities of the Magyar Telekom Group is not significant. The single biggest item is paper use which has been showing stable decreasing tendency as a consequence of the electronic document management, printing bills on both sides of the paper and the growing use of electronic bills.

#### **Energy**

The energy demand of telecommunication is rather significant. The absolute amount of energy used has shown slight decrease lately thanks to the use of low energy equipment and methods the identification and implementation of which the group has set as a key innovation target.

#### **Water**

No industrial water is required for the production of the products and services of the group, so the insignificant amount of water used by the Group serves sanitary purposes exclusively.

#### **Bio-diversity**

The services of the Magyar Telekom Group do not mean any great impact on the environment despite the fact that they require large area use.

It is the goal and interest of the group to preserve the state of the environment, the landscape, to keep its original form and value so when embarking on a new investment, it always places great importance on acquiring the necessary authority permissions, on making impact studies and integrating the structures in the environment.

Wherever the technical and the economic conditions permit, it gives preference to underground networks instead of aerial cables as the former mean less impact on the landscape.

Antenna towers are indispensable to provide mobile telephone network availability, but when we have to build such towers we make every effort to integrate them in the environment and also to share their use with the other mobile operators.

#### **Gas and liquid emissions, wastes**

We are making efforts to reduce the emission of gases causing greenhouse effect which plays a major role in the climate change by using the elements of our own service portfolio, like video conference, teleworking and distance learning in our own organization too.

It is a basic principle of the group that it only makes contract for the disposal of its wastes with such businesses that have proper license for the recycling, disposal or destruction of these wastes.

Thanks partly to this fact the percentage of recycled dangerous materials, and the recycling or re-use of the scrapped machinery and equipment is growing from year to year.

Communal waste is released for disposal exclusively to public utilities holding appropriate license for such activity.

#### **Products and services**

In an effort to reduce the environmental impacts of our products and services, when procuring products for our systems we require the supplier to fill in a so-called Environmental Card which states the environmental impacts and expected hazards carried by the product in question. We use these data during the life cycle of the products to reduce their environmental impacts.

As regards the packaging materials of the products sold, we provide for their collection and recycling through partnerships with public benefit organizations providing such services (paper – ÖKO-Pannon Kht., electronic equipment – ElektroCoord Kht.).

#### **Compliance with the regulations**

The Magyar Telekom Group attaches high importance to complying with the regulations affecting its operations. In 2006 only the Magyar Telekom Plc. of the group member companies was given – non-binding – decision of fine in the context of waste management that was deleted after appeal on higher level court.

#### **Delivery and transport**

To minimize the environmental impact, we usually deliver consignments directly to the site of the ordering organization. If the consignment is delivered from the central warehouse, we use the shuttle delivery service organized on a territorial principle. Wastes are delivered directly from the place of origination with the regular services of the contracted recycling partner.

#### **Comprehensive data**

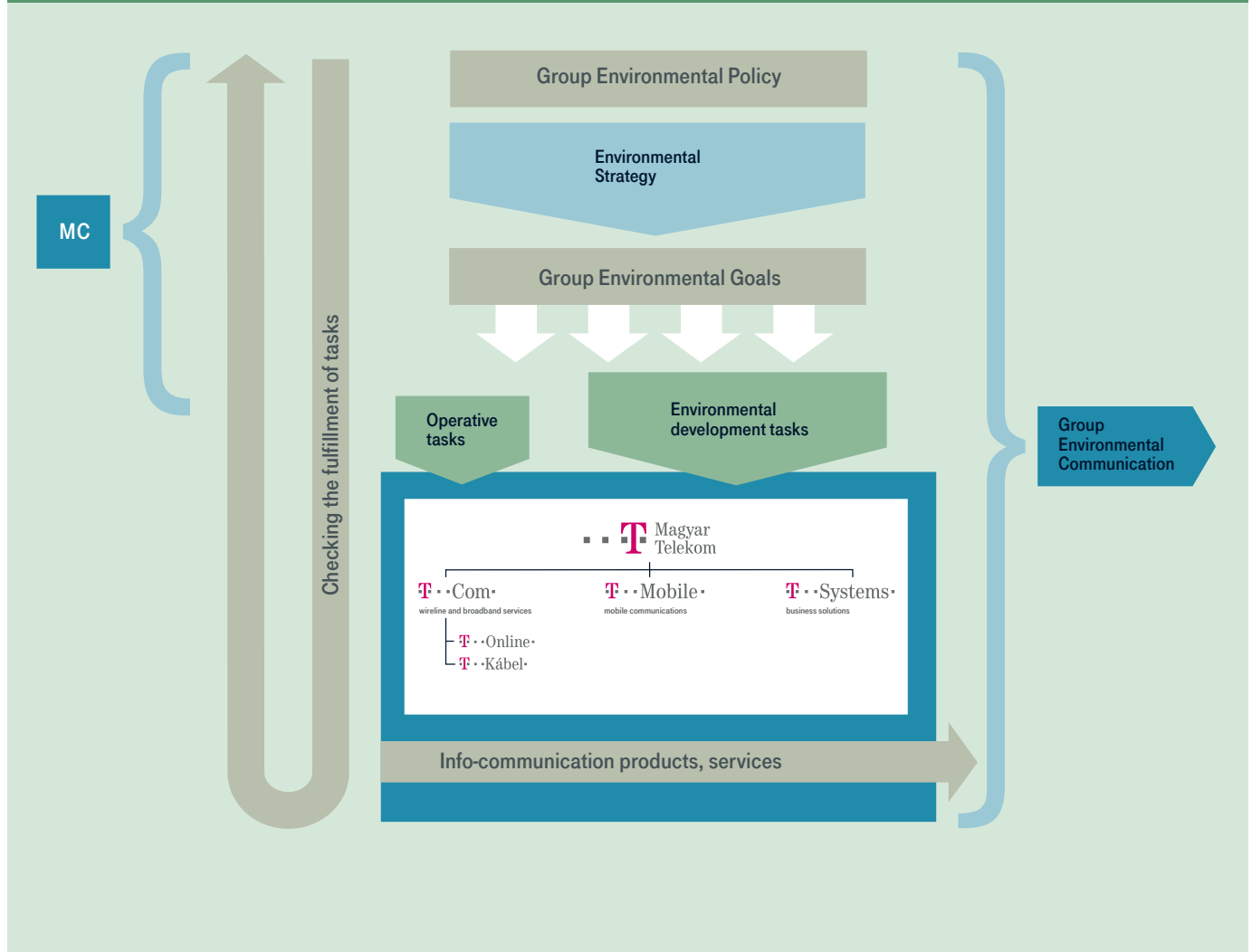
The group allocates a substantial budget each year for the prevention and treatment of the environmental impacts caused by its activities.

## 7.4.1. Linkage between operations and environment protection

### 7.4.1.1. Hierarchy of the activities of the environmental process

The following figure shows the hierarchy of the environmental activities of the Magyar Telekom Group, corresponding to the earlier operation. It shows that the strategy (which today is an integral part of the sustainability strategy) is deduced from the environmental policy, and the environmental targets and development tasks are deduced from the updated strategy.

Figure 32 – Activities of the environmental process





The operative tasks are the responsibility of the relevant organizations of the Group. In a directive (On the regulation of the environmental operation of the Magyar Telekom Group, on the responsibilities and authorities of the participants) issued on October 13, 2006, the Chief Executive Officer of the company upgraded an earlier regulation on environmental coordination and integrated in the directive the rules of the activities determining the framework of the operative environmental activities of the Group. The relevant organizations, member companies continue to carry responsibility for the implementation of the operative activities.

Communication rests on the results of the activities, and the Sustainability Report issued annually is an important element of this communication.

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

**7.4.1.2. Group environmental coordination process, environmental coordination**

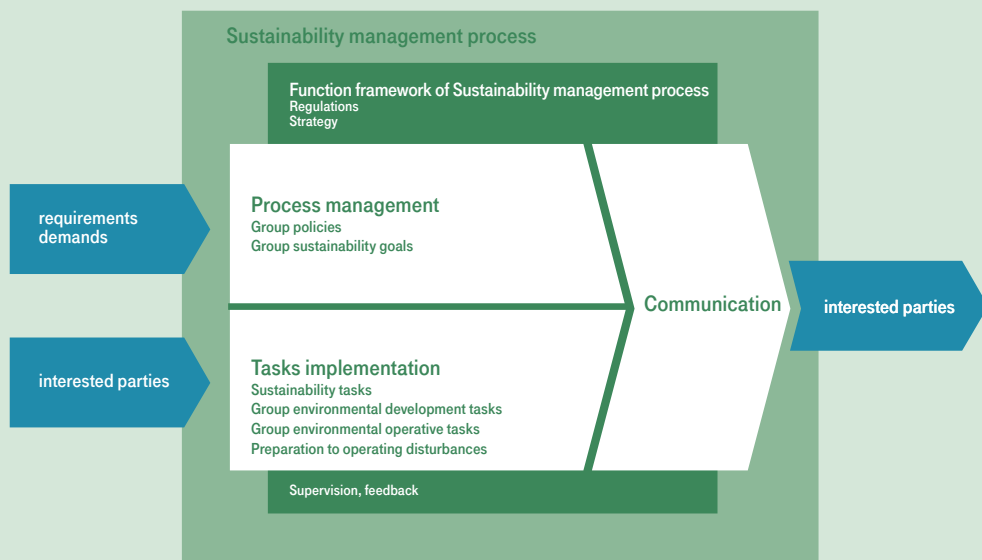
The Group environmental coordination process, which embraces the entire environmental activities of the Magyar Telekom Group, has been integrated in the Group Center Quality Management Framework as its „Sustainability Management” process as a consequence of the re-positioning of the organization directing these activities and adjustment of the process to the activities performed, as mentioned in section 5.2.

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

The coordination part of the process operates on the same pattern, by the same structure as earlier also after the modifications.

The environmental activities are operated both at the level of the company and the group on the basis of the above-described process (which has proven to work with appropriate efficiency).

Figure 33 – Magyar Telekom Group sustainability management process



The two so-called virtual organizations mentioned earlier were merged on the strengths of the CEO directive issued on October 13, 2006, and the new organization continues to operate under the name of Group Environmental Coordination Council (CsKkT). The organization manages environmental tasks both at Magyar Telekom Plc. and Magyar Telekom Group levels, and the implementation of the tasks is evaluated in quarterly meetings

### Results of the process and the coordination

In 2006 the organizations, the business units and the member companies continued to carry out their activities in compliance with the earlier practice, according to the principles specified in their organizational rules, in their own environmental organizations.

