matáv

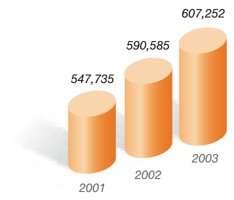
we speak
european

2003 Annual Report

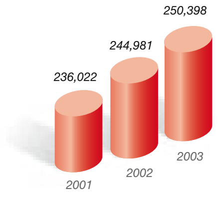
Successfully Achieved Business Targets

MATÁV GROUP: REVENUE GROWTH IN 2003

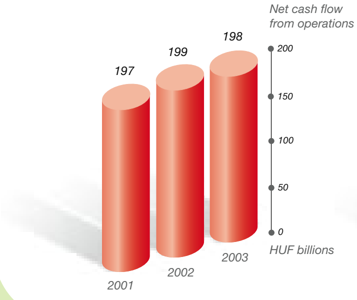
REVENUES
(HUF million)
2.8%

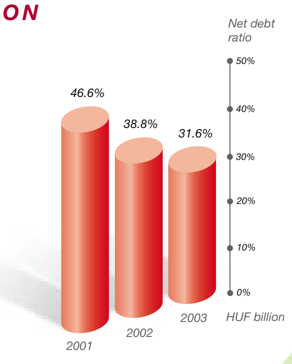


EBITDA
(HUF million)
2.2%



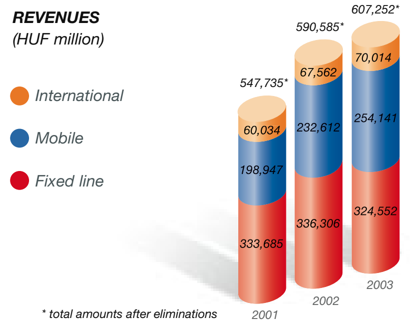
MATÁV GROUP: STABLE CASH GENERATION





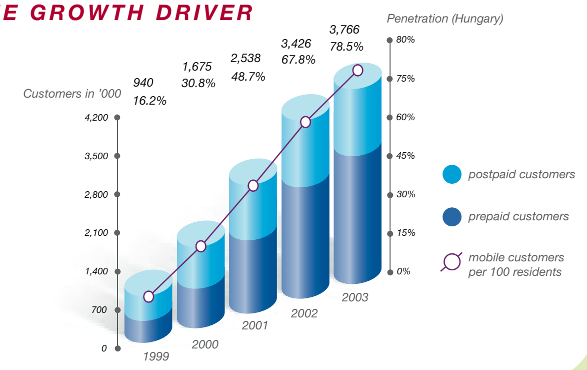
CONTRIBUTION OF BUSINESS SEGMENTS TO REVENUES

REVENUES
(HUF million)



* total amounts after eliminations

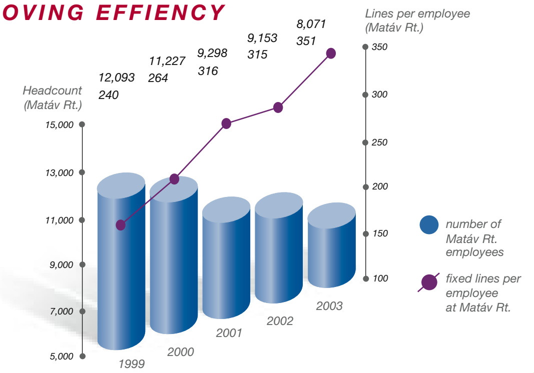
MOBILE SEGMENT: THE GROWTH DRIVER



GROWTH OF BUSINESS SEGMENTS IN 2003

	REVENUE GROWTH	EBITDA MARGIN
Total revenues	**2.8%**	**41.2%**
International	3.6%	56.4%
Mobile	9.3%	37.4%
Fixed line	(3.5)%	35.7%

FIXED LINE SEGMENT: IMPROVING EFFIENCY



Matáv Group Financial Highlights

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

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

Key Shareholders as of December 31, 2003

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

Matáv Group Summary of Operating Statistics

	Dec. 31, 2002	Dec. 31, 2003	Change %
No. of fixed lines:			
residential	2,055,338	2,012,672	(2.1)
business	282,406	261,642	(7.4)
public	33,316	28,799	(13.6)
No. of ISDN channels ("B")	511,326	527,728	3.2
Total fixed lines (Matáv Rt.)	2,882,386	2,830,841	(1.8)
No. of fixed lines incl. ISDN, Emitel	79,460	78,638	(1.0)
No. of fixed lines incl. ISDN, MakTel	594,213	619,236	4.2
Network digitalization with ISDN	87.1%	89.9%	n.a.
Fixed line penetration (Matáv service area, per 100 inhabitants)	38.4	37.7	n.a.
No. of Group employees (closing)	16,114	14,710	(8.7)
No. of fixed line employees (closing, Matáv Rt.)	9,153	8,071	(11.8)
No. of fixed lines per employee (Matáv Rt.)	315	351	11.4
No. of mobile customers, Westel	3,402,788	3,766,274	10.7
No. of mobile customers, Westel 0660	23,345	0	(100.0)
Total mobile customers	3,426,133	3,766,274	9.9
No. of mobile customers, MakTel	366,348	523,664	42.9
Mobile penetration (Hungary, per 100 inhabitants)	67.8	78.5	n.a.
No. of Internet subscribers	149,962	210,680	40.5
No. of Internet subscribers, MakTel	34,222	49,040	43.3
No. of cable television customers	338,625	362,366	7.0
No. of managed leased lines (Flex-Com)*	12,716	11,480	n.a.
Domestic traffic ('000 minutes)	8,820,201	7,958,292	(9.8)
International outgoing traffic ('000 minutes)	150,999	138,485	(8.3)
Domestic traffic, Emitel ('000 minutes)	179,670	152,614	(15.1)
International outgoing traffic, Emitel ('000 minutes)	2,545	2,253	(11.5)
MOU (Minutes of Usage per User/Month), Westel	118	114	(3.4)
ARPU (Average Traffic Revenue per User/Month), Westel	5,732	5,261	(8.2)

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

Strong Market Leadership Positions

ISO 9001:2000 certified system

MATÁV GROUP LINES OF BUSINESS

BUSINESS SERVICES

matáv business services

Market leadership in business communications

Matáv Group's market share: 61%

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

RESIDENTIAL SERVICES

matáv residential services

Market leadership in fixed line telephony

Matáv Group's market share: 81%

- 2.9 million fixed lines, including 18.3% ISDN
- Rapid increase of broadband capacity: 104,000 ADSL, 362,000 cable TV customers
- Innovative pricing: 1.4 million customers use tariff packages
- Innovative tariff packages: Felező, XL, 50% Csevegő fee for Internet access
- Innovative Internet access: Open Internet, EasyNet Plusz, Satellite DSL

INTERNET

axelero internet

A MATÁV GROUP COMPANY

Market leadership in Internet

Matáv Group's market share: 44%

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

MOBILE

Westel the Connection

A Matáv Group Company

Market leadership in mobile

Matáv Group's market share: 47.4%

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

The Matáv Group's European Union declaration

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

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

The European Union resources will create new investment opportunities, through which our principal ambition – fast expansion of the broadband infrastructure – may receive fresh momentum in 2004. As the leading corporate group in Hungary, we are committed to making available the accomplishments of telecommunication and information technology for our wide range of customers. In doing so we will not only make their life and work more meaningful and more effective, but by increasing Hungary's competitiveness we will play a major role in securing a worthy place for our country in Europe.

Our experiences gained as the most prominent telecommunications service provider in Central and Eastern Europe have prepared us for the competition. Let us make our voice heard in the European Union as well since after all, we already speak European.

Matáv (www.matav.hu) is the principal provider of telecom services in Hungary. Matáv provides a broad range of services including telephony, data transmission, value-added services, and through its subsidiaries is Hungary's largest mobile carrier and leading internet service provider. Matáv also holds a majority stake in Stonebridge Communications AD controlling MakTel, the sole fixed line and the leading mobile operator in Macedonia. Matáv Hungarian Telecommunications Co. Ltd. was incorporated in 1991 and privatized in 1993. Its majority owner (59.49%) is MagyarCom, fully owned by Deutsche Telekom AG. Matáv shares were introduced to national and international stock exchange dealing both in Budapest and New York in 1997. With its steady and dynamic growth Matáv has created significant value for millions of customers and for shareholders.

Contents

Letter to Our Shareholders

DEAR SHAREHOLDERS,

I am pleased to report that in 2003 our financial and operational results met or surpassed our full-year expectations, showing the continued ability of the Matáv Group to deliver on its promises. The revenue growth target was achieved with a figure approaching 3%. Our EBITDA margin exceeded 41%, in line with the target of above 40%. Our gross additions to tangible and intangible assets amounted to 88 billion forints, against the around 90 billion forint guidance. In terms of our operational targets, we reached the planned 100,000 ADSL lines. Our headcount reduction objectives, a gross reduction of 1,100 at the parent company level and an additional 330 at the subsidiaries, have mostly been fulfilled. Despite strengthening competitive and regulatory pressures net cash from operating activities remained stable at 198 billion forints.

The past year 2003 saw some changes in Matáv's operating environment, as the country moves to fully harmonize the Hungarian telecommunications regulatory framework with EU practices and to further boost competition. Interconnection fees were reduced, bringing them closer to EU benchmarks. Fixed-to-mobile termination fees of Westel were lowered in 2003, and are expected to continue to decline in line with the European average. The reduction has been passed onto the customers through a reduction in fixed-to-mobile tariffs. The new telecommunications act, which contains regulations regarding number portability, was approved by Parliament in November and came into force as of January 2004. Fixed line geographic number portability between service providers has been introduced from January 2004, while non-geographical and mobile number portability are expected to come into effect from May of this year. Carrier selection for local and Internet calls has to be introduced to the end users from 2004, as well. Regarding the end user prices, price cap regulation remains effective with regard to determining the prices of universal services.

In the fixed line segment, we achieved a noticeable reduction in line erosion, with fixed line churn falling in each successive quarter of 2003. This was achieved on the back of our successful tariff packages and new campaign offering analog access lines with normal or cordless telephone sets to both residential and business customers for a discounted one-off fee. In addition to being able to boost sales, we have also been successful in customer retention. The proportion of customers using the basic package has decreased to the benefit of our customized packages, especially the Csevegő (Chat) and Felező (Halving) packages. Customized tariff packages represented almost half of the total number of lines with more than 1.4 million lines at the end of the year. The fixed line segment remained a strong cash generator but we nevertheless continue to focus on cost-cutting possibilities to further increase fixed line productivity. The lines per employees ratio at Matáv Rt. was 351 at the end of last year, reflecting our aims to minimize fixed line erosion and to maximize headcount efficiency.

We see a positive outlook for our Internet operations. During 2003, Internet usage fees were reduced. We are confident that Matáv's sales efforts, the tax benefits introduced for investments and individuals and the new forms of subsidy offered in 2003 to the Internet service providers by the Ministry of IT and Communications have created an environment that will encourage internet use. We therefore expect to see a significant rise in the number of Internet users in Hungary this year too. As already mentioned, we successfully met our ADSL target, by connecting more than 100,000 ADSL lines by the year-end 2003. As a result, by the end of the year, approximately one Internet access in five was an ADSL connection in Matáv's service area.

With a penetration rate of 79% in December 2003, the mobile market is approaching saturation level. In this environment, Westel is putting more emphasis on customer retention than on new acquisitions. Westel lifted the entry barrier and saved on acquisition costs and competitors followed suit. Our mobile company maintained its leading position with over 47% market share in December in a highly competitive market. Westel, recognizing the increasing tariff competition, granted several significant discounts to its customers and continued to launch new services. The company also launched a halving campaign: postpaid customers can use half of the monthly subscription fee to pay for calls. As a result, we have started to see a favorable migration

from the prepaid segment in the direction of postpaid. The other main catalyst for postpaid sales was the opportunity to buy MMS handsets with interest free credit and no down-payment. Parallel to this, postpaid customer satisfaction increased, resulting in decreasing churn rates throughout the year. In terms of prepaid tariffs, all three operators introduced flat rate tariffs for their prepaid customers and, in parallel, increased the billing increment. Westel continues to innovate, and is the market leader in launching new services for its customers. The company launched the 777mobil portal through which users can download games, ringtones, logos, online interviews and much more with their WAP enabled handsets. Westel customers are even able to purchase movie tickets using their mobile phones. MMS is also becoming increasingly popular. Finally, I should mention another technological breakthrough by Westel. First in Hungary, in October our mobile company made a UMTS mobile call featuring video telephony on mobile phones on its experimental UMTS network.

Our international segment's financials were primarily determined by the macroeconomic slowdown in Macedonia. In spite of the stagnating revenues, the company's management was able to find sources for efficiency improvement and cost cutting. The decrease in costs excluding depreciation and amortization was mainly due to lower payments to other network operators, with equipment sales also lower. Thanks to strict cost controls, we realized savings in many expense items including marketing, maintenance and travel costs. As a result of successful cost cutting efforts, MakTel achieved an outstanding, 56% EBITDA margin in 2003. MakTel continued its tariff rebalancing efforts, and also launched commercial ADSL services in the fourth quarter. In the mobile segment, the appearance of the second operator boosted penetration growth resulting in a mobile penetration of 29% at the end of the year, on a par with fixed line penetration. MobiMak's market share was around 86% at the end of 2003.

Fundamentally, our ability to deliver solid performance depends on the work of our dedicated employees. We depend on their determination, experience and creativity. On behalf of the Board I would like to recognize their contribution in 2003 and thank them for it. Finally but not least I wish to assure our investors that our fundamental objective is to protect and enhance shareholder value in a sustainable way.

Elek Straub
Chairman and Chief Executive Officer

Senior Management of the Matáv Group

ELEK STRAUB CHAIRMAN AND CHIEF EXECUTIVE OFFICER, CHAIRMAN OF THE MANAGEMENT COMMITTEE

(59) He graduated in electrical engineering and business administration at the Budapest Technical University. He worked as Head of IT Department at the Ministry of Labor in 1970–1980. From 1980, he served as Head of IT Division, later Vice President at the Central Statistical Office, and Government Advisor, heading the IT Development Committee of Hungarian Government. In 1990, he became Country General Manager of IBM Hungary. He was appointed CEO of Matáv as of July 17, 1995. He has been member of Matáv's Board of Directors since June 7, 1995, and Chairman of the Board since January 31, 1996. Chairman of the Management Committee since November 14, 2000.

DR. KLAUS HARTMANN CHIEF FINANCIAL OFFICER, DEPUTY CHAIRMAN OF THE MANAGEMENT COMMITTEE

(42) He graduated in Economics and holds a PhD and an MBA. He worked for Arthur Andersen in Germany, and as treasurer and operational controller for a subsidiary of the BICC Group. He joined Deutsche Telekom in 1995 as Manager International Capital Markets, and became Corporate Treasurer of Global One, a joint venture of DT, France Telecom and Sprint, in 1997. He returned to DT's Headquarters in Bonn, acting as Senior Advisor to the CFO, in 2000. He was elected member of Matáv's Board of Directors on October 27, 2000 and appointed Matáv's CFO as of November 1, 2000. Deputy Chairman of the Management Committee since November 14, 2000.

ANDRÁS BALOGH ACTING CHIEF STRATEGY AND INTERNATIONAL OFFICER

(32) He graduated in Economics at the Budapest University of Economics. From 1994 he was business analyst and consultant at Andersen Consulting in Frankfurt and from 1996 in Budapest, responsible for strategic corporate assessments and business case projects in telecommunications. In 1998 as a contracted consultant he joined Matáv as Head of Product Strategy Department, responsible for telecoms product strategy development. From 2000 he was Matáv's Internet and IP strategy development project leader. In 2002 he was appointed Director of Group Strategic Planning Department. From June 1, 2003 he has been Acting Chief Strategy and International Officer.

DR. TAMÁS PÁSZTORY CHIEF HUMAN RESOURCES AND LEGAL OFFICER

(52) A graduate in law and organization engineering, he joined the Hungarian Post in 1969 and since 1980 worked in various positions in the human resources area. From 1990 he was Matáv's Director of Human Resources Development and has been responsible for Matáv's HR and organizational development activities ever since. He was appointed Matáv's Deputy Chief Officer in July 1995 and has been Chief Human Resources and Legal Officer since February 1, 1996.

Senior Management of the Matáv Group (from left to right)

DR. KLAUS HARTMANN
Chief Financial Officer,
Deputy Chairman of the Management Committee

LÁSZLÓ BODNÁR
Chief Services and Logistics Officer

GYÖRGY SIMÓ
Chief Executive Officer,
Axelero Internet

ANDRÁS BALOGH
Acting Chief Strategy and International Officer

ELEK STRAUB
Chairman and Chief Executive Officer,
Chairman of the Management Committee

ANDRÁS SUGÁR
Chief Executive Officer,
Westel Mobile

ZOLTÁN TANKÓ
Chief Officer Business Services

CHRISTOPHER MATTHEISEN
Chief Officer Residential Services

DR. TAMÁS PÁSZTORY
Chief Human Resources and Legal Officer

MANFRED OHL
Chief Technical Officer,
Chief Officer Network Systems

LÁSZLÓ BODNÁR CHIEF SERVICES AND LOGISTICS OFFICER

(55) He started his career with Elektromechanikai Vállalat in Budapest, then joined the Hungarian Post where he managed regional telecommunications development. From 1989 to 1990 he was Director of Hungarian Post in Sopron. From 1990 to 1999 he was Director of Matáv's Sopron Directorate. In addition he managed Matáv's organizational restructuring project in 1998–1999. In January 1999 he became Director of the West Hungary Technical Directorate and as of March 16, 1999 he was appointed Matáv's Chief Logistics Officer. From January 1, 2002 he has been Chief Services and Logistics Officer and he was Acting Chief Officer Residential Services until August 31, 2002.