The number one managers of the member companies and the chief officers of the lines of business receive regular information about the meetings of the virtual organization, and consequently about the activities performed and the results achieved, so that in possession of such up-to-date knowledge they can appropriately control their area. The senior management of the Magyar Telekom Group, the Management Committee, receive reports annually (or as frequently as required) on the status of implementation of the environmental strategy tasks integrated in the Group Sustainability Strategy. In 2006 the implementation of the Sustainability Strategy was presented to the Management Committee on January 26.

### 7.4.2. Expenditures

The environmental expenditures of the Magyar Telekom Group amounted to 433 million HUF in 2006.

Environmental costs (Opex): 293 million HUF

- Operative environmental expenditures (waste management, tests, measurings, damages, payments to authorities): 254 million HUF

- Environmental education, training, communication (further training, conferences, awareness raising, Sustainability Report): 12 million HUF

ISO 14001 – Operation of environment management systems: 13 million HUF

- Implementation of the Group Sustainability Strategy: 8 million HUF

- Operating costs, environmental and TQM consulting: 6 million HUF

Environmental investments (Capex – e.g. renovation of oil containers): 140 million HUF

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

Besides expenditures, savings and revenues by environmental activities are also of great importance (energy efficiency development by T-Mobile).

Figure 34 – Environment-related expenditures

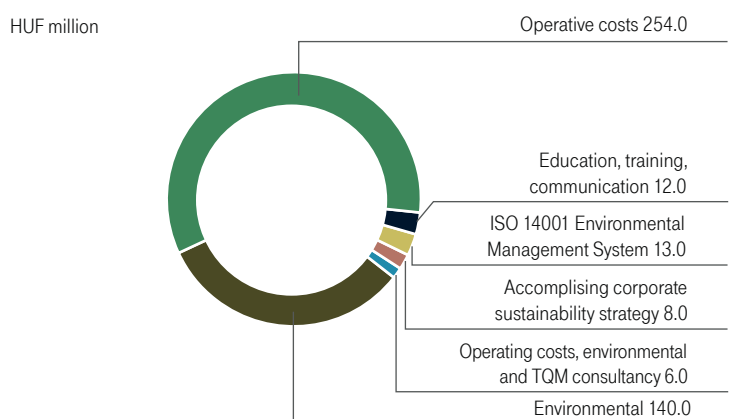


Figure 35 – Participants of environmental training programs

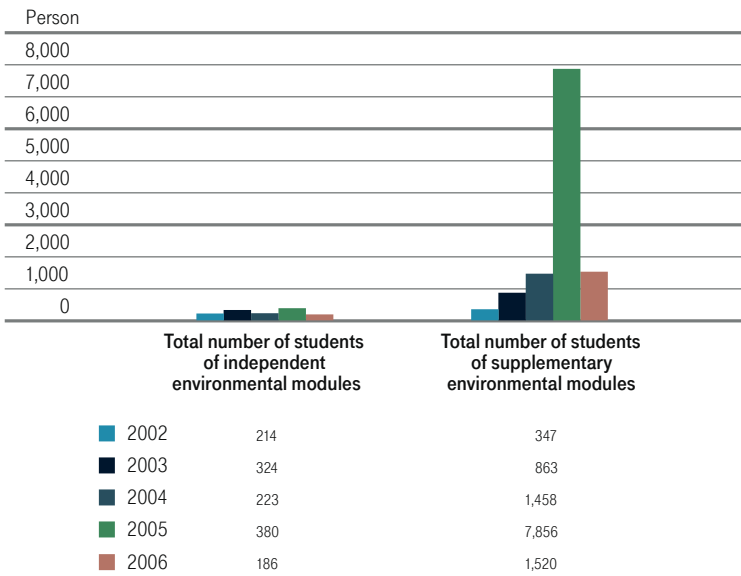
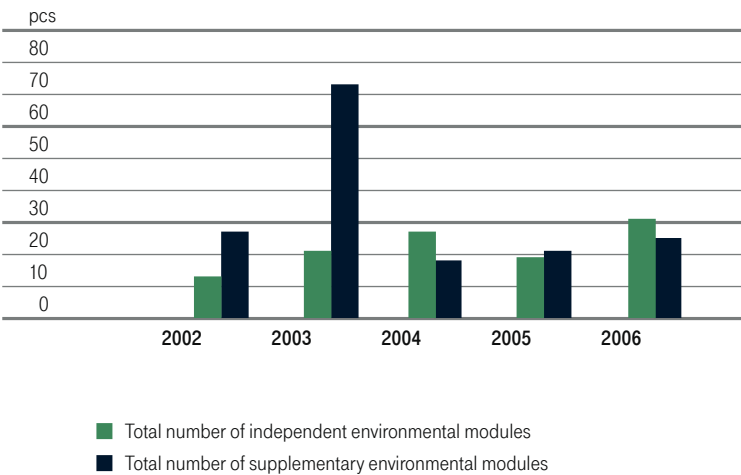


Figure 36 – Number of environmental training programs



### 7.4.3. Environmental awareness raising

Just like in the previous years, the Magyar Telekom Group and its member companies consider the environmental awareness raising of the employees highly important in order to attain the environmental goals.

Although stand-alone environmental education programs grew by 63% last year, the number of participants decreased by almost one half. The change is explained with the fact that based on prior assessment of the requirements, several specific environmental programs broken down to functional areas and targeted at a small number of participants, were held.

The supplementary environmental modules connected with other programs increased by 19%, but the number of participants decreased heavily over the previous year.

The diagrams demonstrate well that while the number of programs increased in both types of training, the number of participants decreased substantially. Most training programs are instituted when the regulations change or when new environmental management systems are introduced and these programs cover a large number of employees. In 2006 no such extensive training programs were necessary. Similarly to the previous years, our employees attended several environmental conferences.

#### 7.4.4. Environmental indicators

The following table summarizes the environmental performance indicator figures.

Table 12 – Environmental performance indicators in 2006		
Environmental indicator	2006	change in % 2005-2006 (+/-)
Number of dedicated environmental courses	😊	+63.2%
Number of supplementary environmental courses	😊	+19.0%
Total number of courses	😊	+28.0%
Number of trainees at dedicated environmental courses	😞	-51.1%
Number of trainees at supplementary environmental courses	😞	-80.0%
Total number of trainees	😞	-72.0%
Paper consumption	😊	-44.5%
Paper-based telephone directories replaced with CD	😊	+72.0%
Electricity consumption	😊	-0.9%
Relative amount of Magyar Telekom Group's electricity consumption per 1,000 lines provided	😞	+4.4%
Relative amount of electricity consumption of Magyar Telekom Group as compared with the revenue	😊	-7.9%
Gas consumption	😊	-6.0%
Vehicle running capacity	😊	-6.3%
Total vehicle fuel consumption	😊	-4.9%
Total vehicle diesel oil consumption	😊	-9.3%
Vehicle unleaded petrol consumption	😊	+0.2%
Vehicle leaded petrol consumption	😊	-57.4%
Travel replaced with audio- and videoconference	😊	-18.9%
Water consumption	😊	-2.4%
Net Storey Area (NSA)	😊	-15.6%
Amount of hazardous waste	😊	-10.6%
Amount of hazardous waste recycled	😊	+28.0%
Amount of communal waste	😞	+3.8%
Amount of paper waste recycled	😊	-13.7%
Amount of telecommunications and other waste recycled	😞	-9.8%
CO <sub>2</sub> emission resulting from energy and paper consumption	😊	-4.5%

**Legend:**

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

<sup>1</sup> Vonalszám = vezetékes-, mobil-, internet- és kábeltévé-előfizetők együttes száma

#### Explanation

- **Number of courses, number of participants:** The number of courses increased heavily over the previous year, which is explained with a more differentiated training demand. Following a powerful rise in 2005, the number of students decreased in both types of training. This tendency is explained with the fact that the environmental management systems have already been implemented at the organizations with large staffs, so no mass training was necessary in 2006.
- **Paper consumption:** In 2006 we reduced the consumption of paper by almost 45% thanks to the continuing modernization of electronic administration.
- **Paper-based telephone books replaced with CD:** the 72% growth of CD telephone books is quite remarkable and is explained with growing demand
- **Electricity consumption:** The consumption of electric energy decreased by 1% compared to the previ-

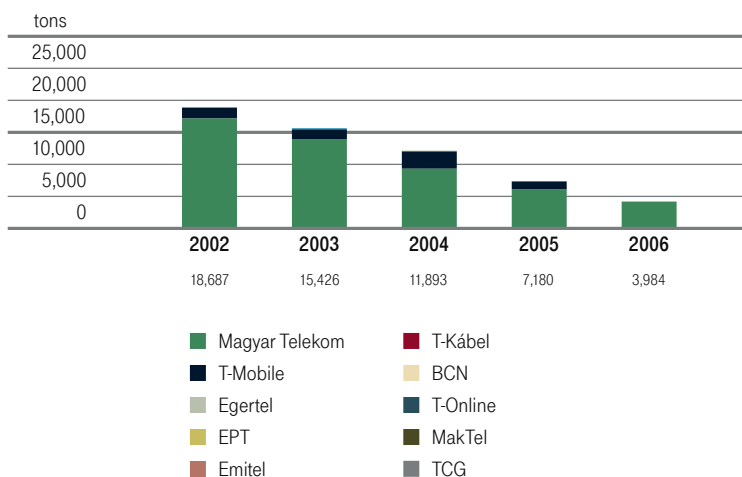
ous year as a consequence of the energy rationalization measures.

- **Relative value of the electric energy consumption of the Magyar Telekom Group per 1000 lines serviced:** The relative value decreased over last year due to the decrease of the number of fixed lines.
- **Relative value of the electric energy consumption of the Magyar Telekom Group compared to the revenue:** after the increase of the previous year, in 2006 significant, almost 8% decrease was recorded as a consequence of the expansion of the mobile and cable television services.
- **Gas consumption:** considerable decrease, due to the mild winter.
- **Vehicle mileage, total fuel consumption of the vehicles:** Following the tendency of the previous years, the mileage performance of the company's vehicles decreased by over 6% last year, and their fuel consumption decreased by almost 5% as a con-

sequence. The underlying reason is the decrease of the vehicle fleet.