MANFRED OHL CHIEF TECHNICAL OFFICER, CHIEF OFFICER NETWORK SYSTEMS

(56) He managed Operation and Maintenance of international terrestrial and satellite transmission systems at Deutsche Telekom until 1984. Afterwards he was regional director for planning construction, operation and maintenance of networks. After 1989 he was responsible for network reconstruction in Eastern Germany as well as investments of the technical division. From 1995 he was Head of the Technical Directorate of Deutsche Telekom. He joined Matáv on January 1, 1999 as Chief Technical Officer. From January 1, 2002 he is also Chief Officer Network Systems.

ZOLTÁN TANKÓ CHIEF OFFICER BUSINESS SERVICES

(46) A Budapest Technical University graduate in electrical engineering, he worked from 1980 as computer development engineer in Budapesti Rádiótechnikai Gyár, and from 1982 in Kőbányai Gyógyszerárugyár. From 1984 he held various positions at Műszertechnika and was promoted to Vice President in 1987 and Chief Officer in charge of telecommunications in 1990. He joined Matáv in 1996 as Director of Business Communications and was promoted to Chief Sales Officer of the company as of January 1, 2000. From January 1, 2002 he is Chief Officer Business Services.

CHRISTOPHER MATTHEISEN CHIEF OFFICER RESIDENTIAL SERVICES

(42) He graduated in economics and finance at Indiana University, Bloomington and Columbia University, New York. He came to Hungary in 1990 to found a consulting company for business analysis and strategic planning. From 1993 he worked as Marketing Officer of US West International and later as Westel Mobile's Marketing and Sales Director. From 1997 he headed in London the commercial and marketing activities of MediaOne's mobile subsidiaries and later worked for BT Cellnet as Business, Trading and Marketing Director. From September 1, 2002 he is Matáv's Chief Officer Residential Services.

GYÖRGY SIMÓ CHIEF EXECUTIVE OFFICER, AXELERO INTERNET

(37) Graduated in 1997 at ELTE Sociology Department. During his studies received a scholarship to the Sociology Department of the New School for Social Research in New York. In 1991 he was a founder and host, later Chairman of the Board of Trustees of Tilos Rádió. From 1996 to 1998 Vice-Chairman of AMARC-Europe, the European Association of Community Radio Broadcasters. From 1999 he was Program Director at MatávNet (since 2001 Axelero Internet). In 2000 he became a leader of the project elaborating Matáv's Internet strategy, later promoted to Axelero's Chief Officer and Executive Director, then Senior Chief Officer responsible for media, strategy and communication. Since November 1, 2003 he is Chief Executive Officer of Axelero Internet.

ANDRÁS SUGÁR CHIEF EXECUTIVE OFFICER, WESTEL MOBILE

(57) He graduated in electrical engineering at the Budapest Technical University. He started his career as development engineer at Elektromechanikai Vállalat. From 1974 he served at Hungary's Ministry of Foreign Trade. In 1980 he became Deputy Commercial Counsellor at the Commercial Section of Hungary's Embassy in New York. In 1985 he became Deputy General Director of Intercooperation Rt. From 1988 he was Deputy General Manager of Transelektro Rt. In 1991 he became General Manager of Westel Rádiótelefon Kft. He has been CEO of Westel Mobile Rt. from its incorporation in 1993.

Matáv's Board of Directors

MEMBERS OF MATÁV'S BOARD OF DIRECTORS ELECTED AT THE ANNUAL GENERAL MEETING ON APRIL 25, 2003

ELEK STRAUB

(59) A graduate in electrical engineering and business administration, he served as Head of IT Department at the Ministry of Labor in 1970–1980. From 1980, he was Head of IT Division, later Vice President at the Central Statistical Office and Government Advisor, heading the IT Development Committee of the Hungarian Government. In 1990, he became Country General Manager of IBM Hungary. He is Chief Executive Officer of Matáv since July 1995 and Chairman of its Management Committee since November 2000. Matáv's Director since June 7, 1995, Chairman of the Board of Directors since January 31, 1996.

DR. ISTVÁN FÖLDESI

(55) He spent 20 years in diplomatic service in London, Madrid and Washington as Attaché, then Counsellor. Up to 1988, he was Assistant Under-Secretary Science and Technology at Hungary's Ministry of Foreign Affairs, then to 1990 Advisor to the Prime Minister. Until 1992 he was Deputy Assistant Under-Secretary International Relations at the Ministry of Foreign Affairs. Since 1992 he has worked as international business consultant. From 1993 to 1995 he was Vice-Chairman, Central Europe, then East Coast, of IMPAC Integrated Control Systems, a US management consulting firm. Currently he is President of EuroAccess, a business consulting firm. He was Matáv's Director from December 13, 1994 to April 28, 1999 and Chairman of the Board in 1994-96. Matáv's Director since April 25, 2003.

JAN GELDMACHER

(42) After his graduation at the University of Cologne in business administration he worked for NCR/AT&T in various sales executive positions and later at AT&T in San Diego, USA. From 1996 he held various executive positions in sales areas at Meganet, Vebacom and o.tel.o. In 1999 he joined debis Systemhaus where he was responsible for Network Operations & International Support in the Telecommunications Services area. In 2000 he took over the International Networks and Portfolio area of Deutsche Telekom. Since 2001 he is Director of Telecommunications Services at T-Systems International. Matáv's Director since April 26, 2002.

MICHAEL GÜNTHER

(59) He studied business administration at the universities of Berlin and Hamburg. From 1971 he was commercial executive in various business areas at Philips. From 1987 to 1993 he was Board member of Philips Kommunikations Industrie responsible for controlling, finance and accounting as well as IT. In 1994 he joined DeTeSystems, a Deutsche Telekom subsidiary, as commercial director. In 1996 he became head of financial and controlling division at Deutsche Telekom responsible for business customers. From 1997 he was financial and controlling director of T-Mobil. He became Chief Financial Officer of T-Mobile International in 2000 and since 2001 he is Chief Officer responsible for Joint Venture Management. Matáv's Director since April 26, 2002.

DR. KLAUS HARTMANN

(42) He graduated in economics and holds a PhD and an MBA. He worked for Arthur Andersen in Germany, and later for the BICC Group as treasurer and operational controller. He joined Deutsche Telekom in 1995 as Manager International Capital Markets, and became Corporate Treasurer of Global One in 1997. In 2000, he returned to Deutsche Telekom as Senior Advisor to the CFO. He was appointed Matáv's CFO and Deputy Chairman of its Management Committee in November 2000. Matáv's Director since October 27, 2000.

HORST HERMANN

(48) He joined Deutsche Telekom as operations manager in 1978. In 1990 he joined DT Headquarters, Corporate Strategy and Regulatory Policy. From 1994 he was Assistant Managing Director for Business Development and Finance in DT's regional Headquarters in Singapore. From 1996 he was responsible for Strategic Planning in the Bonn Headquarters again. In 1998 he joined Matáv in charge of Strategy and Business Development. In 2002 he became Chief Strategy and International Officer, also responsible for Portfolio Management and Matáv's policy on content and media. In 2003 he was appointed T-Com's Senior Executive Vice President responsible for International Business. Matáv's Director since April 25, 2003.

DR. MIHÁLY PATAI

(50) He joined the National Bank of Hungary in 1976, and the Financial Research Institute in 1978. From 1982 he served at the Ministry of Finance as Division Chief. In 1986, he became Chairman of the Board at General Banking and Trust Co. From 1988 he worked for the World Bank and IFC, and from 1993 for K&H Bank as Executive Director. He became Chairman and Chief Executive Officer of Budapest Investment International and later of Allianz Hungária Insurance Co. in 1996. Matáv's Director since April 28, 1998.

DR. RALPH RENTSCHLER

(43) After studying economics and gaining a doctorate he worked from 1988 for Robert Bosch GmbH as an expert advisor on business principles and methods. He was head of Group Controlling and the Planning and Reporting Departments, also responsible for strategic planning, at Carl Zeiss from 1992. From 1997 he was Commercial Manager of the Brand Optics Division at Carl Zeiss where he managed Accounting, Controlling, Data Processing and Purchasing. In 2001 he became head of Group Controlling. From 2002 he is Member of the Management Board of T-Com responsible for finance. In 2002–2003 he was Matáv's Supervisory Board Member. Matáv's Director since April 25, 2003.

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

MATÁV'S SUPERVISORY BOARD

Members of Matáv's Supervisory Board elected at the Annual General Meeting on April 25, 2003

DR. LÁSZLÓ PAP CHAIRMAN	ARNE FREUND	JOACHIM KREGEL
GÉZA BÖHM	WOLFGANG HAUPTMANN	DR. KLAUS NITSCHKE
ATTILA CSIZMADIA	GELLÉRT KADLÓT	PÉTER VERMES

Milestones 2003

The 100,000th ADSL connection: value through fixed lines

REVERSING THE TREND IN THE FIXED LINE SEGMENT

In 2003, Matáv was slowing down month by month, and in the last quarter it almost stopped the decrease of fixed lines felt since 2001, primarily due to mobile substitution, with a marketing strategy of growing intensity, innovative offers and targeted communication activity. In respect of new prospects for the fixed line network one of our greatest achievements is the fast development of Internet usage as a joint result of dynamic growth in broadband connections, tariff packages encouraging fixed line telephone usage and the average 25% tariff reduction applied since March 2003 with the government's contribution.

STRONG GROWTH IN BROADBAND CONNECTIONS

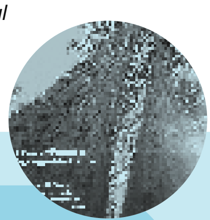
Matáv's greatest success in 2003 was the achievement of a target, 100,000 ADSL set one year earlier with almost 104,000 ADSL connections. The strong growth in ADSL penetration (205%) was accompanied by more widespread Internet usage. The rate of our broadband Internet users is very high by European standards, with 33% of Axelero's Internet customers accessing the web through broadband connection. With this we have created the possibility of preserving the value of our fixed line network, stabilizing its role both in telephony and broadband Internet access. In 2003 we have tripled the number of localities covered by ADSL service. At the end of the year this service was available in 175 towns where 80% of the population reside.

WINNING A BATTLE IN THE MOBILE MARKET

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

MATÁV – DEUTSCHE TELEKOM: 10 YEARS TOGETHER

Deutsche Telekom, Europe's largest telecommunications service provider has been present in Hungary for 10 years with the contracts concluded in December 1993, at the start of Matáv's privatization. Over these 10 years DT has proven as a strategic investor its long-term commitment to Hungary's largest telecommunications service provider and the future of Hungary's telecommunications. DT's commitment – by providing investment resources for development and modernization, and transferring its accumulated professional knowledge and know-how – has contributed significantly to the creation of European-standard telecommunications in Hungary. Today Matáv is one of the most developed and successful telecommunications companies in the Central and Eastern European region.



Deutsche Telekom – Matáv: a long-term commitment

RENEWED MATÁV WEBSITE

Matáv's website (www.matav.hu), renewed and redesigned in October 2003, offers numerous new services to customers, investors, the press and all users. In addition, the latest news about the company updated daily are also published on the website. Matáv has the largest and most frequently visited corporate website in Hungary: it includes more than 6,000 pages. It was the first corporate website to be included in the Medián official webaudit list so certified figures are available about its visiting rates. On a working day 17,000 users visit the website on the average and download 161,000 pages.

New Matáv homepage: the leading corporate website

PROFESSIONAL RECOGNITION

In 2003 the Matáv Group has received numerous awards and prizes to recognize both its financial and professional performance. Matáv obtained the Investor Relations Magazine's Grand Prix for the Best Investor Relations in the Central and Eastern European region and in Hungary and for the Best Investor Relations Website and Best Annual Report. We have received the Global Excellence in Workflow Silver Award for the innovative workflow management system implemented at Matáv. Matáv obtained the Kármán Tódor Award for its outstanding activities to support scientific research. In 2003, Westel became the Best TOP 200 Company of the Year on the basis of three indicators: revenue increase, return on investment and after-tax profit. On the basis of readers' votes, the Budapest Business Journal declared Axelero Internet the Top Internet Service Provider in 2003.

Competitive
Market Positions

Fixed line access:
established relationships

EU-CONFORM REGULATORY ENVIRONMENT

The Electronic Communications Act that took effect on January 1, 2004 provides for development of the information society and eliminates obstacles to telecommunications competition in Hungary while being in line to a maximum extent with EU directives. The Matáv Group promoted through its recognized proactive contribution the development of an EU-conform, market-oriented and consumer-focused regulatory environment. In December 2003 the Telecommunications Round Table was set up with the involvement of Matáv and the major service providers. Its members wish to continue their constructive professional cooperation to build up the information society and to serve the consumers.

PREPARED FOR EU ACCESSION

The Matáv Group intends to comply with the European Union's requirements in all respects and be up to the spirit of the Union. Already before accession in May 2004 we are prepared for being in line with EU standard in terms of services, pricing, customer management and internal processes. Matáv has been operating for some years according to the European quality requirements which was confirmed also by the Group-level ISO quality management certificate and a number of independent audits. The European Union accession will definitely bring positive prospects and new chances for Matáv. We can be present in the center of the Union and in this area we wish to build on the experience and relations of our strategic stakeholder, Deutsche Telekom. Additionally Matáv is planning to promote its interests in the Union through regional cooperation with the involvement of telecommunications companies of the countries acceding the EU in 2004.

CONSOLIDATING COMPETITIVE MARKET, MAINTAINED MATÁV POSITIONS

We considered 2003 a period of consolidating competitive market and during the year we have successfully responded to the challenges of an increasing market competition in all business areas. We preserved balance between profitability and market share and maintained our strong leadership positions in all business segments. We are reanimating fixed line telephony and count on consumers opting for Matáv. The success of our efforts in the fixed line market is shown by the fact that while we faced an increasing competition primarily in long distance calls, we suffered only a minimum (2%) churn in the first 2 years of carrier selection and the Matáv Group continues to hold a nearly 81% share of Hungary's fixed lines.

MATÁV IN THE TELEPHONE MARKET OF COMPETITORS

Since October 2003, Matáv is providing fixed line telephone service also in Szeged. The Matáv network earlier constructed in the center of South Hungary's largest city enabled the launch of service at the headquarters of Invitel, one of our largest competitors. Matáv installed a telephone exchange in downtown Szeged and succeeded to win over business customers generating high traffic to use ISDN lines.

NUMBER PORTABILITY

By December 31, 2003, Matáv has completed the investments necessary for providing fixed line number portability. In January 2004 Matáv signed the first agreement with an Invitel key business partner under which the subscriber will use Matáv services while keeping their old telephone number. Number portability became available in Hungary from 2004. This means in practice that if a subscriber chooses to change telephone service providers, he/she can keep the old telephone number. This gives fixed line subscribers the opportunity to choose the service provider that offers the best conditions.

Ministry of Informatics and Communications

Number portability supported by the Ministry of Informatics and Communications

Our Strategy

Fixed line segment:
a new upswing to come

STABILIZED MARKET LEADERSHIP

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

Matáv Group sales network:
integrated product portfolio

STRATEGIC VALUE CREATION

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

- *Maximization of shareholder value to ensure growth and competitiveness of the business lines in their markets.*
- *Response to global product development challenges while being in line with the Deutsche Telekom Group's service offerings.*
- *Complete product and special service offerings based on integrated network platforms and marketing synergies as well as the Group's combined sales channels.*

COMPETITIVE RESPONSES TO CUSTOMER DEMAND

- *In the fixed line segment the market of Business Services is still showing growth as the demand for business data transmission is rising. Business Services took efficient measures to stabilize market share, retain customer base and expand the market. We concluded long-term contracts with our customers generating the highest traffic volume. Our market share was 61% in the business communication market encompassing data transmission, mobile and Internet services.*
- *The short-term objective of Residential Services is to maintain the number of fixed lines. To stabilize our customer base we revised our product offerings. One of the major retention forces is broadband Internet where we count, in addition to ADSL connections, also on the spreading use of wireless access (WLAN). Broadband Internet usage, becoming a mass product, is accompanied by favorable tariff packages, widening product portfolio and upgraded terminal equipment.*
- *Our Internet line of business, being the only integrated service provider on the market, offers a complete range of services for all customer segments. The strategic goals of Axelero as Internet market's driving engine are dynamic growth, increase of Internet penetration and continuous improvement of profitability. Internet plays an important role in positioning the Group's fixed line business segment towards future growth opportunities, primarily with the spreading use of broadband services. Broadband will remain the most prominently developing segment of the Internet market.*
- *The Mobile line of business will be in the short and medium term the key driving force of the Group's growth. The mobile market growth in Hungary is slowing down as penetration reached 78.5% at the end of 2003. On the competitive market Westel remains the strongest actor and is maintaining its position in an intense competition although for the sake of maintaining profitability the company was losing market share in a predefined and controlled way.*
- *The International business segment is an important value creator of the Group also in the long term. Our strategic target is to ensure MakTel's sustainable profitability and stable financial performance in line with market demand, and to use the experience gained in Hungary in both fixed line and mobile network development as well as balanced growth.*

Business Services

Matáv system integration: one-contact key account management

SYSTEM INTEGRATION AND MARKET LEADERSHIP

System integration, through convergence between telecommunications and IT, became the most dynamically developing area of the business communication market. Using the coordinated activities of the Matáv Group's member companies and solution provider partners we have created system integration solution packages, tailored to and even anticipating the service demands of our business partners, that help efficient and profitable business operations and cost-efficient planning of business processes. We provide world standard business communication services and solutions in all areas: our offerings include the Matáv Group's and its partners' complete portfolio which strengthens our market leadership position as a result of our customers' satisfaction. This program contributes also to preparing Hungary's medium-sized companies for the competitive challenges of EU accession.

NEW BUSINESS SOLUTION PACKAGES

In November 2003 Matáv introduced six new business solution packages to the market: solutions developed for security, shared Internet, customer relations and remote access purposes as well as for hotels and commercial chains. These new products were developed with the involvement of the Matáv Group's member companies and leading players of the international IT market and they include telecommunications and IT components in an integrated way. Due to their modular structure and the independent usability of components, the solution packages enable phased implementation and elaboration of customized, tailor-made applications. Another guarantee for the excellent operation is that in providing these solutions Matáv cooperates with internationally renowned companies such as IBM, Microsoft, HP, Avaya, Cisco, D-Link and Albacomp.

ENTERING THE OUTSOURCING MARKET

From 2003 Matáv's Business Services also offers the performance of activities with which it enables our partners to focus on their core competences while making their business more profitable and efficient by outsourcing certain activities. Through the acquisition by Matáv of Rába Szolgáltatóház service company in October 2003, we provide telecommunications, IT, financial, accounting and human services first to Rába Automotive Holding.

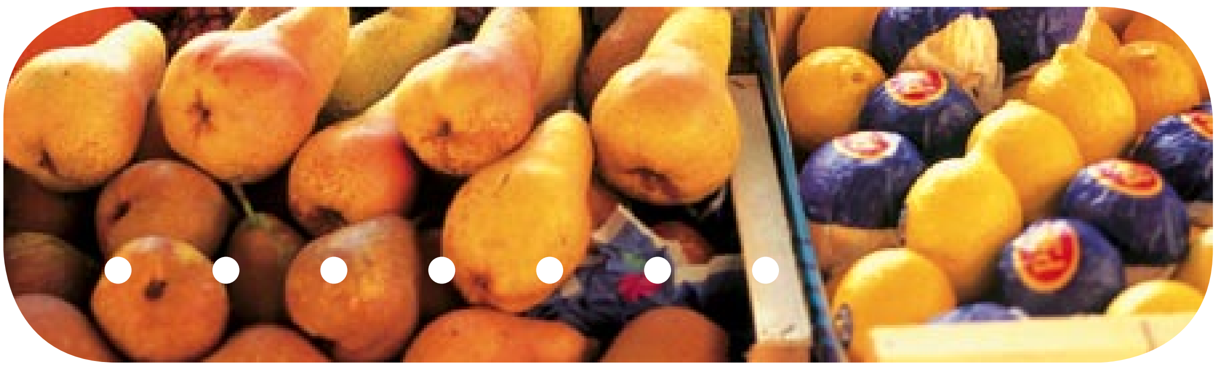
ONE-STOP SERVICE WITH GUARANTEES

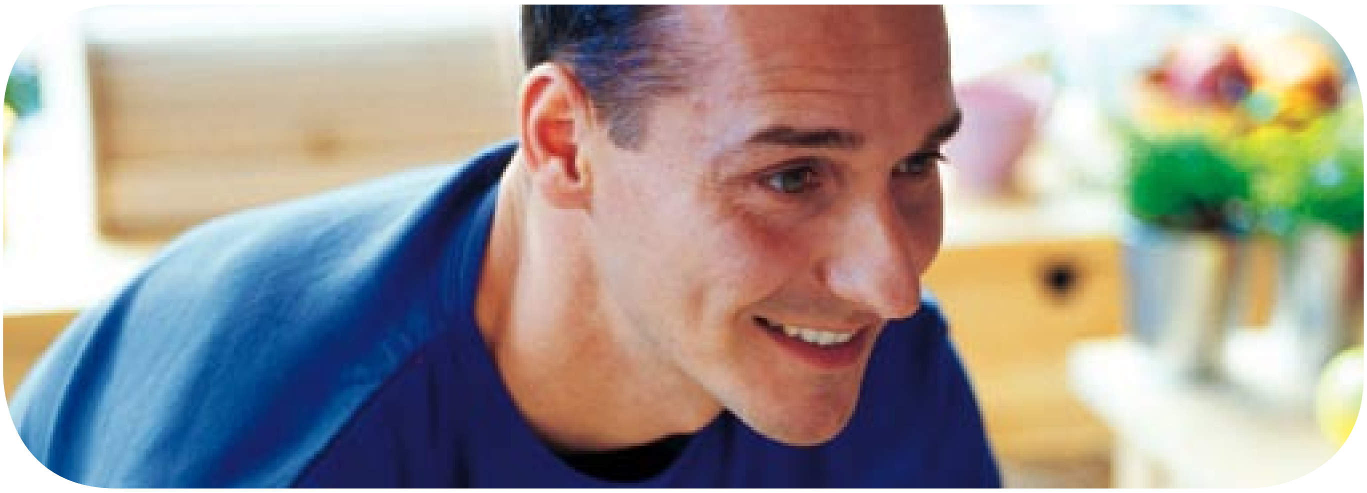
With its new business solutions, Matáv targeted primarily the about 6,000 medium-sized companies. At a one-stop point customers can order tailor-made solution packages and our key account managers offer one-stop service, too. This way we are acting as a general contractor with the objective to make our customers' business operations and processes more efficient. An important component of Matáv's system integration offering is that the customer doesn't necessarily have to buy new equipment or employ technical personnel since we offer these with favorable financing, complete support and consulting.

Infocommunication
solutions: efficient
operations guaranteed

INTERNATIONAL SERVICES

Our important business objective is to keep our international market share after the market liberalization. We ensure this by focusing on quality requirements and selecting the optimum international routes. We strongly build on the synergies offered by the Deutsche Telekom Group. Cooperating with T-Systems Hungary we have upgraded the GEANT European scientific network to the network with the highest traffic in the region. We are now participating with T-Systems Hungary in a number of projects while aiming at the best use of synergies between our companies.





NEW PROSPECTS FOR FIXED LINE TELEPHONY

Matáv's key objective is to reanimate the fixed line market and in 2003 the company made successful steps for this purpose. The decrease in our fixed line numbers was slowing down, and in the 4th quarter (with a 0.2% churn) it came near to a halt, primarily as a result of very attractive telephone line offers including equipment and value-added services (fixed line SMS, calling cards).

Residential Services

Open Internet:
web access for all
Matáv customers

ADSL Internet:
fixed line and satellite
connection

At the end of 2003 18.3% of Matáv's fixed lines were state-of-the-art ISDN connections. Another argument for the fixed line network is that long and important talks and conference calls can be made through it with better quality and more convenience. New prospects are offered for fixed line connections by the Internet.

CUSTOMIZED TARIFF PACKAGES

The majority of our residential customers has selected favorable tariff packages in 2003 which covered more than 1.4 million lines at year-end. The year's most popular tariff package with nearly 300,000 users is Felező (Halving) with which, since February, half of the monthly subscription fee can be used to make calls. The XL supplementary tariff package launched in December allows customers to make long local calls in off-peak period when HUF 0 per minute is charged. The popular Csevegő (Chat) tariff package includes a new feature since June which has been tried by 30% of users: half of the monthly subscription fee can be used for dial-up Internet connection using our Open Internet service.

INTERNET FOR ALL CUSTOMERS

Matáv gives top priority to enabling Internet access for all customers. The novelty launched in 2003 was our Open Internet with which all Matáv customers can access the Internet without monthly fee and with minute tariffs. With our new service many new users access the Net, surfing 5 hours per month on the average. More than 63,000 customers who earlier had no access to the web from home, browsed the Internet.

ADSL: INTERNET FOR ADVANCED USERS

At the end of 2003 the number of ADSL connections more than tripled year-on-year to reach 103,564 and fulfill Matáv's target of 100,000. This achievement was enabled, in addition to our attractive ADSL offers, to a great extent by a fast development pace that resulted in tripling in 2003 the number of towns in Hungary covered by ADSL service. Matáv's objective is to make ADSL, that enables fast broadband Internet access, available as soon as possible throughout Hungary. In June 2003 we launched with success our Small Town ADSL program. The scope of towns involved in the program is being continuously extended, so far the program has been offered for 200 towns and service has been introduced at 82 sites.

UPGRADED CUSTOMER RELATIONS

From October 2003 Matáv's free Call Center number 1212 is accessible 24 hours a day, 7 days a week. This way our customers can conveniently and rapidly do business with Matáv at the time that best suits them. On the upgraded web site visitors can access the Online Directory Assistance, the Online Telephone Directory and the Golden Pages trade listings. All customer services (residental, small and medium and key business partners) and the entire offer of the e-Pont Internet store are also available as online services.

A WIDER BROADBAND SERVICE PORTFOLIO

EasyNet Plusz: In areas covered by the service, the web is accessible at public places such as hotels, cafés, conference centers through wireless connection (WLAN) with a card and notebook.
Satellite DSL: The service offers broadband Internet access via satellite in areas where no other broadband Internet access is available. This service offers a multiple of the existing Internet download rate.
Kábelnet: One of the year's success products was the service that offers excellent quality Internet access via cable television network; its customer base doubled during the year to reach 9,581.

Internet

Axelero ADSL:
broadband for all times

OUTSTANDING RESULTS

In 2003 Axelero Internet achieved a number of outstanding results. The number of Internet connections grew by 40.5% to reach nearly 211,000 subscribers at the end of 2003 and maintain our stable leading position on Hungary's Internet market with 44% share. ADSL connections increased from 17,000 to 68,000 in 2003, i.e. more than quadrupled. In Hungary the share of Internet users with broadband access exceed the 19% average seen in Western Europe. From Axelero's customers 37% used broadband Internet access. Throughout 2003 Axelero maintained its leading role in the residential, business and online content markets. Axelero is making significant efforts to ensure further spreading of Internet usage and offer new attractive contents which is confirmed also by the growing popularity of the [origo] portal site. Axelero joined the government's Sulinet Expressz program whereby teachers and students could buy home computers with tax benefits and Axelero offers free Internet access to surf the web with them. The company's efforts are supported also by [origo] with a training site dedicated to beginner Internet users.

AXELERO SERVICES IN COMPETITOR'S AREAS

According to an agreement between Axelero and Invitel, DSL-based Axelero products are available from May 2003 also in Invitel's service areas. This increased significantly the number of towns where users can subscribe to Axelero's broadband Internet access services. As a result of the agreement reached by the two competitors one month earlier, the sale of Axelero's Kombi products, that include telephone charges too, was started in Invitel's areas.

[origo] portal site:
5 years of leadership

MARKETLINE ELECTRONIC MARKETPLACE

Marketline, majority owned by Axelero since October 2003, is currently the sole player in Hungary's market of electronic marketplace services (B2B sites). In the future, the use of B2B auctions may become a usual practice for large companies in Hungary. With the rising online share of medium-sized companies' procurement transactions and the competition boosting impact of EU accession the number of users is bound to increase.

[ORIGO]: 10 MILLION DOWNLOADED PAGES, SECURE E-MAIL

After five years of permanent growth, Axelero's [origo] portal site reached its daily visiting record level on November 24, 2003. According to Medián Webaudit, 418,000 visitors downloaded almost 10 million pages during nearly 1 million sessions. This meant a record for each of the three indicators in the history of Internet in Hungary and Hungarian language online contents. One year earlier [origo] reported 4.6 million pages downloaded, showing an almost 60% growth in a year. Figures show that on an average day every second Internet user visits [origo]. In September 2003 Axelero upgraded its e-mail system in order to protect its customers against most of the viruses propagating by e-mail. Hungary's most popular free e-mail system with more than 1.5 million users, [freemail], was also extended with extra services. Since August 2003 larger space and spam screening can be used upon request.

KOMBI PACKAGES: TELEPHONE AND INTERNET COSTS IN ONE

In July 2003 Axelero launched a new service called Kombi netQuick. Its novelty is that customers can decide on the way of usage: to access the Internet either on a recharge basis without monthly subscription fee or with a subscription. In March 2003 Axelero introduced new subscription schemes called Kombi 15, 40 and 100 that offer Internet access for 25% lower charge on the average. The three features of the product that includes both Internet access charge and telephone cost offer residential customers 15, 40 and 100 hours dial-up Internet access, respectively. At the same time the business dial-up and ADSL product offerings were also reshaped to significantly reduce subscription fees. These services were developed on the basis of Matáv's new wholesale portfolio. Axelero expects that these new offers will effectively promote spreading Internet usage and development of the information society in Hungary.

Mobile

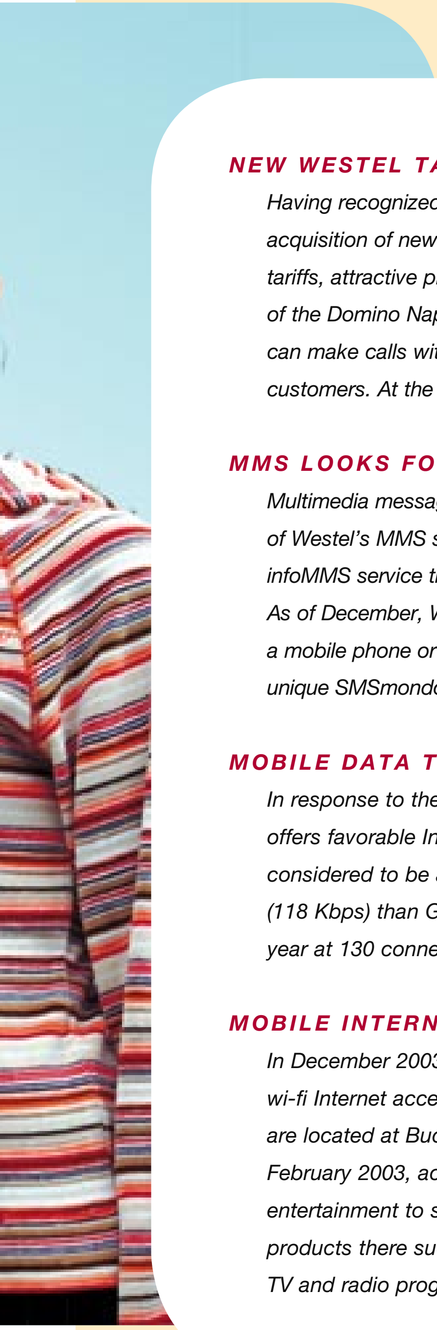
Westel hot-spot:
broadband
at the airport

TEN YEARS OF MARKET LEADERSHIP

In 2003 Westel Mobile, arriving at the 10th anniversary of its incorporation, has maintained its leadership position on the Hungarian mobile market and in presenting a number of innovative services marked the potential future paths for mobile communications. Westel closed the year, which was distinguished by the sharpest competition ever on the mobile market, with 10.7% customer growth resulting in 3.8 million customers and a 47.41% market share. In 2003 the development of the mobile market reached a milestone: penetration increased to 78.5%, marking the end of the period of dynamic growth in customer numbers.

THE MOST RELIABLE AND MOST ATTRACTIVE MOBILE CARRIER

In 2003 Westel proved again to be the most reliable Hungarian mobile carrier according to a survey conducted among the readers of Reader's Digest. Westel received the "Best TOP 200 company" award for its performance over the last three years based on the combined evaluation of three key indicators (revenue increase, return on investment, after-tax profit). In a network quality survey conducted in 2003 covering Deutsche Telekom Group companies in Europe Westel achieved the best results in most of the benchmarks. A survey conducted in 2003 showed that Westel, as in the previous year, was the most attractive employer among economics students, the majority of whom would like to work with the company after graduation.



NEW WESTEL TARIFF PACKAGES

Having recognized the market challenges, Westel was paying attention to its existing customer base as well as to the acquisition of new customers. The company's postpaid tariff packages attracted customers with a number of reduced tariffs, attractive phone offers and the Golden Card loyalty program. Westel favored its prepaid customers with the launch of the Domino Nap tariff packages which have no peak period. Starting in October, subscribers to the Westel M package can make calls with up to 25% lower minute tariffs. Westel remained the carrier that offers the most roaming partners to its customers. At the end of 2003 Westel mobile phones could be used in 270 networks in 120 countries.

MMS LOOKS FORWARD TO RAPID GROWTH

Multimedia messaging service or MMS promises to repeat the success of SMS. Currently the most frequently used feature of Westel's MMS service, launched as a world premiere in 2002, is sending photos. Progress is reflected in the daily infoMMS service that sends weather forecast with a map to the customers' phones and news illustrated with color photos. As of December, Westel's customers can send their MMS as a postcard to any mail address and even to addressees without a mobile phone or an MMS-enabled set. In October 2003, as a result of a local Hungarian development, Westel launched its unique SMSmondó (SMS reader) service. Users can decide whether to read or listen to their messages.

MOBILE DATA TRANSMISSION: GPRS AND EDGE

In response to the enhanced demand for data transmission, the GPRS Satellite-Net launched in December 2003 offers favorable Internet access prices for the users of this satellite download acceleration service. EDGE technology, considered to be a great leap in mobile data transmission and offering a download rate up to three times higher (118 Kbps) than GPRS, was first commercially offered in Hungary by Westel and was accessible by the end of the year at 130 connections in Budapest's busiest areas.

MOBILE INTERNET: WLAN AND MOBILE PORTAL SITE

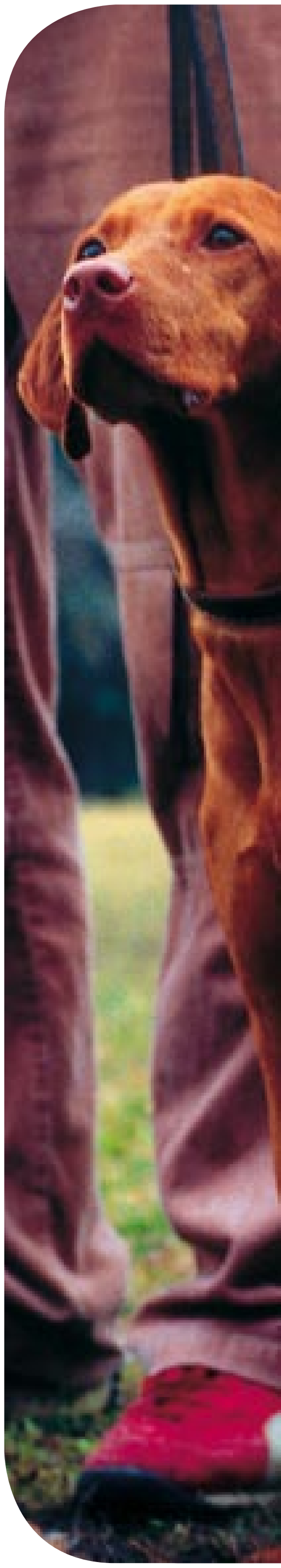
In December 2003, Westel was the first to launch wireless local access network (WLAN) as a commercial service offering wi-fi Internet access primarily for business users with appropriate devices. The hot-spots where this service can be used are located at Budapest Ferihegy airport and in many Westel shops. The 777mobil "mobile mall" service launched in February 2003, accessible from WAP phones and over the Internet, offers information content for users ranging from entertainment to shopping. The portal site reminds a shopping mall as businesses and individuals also can sell their products there such as downloading operator logos, ringtones or games. The multimedia offerings also include TV and radio programs. Chat and WAP Shop are content services also resulting from Westel's own development.