- **Travel replaced by audio and video conferences:** Further decrease which, similarly to last year, is explained by a smaller employee headcount.
- **Water consumption:** In contrast to the significant growth of the previous year, last year water consumption decreased. The change is the consequence of the rationalization of the building portfolio of the Magyar Telekom Group.
- **Net Storey Area (NSA):** this value shows substantial decrease of over 15% which is explained with a lower headcount and the rationalization of the areas used.
- **Quantity of hazardous waste:** It counts as an achievement that for the first time in several years we recorded more than 10% decrease. It is due to the fact that we upgraded the disposal process of technology batteries and implemented a complex waste management concept.
- **Quantity of recycled hazardous waste:** The quantity of recycled hazardous waste shows significant increase. We recycle more than 93% of the waste produced and thus reduce the environmental impact caused by incineration and other forms of disposal.
- **Quantity of communal waste:** The quantity of communal waste is higher this year, the principal reason of which that T-Kábel Hungary Ltd. and BCN System House Ltd. did not provide relevant data last year.
- **Quantity of recycled waste paper:** As a result of rationalization of the collection process and involving more member companies in selective paper collection, the quantity of collected office waste paper has grown considerably.
- **Quantity of recycled telecommunication and other waste:** The replacement of obsolete telecommunication equipment decreased by almost 10% in 2006, so it also generates less waste.
- **CO<sub>2</sub> emission:** considerable decrease thanks to the rationalization of energy use and the performance improvement of the vehicles.

Figure 37 – Paper use (paper for office, wrapping and other purposes)



#### 7.4.5. Materials

In the context of the activities of the Magyar Telekom Group, paper can be mentioned as primary material which is used for the following purposes:

- office paper
- telephone books
- bills

In 2006 we used 3,984,748 kg paper, almost 45% less than in the previous year. We increased the use of recycled paper by nearly 65% over the last year. Among the member companies, Magyar Telekom Plc., Emitel, T-Kábel Hungary Ltd. and T-Online used recycled paper in their activities. In the respect of paper use, the tendency of the past years continues unbroken, thanks to the continuous growth of fast and comfortable electronic administration and data provision.

In 2006, the Magyar Telekom Group issued 25% more bills than in the previous year as a consequence of more cable television products.

The following materials were used for the bills:

Paper: 92,800,058 sheets

Envelopes: 54,912,908

Foils: 774,595 (the figure increased due to new data provider)

The Electronic Bill, or e-bill was introduced in 2005 but our customers are wary of its use and only a few opt for it instead of the paper bill. We only send e-bills to those customers who expressly request them. Our main goal is to win as many customers as possible for this innovative solution and offer this service in the broadest possible circle.

The Mobile Services Line of Business of Magyar Telekom Plc. continued to provide for its key customers the so-called Electronic Traffic Information (ETI) service, with the help of which an electronic image of the bill and call itemization can be downloaded through the Self-service Customer Care.

The ECI (Electronic Call Itemization) service was full available in 2006, too, giving subscribers the possibility to download the itemized bills of a given period.

It is company policy to request information from the manufacturers about each and every equipment and device purchased new for the telecommunication network and the exchanges. The information on the technical parameters, materials of the equipment, devices are processed in the Environmental Planning and Inventory system.

#### **Materials collected from the consumers**

Similarly to the foregoing years, we provide the opportunity for our customers to return their old and no longer used devices to the T-Pont shops. Magyar Telekom Plc. provides for their recycling. In 2006, our customers returned 31,850 kg sets, much less than in the previous year. Since 1998 T-Mobile has been accepting spent batteries and since 2004 sets no longer used by the customers. In this program, which was advertised in the T-Mobile points of presence, T-Mobile publications and on the Internet and was consequently very successful, 2.5 tons of batteries and 3.5 tons of old mobile telephone sets were recycled by the company in a bid to reduce the environmental impact.

Among the Magyar Telekom Group companies as novelty only MakTel collected old residential telephone books from users in any measurable quantity (64,482kg). The Hungarian Telephonie Directory Association collects the telephonie dictionaries according to the contract with the Hungarian Post (collected telephonie books are sold by the Hungarian Post therefore no such data is available). Collect results in figures:

Emitel	8 kg
MakTel	64,490 kg

#### **Solutions decreasing the use of paper by telephone directories**

Customer demand for CD telephone books continued to grow in 2006. The subscribers requested more than twelve times as many CD telephone books as in the previous year, which enabled us to save 3,273,919 kg paper. This year only Magyar Telekom Plc. published CD telephone books, in 297,114 copies.

The Internet telephone directory, which has been available on the Magyar Telekom home page for years, can also be interpreted as a substitute for the hard-copy telephone book, as it contains the availability data of the subscribers including mobile phone number, e-mail and web address.

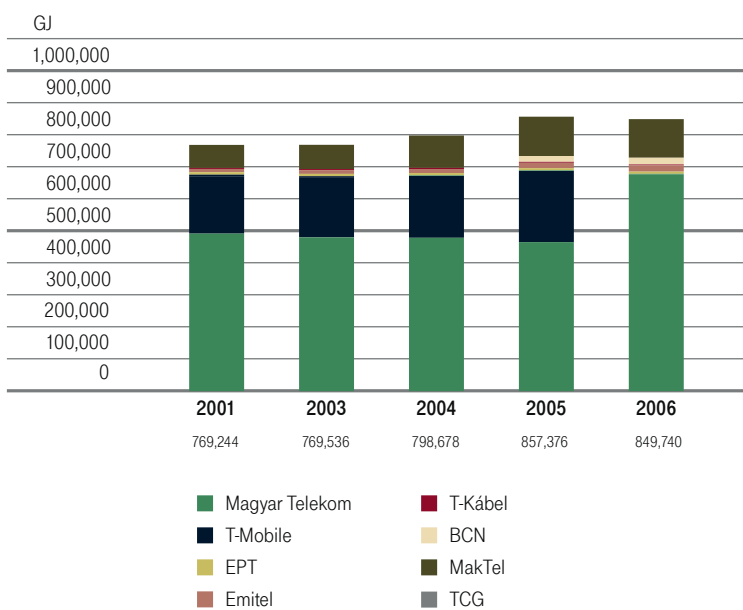
#### **Use of environmental friendly materials**

Such materials can be used in the offices and for gifts.

In the offices recycled paper is to mention in the frontline.

We are planning to introduce an environmental friendly gift catalogue in 2008.

Figure 38 - Electric energy consumption (absolute volume)



## 7.4.6. Energy

### 7.4.6.1. Electric energy

Telecommunication technologies continue to consume a large quantity of electric energy, so reducing electricity use is no small challenge for us.

We count it as success that in 2006 we managed to bring down electricity consumption by almost 1%.

Magyar Telekom Plc. consumed 1.5% less, EPT Plc. more than 35% less, BCN System House Ltd. almost 20% less and MakTel nearly 2% less electricity than a year earlier. But Emitel Ltd. used 1.5% more as a result of more supplementary equipment (ADSL), T-Kábel Hungary Ltd. used nearly 20% more and TCG 15% more because of network growth.

In terms of relative volume, energy consumption per one thousand lines showed nearly 4.4% growths over the previous year. The reason is the decrease of lines, which was particularly large at the international member companies (MakTel, TCG), while consumption compared to revenues showed 7.9% increase

Figure 39 - Magyar Telekom Group's relative electric energy consumption per one thousand lines

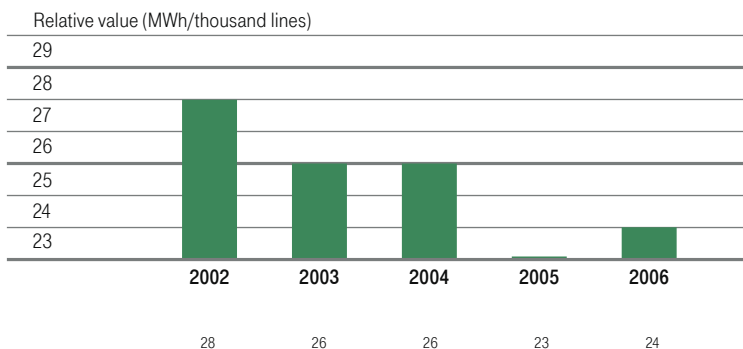
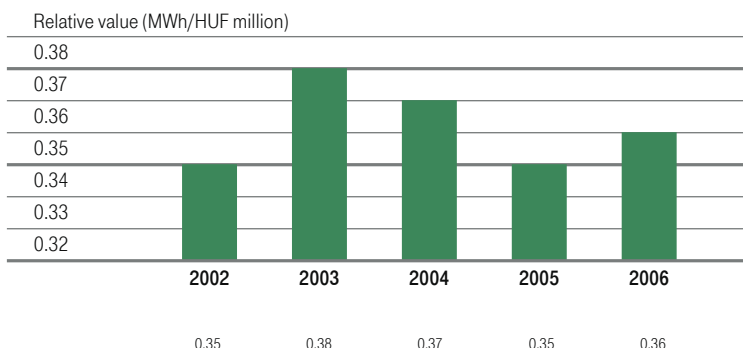


Figure 40 - Magyar Telekom Group electric energy consumption compared to the overall revenues



### Efforts to reduce energy consumption at Magyar Telekom Plc.

In 2006 the following objectives were identified for the energy rationalization project to be launched in 2007:

- Rationalization of the technology areas
- Identification of energy saving opportunities in the technology areas as a result of the launch of the NGN technology
- Rationalization of the use of the buildings

### What has been achieved:

- Setting of optimum temperatures in the technology and the office spaces.
- In 2003-2004 the Technical Directorate of the Mobile Services Line of Business embarked on new technical development with the goal to radically reduce the energy consumption and increase the security of operation of the mobile network. The equipment targeted were air conditioners providing for the cooling of the base stations which used direct free cooling technology.

This innovation was registered as industrial patent in the Hungarian Patent Office under no. 3151 in July 2006. This innovative technical solution involving considerable saving not used elsewhere in the world matches the goals very efficiently. The inventors would like to implement the solution in other networks, as well, to bring substantial energy saving for the entire economy.

The new cooling system reduces the consumption of energy with the least amount of investment, and it enables stable temperatures, efficient and reliable cooling at low cost.

The following requirements were set for the innovative solution:

- Result in energy saving
- Involve minimum investment costs
- Use the existing technical environment, equipment and offer combined operation capability

- The investment should return within a short time in terms of energy cost reduction and saving.
- Enhance the network reliability and service availability  
Operate in uninterrupted and network independent manner
- Not involve extra maintenance or other operating costs
- Be technically reliable and offer stable operation supported by measurements
- Be realized in the Hungarian environment, with Hungarian development
- Be adaptable to other networks, too.

**Technical, economic indicators of the development implemented:**

The cooling system developed by T-Mobile, which already enjoys industrial patent protection, has been installed in 950 container stations in the radio network. The efficiency of the solution can be described with the following parameters:

- Decrease of the active operating time of the air conditioners: 40-75%
- Decrease in the number of switchings of the air conditioners: 70-90%
  
- Decrease in the maintenance of the air conditioners: 30%
- Decrease in the breakdowns of the air conditioners: 45%
- Annual operating cost saving: 15-20 million HUF
- Annual energy cost saving: 135-200 million HUF
- Return of the investment: 3 years

Naturally, the saving also depends on the external temperature. In Hungary, the average temperature and the optimum temperature of the cooling system coincide at around 18°C, so this energy saving option can be used to great advantage.

Through the usage-optimized design of the technical network providing the mobile services and continuous development of the infrastructure equipment so as to produce energy saving, our Eco-efficiency indicator calculated as network energy consumption projected against the transmitted data volume (see diagrams 43 and 44) has improved considerably both in terms of overall energy consumption and the energy consumption of the technology. Through the special insulation and the free air cooling of the container stations and the replacement of the beacon lights with led technology considerable savings have been reached in the use of air conditioning energy that used to be the single biggest item in our energy consumption.

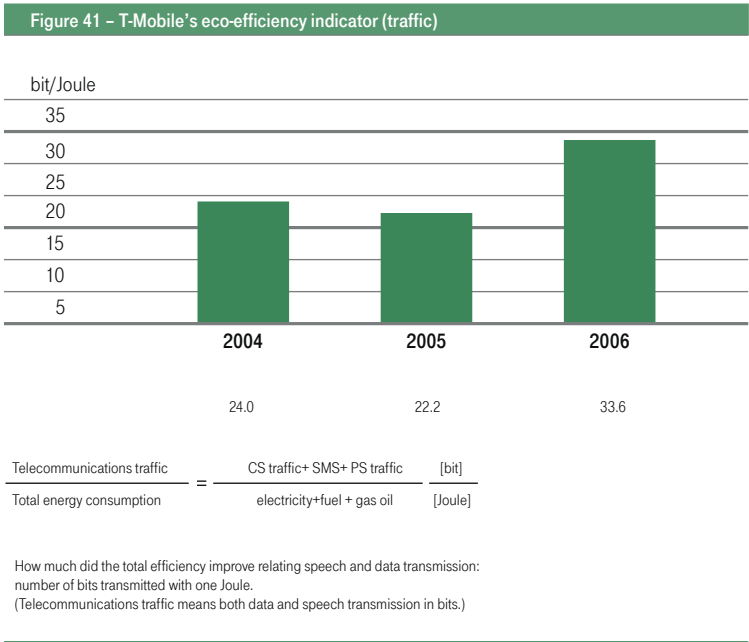
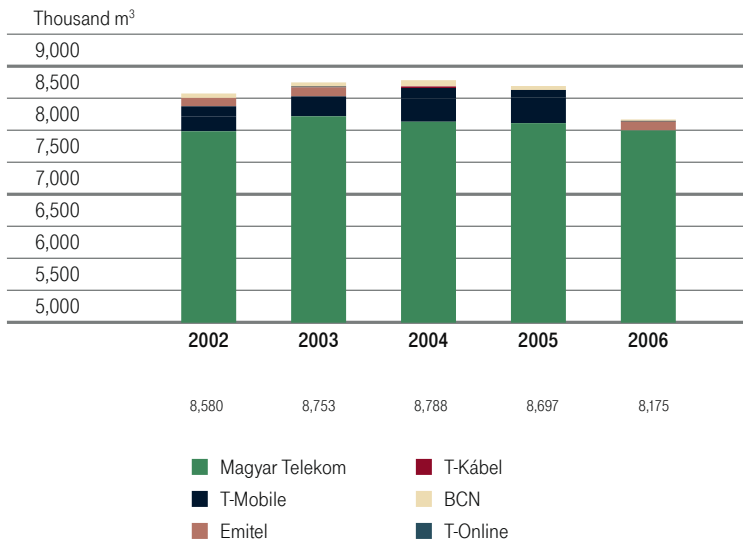




Figure 42 – Gas consumption



#### 7.4.6.2. Fossil fuel consumption

The member companies of the Magyar Telekom Group use natural gas and remote steam heating for the heating of their buildings, and – exclusively in the acquisition areas – fuel oil. The use of fuel oil has decreased by 19%.

##### Use of natural gas

The quantity of natural gas used by the Group decreased by 6% over the previous year, thanks to an unusually mild winter, efficient heating equipment and temperature regulators placed in the offices.

The gas consumption of Emitel Ltd. grew by 14%. Magyar Telekom reduced its gas consumption by 6.0%, and BCN System House Ltd. reached a remarkable 64.5% decrease through rationalization of the use of space.

(The member companies not mentioned here rent office space so their rental fee contains the cost of heating, and quantitative figures are not available for these sites.)

##### Remote heating

Only Magyar Telekom and MakTel of the Group companies use remote heating in some of their buildings, this heating option considered to be the most environment-friendly. Consumption at Group level was 25% down on last year due to the mild winter.

Magyar Telekom reduced the use of remote heating by 48.4% and MakTel by over 12%. BCN System House Ltd. appears as a new data provider this year with 1,982 MWh consumption.

##### Fuel oil consumption

Only our international subsidiaries use fuel oil, in natural terms they used 1 473,350 liters in 2006, almost 20% less than a year earlier.

The consumption of MakTel decreased by 19.6%, and TCG's by 11.4%.

##### Directly generated energy used for own purposes

The consumption of directly generated energy remained stable in 2006, so only the figures reported in 2005 can be repeated in this report.

- Diesel – operation of the generators in case of electricity supply breakdown
- Operation of gas engine – in the Headquarters at Krisztina körút, it provides for the electricity supply, heating and warm water supply of the building. The surplus amount of electric energy is sold to the Electricity Board.

### 7.4.6.3. Renewable energy sources

In a small locality, at Magyarsarlós, Baranya county, southwest Hungary, telecommunication service is provided with the help of radio equipment which equipment we operate with renewable energy, a combination of solar and wind power.

The solar cells have been in operation since 1992 and the wind generator since 2003.

By installing this equipment we wanted to achieve more than solving a technical problem. Our goal was to study the use of renewable energy sources in telecommunications. The system installed at Magyarsarlós has furnished us with valuable practical information in the stages of planning, installation and operation alike.

The operation of the power generation system using alternately solar and wind energy is not homogenous because the amount of electricity generated depends on the prevailing local solar and wind conditions. We need storage facilities, batteries to be able to use this combined power plant for powering telecommunications equipment that demand steady power supply regardless of weather conditions and time of day. In order to have uninterrupted power supply, the system must be designed in such dimensions as to match the level of service reliability.

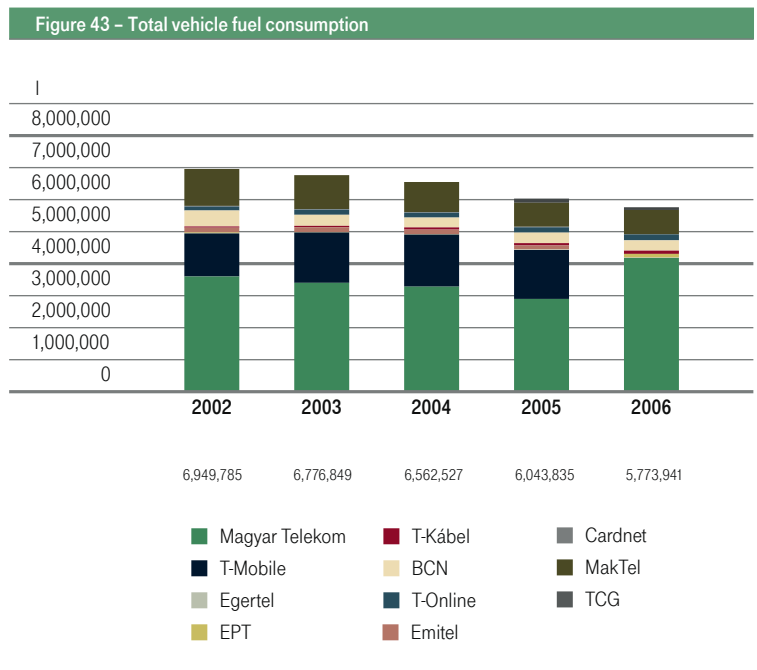
The solar cells, the wind generator and the large-capacity storage unit mean relatively costly investment which only returns in about 10-15 years. However good solution wind and the solar power seem from an environmental aspect, because of the long – 10-year – recovery time we are not planning their application elsewhere for the time being. But we continue to search for other solutions. Until the investment costs can be cut drastically, this solution is not a practicable option.

### 7.4.7. Mileage performance of the vehicles

The Magyar Telekom Group provides services across the country, and this also goes for its acquired international subsidiaries. It follows from the nature of the service that in some cases the staff must be personally present, like at fault repair.

The mileage performance of the Group's vehicles decreased by over 6% in 2006. The diagram illustrates that the decrease has been almost linear since 2004, the reason of which is that Cardnet, as data provider, has fallen out (it has been sold) and Egertel likewise, because it has very small staff. The other reason for the decrease in mileage is that we have fewer vehicles.

Mileage performance increased at Ept Ltd. by 22.9%, at T-Online by 10%, at T-Kábel Hungary Ltd. by 0.2% and at MakTel by 7.7%. Compared to the previous year, Magyar Telekom reached 9%, Emitel Ltd. 6.4%, BCN System House Ltd. 1.7%, and TCG 4.7% mileage performance decrease.