777mobil: a multimedia news portal and mall

FIRST UMTS CONNECTION IN HUNGARY

On the 10th anniversary of its incorporation, October 27, 2003, Westel – with the cooperation of Ericsson, Nortel and Siemens Mobile – set up the first video telephone connection on a broadband UMTS network in Hungary. The show indicated that Westel clearly sees the future of full-range multimedia mobile communication in the widespread use of third generation networks. UMTS, the next generation telephony, can transform communication: calls will be recorded, stored and edited using integrated memory chips, and broadband mobile data and video transmission will become a reality.

Road to Success:
MakTel's strategic
transformation program



A SUCCESSFUL YEAR FOR MAKTEL

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

International Activities

MakTel's new website: customer care and sales online, too

SOUTH-EAST EUROPE'S MOST SUCCESSFUL INVESTMENT

In recognition of its success in a market-oriented and customer-focused transformation, MakTel received in June 2003 the "South-East Europe's most successful investment" award from the Investors' Round Table of the region. When granting the award, the companies' business and social position in the country and region was also considered. With this award, the success story of MakTel's privatization, the biggest foreign direct investment in the country, was recognized by the business community.

ROAD TO SUCCESS

MakTel's change management and culture change program called Road to Success was started in January 2003 and was rolled out to the entire company by November. The aim of the program is to lay the foundations of success and to prepare for competition through achievement of four strategic objectives:

- *Develop customer-focused, market-oriented, process-based operation in line with cost efficiency,*
- *Improve operating efficiency and profitability,*
- *Improve the satisfaction of shareholders, customers and employees,*
- *Develop a competitive corporate culture.*

CUSTOMER RELATIONS AND SALES – ALSO ON THE INTERNET

Besides the company's own retail shop network, also an agent network has been supporting the efficient line and service sales of MakTel since March 2003. MobiMak, the mobile service provider has 22 shops of its own, its products can be ordered in the Internet Webshop and it has also launched an online customer service. In 2003 MakTel surprised Internet surfers with a new home page (www.mt.com.mk).

EXPANDING SERVICE PORTFOLIO

The MTline fixed line business line's campaign, which offered customers free migration from analog line to ISDN connection, has served the accessibility of advanced services. The MTcom business communications line of business has offered its integrated infocommunication products, such as the IP Intraconnect, to business customers in a one-stop system. The MTnet Internet business line offers its customers broadband Internet access through the ADSL service, and has launched a new portal site called Idividi. In 2003, the mobile carrier MobiMak launched, among others, GPRS and WAP services enabling mobile Internet access, the MMS image messaging and the MobiCompass information service.

CORPORATE CONTRIBUTIONS AND SPONSORSHIP

In the framework of its corporate contributions and sponsorship activities MakTel supports the improvement of the community's quality of life, primarily in the fields of culture, education and sport. In 2003, it launched a program called Schools Online under which it provides Internet access for the country's schools. Outstanding items of its cultural sponsorship included the Goce Delcev folk song festival and the Macedonian Radio, as well as the Skopje Jazz Festival. In the sport area it sponsors a junior basketball team and the ski and athletic federations in an effort to promote mass sport and help train the second line.

Human Resources

New ideas from employees: professional excellence

HUMAN RESOURCE MANAGEMENT WITH A NEW VISION

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

TALENT MANAGEMENT AND CAREER PLANNING

Since April 2003, the Personnel Round Table assessment method, already proven at Deutsche Telekom, has been applied to almost all senior and middle management and talent management programs were also launched. At meetings, senior managers assess the performance and development potential of managers in leading positions in their respective management areas. Our human resource development professionals help young staff members in career planning, which serves the interests of both the employees and the company. Matáv recognizes professional excellence and welcomes new ideas. Each year more than 500 employees and the authors of more than 80 innovative telecommunications ideas are rewarded.

CARING AND HEALTHY WORKPLACE

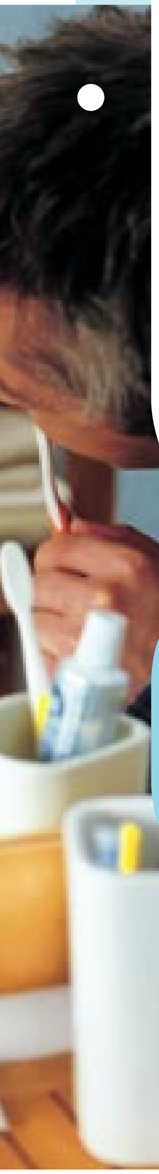
In 2003 new service charge allowances, including employee Internet were added to the wide range of employee benefits offered by Matáv. This was connected to the internal Intranet service, launched in 2002 and extended with new features in 2003, through which Matáv continues to be number one in Hungary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

INNOVATIVE JOB TRAINING

A key component of Matáv's human resource development is internal training for the employees and support for their external professional studies. A wide range of training is offered to support the employees' professional development and improvement of skills. We operate an internal tailor-made training system based on 10 years of tradition, and in addition to conventional courses also use innovative training and development solutions. The Sales Academy, developed for marketing and sales teams, offers training courses customized to jobs which support the employees with practical knowledge.

HIGH LEVEL TRAINING AND RECRUITMENT

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



MANAGEMENT TRAINING

In 2003 the programs aiming at senior and middle management's development were restructured. The goal of the Management Academy training is to support leadership roles and develop the Group's managers, to provide a forum for experience sharing, joint thinking and discussing new management tools, specialized for target groups. Additionally the cascading structure of the programs enhances the continued development of corporate culture. The interactive program series called Naprakész (Updated), which targets middle and senior managers, aims at promoting joint thinking and learning new and successful management styles and tools.

DISTANCE LEARNING AND MULTIMEDIA

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

Employee Internet: sweeping along the infohighway

Corporate Social Responsibility

Children's Island: family entertainment with Matáv

MATÁV IS THE MOST SUCCESSFUL SPONSOR AND MOST GENEROUS DONOR

An opinion poll surveyed in December 2003 public awareness and opinion of Matáv's sponsorship activity. According to answers to the question "Which companies and institutions do you think are today the greatest sponsors and donors in Hungary?", Matáv and Westel were the most frequently mentioned and considered the most successful companies by the respondents. Matáv as one of Hungary's most profitable companies is also the most generous donor for charity purposes, in line with its market leadership position. Each year the company spends more than HUF 100 million to support social and health projects as well as community programs. Surveys conducted in 2003 show that Matáv's sponsorship activity is clearly seen as positive by the public.

DONATION BY CALLS

Matáv was among the golden grade awardees for its outstanding charity activities when, in May 2003, the Hungarian Red Cross rewarded leading sponsors offering support to charity causes. In 2003 Matáv's Donation Line continued its successful operation to provide help for the needy in a fast, simple and transparent way. By calling 1788 anyone can donate HUF 100 for the announced donation purpose. By the end of 2003 more than HUF 50 million was collected by 10 non-profit organizations through the use of Matáv's Donation Line.

CHILDREN'S PARADISE ON THE ISLAND

Matáv is the title sponsor of the Children's Island, an event held in the summer of 2003 on Óbudai Island in Budapest that offered six weekends of rich freetime program for families. Visitors to Matáv Children's Island find real family entertainment each weekend with numerous games, concerts and sports facilities. In 2003, the free programs attracted about 60,000 visitors, more than triple the previous year's attendance.

"IN HARMONY WITH MATÁV"

In 2003, too, Hungarian audiences had the opportunity to enjoy the performances of outstanding artists and exceptional productions sponsored by the Matáv Group. Pianist Gergely Bogányi toured the country with his concert called "In Harmony with Matáv". Dezső Ránki's three-part Mozart concerto series and the performance of the London Academy of St. Martin in the Fields chamber orchestra with Murray Perahia were truly outstanding musical events. The three jazz aces of our days Pat Metheny, Jack DeJohnette and John Patitucci appeared for the first time in a joint concert at the Matáv-Westel Jazz Gala. Matáv was the exclusive sponsor of the joint concert of trumpet player Maurice André and the Liszt Ferenc Chamber Orchestra. World famous tenor José Cura sang with the Matáv Symphony Orchestra, and he also showed his talent as conductor.

UNIVERSITY OF ALL KNOWLEDGE

In 2003, the success of University of All Knowledge continued with an interest of the public exceeding all expectations. A survey on the project awareness showed that 25% of Hungary's population already heard about the University of All Knowledge and 5% was following the presentations week by week on TV, radio, Internet or in the press. The series of programs reached some major cities throughout Hungary: Veszprém, Miskolc and Pécs also hosted presentations. In addition to electronic and online recordings, this highest quality knowledge base was also made available in a book at the end of 2003. Based on the success, Matáv Group has extended the project for another three years.

The Phantom of the Opera in Budapest: Matáv is the main sponsor

AXELERO HELPS THE HANDICAPPED

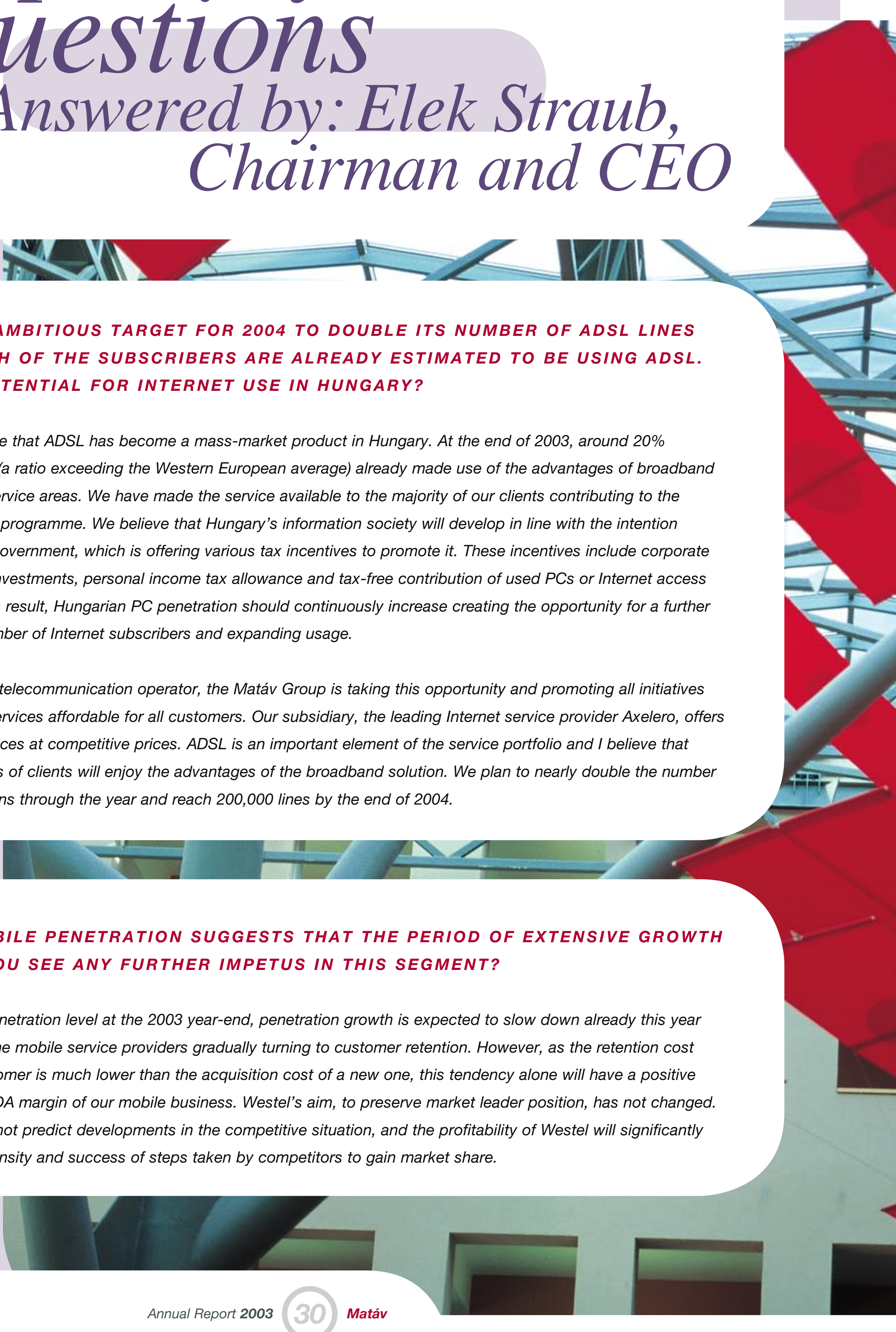
With the introduction in October 2003 of a new technical feature, Axelero made the pages of [origo] portal "visible" for the blind and partially sighted, and donated HUF 1 million worth of Internet access to Hungary's Association of the Blind and Sight-impaired. Additionally Axelero and Matáv jointly launched free Internet training programs for physically handicapped and Roma people. Axelero donated HUF 1.5 million worth of broadband Internet connection to the Hungarian Association of the International Children's Safety Service and donated ADSL Profi service for another two-year period to support the Hungarian Hospice Foundation that cares for people with incurable diseases.

WESTEL SPONSORSHIP FOR RESEARCH AND SPORTS

In September 2003, Westel signed a new cooperation agreement with the Budapest Technical and Economic University. According to it Westel will donate HUF 35 million over a three-year period to support mobile communication related research and development at the university. Westel has been cooperating with the university for 8 years and has donated HUF 130 million so far. According to another agreement signed in September 2003 between Westel, well known for its sports sponsorship, and the Hungarian Sports Association, the Association's 65 member organizations can use the mobile carrier's services for a reduced price. With this, the company reinforced its link with sports and serves the whole Hungarian sports community.

Frequently Asked Questions

Answered by: Elek Straub, Chairman and CEO



MATÁV HAS AN AMBITIOUS TARGET FOR 2004 TO DOUBLE ITS NUMBER OF ADSL LINES WHILE ONE FIFTH OF THE SUBSCRIBERS ARE ALREADY ESTIMATED TO BE USING ADSL. WHAT IS THE POTENTIAL FOR INTERNET USE IN HUNGARY?

I am glad to see that ADSL has become a mass-market product in Hungary. At the end of 2003, around 20% of the subscribers (a ratio exceeding the Western European average) already made use of the advantages of broadband access in Matáv service areas. We have made the service available to the majority of our clients contributing to the Internet promotion programme. We believe that Hungary's information society will develop in line with the intention of the Hungarian Government, which is offering various tax incentives to promote it. These incentives include corporate tax allowance on investments, personal income tax allowance and tax-free contribution of used PCs or Internet access by employers. As a result, Hungarian PC penetration should continuously increase creating the opportunity for a further increase in the number of Internet subscribers and expanding usage.

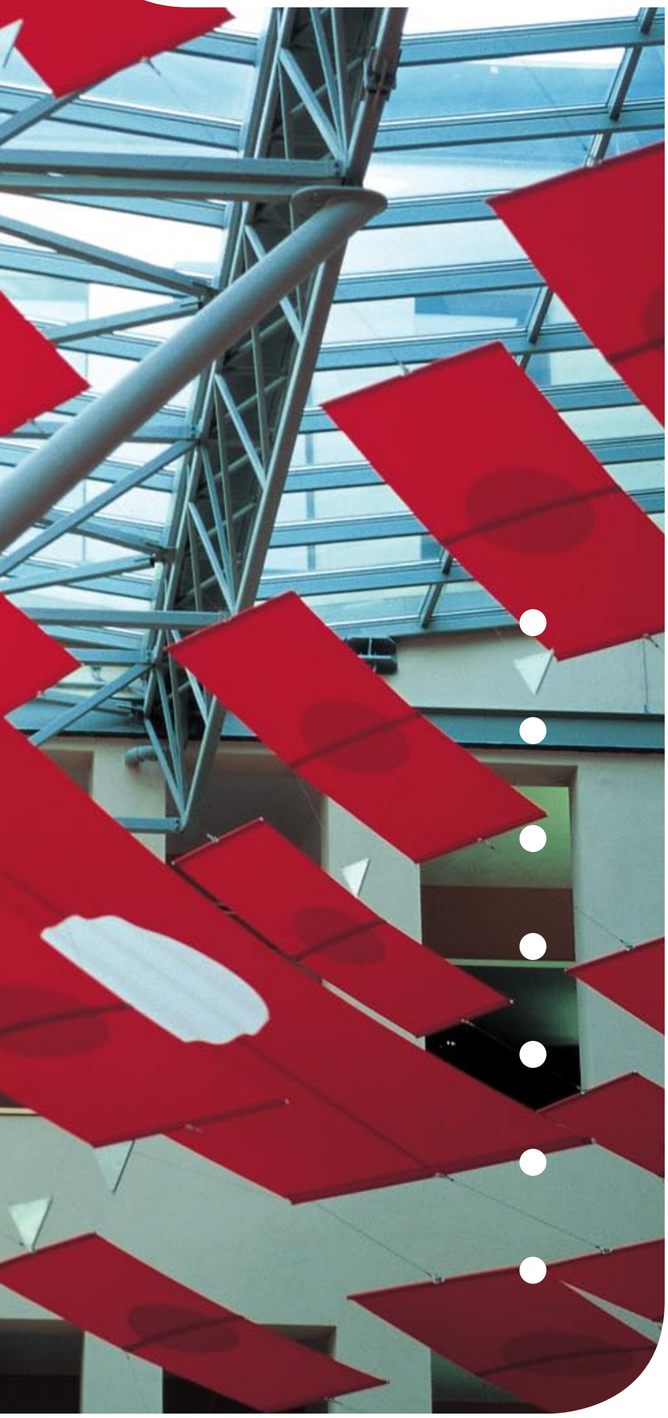
As the leading telecommunication operator, the Matáv Group is taking this opportunity and promoting all initiatives to make Internet services affordable for all customers. Our subsidiary, the leading Internet service provider Axelero, offers a full range of services at competitive prices. ADSL is an important element of the service portfolio and I believe that increasing numbers of clients will enjoy the advantages of the broadband solution. We plan to nearly double the number of ADSL connections through the year and reach 200,000 lines by the end of 2004.