**Number of the vehicles**

The vehicle fleet of the Magyar Telekom Group decreased by 7.4% over the previous year.

By type of fuel:

- petrol-fuelled cars decreased by 7.9%,
- diesel-fuelled cars decreased by 7%.

By use:

- vehicles used for technical purposes decreased by 10.3%,
- vehicles used for personnel transport increased by 0.6%.

**7.4.8. Fuel consumption**

The decrease in mileage performance automatically entailed the decrease of fuel consumption: in 2006, fuel consumption decreased by 4.5%, which meant 5,773,941 liter consumption. The diagram shows the linear decrease in consumption.

**7.4.8.1. Diesel oil consumption**

Diesel vehicles accounted for 60% of the Magyar Telekom Group fleet, similarly to the previous year.

At Group level diesel oil consumption decreased by almost 10%, somewhat less than in the previous year. The diagram illustrates the small decrease that started in 2002, and the drastic fall from 2004 which was also the consequence of the shrinking vehicle fleet. In view of the modern telecommunications technologies, many faults can already be repaired remotely.

Diesel fuel consumption saw significant increase at T-Online: it grew over six times as a result of the purchase of ten diesel cars in 2006. The 1.5 times increase was also rather sizeable at BCN System House Ltd. and was also the result of the purchase of new diesel vehicles. The diesel consumption of Ept. Ltd. grew by 27%, of Emitel Ltd. by 4.5% and of MakTel by 4.8%.

Diesel oil consumption decreased at Magyar Telekom Plc. by 14%, at T-Kábel Hungary by 12% and at TCG by almost 31%.

**7.4.8.2. Unleaded and leaded petrol consumption**

Unleaded petrol consumption grew by a slight 0.2% in 2006, following the tendency of decrease of the previous years.

The consumption of the following member companies grew: Magyar Telekom Plc. (3.3%), T-Kábel Hungary Ltd. (12.8%) and T-Online (0.6%). The reason was the increase in the proportion of petrol-fuelled vehicles.

The consumption of Ept. Plc. decreased by 27.4% because of a larger number of diesel vehicles, Emitel's consumption decreased by 13.3% as a result of a smaller vehicle fleet, the consumption of BCN System House increased by 14% as a result of a larger number of diesel vehicles, and MakTel's consumption decreased by 7.3%.

Only TCG uses leaded petrol, but in 2006 its consumption decreased by 60% over the previous year.

Figure 44 – Total vehicle diesel oil consumption

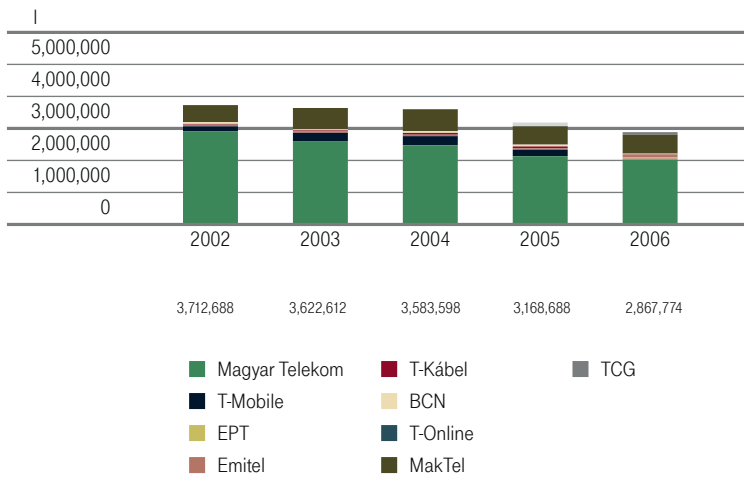
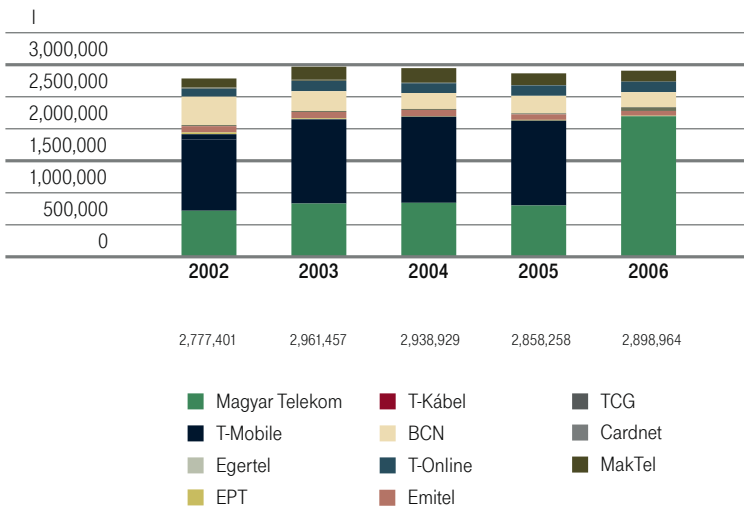


Figure 45 – Vehicle fuel consumption (unleaded petrol)



### 7.4.9. Solutions to replace travel

#### Audio and video conferences

The telecommunication service carries numerous opportunities to prevent unnecessary travel and the concomitant environmental impact. With audio and video conference we can save some of our business trips, along with the harmful emissions caused by travel. The following table shows that our relevant efforts were not met to the expected degree in 2006. Looking at the causes, we launched an action plan under which we raise the awareness of the employees to the travel-substitute options with various communication tools, and also make available these options to every employee. We hope that these efforts will help us make the video conference, the use of which has been showing decreasing tendency since 2003, popular with the employees once again.

#### Teleworking

Among the Magyar Telekom Group member companies only Magyar Telekom Plc. (162) and T-Kábel Hungary Ltd. use teleworkers (1). These quantities did not change over the previous year. The other member companies do not employ teleworkers.

#### Distance learning

Similarly to the previous years, the Magyar Telekom Group continued to offer its employees distance learning as a training option, which can also be regarded a travel substitute solution.

The students receive the training material through the internal intranet network, accomplish the tasks within a given time interval and also do the tests on the intranet. This training method saves travel to the venue of the training and the examination. The employees themselves can decide when they complete the course within the given time frame.

Table 13 – Travel distances substituted by video conference

	2002	2003	2004	2005	2006.
Replaced km	278,921	304,976	294,742	208,650	156,670
Average consumption (l/100km)	8.8	8.3	8.6	8.4	8.6
Fuel saved (l)	24,545	25,313	25,348	17,527	13,474
Diesel oil/petrol ratio (%)	55/45	54/46	55/45	52/48	48/52
Diesel oil saved (l)	13,500	13,922	13,961	9,114	6,468
Petrol saved (l)	11,045	11,391	11,423	8,413	7,006
CO <sub>2</sub> equivalent (tCO <sub>2</sub> )	60.69	62.59	62.77	43.10	32.89

### 7.4.10. Carbon-dioxide indicator

Similarly to the previous years, we summed up in a table the quantity of energy used in terms of CO<sub>2</sub> emission, by employing the UNEP principles published in 2000 on greenhouse gas indicators. Compared to the previous year, carbon-dioxide emission from electric energy, fuel and gas consumption decreased by 2.18%.

Table 14 – Magyar Telekom Group CO<sub>2</sub> emission from energy use

CO <sub>2</sub> load due to energy consumption (tCO <sub>2</sub> )	2003	2004	2005	2006	Change since previous year (%)
<b>Direct energy consumption</b>					
Natural gas	16,772	16,839	16,664	15,664	-6.00%
Fuel (diesel oil)	9,708	9,604	8,492	7,685	
Fuel (petrol)	7,002	6,613	6,382	6,451	
Fuel	16,711	16,217	14,874	14,136	-5.34%
<b>Indirect energy consumption</b>					
Electricity	77,381	80,311	86,213	85,446	-0.89%
<b>Total load due to energy consumption</b>	<b>110,864</b>	<b>113,367</b>	<b>117,751</b>	<b>115,246</b>	<b>-2.18%</b>

Table 15 – Conversion factors, measurement units used for the calculation of the CO<sub>2</sub> emission

	Quantity	Conversion factor	CO <sub>2</sub> conversion factor (UNEP)
Direct energy consumption			
Natural gas	m <sup>3</sup>	9.486 kWh/m <sup>3</sup>	0.0002020 tCO <sub>2</sub> /kWh
Fuel (diesel oil)	l		0.00268 tCO <sub>2</sub> /l
Fuel (petrol)	l		0.00222 tCO <sub>2</sub> /l
Indirect energy consumption			
Electricity	MWh (kWh)		0.000362 tCO <sub>2</sub> /kWh

Table 16 – Paper use at Magyar Telekom Group

	2003	2004	2005	2006	Change since previous year (%)
New paper (t)	15,426	11,893	7,180	3,985	-44.50%
Recycled paper (t)	0	61	32	53	64.87%

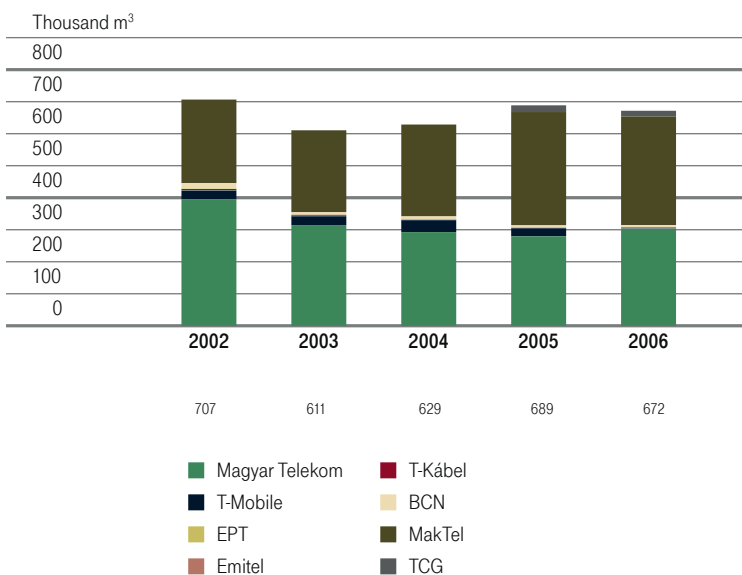
Table 17 – Magyar Telekom Group CO<sub>2</sub> emission from paper use

	2003	2004	2005	2006	Change since previous year (%)
New paper (tCO <sub>2</sub> )	15,089	11,633	7,023	3,897	-44.51%
Recycled paper (tCO <sub>2</sub> )	0	57	30	49	63.33%

Table 18 – Magyar Telekom Group's overall CO<sub>2</sub> impact

	2003	2004	2005	2006	Change since previous year (%)
CO <sub>2</sub> load of total energy consumption (tCO <sub>2</sub> )	110,864	113,367	117,751	115,246	-2.18%
CO <sub>2</sub> load of total paper use (tCO <sub>2</sub> )	15,089	11,690	7,053	3,946	-44.05%
Total load of energy consumption and paper use (tCO <sub>2</sub> )	125,953	125,057	124,804	119,192	-4.54%

Figure 46 – Magyar Telekom Group water consumption



As a result of the decreasing paper use of the Group and the growing use of recycled paper, the relevant CO<sub>2</sub> emission decreased by 44% in 2006 compared to the previous year.