HUNGARIAN MOBILE PENETRATION SUGGESTS THAT THE PERIOD OF EXTENSIVE GROWTH IS OVER. CAN YOU SEE ANY FURTHER IMPETUS IN THIS SEGMENT?

With a 79% penetration level at the 2003 year-end, penetration growth is expected to slow down already this year with the focus of the mobile service providers gradually turning to customer retention. However, as the retention cost of an existing customer is much lower than the acquisition cost of a new one, this tendency alone will have a positive effect on the EBITDA margin of our mobile business. Westel's aim, to preserve market leader position, has not changed. Obviously, we cannot predict developments in the competitive situation, and the profitability of Westel will significantly depend on the intensity and success of steps taken by competitors to gain market share.

As far as further momentum is concerned, the revenues from enhanced services per user continued to increase and in 2003 already represented 11% of the average revenue per subscriber (ARPU). Content, data and multimedia services are becoming more and more important revenue drivers. WAP is very popular and the number of MMS enabled handsets is continuously increasing thanks to the several campaigns introduced by Westel throughout the year.

It is too early to assess the success of the European third generation services, but I can imagine that it might gain relevance very soon as new or better services, content development and densely inhabited territories may require considerably higher capacities. We will most probably know the Hungarian regulatory conditions in relation to the UMTS service this year. I hope that the decision makers will consider the experiences gained in Western Europe and take into consideration the investment requirements for the service. I believe that the UMTS service should have a priority over the license fee to ensure it is affordable and promote the development of the Hungarian mobile market.



DESPITE A SLOWING TOP LINE GROWTH, THE MACEDONIAN SUBSIDIARY, MAKTEL CONTINUED TO DELIVER A NOTICEABLE PERFORMANCE IN 2003. CAN MAKTEL REMAIN A KEY SOURCE OF GROWTH?

The macroeconomic situation in Macedonia is still uncertain, causing a serious constraint on the revenue growth potential in the telecommunication services. Despite limited top line growth at MakTel in 2003, EBITDA grew by 7% clearly demonstrating the success of our efficiency efforts. As a result, our international subsidiary showed an outstanding, 56% EBITDA margin in 2003.

Last year MakTel's objective, besides the huge efforts to improve efficiency, was to deploy all possibilities to preserve growth. The initiatives may provide short-term achievements both on the revenue improvement and cost cutting areas, but they are not able to counterbalance the stagnating macroeconomic situation in the medium term. Therefore it is unlikely that the high profitability can be maintained without a macroeconomic rebound in Macedonia. I am confident, however, that the Macedonian government is doing its best to return to a development phase and hope the efforts will result in a turnaround in the macroeconomic trends allowing our international segment to remain the key source of growth for the Matáv Group in the next years.

IN 2004, MATÁV HAS BROADENED ITS RANGE OF GUIDANCE COMPARED TO PREVIOUS YEARS. CAN WE EXPECT MORE DETAILED TARGETS IN THE FUTURE? REGARDING 2004, WHY DO YOU EXPECT A SLIGHT DECLINE IN TOP LINE RESULTS?

Our aim, through broadening the range of disclosure, was to further increase the transparency of the company. More detailed public targets and guidance enable more accurate forecasts to be made for the Group and thus help our investors evaluate our performance. Widening the public guidance for 2004 was one element of this progress.

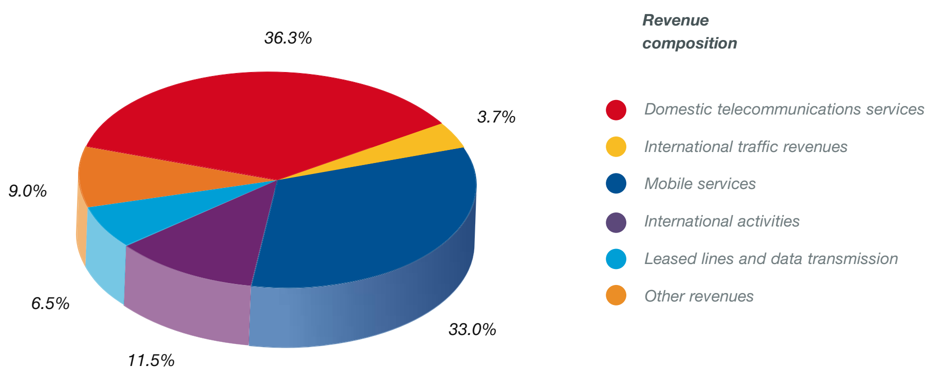
Let me also mention our dividend policy revealed in March 2003, where we clearly articulated our priority to find value creating acquisitions. The policy defines a targeted range of net debt providing an optimal capital structure for the company, which at the same time offers the flexibility to execute potential acquisitions. If we are unable to identify an acquisition, which meets our strict criteria system, the company will return the generated cash to the shareholders while maintaining the optimal net debt level. In line with this policy, the Board of Directors proposed a dividend of 70 forint per share in respect of 2003 earnings to the Annual General Meeting held at the end of April 2004.

Regarding 2004 public guidance, let me explain the drivers behind our revenue target. Some elements of the revenue erosion have only a limited impact on profitability since costs will also decline in parallel to a certain extent (e.g. obligations and reimbursements relating to the Universal Telecommunications Support Fund). The full financial impact of the changes to the regulatory framework can not be forecasted since the National Regulatory Authority has to complete its duties this year as prescribed by the telecommunications act. Furthermore, Matáv aims to stop fixed line churn and this will not automatically help boost fixed line revenues in the short term; also increased competition may result in some additional loss of market share. Nevertheless, the management of Matáv Group continues working on the enhancement of shareholder value and makes every effort to improve performance.

Management Report for the 2003 Financial Year

HIGHLIGHTS

- Total revenues grew by 2.8% to HUF 607.3 bn (EUR 2.4 bn), primarily due to the growth of the mobile business.
- EBITDA amounted to HUF 250.4 bn with EBITDA margin reaching 41.2%.
- Fixed line segment revenues decreased by 3.5%. The continued growth of leased line and data revenues partially offset the decline of domestic and international traffic revenues. The number of ADSL lines more than tripled in 2003 reaching 103,564 at the end of the year. EBITDA margin was broadly stable at 35.7%.
- Mobile segment revenues increased by 9.3%, reaching HUF 254.1 bn for the year before intersegment elimination. EBITDA margin reached 37.4%. Westel's subscriber base was 3.8 million at the end of 2003, while market share remained strong, although declined slightly to 47.4% as a result of stricter prepaid entry barrier and intense competition.
- Revenues of the International segment (MakTel) increased to HUF 70.0 bn in 2003. EBITDA grew by 7.3% and EBITDA margin reached an outstanding 56.4% due to continued development in the businesses and effective cost control.



REGULATORY ENVIRONMENT OVERVIEW

At the end of 2001, the Hungarian telecommunication market became fully liberalized except for 23 local concession areas where concession rights expired only in May and November 2002. Competitors could enter Matáv Group's fixed line service areas and vice versa to offer residential and business customers international and domestic long distance telephony services as long as certain regulatory requirements were met. In November 2003, the Parliament approved the new Hungarian Electronic Telecommunications Act in compliance with the latest regulatory framework of the European Union. This Act became effective in January 2004. The National Regulatory Authority is reorganized and new services include number portability and carrier selection for local and Internet calls.

Operators have to agree on interconnection or unbundling arrangements to be able to offer their services in regions served by other local fixed line operators. In the case of an operator identified having significant market power (SMP), reference offers provide guidelines for these contracts. According to the 2003 market analysis, Matáv Group has significant market power in the telephony, mobile telecommunication, leased lines and interconnection markets. In 2003, the calculation method employed in the reference offers changed from fully distributed costs to long run incremental cost (LRIC). This resulted in a decrease in average fixed line interconnection fees and Westel's fixed-to-mobile termination fees.

The Universal Telecommunication Support Fund provided compensation for mandatory uneconomical universal services including the low user package from February 1, 2002. The Fund paid all universal service providers the difference between the subscription fee of ordinary and low user packages up to a certain limit. The universal service funding has changed from revenue loss compensation to net avoidable cost compensation based system from 2004. In line with practice in most European countries, a price cap system is currently in place. This system regulates the overall level of retail price increase to the universal services, with specific price caps for subscription fees and local calls. The overall price cap was 2% in 2003 and is 2-2.5% in 2004 (anticipated CPI minus 3%).

Matáv offers service packages to all residents and businesses operating in Hungary including clients of other local operators. In 2003, most competitors continued to focus on Matáv's business customers, with Invitel also having residential call-by-call and pre-selection offers.

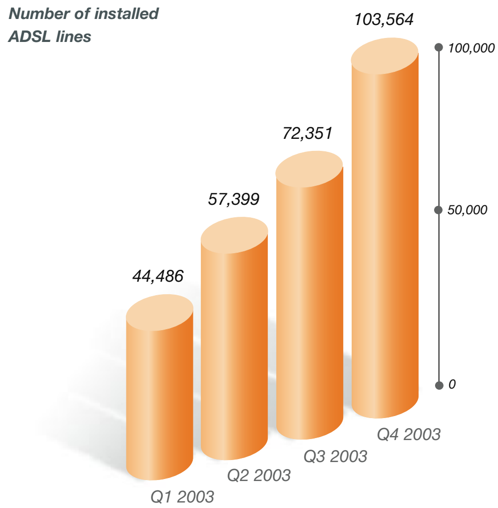
Despite a further decrease in the number of lines, the EBITDA margin of the segment was broadly stable at 35.7% reflecting the results of the efficiency measures. Within the segment, generating significant cash flow, Internet was the major growth element.

FIXED LINE SEGMENT: REDUCING EROSION, ADSL ROLLOUT

Segment revenues declined by 3.5%. The total number of lines decreased by 1.8% primarily driven by mobile substitution. By the end of 2003, fixed line penetration thus decreased to 37.7% from 38.4% a year earlier. These trends confirm that the company's policy of cost control (with measures such as headcount reduction) has been the right response to market conditions. Lines per fixed line employee at Matáv parent company increased to 351.

On the other hand, Matáv has made efforts to deploy the growth opportunities of the Internet and data transmission business that can partially compensate for the declining voice revenue and also help in slowing down the churn.

The number of ISDN channels further increased to 18.6% of total lines but the most significant momentum was provided by the escalating number of ADSL lines. At the end of 2003, Matáv had approximately 70% ADSL coverage and the number of installed lines increased over 103,000 from nearly 34,000 a year ago and 6,200 at the end of 2001. As a consequence, 20% of Matáv Internet connections was ADSL.

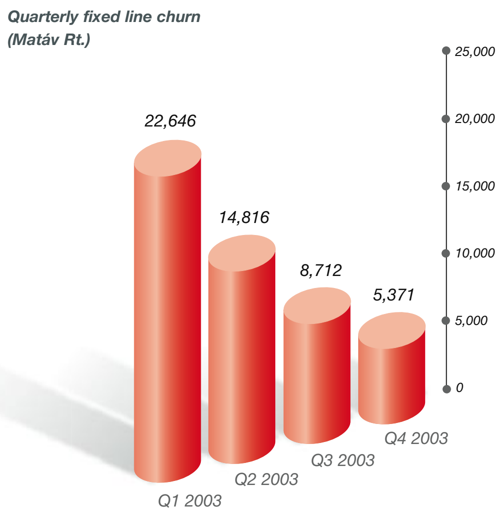


FIXED LINE VOICE OPERATIONS: ATTRACTIVE TARIFF PACKAGES AND DECELERATING CHURN

Total number of lines with ISDN channels at the parent company decreased by 1.8% to 2,830,841, representing a 0.7 percentage points decrease in fixed line penetration to 37.7%. This churn rate was apparently driven by mobile substitution of the residential customers, as well as the disconnection of low traffic payphones.

Consolidated revenues from subscriptions, connections and other charges decreased by 0.5% to HUF 97.5 bn as a combined impact of lower customer base and higher subscription fees from February 2003. The number of customers using the low-user package (Minimál, with a lower subscription fee) decreased to approximately 22% of total analog lines by the end of 2003. A further 32% of the analog line clients used other customized tariff packages, up from 14% a year ago. In the effort to minimize fixed line churn, customized tariff packages offer certain discounts to encourage retention of the customer base. At the same time, some packages encourage increased minutes of use to partially compensate for the discounts. The success of the packages resulted in improved fixed line erosion in 2003. Matáv also offers packages for clients of other local fixed line operators, partially compensating revenue fallout due to competitors taking domestic long distance and international calls.

Total domestic traffic revenues were HUF 112.2 bn. The abolition of the flat rate package for dial-up internet users and local calls resulted in diminishing domestic traffic minutes from the second half of 2002. Nevertheless, its revenue impact is minor and declining traffic revenue is a result of slightly diminished average domestic usage, reduced tariff of certain fixed to mobile calls from September and October 2003 and lower international tariffs and minutes. Both outgoing and incoming international minutes decreased and settlement was impacted by the relative strength of the Hungarian Forint to the settlement currency (SDR), which lowered Forint-based revenues and costs. The decline of other usage is explained by the trend for reducing interconnection fees and decreasing domestic transit volumes that positively influenced the payments to other network operators as well.



DATA, INTERNET AND CABLE TV: SOURCES OF GROWTH

In 2003, Internet, leased lines, data transmission and cable television continued to grow, providing support for the fixed line segment. The volume of Internet and cable TV subscribers expanded further.

Consolidated revenues from leased lines and data transmission amounted to HUF 39.3 bn in 2003, a 15.0% increase compared to 2002, primarily driven by the successful rollout of wholesale ADSL services. The number of installed lines more than tripled to 103,564 by the end of 2003. The average number of Internet subscribers increased by 27%, with a significant increase in broadband users generating higher revenue. Axelero holds an estimated 44% share of the dial-up market in Hungary and is the market leader in both the residential and business segments.

Consolidated other revenues were up by 6.5% to HUF 55.0 bn. The major drivers were the increase of cable television revenues and equipment sales. The number of cable television subscribers was up by 7.0%, reaching 362,366 at the end of 2003. A greater number of upgrades and higher average price of mobile phones at Westel enhanced revenue from equipment sales. Gross reimbursement from the Universal Telecommunications Support Fund is included in other revenues, contribution to the Fund is reported under other operating expenses.

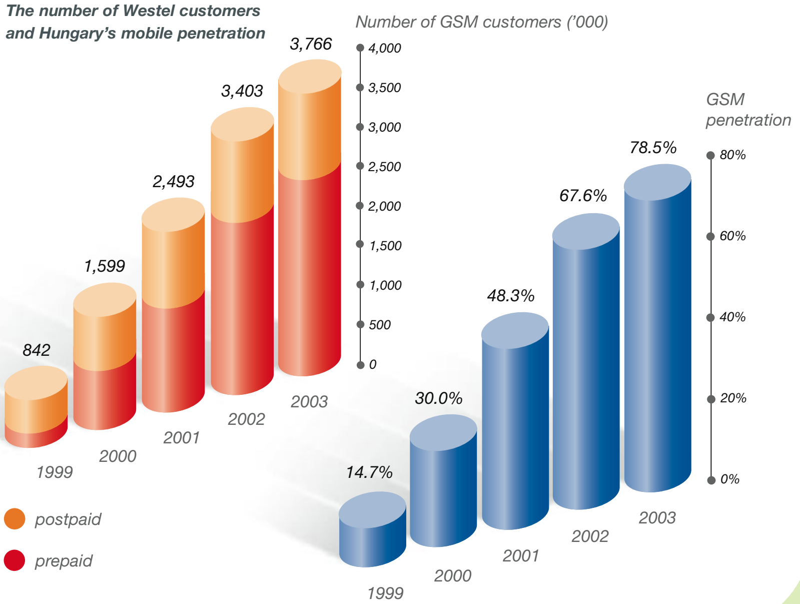
The major growth driver of the Group was the mobile segment, with 8.1% EBITDA growth and 37.4% EBITDA margin. Westel's focus was shifting to customer retention, and at the same time, market position was successfully stabilized despite intense competition. Westel maintained its leading position with a 47.4% GSM market share at the end of the year.

MOBILE SEGMENT: CUSTOMER RETENTION AND STABLE MARKET POSITION

Domestic mobile penetration increased by almost 11 percentage points in 2003, reaching 78.5% at the end of 2003. Westel further refined the tariff packages and followed competitors introducing a quasi-flat rate package. In an effort to have a balanced focus on profitability and market share, the entry barrier for the prepaid segment was slightly increased. Therefore average acquisition cost per subscriber (connection fee less the SIM card cost, sales related equipment subsidy and agent fee) further decreased by 8.4% to HUF 12,353 despite the fact that the ratio of postpaid subscribers was successfully increased by 1.1 percentage points to 26.1% in 2003. Westel kept clear market leadership and continued to deliver new services. At the 10th Anniversary of the company, Westel presented the first Hungarian UMTS demo featuring video telephony.

In 2003, mobile revenues before inter-segment elimination increased by 9.3%, reaching HUF 254.1 bn. The weighted average number of Westel's GSM-subscribers increased by 20.1%. At the end of 2003, Westel had 3.8 million revenue producing customers with prepaid customers representing 73.9% of the total customer base, down from 75.0% a year ago. This trend reflects the

The number of Westel customers and Hungary's mobile penetration



efforts stemming from the increasing importance of customer retention. The escalated prepaid churn resulted in a higher average churn rate at 19.8% driven by migration to postpaid segment and competition.

As a result of the decelerating increase of mobile penetration, the decline of the average monthly minutes of use (MOU), and of the average revenue per user (ARPU) also slowed down. In 2003, MOU decreased by 3.4% to 114 compared to 19.2% a year ago, while ARPU declined by 8.2% to HUF 5,261 (or EUR 20.8 using the 2003 average exchange rate of 253.42 HUF/EUR). The revenues from enhanced services per user increased by 6.6% to HUF 585 in 2003, representing 11.1% of the average revenue per subscriber.