#### 7.4.11. Water consumption

The Magyar Telekom Group only uses water for sanitary purposes. In 2006 consumption decreased (by 2.4%) after the increasing tendency of the previous years.

Among the member companies, Magyar Telekom Plc. reduced water consumption by 0.3%, TCG by 14.3% and MakTel by 4.2%. BCN System House consumed 16% more water in 2006 than in the previous year. The consumption of Ept Ltd., Emitel Ltd. and T-Kábel Hungary Ltd. remained stable.

Some member companies rent office space and the rental fee contains water consumption, so their data are not listed here.

#### 7.4.12. Biological diversity

The provision of infocommunication services involves small environmental impact but the service area embraces the entire territory of the country, including also those protected natural areas where the building and maintenance of the network are implemented in compliance with the relevant nature conservation regulations. Before engaging in any job in a nature protection area the designers must consult the relevant authorities and include their opinion in impact studies supported by measurements.

Provision of services requires accommodation of personnel and technical equipment. The following table shows the change in total site area used in square meters, in comparison to the previous year.

In 2006, the area use of the Group decreased by 15.64% as a consequence of the space rationalization moves; we are making every effort to utilize the buildings as efficiently as possible, especially when old technology requiring large space is replaced and space is liberated. In most cases these buildings are sold, after the human resources and the technology equipment they used to house have been accommodated elsewhere.

The infocommunication services of the Group can efficiently promote the work of the environmental and nature protection experts, especially in terms of the prevention or recovery of environmental damages or disasters.

### Impact on the 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 our constructions fit as much as possible into the given landscape, city or village. The technical area is trying to substitute the aerial cables with underground cables, which mean less environmental impact.

Antenna towers are indispensable for the mobile service.

The integration into the landscape of these towers started in the past years has helped preserve the original condition of the affected areas. We are also making efforts for the shared use of these towers with the other operators, so that fewer new towers have to be built. The number of towers used by the company exclusively decreased by 2.7% at Group level over the previous year, and now amounts to 571, as shown on the diagram.

The number of towers in shared use has not changed over the past year. The number of the base stations, which also have landscape impact, increased by nearly 9%. The biggest increase was recorded at TCG as a result of the expansion of the customer base; Magyar Telekom saw its towers increase by 10% in 2006 as a consequence of the integration of T-Mobile.

The presence of these technical structures in nature conservation areas and natural parks is unavoidable since modern infocommunication technology is required also there to make available, for example, applications that help scientific research, such as observation /monitoring systems, cartographic applications, etc. It is also important to ensure fast connection between the authorities and remote sites, localities for disaster recovery and prevention purposes and for the successful detection of crimes. The infocommunication systems offer for the researchers the opportunity to publish their scientific studies and to engage in science diffusion activities.

## 7.4.13. Emission figures

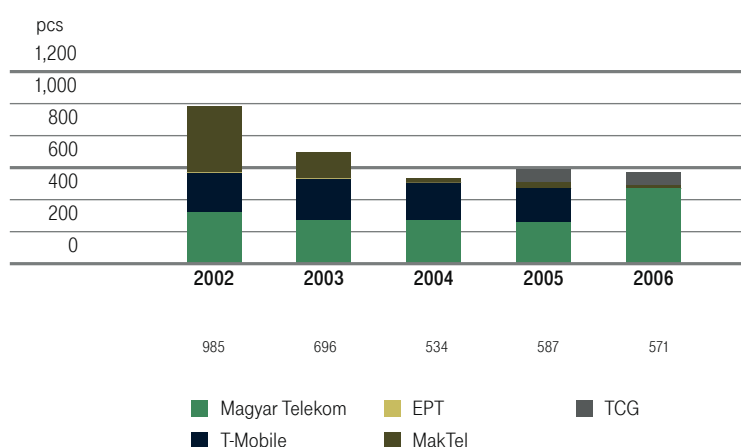
### 7.4.13.1. Air pollution

The air pollution of the Magyar Telekom Group is not significant and mainly derives from heating. No harmful emissions are made into the air in the context of the telecommunications services. Exceptions to that rule are the emergency diesel generators which provide electricity in case of power failure. However, the monthly operating time

Table 19 – Area use m<sup>2</sup>

Company	2003	2004	2005	2006
Magyar Telekom Plc.	717,037	691,436	675,198	1,035,923
T-Mobile	257,711	614,048	577,280	
Ept Plc.		1,865	3,379	3,379
Emitel	21,115	21,115	21,115	20,764
T-Kábel Magyarország Ltd.	3,900	4,000	4,042	4,205
BCN Rendszerház Ltd.	12,268	12,268	11,270	7,314
T-Online	5,500	5,500	5,500	5,500
TCG			29,522	29,522
MakTel		120,95	125,771	119,200
<b>Net Storey Area (NSA)</b>	<b>1,017,531</b>	<b>1,470,527</b>	<b>1,453,077</b>	<b>1,225,807</b>

Figure 47 – Number of independently used towers



and consequently the harmful material emission of these generators are low.

Heating and warm water are produced with gas boilers which are regularly measured and adjusted by licensed companies to answer the parameters specified in the regulations. The emission values (CO, NO<sub>x</sub>) of the equipment of the dimensions specified in the regulation are duly reported to the Environment Protection Authority. The emission values – based on readings – of these equipment may not exceed the limits specified by the Authority. The environmental impact of these equipment is not significant; therefore, similarly to the practice of the past years, they are not discussed specially in this report.

In order to protect the stratospheric ozone layer, we have replaced the gases used in air conditioners, fire extinguishers etc. with harmless ones.

In the emissions chapter we also have to mention the so-called linear sources (vehicles), whose compliance with the specified discharge values is being regularly checked in licensed service stations.

### 7.4.13.2. Soil, surface and underground water pollution

The service technologies of the Magyar Telekom Group do not involve industrial water use and water treatment, the

member companies only use water for office and sanitary purposes and this has already been described in the chapter on water consumption.

The water supply of the member group companies is provided by the public utilities. The majority of the sites of the companies are located in areas connected to the communal sewage system. Where no communal sewage is available, waste water is collected in closed underground cisterns which are emptied regularly. One Magyar Telekom Group site has active sludge sewage treatment plant whose efficiency and the composition of water released by it is regularly controlled in a laboratory. As a consequence, none of the Magyar Telekom Group companies release untreated sewage into the environment.

#### Soil and soil water pollution

The underground diesel oil tanks which store fuel for the emergency generators that provide for the continuity of Magyar Telekom Group services in case of power failure, mean potential risk for the soil and subsoil waters. A Ministry of Industry decree also requires the users to mitigate such risk. In compliance of these regulations, Magyar Telekom Plc. has, for years, been pursuing a program to replace the single-wall tanks with double-wall ones in order to prevent any damage to the environment. This program was completed in 2006 and now all oil tanks operate in an environment-safe manner.

When an underground oil tank was removed in a site in Transdanubia the soil tests which compulsorily accompany such operations showed higher than permitted oil concentration, so the soil around the oil tank was replaced.

#### 7.4.13.3. Noise and vibration load

The outdoor units of the air conditioners can be regarded as equipment causing considerable noise impact at the Magyar Telekom Group member companies. These equipment may draw citizen complaints especially in the densely populated urban areas. To avoid noise impact and the concomitant complaints – especially in the summer season – the equipment are regularly maintained because excessive noise is often caused by equipment breakdown. In the recent years we have replaced the air conditioners with more efficient and lower-noise equipment. Before installation we measure noise level for each air conditioner.

Another typical source of noise is the emergency diesel generators, but today these are either surrounded by insulating walls or are installed in insulated rooms. Despite these measures the technology experts of the supplier companies also check the equipment for noise level on installation.

#### 7.4.13.4. Electromagnetic fields

Among the Magyar Telekom Group member companies electromagnetic radiation affects primarily T-Mobile that provides mobile communications service.

In 2006 the number of mobile subscribers increased further so that the number of Hungarian subscribers nears 10 million by now. 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 coming 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, and this will raise the importance of elaborating corporate on this issue.

The Hungarian limits on electromagnetic fields were determined according to the guidelines 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 Hungarian regulation (63/2004. (VII.26.) ESzCsM) that 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 guidelines 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 all stakeholders about this issue, as also 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 as part of its own strategy. (For more information about the EMF Policy Recommendations" visit T-Mobile International's site.)

[http://www.t-mobile-international.com/CDA/emf\\_policy\\_recommendations,2893,0,,en.html](http://www.t-mobile-international.com/CDA/emf_policy_recommendations,2893,0,,en.html)

To implement this policy T-Mobile 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 2005 tests were requested in 42 cases by municipalities and in 62 cases by customers and these were fulfilled and all resulted in levels below the limit for electromagnetic fields.

In addition, pro-active communication targeted at all interested parties continued in 2006 with the issue of additional information booklets and the upgrade of the existing ones. In 2006 a new information EMF portal (<http://www.emf-portal.hu>) was developed jointly with the other two mobile operators, on which users can put questions about the EMF issue, view the latest news and the readings of the latest EMF measurings in Hungary. In an effort to provide information on the SAR values of the mobile phones, these data are shown on the set boxes among other manufacturer information.