Since July 2003, the Hungarian analog (NMT) mobile service is no longer available. The pioneer mobile telephone service in Central Europe, which was launched in 1990, was not able to compete with the modern, more efficient digital mobile service providers in either quality or in range of services. Matáv made provisions covering the costs of termination during 2002 and accounted for impairment of the assets related to the concession in the past years.

MakTel's consolidated EBITDA grew by 7.3% despite a stagnating macroeconomic environment and continued to deliver outstanding EBITDA margin of 56.4% in 2003.

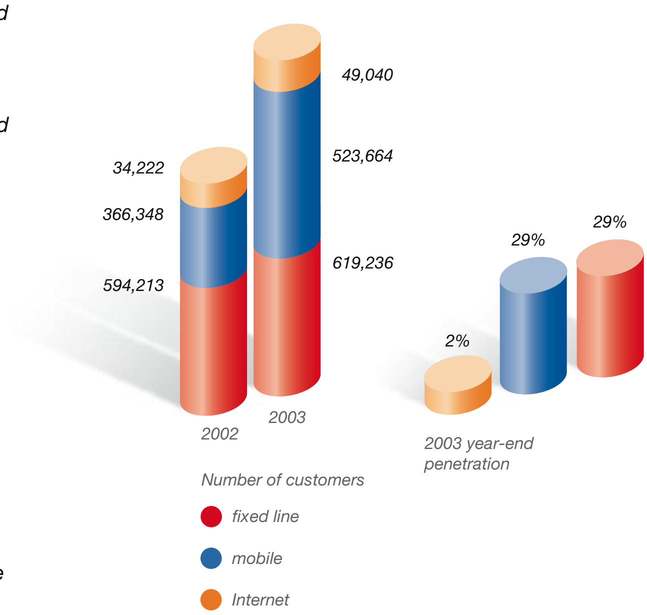
INTERNATIONAL SEGMENT: STRONG PROFITABILITY PRESERVED

Matáv concluded its first cross-border transaction in January 2001, acquiring a controlling stake in MakTel, the Macedonian telecommunications operator. MakTel has a similar organizational structure to Matáv (fixed, mobile, Internet and business solutions) and provides full-range telecommunications services for a market of 2.1 million potential customers.

Due to the adverse impact of the Macedonian macroeconomic environment, revenues from the international segment increased by only 3.6% compared to 2002, reaching HUF 70.0 bn before intersegment elimination (also helped by foreign exchange rate movements). However, effective cost control contributed to the retention of outstanding profitability and EBITDA increased by 7.3%.

The fixed line customer base grew by 4.2% to 619,236 at the end of 2003. Fixed line penetration was 29.0% up from 28.0% a year ago. Tariff rebalancing efforts continued, resulting in an increase in subscription fees and local and domestic long distance traffic charges, while international calls became cheaper. The favorable impact was partially offset by lower incoming international minutes and the adverse impact of the strengthening domestic currency. The number of mobile subscribers was up by 42.9% to 523,664. Penetration assisted by the entrance of the second mobile operator, increased to 29.4% at year-end 2003. Nevertheless, the

Growth of MakTel customer base and penetration in 2003



positive impact of volume growth was mitigated by reduced usage driven by the macroeconomic influence and the fact that the increase came almost exclusively from the prepaid segment. The number of Internet subscribers increased by 43.3% to 49,040.

Operating expenses excluding depreciation and amortization have slightly decreased. Closing headcount further decreased by 128 to 3,516 at MakTel. Employee related expenses, however, increased to HUF 8.9 bn as a result of higher wages, as well as higher welfare contributions. On the other hand, tight cost control reduced other operating expenses such as marketing costs. Furthermore, payment to other network operators and cost of equipment sales decreased. As a result, EBITDA margin increased to 56.4%.

ANALYSIS OF GROUP OPERATING EXPENSES

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

Depreciation and amortization amounted to HUF 128.3 bn, compared to HUF 122.7 bn in 2002 (an increase of 4.6%) primarily due to the revision of useful life of assets at MakTel and at Matáv Rt. and Westel's higher gross asset base. In addition, depreciation and amortization also includes the amortization of goodwill arising from the prior acquisitions of MakTel and Westel.

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

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

Other operating expenses were HUF 143.7 bn, compared to HUF 135.5 bn in 2002, an increase of 6.0%. Major expenses increased include marketing costs, as well as agency fees at the fixed line and mobile segment. Higher than average growth is primarily explained by the increasing mobile and Internet penetration (e.g. ADSL) and promotion of tariff packages. Agency fees also include the HUF 1.5 bn that Westel paid to Fotex in the last quarter of 2003. Under the terms defined in a contract signed on December 10, 2003, Westel took over the Fotex Group dealer network contract relationships consisting of 81 outlets.

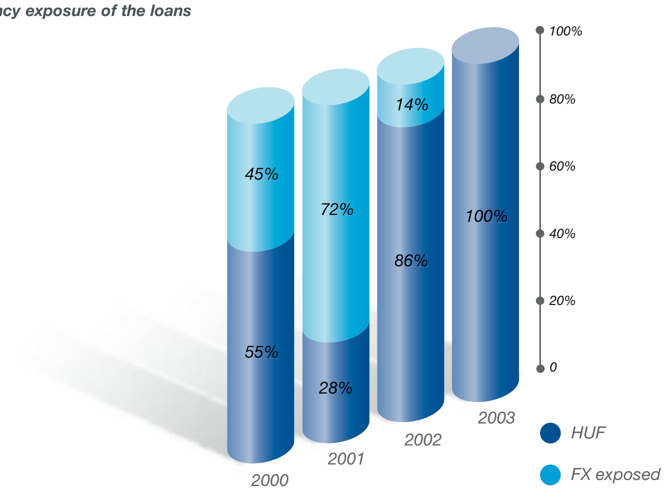
In addition to operating expenses, the income tax expense increased. The growth here is explained by deferred tax assets primarily arising from previously unrecoverable losses which decreased the reported income tax expense in 2002.

FINANCIAL CHARGES

Net interest and other charges were HUF 40.0 bn in 2003 compared to HUF 27.9 bn in 2002. The increase is mostly due to the weakening of the Hungarian Forint resulting in a net foreign exchange loss, which increased net interest charges by HUF 12.9 bn over 2002. At the same time, interest expense decreased by 7.9% due to the reducing loan balance.

At the end of 2003, loans were almost exclusively Hungarian Forint-denominated concluding the policy commenced in 2001 to eliminate foreign exchange risk. The volatility of foreign exchange gains or losses on loans clearly demonstrate the importance of the risk and justifies the policy. In August 2003, Matáv refinanced its expiring intercompany loan from Deutsche Telekom by a Forint-denominated loan. In December, the last foreign exchange loan was prepaid resulting in a market conditions-based prepayment indemnity fee increasing commissions and other financial charges. The swap agreements in relation to these loan agreements were terminated. The overall impact of swap transactions was HUF 972 million in 2003. As Matáv has continued to pay back loans, the net debt to total capital (net debt plus equity plus minority interest) ratio decreased to 31.6% with a net debt of HUF 291.7 bn at the end of 2003, from HUF 364.7 bn at year-end 2002.

Currency exposure of the loans



Strong cash flow used for further reducing indebtedness and higher dividend.

CASH FLOW GENERATION

Net cash flow from operating activities was broadly stable at HUF 198.1 bn reflecting the strong cash generation of the group. Purchase of tangible and intangible assets amounted to HUF 90.8 bn, including a HUF 2.5 bn change in payables relating to capital expenditures in 2003. This represents a 17.5% decrease over 2002, as a result of a reduced change to the capital expenditures related payables and decrease to gross additions to tangible and intangible assets. In 2003, Matáv used part of the generated cash to pay back a net amount of HUF 68.5 bn in loans (including realized foreign exchange gains and losses). Since both Matáv and MakTel increased dividend payments considerably, dividends paid to shareholders and minority interests increased to HUF 23.5 bn from HUF 11.4 bn in 2002.

Consolidated Financial Statements

Independent Auditor's Report

to the Board of Directors and Shareholders of Magyar Távközlési Rt.

We have audited the accompanying consolidated balance sheets of Magyar Távközlési Rt. ("Matáv") as of December 31, 2003 and 2002, and the related consolidated statements of income, cashflows and changes in shareholders' equity for each of the three years in the period ended December 31, 2003. These financial statements are the responsibility of Matáv's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Matáv as of December 31, 2003 and 2002, and the consolidated results of its operations and its cashflows for each of the three years in the period ended December 31, 2003 in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers

PricewaterhouseCoopers

Budapest
January 26, 2004

Consolidated Balance Sheets

	Notes	At December 31, 2002	2003	2003
		(in HUF millions)		(million USD) (unaudited), note 2
ASSETS				
Current Assets				
Cash and cash equivalents	6	8,851	22,132	106
Financial instruments held for trading	7	447	494	3
Trade and other receivables	8	88,921	94,909	456
Inventories	9	13,063	9,997	48
Assets held for disposal	10	2,285	3,612	17
Total Current Assets		113,567	131,144	630
Non-current Assets				
Property, plant and equipment	11	645,087	620,990	2,987
Intangible assets	12	295,199	289,234	1,391
Associates	14	4,607	4,827	23
Deferred taxes	27	6,619	4,584	22
Other non current assets	15	12,372	8,058	39
Total Non-current Assets		963,884	927,693	4,462
Total Assets		1,077,451	1,058,837	5,092
LIABILITIES AND SHAREHOLDER'S EQUITY				
Current Liabilities				
Loans and other borrowings – third party	18	65,569	66,292	319
Loans from related parties	18	162,771	126,644	609
Derivatives	17	3,993	87	0
Trade and other payables	19	101,857	101,373	487
Deferred revenue	20	2,722	1,971	9
Provision for liabilities and charges	21	11,150	6,499	32
Total Current Liabilities		348,062	302,866	1,456
Non-current Liabilities				
Loans and other borrowings – third party	18	71,992	47,669	229
Loans from related parties	18	73,675	73,675	354
Deferred revenue	20	4,456	2,475	12
Deferred taxes	27	2,646	1,768	9
Provision for liabilities and charges	21	1,040	-	-
Total Non-current Liabilities		153,809	125,587	604
Minority Interests	22	59,436	70,274	338
Shareholders' Equity				
Common stock		104,281	104,281	502
Additional paid in capital		27,382	27,382	132
Treasury stock		(4,488)	(3,842)	(18)
Cumulative translation adjustment		(4,348)	825	4
Retained earnings		393,317	431,464	2,075
Total Shareholders' Equity		516,144	560,110	2,695
Total Liabilities and Shareholders' Equity		1,077,451	1,058,837	5,092

These consolidated financial statements were accepted for the Board of Directors on January 26, 2004 and signed on their behalf by:

The accompanying notes form an integral part of these consolidated financial statements.

Elek Straub
Chairman and Chief Executive Officer

Dr. Klaus Hartmann
Chief Financial Officer

Consolidated Income Statements

	Notes	2001	2002	2003	2003
		For the year ended December 31,			
		(in HUF millions, except per share amounts)			(million USD) (unaudited), note 2
Revenues	23	547,735	590,585	607,252	2,921
Employee-related expenses	24	(75,962)	(89,264)	(87,920)	(423)
Depreciation and amortization		(116,622)	(122,741)	(128,334)	(617)
Payments to other network operators		(72,606)	(81,078)	(84,449)	(406)
Cost of telecommunications equipment sales		(39,101)	(39,744)	(40,811)	(197)
Other operating expenses	25	(124,044)	(135,518)	(143,674)	(691)
Total Operating Expenses		(428,335)	(468,345)	(485,188)	(2,334)
Operating profit		119,400	122,240	122,064	587
Net interest and other charges	26	(13,104)	(27,919)	(40,002)	(192)
Share of associates' results before income tax		1,703	691	963	5
Profit Before Income Tax		107,999	95,012	83,025	400
Income tax expense	27	(11,733)	(13,245)	(13,685)	(66)
Profit After Income Tax		96,266	81,767	69,340	334
Minority Interest	22	(13,706)	(13,639)	(11,865)	(57)
Net Income		82,560	68,128	57,475	277
Basic Earnings Per Share					
Weighted average number of common stock outstanding (thousands)		1,037,273	1,037,587	1,037,912	1,037,912
Net income (HUF millions)		82,560	68,128	57,475	277
Basic earnings per share (HUF)		79.59	65.66	55.38	0.27
Diluted Earnings Per Share					
Weighted average number of common stock outstanding for diluted earnings per share (thousands)		1,037,273	1,037,587	1,037,912	1,037,912
Net income (HUF millions)		82,560	68,128	57,475	277
Diluted earnings per share (HUF)		79.59	65.66	55.38	0.27

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Cash Flow Statements

	Notes	2001	2002	2003	2003
		For the year ended December 31,			
			(in HUF millions)		(million USD) (unaudited), note 2
Cash Flows from Operating Activities					
Cash generated from operations	28	229,344	239,536	240,497	1,157
Interest paid		(19,416)	(27,259)	(30,063)	(145)
Income tax paid		(13,383)	(13,234)	(12,318)	(59)
Net Cash Flows from Operating Activities		196,545	199,043	198,116	953
Cash Flows from Investing Activities					
Purchase of tangible and intangible assets	13	(127,747)	(109,988)	(90,788)	(437)
Purchase of subsidiaries and business units	5	(326,553)	(13,459)	(7,992)	(38)
Cash acquired through business combinations	5	6,314	-	61	-
Interest received		2,141	660	908	4
Dividends received		779	1,437	575	3
Sale of trading investments – net		6,417	(120)	266	1
Proceeds from disposal of tangible and intangible assets		9,099	1,529	2,269	11
Net Cash Flows from Investing Activities		(429,550)	(119,941)	(94,701)	(456)
Cash Flows from Financing Activities					
Dividends paid to shareholders and minority interest		(18,806)	(11,437)	(23,507)	(113)
Proceeds from loans and other borrowings		522,464	217,429	192,057	924
Repayment of loans and other borrowings		(273,300)	(286,787)	(260,583)	(1,254)
Proceeds from issue of common stock		-	4,973	-	-
Purchase of treasury stock		(36)	(4,488)	(3,842)	(18)
Proceeds from sale of treasury stock		-	85	3,842	18
Other		(125)	171	(2)	-
Net Cash Flows from Financing Activities		230,197	(80,054)	(92,035)	(443)
Effect of foreign exchange rate changes on cash and cash equivalents		(371)	(314)	1,901	9
Change in Cash and Cash Equivalents		(3,179)	(1,266)	13,281	63
Cash and cash equivalents, beginning of year		13,296	10,117	8,851	43
Cash and cash equivalents, end of year		10,117	8,851	22,132	106

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statements of Changes
in Shareholders' Equity

	Shares of common stock	Common stock	Additional paid-in capital	Treasury stock	Cumulative translation adjustment	Retained earnings (f)	Total shareholders' equity
	(pcs)			(in HUF millions)			
Balance at December 31, 2000 as reported	1,037,358,870	103,736	22,955	(127)	-	260,420	386,984
Acquisition of additional 49% interest in Westels:							
Equity effect (g)						252,408	252,408
Net income effect (g)						(2,111)	(2,111)
Balance at December 31, 2000 after restatement	1,037,358,870	103,736	22,955	(127)	-	510,717	637,281
Effect of adopting IAS 39 (c)						501	501
Dividend						(10,373)	(10,373)
Purchase of treasury stock (b)				(36)			(36)
Cumulative Translation Adjustment					(2,420)		(2,420)
Equity effect of acquiring additional 49% in Westel (h)						(247,213)	(247,213)
Net income						82,560	82,560
Balance at December 31, 2001	1,037,358,870	103,736	22,955	(163)	(2,420)	336,192	460,300
Price correction of Westel transaction (i)						485	485
Dividend						(11,410)	(11,410)
Sale of treasury stock (b)				163		(78)	85
Stock issuance (d)	552,730	55	429				484
Stock issuance (e)	4,900,000	490	3,998				4,488
Purchase of treasury stock (e)				(4,488)			(4,488)
Cumulative Translation Adjustment					(1,928)		(1,928)
Net income						68,128	68,128
Balance at December 31, 2002	1,042,811,600	104,281	27,382	(4,488)	(4,348)	393,317	516,144
Dividend						(18,682)	(18,682)
Sale of treasury stock (b)				4,488		(646)	3,842
Purchase of treasury stock (b)				(3,842)			(3,842)
Cumulative Translation Adjustment					5,173		5,173
Net income						57,475	57,475
Balance at December 31, 2003 (a)	1,042,811,600	104,281	27,382	(3,842)	825	431,464	560,110
Of which treasury stock	(4,900,000)						
Shares of common stock outstanding at December 31, 2003	1,037,911,600						

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (NOTES)

(a) *In addition to the 1,042,811,600 issued shares of common stock (nominal value of HUF 100), total shareholders' equity includes one Series "B" preference share at the nominal value of HUF 10,000 at December 31, 2003. This Series "B" share is held by the Prime Minister's Office and bestows certain rights on its owner, including access to information, and the appointment of a Director. This share may only be held by the Government or its nominee. The number of authorized shares on December 31, 2003 is 1,054,911,600.*

(b) *In 2001 the Company purchased 21,333 shares of its common stock for HUF 36 million. In 2002 the Company sold 96,097 shares of its common stock for HUF 85 million, resulting in a loss of HUF 78 million. In 2003 the Company sold and repurchased its 4,900,000 shares of common stock for HUF 3,842 million, which resulted in a loss of HUF 646 million.*

(c) *In 2001 the Company adopted IAS 39 "Financial instruments – Recognition and Measurement" and has recognized the cumulative effect of the change in accounting directly in equity for the derivative asset of HUF 589 million with a related deferred tax liability of HUF 88 million.*

(d) *In 2002 Investel (a consolidated subsidiary of the Group) sold its 552,730 Matáv shares for HUF 484 million outside the group. These shares were registered by Matáv and subscribed by Investel in 2000 but issued outside the group for the first time in 2002.*

(e) *As a result of the new employee stock ownership program launched in 2002, the Company issued 4,900,000 shares of common stock, which were repurchased immediately. See note 29 for more details.*

(f) *The distributable reserves of the Company under Hungarian law at December 31, 2003 amounted to approximately HUF 317,000 million (HUF 260,000 million at December 31, 2002).*

Acquisition of additional 49% interest in the Westels (see note 5 for more details)

(g) *In December 2001 the Company acquired 49% of the common stock of Westel and Westel 0660 (the Westels) from Deutsche Telekom ("DT"). The Company was controlled by DT, hence this was a transaction between parties under common control. The financial statements were restated for 2000 as if the Westels had been wholly owned subsidiaries of Matáv from March 23, 2000, the date when DT acquired 49% of the Westels. The consideration for the Company's acquisition of the Westels was financed by a loan from DT. Terms of the loan agreement are described in Note 18. The loan agreement was completed on December 20, 2001. The book value of the Company's additional share of net assets (including goodwill and other intangibles) of the Westels on March 23, 2000 has been presented as an increase in equity at December 31, 2000 (HUF 252,408 million).*

(h) *The loan agreement with DT was completed on December 20, 2001 and the total consideration payable by the Company for the additional 49% share in the Westels was transferred from equity to liabilities. In addition, the reduction of equity included dividends paid by Westel to DT prior to the transaction.*

(i) *In March 2002, the final price for the 49% shares of Westel was reduced by HUF 485 million from the estimated amount due to the lower amount of dividend declared by Westel for the year 2001.*

The accompanying notes form an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1 General information

Magyar Távközlési Rt. (the "Company" or "Matáv Rt.") with its subsidiaries form the Matáv Group ("Matáv" or "the Group"). Matáv is the principal supplier of telecommunications services in Hungary and in Macedonia. Matáv is a full-service telecommunications provider.