Before the installation of a base station or tower T-Mobile holds consultation and cooperates with the concerned parties. Wherever requested a residential consultation is held with the involvement of all stakeholders to reach an agreement. Additionally, T-Mobile is making efforts to minimize the impact of base stations on the landscape. For this purpose 84% of T-Mobile's sites with a tower were used jointly with the other operators in 2006, and this figure is among the highest 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, in cooperation with carriers in the United Kingdom and Germany, has been sponsoring an international research program since 2002 with more than 20 million euro and through the GSM Association with additional 6 million euro.

With this T-Mobile International is one of the largest sponsors of these researches worldwide.

#### 7.4.14. Waste

##### 7.4.14.1. Hazardous waste

In contrast to the tendency of increase of the previous years, in 2006 the quantity of hazardous waste decreased by 10%, which is considered success. The quantity of hazardous waste depends on the scrapping plan of the given year and the replacement schedule of the old machinery.

As a result of the replacement of spent batteries and the modernization of the exchanges, the quantity of hazardous waste was increased significantly at Emitel Ltd., T-Online and MakTel. Since the weight of the batteries that supply power for the telecommunications equipment is significant, even one replaced battery will send up the quantity values. The quantity of hazardous waste decreased at Magyar Telekom Plc. (by 10.9%), and at BCN System House Ltd. (by 61%). This year T-Kábel Hungary Ltd. did not produce hazardous waste.

More than 93.6% of the hazardous waste was recycled. This percentage depends on the composition of the hazardous waste produced during the year.

The Magyar Telekom Group releases hazardous waste exclusively for licensed companies for recycling or depositing.

##### 7.4.14.2. Communal and paper waste

The Magyar Telekom Group produced 3.8% more communal waste in 2006 than in the previous year, in natural terms this meant 26,771 m<sup>3</sup>; the reason was that in the previous year T-Kábel Hungary Ltd. and BCN System House Ltd. did not provide data, so the 2006 figures were augmented by their data for the previous year.

As a result of the vacation of buildings the quantity of communal and paper waste increased at Magyar Telekom Plc. by almost 2%.

Ept Ltd. reduced the quantity of waste by 30.7% and Emitel Ltd. by almost 11%.

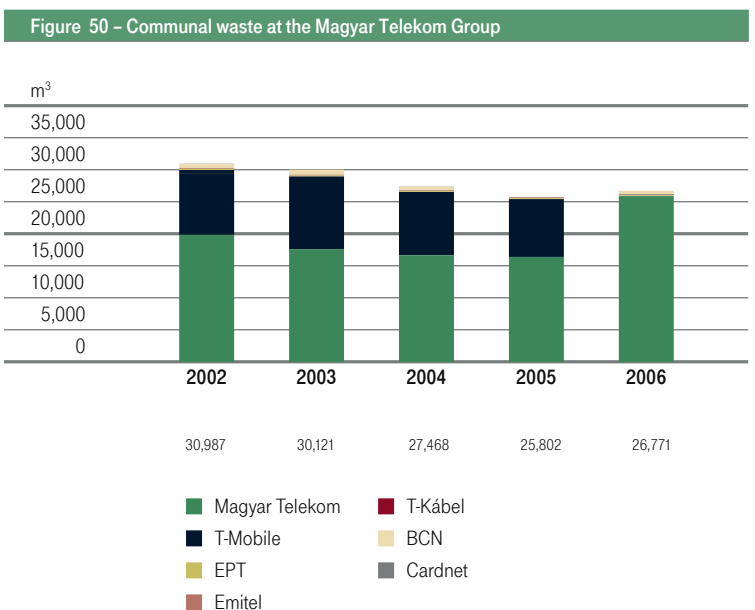
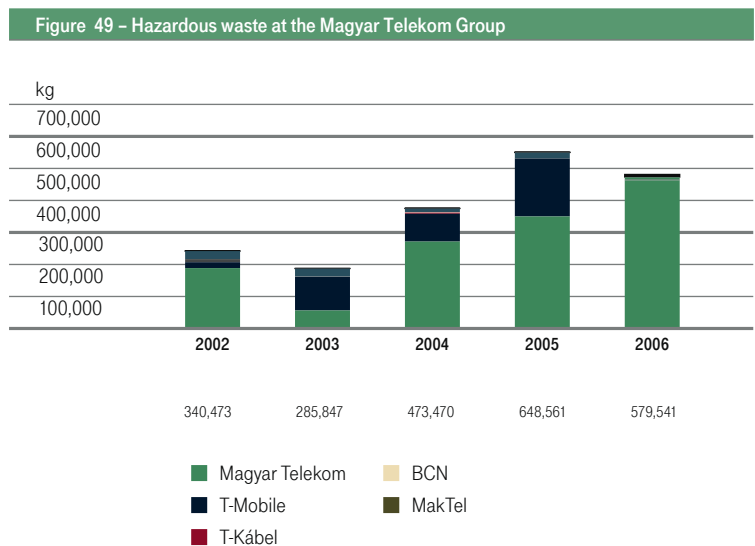
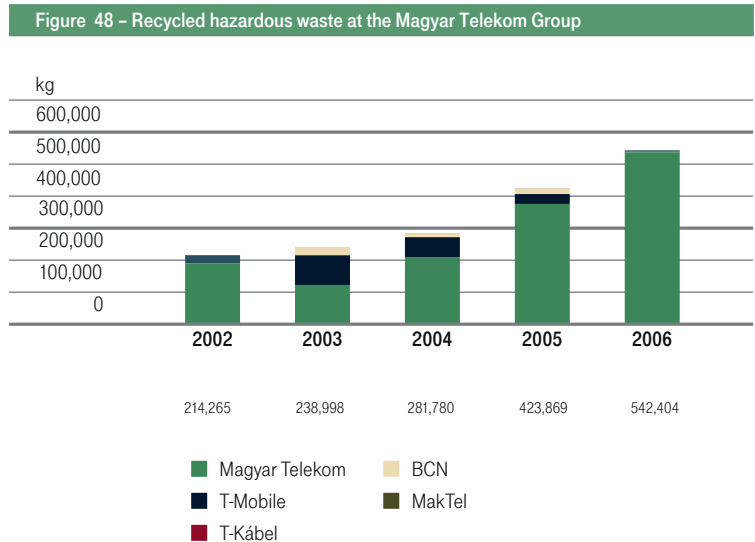
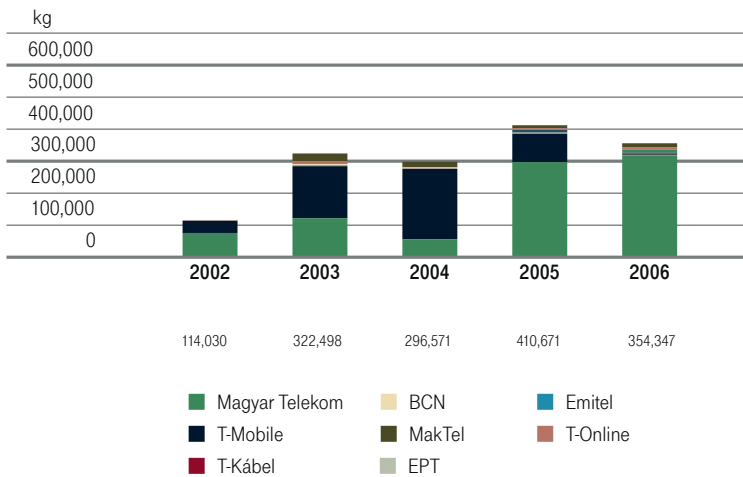




Figure 51 – Recycled paper waste at the Magyar Telekom Group



In this report we cannot quote relevant information for the other member companies because they rent office space and the rental fee contains this information.

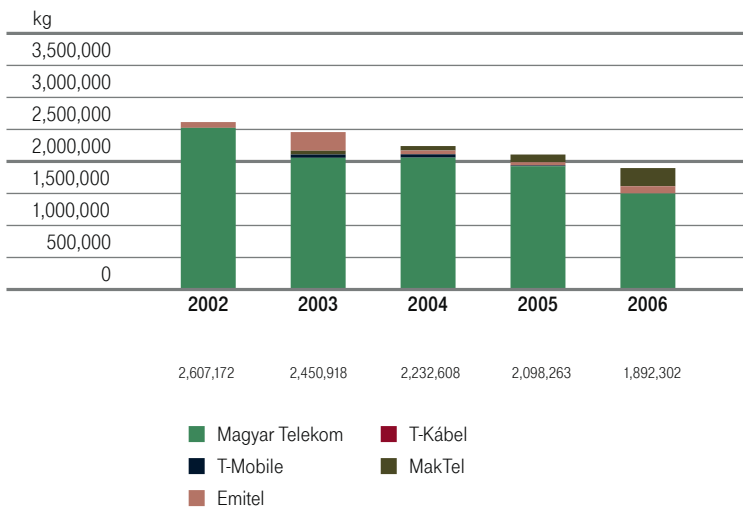
As a major step in raising employee awareness to environmental problems, on three T-Mobile sites 1500 employees collect waste selectively on 45 points. This possibility quickly gained popularity, and thanks to the special containers placed on company premises 40 tons of waste can be recycled. The service provider cannot supply precise quantity figures on the amount of waste collected selectively in three Magyar Telekom sites.

Since paper use has decreased as a result of growing electronic administration, the quantity of recycled paper has also decreased by 13.7%.

As a result of the rationalization of the form and format of the paper-based bills of the mobile service users, overall use of bill paper has decreased by over 30%.

Communal waste, which is released for disposal exclusively to public utilities holding appropriate license for such activity, is either incinerated or placed in waste depositories.

Figure 52 – Recycled telecommunication and other waste at the Magyar Telekom Group



**7.4.14.3. Telecommunication waste**

The development of the infocommunication technologies spurs the member companies to upgrade and replace obsolete equipment, networks and assets in a scheduled manner. The replaced assets are sold to licensed companies for recycling or reuse.

In 2006, 1 892 302 kg telecommunication waste was produced. The biggest amount is produced by Magyar Telekom Ltd., but the tendency is decreasing. The diagram shows that for the time being the replacement and upgrade rate of the equipment is decreasing or stagnating, and consequently the quantity of waste is also getting smaller. However, the quantity of telecommunication waste has grown 2.5 times at Emitel Ltd. and MakTel, almost 43 times at T-Kábel Hungary Ltd. BCN System House is a new data provider with a waste quantity of 3,566 kg.

# List of abbreviations

List of abbreviations	
Abbreviation	Full name
AC	Assessment Center
ADSL	Asymmetric Digital Subscriber Line
AIDS	Acquired Immune Deficiency Syndrome
AIESEC	Association Internationale des Etudiants en Sciences Economiques et Commerciales
AmCham	American Chamber
ÁSZF	General Contract Terms
BÉT	Budapest Stock Exchange (BSE)
BME	Budapest University of Technology and Economics
BMGE	Budapest University of Technology and Economics
CD	Compact Disc
CEERA	Central European Environmental Reporting Award
CEO	Chief Executive Officer
CEU	Central European University
CMCS	Center for Media & Communications Studies
CO	carbon monoxide
CO <sub>2</sub>	carbon dioxide
CsKkT	Group Environmental Coordination Council
CsSzDK	Group service fee discount
DC	Development Center
DG	Directorate General
DSL	Digital Subscriber Line
DT	Deutsche Telekom
DTIF	Deutsche Telekom International Finance
EB	European Championship
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortization
EC	Economic Performance Indicators
EDR	Uniform Digital radio Communication System
EF	Human resource (HR)
EFQM	European Foundation for Quality Management
EFT	Electronic Traffic Information
EHR	Electronic Call Listings
Eht	Act on Electronic Communications
EIU	Economist Intelligence Unit
EKR	Uniform Competence System
ELTE	Eötvös Loránd University
EMF	Electromagnetic Fields
EN	Environmental Performance Indicators
ENSZ	United Nations Organization
e-RFX	Electronic RFX (RFX – collective name of RFI (request for information), RFP (request for proposals) and RFQ (request for quotations))
ESzCsM	Ministry of Health, Welfare and Family Affairs
ÉT	Interest conciliation talks
ETIK	Inter-University Telecommunication and Information Center
ETNO	European Telecommunications Network Operators' Association
ETSI	European Telecommunications Standards Institute
EU	European Union
EÜ	health
EURESCOM	European Institute for Research and Strategic Studies
EWSD	Electronic Worldwide Switch Digital
GDP	Gross Domestic Product
GKI	Economic Research Institute
GmbH	Gesellschaft mit beschränkter Haftung

## Rövidítések jegyzéke

Abbreviation	Full name
GPON	Gigabit Passive Optical Network
GRI	Global Reporting Initiative
GSM	Global System for Mobile Communication
GVH	Economic Competition Authority
GVOP	Economic Competitiveness Operative Program
GYED	child-care fee
GYES	child-care allowance
HDSL	High-bit-rate Digital Subscriber Line
HotSpot	public, wireless Internet access point (wifi)
HP	Hewlett-Packard
HR	Human Rights Performance Indicators
HR	Human Resources
ICNIRP	International Commission on Non-Ionising Radiation Protection
ICT	Information and communication technology
IHM	Ministry of Informatics and Communication
IKM	Ministry of Industry and Trade
ILO	International Labor Organization
IO	Internal Operations
IP	Internet Protocol
IPTV	Internet Protocol TV
ISDN	Integrated Services Digital Network
ISO	International Organization for Standardization
ITU	International Telecommunication Union
iWiW	international who is who
K+F	Research and development
KFKI	Central Physical Research Institute
Kft.	limited liability company
Kht.	public benefit company
KKE	Central and Eastern Europe
KSH	Central Statistical Office
KTI	Training and Knowledge Management Directorate
KÜT	Central Workers Council
KvVM	Ministry of Environmental Protection and Water Management
LA	Labour Practices and Decent Work Performance Indicators
MakTel	Makedonski Telekomunikacii
MATÁSZ	Hungarian Telecom Industry Union
MATMF	Magyar Telekom Quality Management Process Description
MBA	Master of Business Administration
MC	Management Committee
MEOSZ	National Federation of Disabled Associations
MERCER	Marsh & McLennan Companies
MGYOSZ	National Association of Employers and Industrialists
MINŐK	Hungarian Association of Internet Using Women
MISZ	Hungarian Innovation Association
MMS	Multimedia Message Service
MNB	National Bank of Hungary
MOKK	Media Education and Research Center
Monet	currently T-Mobile Crna Gora
MSzT	Hungarian Standards Body
MTA	Hungarian Academy of Sciences
MTE	Hungarian Content Providers' Association
MUPBED	Multipartner European Test Beds for Research
Mvt.	Act on Labor Safety
NEK	net avoidable cost
NETÉRT	NETUsers' Interest Representation Society
NGN	Next Generation Network

## Rövidítések jegyzéke

Abbreviation	Full name
NGO	Non-Governmental Organizations
NHH	National Communications Authority (NCA)
NKFP	National research and development programs
NOx	Nitrogen-oxides
NSA	Net Storey Area
Nyrt.	Public limited company
NYSE	New York Stock Exchange
OECD	Organization for Economic Cooperation and Development
OMIKK	National Technical Information Center and Library
OPQ	Occupational Personality Questionnaire
PA	Providing Access (to telecom products and services)
PC	Personal Computer
PPKE	Pázmány Péter Catholic University
PPR	Performance and Potential Review
PR	Product Responsibility Performance Indicators
PR	Public Relations
PSTN	Public Switched Telephone Network
PWC	PricewaterhouseCoopers
RF	radio frequency
RIO	Reference Interconnection Offer
RT	Company limited by shares
SA	Social Accountability
SAM	Sustainable Asset Management
SAP	Systems Applications and Products in Data Processing
SAR	Specific Absorption Rate
SGS	Société Générale de Surveillance SA
SHDSL	Single pair High-speed Digital Subscriber Line
SINOSZ	National Association of the Deaf and Hearing Impaired
SMS	Short Message Service
SO	Social Performance Indicators
SOX	Sarbanes-Oxley (act)
SPAN	Services and Protocols for Advanced Networks
TA	Technology Applications
TÁVSZAK	Union of Telecom Workers
TCG	Telekom Crne Gore / Crnogorski Telekom / Telekom Montenegro
TÉT	Telecommunications Conciliatory Council
TIPHON	Telecommunications and Internet Protocol Harmonization over Networks
TISPAN	TIPHON + SPAN
TM	Performance management
TMH	T-Mobile Hungary
ÜB	Management Committee (MC)
UMTS	Universal Mobile Telecommunications System
UNEP	United Nations Environmental Programme
VB	World Championship
VDSL	Very high bit-rate Digital Subscriber Line
VFCS	Company sustainability group
VK	World Cup
VKI	World Economic Research Institute
WAP	Wireless Application Protocol
WebEDI	Web Electronic Data Interchange
WEEE	Waste of Electrical and Electronic Equipment
WHO	World Health Organization
W-LAN	Wireless Local Area Network
WWF	World Wildlife Fund
Zrt.	Close corporation

# Certification

## INDEPENDENT VERIFICATION

The Hungarian Association for Environmentally Aware Management (KÖVET-INEM Hungária) was commissioned by Magyar Telekom Plc. to verify the 2006 Sustainability Report of Magyar Telekom Group. KÖVET made a commitment as an expert, outsider and non-profit organization to verify the company's report, involving its employees.

Planning and execution of the verification process was undertaken in accordance with the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines.

### Methods and tools for verification

- » random check of data and data collection procedures;
- » interviews with the employees of the company (from top management to administrative employees)\*;
- » assessment of the report content on the basis of the most important economic, environmental and social performance indicators contained in the GRI G3 Guidelines (2006 edition);
- » comparison with other reports of the sector and from Hungary.

KÖVET publicly verifies that Magyar Telekom gave an opportunity to evaluate the report before publishing it. Changes were made in the report or will be made in the next report, based on the proposals. KÖVET accepted explanations for ill-founded proposals.

### Opinion

Magyar Telekom's 2006 Sustainability Report is considered to be high quality among national, international and sectoral reports. Magyar Telekom is still outstanding in the Hungarian telecommunication sector.

The company tries to be clear, but in spite of this, the text is sometimes hard to understand, which is due to the complexity of the company group. To help this problem illustrations and diagrams make the report more reader-friendly and expressive. It is important to highlight, that the report is published in electronic format (considering environmental aspects), and this gives the opportunity to use hyper-links, which makes the report even more interesting.

To correct the last report's deficiency, the report shows again all sustainability aspects, containing economic performance; ensuring accuracy it introduces in details the investigation that was carried out concerning the consolidated financial statements.

As for the content, the report reaches B level according to GRI G3 Guidelines. It is excellent that the company presents additional and sector specific indicators over core GRI indicators. The report

does not meet the requirement of completeness, but the company is trying to fulfil this need, and it is highlighted in the report too. Data collection procedures are generally adequate, but not always suitable to give proper data, due to the size of the company group. Incorrect data found during the audit have been corrected in the final report.

Statements and data published in the report are in accordance with the evidence collected during our interviews and visits.

### Main recommendations for further improvement

The company should...

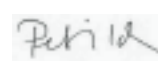
- » improve its data collecting procedures to increase their reliability;
- » keep credibility in the first place, when creating the report;
- » publish data about the whole group, if the report is about the company group;
- » describe sustainability relations when presenting the economical aspect;
- » expand information on employees to national and international group members;
- » describe concrete environmental objectives, so that environmental performance can be evaluated;
- » present the communication with customers, their comments and complaints;
- » consider the time period of data if the report is issued electronically.

By implementing the suggestions above, Magyar Telekom can keep its first position in the sector on external communication of sustainability.

24 August 2007, Budapest



Pál Kapusy  
executive director



Ida Petrik  
deputy director

\* Interviewees: Buzás Botond (procurement), Fehér Károlyné (mobile communications, environmental protection), Heinrich Tibor (procurement), Hercz Endre (mobile communications), Kacsó Balázs (employee interview – mobile communications), Matusek Csaba (employee interview – wireline services), Dr. Papp Ágnes (legal department), Salamon Ildikó (employee interview – business services), Somorjai Éva (chief human resources officer), Szabó Gyula (group communication/brand strategy, donation), Szomolányi Katalin (group sustainability strategy), Szócs Gábor (human resources), Tölösi Kriszta (human resources), Varga Kornélia (mobile communications/communication), Vaszily József (procurement), Zanathy Ildikó (group communication/donation), Zsuppánné Vörös Tünde (residential services).



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