The Company was incorporated in Hungary on December 31, 1991 and commenced business on January 1, 1992. The Company's registered address is Krisztina körút 55., 1013 Budapest, Hungary.

The Company had exclusive rights through December 2001 to provide domestic long distance and international public telephony services throughout Hungary. Of the 54 local concession areas, the Company had exclusive rights to provide local public fixed line telephony service in 31 areas until December 23, 2001. Since that date, Matáv Rt. is subject to competition in these areas. Matáv Rt. had exclusive rights in an additional five concession areas through May 2002, while its subsidiary, Emitel had exclusive rights in an additional three concession areas through November 2002. In the remaining 15 local concession areas, the concession holders had exclusive rights until December 2002, from which time Matáv can compete in these areas.

Matáv is Hungary's largest mobile telecommunications provider through its subsidiary, Westel Mobil Távközlési Rt. ("Westel"). In addition, Matáv provides leased lines, data transmission, corporate networks, cable television, internet and sells and leases telecommunications equipment in Hungary and in Macedonia.

The concession and license agreements under which the Group operates are summarized as follows.

The Hungarian Act on Communications was approved by the Hungarian Parliament in June 2001 and entered into force on December 23, 2001. The Act on Communications established a new regime of retail price controls on fixed line voice telephony services, introduced a universal service obligation and designated Matáv as a company with significant market power on the fixed line voice telephony market. The Act on Communications also requires unbundling of local loops, transparency of cost-based pricing, and reference offers for interconnection, and for leased line interconnection services. The cost base of the price of these services must be calculated using Long Run Incremental Costs ("LRIC") from January 1, 2003. The Act on Communications introduced carrier selection and carrier pre-selection possibilities.

The Act on Communications and related executive decrees are subject to modification in relation to harmonization with the New European Union ("EU") Regulatory Framework for Telecommunications and in order to further increase competition. Modifications are expected to take force at the latest by May 1, 2004 when Hungary is expected to join the EU. The regulatory review is focusing on the following areas: EU harmonization and competition, internet regulation, universal service obligation regulation, cost accounting and price regulation, carrier selection, unbundling, number portability regulation and institutional issues.

The Company became a universal service provider as a consequence of the universal service contract that was concluded between Matáv and the Minister for Informatics and Telecommunications on January 28, 2002 (the "Contract on Universal Service Provision" – USP). The contract on USP includes certain service provision, operational and quality requirements and universal service providers are entitled to compensation for their loss of revenue resulting from the low price of universal service packages.

On October 7, 1999 an amended Concession Contract was signed between the Ministry of Transport, Communications and Water Management and Westel, extending Westel's rights and obligations to also provide service in the 1800 MHz band in Hungary. The duration of the DCS Concession is fifteen years. The Company started commercial operation in the 1800 MHz band on November 16, 2000.

In accordance with Westel's Deed of Association, the initial duration of the concession regarding the (a) GSM 900 public mobile radio telephone service is a period of fifteen (15) years calculated from the execution of the Concession Agreement (November 4, 1993 to November 4, 2008). Regarding the (b) DCS 1800 public mobile radio telephone service shall be fifteen (15) years from the execution of the new Concession Agreement (October 7, 1999 to October 7, 2014).

The Minister is entitled to extend the concession period for both the GSM 900 and the DCS 1800 public mobile radio telephone services upon their expiry. Regarding the GSM 900 public mobile radio telephone service, after November 5, 2008, regarding the DCS 1800 public mobile radio telephone service, after October 7, 2014, for another seven (7) years and six (6) months without issuing a tender invitation.

On November 4, 2002, the National Regulatory Authority ("NRA", Hírközlési Felügyelet) pronounced Westel as a significant market power in the interconnections market.

The liberalization of the Hungarian fixed line telecommunications market is expected to have an effect on the mobile telecommunications industry as well.

The Group is also present in the Macedonian telecommunications market through its subsidiaries' operations. MakTel is the sole fixed line service provider while MobiMak is the leading mobile service provider in Macedonia. Both companies have a Concession Contract to provide services until December 31, 2018. Further, MakTel has exclusive rights in (a) Fixed Voice Telephony Services, Leased Line Services and (b) to construct, lease, own, develop, maintain and operate Fixed Public Telecommunication Networks until December 31, 2004. These exclusive rights include local, national and international long distance public fixed voice services independently of the technology used, including voice over Internet Protocol services.

The pricing policy, which is part of MakTel's Concession Contract, entitles MakTel to re-balance its tariffs by the end of 2004. During the exclusivity period MakTel is obliged to provide universal services. The regulation of services for the period after December 2004 is currently in progress.

2 Accounting policies

(a) Basis of presentation

The consolidated financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies below, and in compliance with International Financial Reporting Standards ("IFRS").

The consolidated financial statements are shown in millions of Hungarian Forints ("HUF"). For the convenience of the reader, the consolidated balance sheet, income statement and cashflow statement for the year 2003 are also presented in millions of U.S. dollars ("USD") translated at a rate of HUF 207.92 to USD 1.00 (the official rate of the National Bank of Hungary at December 31, 2003). These translations are unaudited.

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the amounts reported in the financial statements and notes thereto. Actual results could differ from those estimates.

(b) Group accounting

(1) Subsidiaries

Subsidiaries, which are those entities (including Special Purpose Entities) in which the Group has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies, are consolidated.

The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill. Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Business combinations are accounted for according to the purchase method of accounting prescribed by IAS 22 – Business combinations.

(2) Associates and joint ventures

The Group has no joint ventures.

Investments in associates are accounted for applying the equity method of accounting. Under this method the company's share of the post-acquisition profits or losses of associates is recognized in the income statement. The cumulative post-acquisition movements are adjusted against the cost of investment. Associates are entities over which the Group generally has between 20% and 50% of the voting rights, or over which the Group has significant influence, but which it does not control.

At December 31, 2003 the principal operating associates and subsidiaries of the Group, which are incorporated in Hungary and Macedonia, were as follows:

Associates	Group interest in capital	Activity
Hunsat Rt.	50.00%	Satellite communications
Magyar RTL Televízió Rt.	25.00%	Television broadcast company

Subsidiaries	Group interest in capital	Activity
Incorporated in Hungary		
Axelero Rt.	*100.00%*	*Internet service and content provider*
Emitel Rt.	*100.00%*	*Local telecommunications operator*
InvesTel Rt.	*100.00%*	*Cable TV holding*
MatávCom Kft.	*100.00%*	*Solutions for business customers*
MatávkábelTV Kft.	*100.00%*	*Cable television operator*
Westel Mobil Távközlési Rt.	*100.00%*	*GSM digital cellular telephone services*
Incorporated in Macedonia		
Makedonski Telekomunikacii AD (MakTel)	*45.65%*	*Fixed line telecom. services*
MobiMak AD	*45.65%*	*Cellular telecom. services*
Telemacedonia AD	*88.03%*	*Macedonian consulting company*
Stonebridge AD	*89.51%*	*Macedonian holding company*

The Group's interest in the capital of subsidiaries and associates equals the voting rights therein, with the exception of MakTel and MobiMak, where the Company effectively holds 51% of the voting rights due to its voting power exercised through its ownership in Stonebridge.

(c) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into the local currency (HUF or MKD) at the exchange rates at the balance sheet date and any unrealized exchange gains and losses are recognized immediately. Gains and losses that arise on foreign currency transactions and financing activities are included under net interest and other charges.

For the initial consolidation of foreign subsidiaries acquired, their assets and liabilities at the acquisition date were incorporated into the consolidated financial statements after translating the balances into HUF using the exchange rate prevailing at that date. The fair value adjustments resulting from the purchase price allocation and goodwill is accounted for in HUF.

As the majority of the revenues and expenses of the Macedonian subsidiaries arise in MKD, the measurement currency of these entities is MKD. At year-end the assets and liabilities of the foreign subsidiaries are translated into HUF using the exchange rates prevailing on the balance sheet date. The income statements of the foreign subsidiaries are translated into HUF using the average rate of exchange during the year. The translation difference arising on consolidation is booked against the cumulative translation adjustment in shareholders' equity.

(d) Cash and cash equivalents

Cash and cash equivalents include cash in banks and all highly liquid deposits with maturities of three months or less and exclude all overdrafts.

(e) Financial assets

At January 1, 2001 the Group adopted IAS 39 and classified its financial assets into the following categories: trading, held-to-maturity, available-for-sale and originated loans.

Financial assets that are acquired principally for the purpose of generating profit from short-term fluctuations in price are classified as trading investments and included in current assets.

Investments with fixed maturity that the management has the intent and ability to hold to maturity are classified as held-to-maturity and are included in non current assets.

Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale. These are included in non current assets unless management has the express intention of holding the investment for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets.

Loans and receivables originated are created by providing money, goods, or services directly to a debtor, other than those that are originated with the intent to be sold immediately or in the short term.

Management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis.

Trading and available-for-sale financial assets are carried at fair value, while held-to-maturity investments and originated loans are carried at amortized cost. Any changes in the carrying values are accounted for in the income statement.

Trading investments include securities issued by the government, the maturities of which are between three months and one year.

During the period Matáv did not hold any available-for-sale or held-to-maturity types of investments.

(f) Receivables

Receivables are stated at their recoverable amount, after accounting for any impairment losses included in other operating expenses. Recoverable amounts are estimated taking into account potential delays and defaults on payments.

Amounts due and receivable from other network operators are shown net where a right of set-off exists and the amounts are settled on a net basis.

(g) Inventories

Inventories are stated at the lower of cost or net realizable value using the historical cost method of accounting, and are valued on a weighted average basis. Phone sets are often sold for less than cost in connection with promotions to obtain new subscribers with minimum commitment periods. Such loss on the sale of equipment is only recorded when the sale occurs, as the normal resale value of the phone sets approximates cost.

(h) Assets held for disposal

Assets held for disposal include real estates that are no longer needed for the future operations of the Company, and have been identified for sale, which is expected to take place within 12 months. These assets are accounted for at the lower of carrying value or recoverable amount. Recoverable amount is defined as the expected selling price less transaction costs.

(i) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation. Cost in the case of the outside plant comprises all expenditures including the cabling within customers' premises and interest on related loans. When assets are retired or disposed of, the cost and accumulated depreciation are removed from the accounts and any related gain or loss is recognized in the consolidated income statement. Maintenance and repairs are charged to expense when incurred.

Depreciation is calculated on a straight-line basis from the time the assets are deployed over their remaining useful lives. Matáv regularly reviews these lives for consistency with current development plans and advances in technology.

The useful lives assigned are as follows:

Buildings	*10–50 years*
Duct, cable and other outside plant	*25–38 years*
Telephone exchanges	*7–15 years*
Other fixed assets	*3–12 years*

(j) Intangible assets

Costs associated with developing internal computer software that has a probable benefit exceeding the cost beyond one year are recognized as intangible assets. Expenditures which enhance and extend the benefits of computer software programs beyond their original specifications and lives are recognized as a capital improvement and added to the original cost of the software.

Costs associated with the maintenance of existing computer software programs are expensed as incurred.

Costs associated with the acquisition of long term licenses are capitalized including any related borrowing costs. Matáv starts amortizing the acquired cellular licenses as bandwidths are made available for usage.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary/associated undertaking at the date of acquisition. Goodwill on acquisitions is reported in the balance sheet as an intangible asset and is amortized using the straight-line method over its estimated useful life.

Intangible assets are amortized over their respective economic lives. The useful lives of concessions and licenses were determined based on the terms of the underlying agreements. Such assets are stated at cost less amortization on a straight-line basis over the following periods:

Concessions and licenses	*8–25 years*
Software	*3–5 years*
Leasehold interests	*6 years*
Brand-name	*10 years*
Goodwill on purchase of subsidiaries	*10–20 years*

(k) Impairment of non current assets

Matáv regularly reviews its non current assets, including property, plant and equipment, intangible assets and associates and other long-term investments for impairment. Impairment losses are recognized as an expense for assets whose carrying value exceeds their recoverable amount, which is the higher of value in use or net selling price. Impairment losses of tangible and intangible assets are included in the depreciation and amortization line of the income statement, while impairment losses of other non current financial assets are included in net interest and other charges.

The value in use of non current assets is determined at the cash generating unit level, using discounted cashflow analysis.

(l) Leases

Lessor

Assets leased out under operating leases are included in property, plant and equipment in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar fixed assets. Rental income is recognized on a straight-line basis over the lease term.

Lessee

Leases of property, plant and equipment where Matáv assumes substantially all the benefits and risks of ownership are classified as finance leases. Finance leases are capitalized at the fair value of the asset or if lower, at the estimated present value of the future minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in loans and other borrowings. The interest element of the finance charge is charged to the income statement over the lease period. The property, plant and equipment acquired under finance lease contracts are depreciated over the shorter of the lease term or the useful life of the asset.

Costs in respect of operating leases are charged to the consolidated income statement on a straight-line basis over the lease term, included in other operating expenses.

Sale and leaseback transactions

Sale and leaseback transactions involve the sale of an asset by Matáv and the leasing of the same asset or part of it back to Matáv.

When sale and leaseback transactions qualify as finance leases any gain on the sale is deferred and recognized in the income statement over the lease term.

(m) Deferred taxes

Deferred tax is recognized, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred income tax.

The principal temporary differences arise from depreciation on property, plant and equipment, impairment of receivables, provisions for liabilities and charges and tax losses carried forward.

(n) Loans and other borrowings

Borrowings are recognized initially at the proceeds received, net of transaction costs. In subsequent periods they are stated at amortized costs. Any difference between the proceeds and the redemption value is recognized in the income statement over the period of the borrowings.

Borrowing costs are recognized as an expense as incurred net of amounts capitalized. Interest on general borrowings is capitalized as part of the cost of the relevant fixed asset, up to the date of commissioning and is then amortized over the period the asset is depreciated. The rate used to determine the amount of borrowing costs eligible for capitalization is defined as the ratio of equity to debt financing, where debt excludes short term borrowings and loans related to financing of acquisitions.

Effective borrowing cost (note 18) is calculated using the average amount of loans and other borrowings during the year and the total interest and other financial charges. The weighted average interest rate on borrowings is calculated using the average amount of loans and other borrowings during the year and the interest expense charged.

Fair value information on loans and other borrowings is also presented in the financial statements. Fair value of loans and other borrowings is calculated using the discounted cashflow method.

(o) Deferred revenue

A portion of fees charged to customers in Hungary upon connection to the fixed line network prior to October 15, 1997 represented contributions to the cost of network construction. The capital contribution element of such fees was deferred and is amortized to revenue over the life of the related assets. Legislation was enacted effective October 15, 1997 eliminating refunds of such fees and signaling the removal of any capital contribution element of future customer fees. Since October 1997, these connection fees and related costs are recognized in the income statement upon connection, reflecting the change in related legislation and the advanced development of the network.

(p) Employee benefits

(1) Pensions

Payments to defined contribution pension plans are recognized as an expense in the period in which they become due. Matáv does not have defined benefit pension schemes.

(2) Equity compensation benefits

The Company does not recognize any compensation expense related to equity compensation plans.

(3) Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before the nominal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

(q) Provisions

Provisions are recognized when Matáv has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Costs related to the ongoing activities of the Group are not provided in advance.

(r) Treasury stock

Where the Company or its subsidiaries purchases the Company's equity share capital, the consideration paid including any attributable incremental external costs are deducted from total shareholders' equity as treasury stock until they are cancelled. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity.

(s) Revenues

Revenues for all products and services (note 23), shown net of VAT and discounts and after eliminated sales within the Group, are recognized when products and services are provided.

A proportion of the revenue received is paid to other operators for the use of their networks, where appropriate. These revenues and costs are stated gross in these consolidated financial statements.

Revenues earned from connecting subscribers to the fixed or the mobile network are recognized upon service activation.

Revenue and costs from sale of telephone sets are recognized upon delivery.

Revenues from sale of public phone cards, prepaid mobile cards and prepaid internet cards are recognized when used by the customers or when expired with unused units.

(t) R&D and Marketing expenses

Research and development as well as marketing costs are expensed as incurred.

(u) Earnings per share

Basic earnings per share is calculated by dividing income for the period by the weighted average number of common stocks outstanding, while diluted earnings per share is calculated considering the weighted average number of dilutive convertible bonds and share options in addition to the number of common stocks outstanding.

(v) Dividends

Dividends are recorded in the Group's financial statements in the period in which they are approved by the Group's shareholders.

(w) Segment reporting

Matáv determines segments primarily based on products or services that are subject to risks and returns that are different from those of other businesses. Furthermore, segments are determined to be consistent with information used by management for internal reporting and monitoring purposes.

(x) Comparative information

In order to maintain consistency with the current year presentation, certain items have been reclassified for comparative purposes.

3 Financial risk management

(a) Financial risk factors

Matáv is exposed to interest and foreign exchange rate risk associated with its debt and anticipated transactions. As the vast majority of the revenues and expenses of the Hungarian entities arise in HUF, the measurement currency of Matáv is HUF, and as a result, Matáv's objective is to minimize the level of its financial risk in HUF terms.

(1) Foreign exchange risk

The National Bank of Hungary lifted the devaluation of the Hungarian Forint against the Euro in October 2001 after widening the intervention band from +/-2.25% to +/-15% as of May 4, 2001. The introduction of this new foreign exchange regulation increased the foreign exchange risk of the Group significantly. In order to mitigate this increased risk, Matáv minimized its foreign currency borrowings in 2002 and 2003. The remaining foreign exchange exposure of Matáv is related to its operating activities through revenues from and payments to international telecommunications carriers as well as capital expenditure contracted with vendors in foreign currency. These revenues and payments, however, are almost in full balance, therefore Matáv very rarely has to buy or sell foreign currency on the market.

Matáv occasionally enters into derivative contracts for risk reduction purposes. These foreign currency forward contracts and swap arrangements are taken to reduce the exchange rate risk related to the debt portfolio and/or the foreign exchange denominated payment obligations.

(2) Interest rate risk

Matáv is exposed to financial market risk primarily through interest rate fluctuations. This is due to the fact that changing EUR and HUF interest rates affect the fair value of fixed rate debts and also affect the cash outflow through the variable rate debts. To control interest rate risk, a combination of fixed and floating rate debt is used within the HUF and the foreign currency portfolios. By the end of 2003 Matáv managed to convert almost all of its remaining foreign exchange debt portfolio to HUF, thereby limiting its exposure to interest rate fluctuations in the HUF environment.

(3) Credit risk

The Group has no significant concentrations of credit risk. Cash and cash equivalents held by the Hungarian members of the Group are primarily denominated in Hungarian Forint and concentrations of credit risk are limited as Matáv places its cash with substantial credit institutions. Cash and cash equivalents held by the Macedonian subsidiaries are denominated in Macedonian Denars, Euros and in U.S. dollars.

Concentrations of credit risk relating to trade receivables are limited due to the large number of customers comprising Matáv's customer base and their dispersion across many different industries and geographic areas.

(4) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit, Group Treasury aims at maintaining flexibility in funding by keeping committed credit lines available.

(b) Accounting for derivative financial instruments and hedging activities

Matáv adopted International Accounting Standards No. 39 (IAS 39), "Financial Instruments: Recognition and Measurement" on January 1, 2001. IAS 39 requires that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or a liability measured at its fair value. The statement requires that changes in the derivative's fair value be recognized in earnings unless specific hedge accounting criteria are met.

The cumulative effect of adopting IAS 39 was recognized against the retained earnings on January 1, 2001.

Matáv does not apply hedge accounting for its financial instruments, all gains and losses are recognized in the income statement. The fair value of derivative instruments is included in other receivables or other non current assets and other payables or other non current liabilities depending on the maturity of the agreements.

(c) Fair value estimation

The fair value of publicly traded derivatives and trading and available-for-sale securities is based on quoted market prices at the balance sheet date. The fair value of interest rate swaps is calculated as the present value of the estimated future cashflows. The fair value of forward foreign exchange contracts is determined based on forward exchange market rates at the balance sheet date.

In assessing the fair value of non-traded derivatives and other financial instruments, the Group makes assumptions that are based on market conditions existing at each balance sheet date and estimated discounted value of future cashflows are used to determine fair value for the remaining financial instruments.

4 Segment information

Matáv has three operating segments, fixed line telecommunications, mobile telecommunications and international activities.

The fixed line telecommunications segment provides local telephony in Matáv's 39 local primary areas, domestic and international long distance services on a nationwide basis. Entities in the segment also provide services such as leased lines, data transmission, PBX, corporate network, cable TV services and Internet in the whole of Hungary.

The Mobile segment's only operational entity is Westel, which provides digital services in the 900 and 1,800 MHz frequency bandwidth. Westel 0660 provided analog mobile services until June 2003, when it returned its license to the Government due to its shrinking customer base. Westel 0660 merged into Westel as of November 30, 2003.

The International segment includes four Macedonian companies. Stonebridge is the holding company through which Matáv controls MakTel. MakTel is Macedonia's exclusive fixed line telecommunications company. MobiMak is MakTel's subsidiary, which is the market leader cellular telecommunications service provider in Macedonia. Telemacedonia is a management company through which Matáv provides management and consulting services to MakTel, MobiMak and Stonebridge.

Inter-segment pricing is on arms' length basis.

All associates of the Group are operating in the fixed line segments.

Geographic Information: Matáv's fixed line and mobile segments operate exclusively in Hungary, while the international segment operates in Macedonia. Matáv does not analyze results on a more detailed level based on geographic areas within Hungary or Macedonia.

The following tables present a summary of operating results of the Group by segment for the years ended December 31, 2001, 2002 and 2003. The segments presented below are substantially consistent with the format used by the Company's Management Committee.

	For the year ended December 31,		
	2001	2002	2003
Revenues	(in HUF millions)		
Total revenue of Fixed line segment	333,685	336,306	324,552
Fixed line revenue from other segments	(11,221)	(11,620)	(11,870)
Fixed line revenue from external customers	322,464	324,686	312,682
Total revenue of Mobile segment	198,947	232,612	254,141
Mobile revenue from other segments	(33,653)	(34,043)	(29,335)
Mobile revenue from external customers	165,294	198,569	224,806
Total revenue of International segment	60,034	67,562	70,014
International revenue from other segments	(57)	(232)	(250)
International revenue from external customers	59,977	67,330	69,764
Total revenue of the Group	547,735	590,585	607,252
Depreciation and amortization			
Fixed line	65,948	76,664	71,862
Mobile	40,282	35,423	39,895
International	10,392	10,654	16,577
Total	116,622	122,741	128,334
Operating profit			
Fixed line	60,143	43,664	44,096
Mobile	35,793	52,390	55,030
International	23,464	26,186	22,938
Total	119,400	122,240	122,064
Share of associates' results before income tax			
Fixed line	1,703	691	963
Total	1,703	691	963

	At December 31,		
	2001	2002	2003
Assets	(in HUF millions)		
Fixed line	601,290	563,917	518,308
Mobile	359,614	361,535	360,423
International	148,438	157,894	183,336
Inter-segment elimination	(12,989)	(14,979)	(10,269)
Total segment assets	1,096,353	1,068,367	1,051,798
Unallocated assets	7,843	9,084	7,039
Total assets	1,104,196	1,077,451	1,058,837
Capital expenditures on tangible and intangible assets			
Fixed line	75,050	49,245	39,662
Mobile	36,494	41,532	37,131
International	16,203	19,211	13,995
Total capital expenditure	127,747	109,988	90,788
Liabilities			
Fixed line	102,048	88,073	71,907
Mobile	43,766	40,503	43,218
International	7,511	11,046	7,043
Inter-segment elimination	(12,989)	(14,979)	(10,269)
Total segment liabilities	140,336	124,643	111,899
Unallocated liabilities	455,391	377,228	316,554
Total liabilities	595,727	501,871	428,453

The international segment includes both fixed line and mobile activities. Total revenue of the International segment in 2003 includes HUF 23,809 million that is generated by the mobile activities (HUF 23,616 million in 2002). Total assets of the International segment as at December 31, 2003 includes HUF 35,725 million that is related to the mobile activities (HUF 29,297 million in 2002), before the allocation of any goodwill thereto.

Of the total net book value of goodwill as at December 31, 2003, HUF 14,203 million is allocated to the Fixed line segment, HUF 170,914 million to the Mobile segment and HUF 47,004 million to the International segment.

Unallocated assets include tax assets, while unallocated liabilities include loans and other borrowings and tax liabilities.

Depreciation and amortization of the segments include impairment losses charged on the tangible and intangible assets of the segments. Impairment losses charged in the reported years are disclosed in notes 11 and 12.

5 Acquisitions

Acquisition of the remaining 49% ownership in Westel Mobil Rt. (Westel) and Westel Rádiótelefon Kft. (Westel 0660)

In March 2000, Deutsche Telekom finalized the purchase of MediaOne's interests in mobile operations in Central and Eastern Europe including MediaOne International B.V. which owned 49% of Westel and 49% of Westel 0660. At the same time Matáv was granted an option to purchase the 49% holdings in Westel and Westel 0660 from Deutsche Telekom during the fifteen-month period ending September 2001. On December 21, 2001 the Company became a 100% owner of both Westel and Westel 0660. The final purchase price included HUF 226,750 million (EUR 920 million), paid in December 2001, financed by a loan from DT as described in note 16, plus HUF 11,515 million paid in 2002, equal to 49% of the amount of dividends declared by Westel for the year 2001.

At the time of the transaction Matáv was controlled by DT, therefore this was a transaction between parties under common control. The financial statements were restated as if the Westels were wholly owned subsidiaries of the Company from March 23, 2000, the date when DT acquired 49% of the Westels. The consideration for the Company's acquisition of the Westels was financed by a loan from DT. The terms of the loan agreement are described in note 16. The loan agreement was completed on December 20, 2001. The book value of the Company's additional share of net assets (including goodwill and other intangibles) of the Westels on March 23, 2000 were presented as an increase in equity at December 31, 2000 (HUF 252,408 million).

Below is a summary of the impact of the restatement on shareholders' equity and net income in HUF millions.

	At December 31,	
	2000	2001
	(in HUF millions)	
Equity (excluding the effect of the restatement)	386,984	449,862
Adjustment in relation to the Westel acquisition	250,297	257,651
Transfer of consideration payable to liability	-	(247,213)
As restated	637,281	460,300

The increase in equity as of December 31, 2000 reflects the Company's additional share of the assets and liabilities (including goodwill and other intangibles) of Westel and Westel 0660 at March 23, 2000, which was presented as equity because the loan from DT was not completed until December 20, 2001. The decrease in equity in December 2001 reflects the loan agreement with DT (which was completed on December 20, 2001), the dividends paid by Westel to DT prior to the transaction and additional consideration payable. The consideration payable by the Company was then transferred from equity to liabilities.

	At December 31,	
	2000	2001
Adjustment to net income related to the Westel acquisition:	(in HUF millions)	
Amortization of goodwill and intangible assets	(16,780)	(16,411)
Related deferred tax	456	26
Reduction in minority interest	14,213	23,738
Total adjustment to Group net income	(2,111)	7,354
Net income as reported before restatement	68,763	75,206
Net income as restated	66,652	82,560

The minority interest in Westel and Westel 0660 was eliminated and considered as part of the Group's net income both for 2000 and 2001.

The minority interest in the net income of the two companies between March 31, 2000 and December 21, 2001 was as follows:

	At December 31,	
	2000	2001
	(in HUF millions)	
Westel	13,987	23,542
Westel 0660	226	196

Acquisition of Makedonski Telekomunikacii AD (MakTel)

In December 2000, the Company, on behalf of a consortium, reached agreement with the government of Macedonia to purchase 51 percent of MakTel on its privatization. The closing of the transaction took place on January 15, 2001 whereby the Company paid EUR 343.3 million on behalf of the consortium in accordance with the relevant agreement. The 51 percent ownership acquired by the Company was contributed on January 16, 2001 to a newly established Macedonian holding company, Stonebridge Communications AD ("Stonebridge").

In accordance with the subscription and shareholders' deed ("Deed") between the Company, SEEF Holdings Ltd. ("SEEF") and CosmoTelco Added Value Services S.A. ("CosmoTelco"), the latter two acquired a 6.1 percent and a 7.4 percent ownership respectively in Stonebridge, reducing Matáv's investment in Stonebridge to EUR 301.5 million. Matáv, consequently, had an 86.5 percent stake in Stonebridge, which owns 51 percent of MakTel. Thereby Matáv had an effective ownership share in MakTel of approximately 44 percent. The total acquisition cost of the 44% effective ownership amounted to HUF 83,380 million.

The Deed provides for a put option which entitles SEEF to sell its shares to Matáv on May 15 of each of 2003, 2004 or 2005 or upon the occurrence of certain events at a price formula also set out in the Deed. The formula takes into account the purchase price paid by the consortium for the shares, the current earnings before interest, tax, depreciation and amortization (EBITDA) and the net debt of MakTel.

Pursuant to the terms of the Deed, SEEF exercised its put option (in relation to 3.05% holding in Stonebridge) on June 20, 2003 and Matáv paid EUR 21 million (HUF 5,545 million) to SEEF on July 27, 2003. Following the financial closing of the transaction, Matáv has an 89.51 percent ownership in Stonebridge, with an effective ownership share in MakTel of 45.65 percent.

CosmoTelco and the Company entered into a call option agreement whereby CosmoTelco had the right to acquire additional shares in Stonebridge from Matáv such that CosmoTelco's holding could have been increased to 29 percent of the issued share capital of Stonebridge. The price for each share is based on Matáv's acquisition cost plus holding costs. Before the expiration of CosmoTelco's call option on February 8, 2002 Matáv and CosmoTelco amended the option agreement as a result of which CosmoTelco had until February 2003 to exercise its option for a 10% share in Stonebridge. Matáv paid a fee of EUR 7 million (HUF 1,715 million) in return for CosmoTelco letting the option for the remaining 11.55% share expire unexercised on February 8, 2002. In 2003 the parties agreed that CosmoTelco allowed its option to lapse, and Matáv paid EUR 2.5 million (HUF 658 million) to CosmoTelco.

Matáv's ownership interest of 89.51 percent in Stonebridge equals its share of voting rights. Stonebridge's ownership interest of 51 percent in MakTel equals its share of voting rights.

MakTel has been a consolidated subsidiary of the Group from January 15, 2001 on the basis that Matáv controls Stonebridge through its ownership and Stonebridge controls MakTel through its 51 percent share of ownership.

Acquisition of the remaining 50% ownership in Emitel Rt.

Matáv Rt. had been a 50% owner of Emitel since its establishment and accounted for Emitel as an associated company in its consolidated financial statements. On December 31, 2000, the Company agreed with Aphrodite BV, the owner of the other 50% stake that it would purchase the remaining shares. The change of ownership was conditional on the approval of the Minister responsible for telecommunications in Hungary as well as on the approval of the Hungarian Competition Office, which Matáv received in June 2001. The price of HUF 13,930 million was determined on the closing of the transaction on July 2, 2001, from which date Emitel has been a consolidated subsidiary of the Group.

The assets and liabilities of subsidiaries acquired in 2001 are summarized in the table below:

	Westel and Westel 0660	MakTel	Emitel
		(in HUF millions)	
Total purchase consideration	239,018	83,380	13,930
Fair value of net assets acquired	51,223	32,027	5,847
Goodwill	187,795	51,353	8,083
Fair value of net assets acquired:			
Cash and cash equivalents	-	5,488	826
Trading investments	-	699	-
Receivables	-	10,096	742
Inventory	-	785	96
Property, plant and equipment	-	74,023	10,270
Intangible assets	6,246	171	311
Associates	-	-	(3,234)
Trade and other payables	2,192	(5,768)	(1,018)
Deferred revenue	-	-	(391)
Loans and other borrowings	-	(19,661)	(1,265)
Net deferred tax assets	(1,124)	2,157	(490)
Minority interests	54,832	(35,963)	-
Equity adjustment	(10,923)	-	-
	51,223	32,027	5,847

Purchase of subsidiaries and business units in the cash flow statement

	For the year ended December 31,		
	2001	2002	2003
		(in HUF millions)	
Westel	227,503	11,515	-
MakTel/Stonebridge	83,380	-	5,545
Emitel	13,930	-	-
Amounts paid to CosmoTelco for unexercised call option	-	1,715	658
Other	1,740	229	1,789
Total purchase of subsidiaries and business units	326,553	13,459	7,992

Other items include the purchase price paid for shares of non-principal subsidiaries and business units.

6 Cash and cash equivalents

	At December 31, 2002	2003	
	(in HUF millions)		Average interest rate
HUF	1,761	1,097	3.61%
MKD	6,689	14,669	3.75%
Other	401	6,365	1.14%
	8,851	22,132	2.99%

	At December 31, 2002	2003
	(in HUF millions)	
Cash	70	200
Bank	8,781	9,430
Securities	-	12,502
	8,851	22,132

7 Financial instruments held for trading

Financial instruments held for trading consist of treasury instruments and derivative assets with maturities of three to twelve months, held for trading purposes.

8 Receivables

	At December 31, 2002	2003
	(in HUF millions)	
Domestic trade receivables	68,181	71,584
Foreign trade receivables	22,389	21,611
Receivables from related parties	1,731	2,692
Receivables from associates	420	746
Advances paid for current assets	444	715
Income tax receivable	2,465	2,455
Other taxes receivable	1,480	2,530
Other receivables	9,717	8,836
Other prepayments and accrued income	2,593	4,700
	109,420	115,869
Less impairment loss	(20,499)	(20,960)
	88,921	94,909

The allowance for impairment loss and changes therein for 2002 and 2003 are as follows:

	At December 31, 2002	2003
	(in HUF millions)	
Impairment loss, beginning of period	(22,645)	(20,499)
Charged to expense	(4,972)	(4,450)
Utilized	7,118	3,989
Impairment loss, end of period	(20,499)	(20,960)

9 Inventories

	At December 31, 2002	At December 31, 2003
	(in HUF millions)	
Cables, wires and other inventory	5,917	4,430
Inventory for resale	9,682	7,052
Subtotal	15,599	11,482
Less allowances for obsolete inventory	(2,536)	(1,485)
	13,063	9,997

10 Assets held for disposal

Assets held for disposal include primarily land and buildings identified for sale, which is expected within 12 months, as a result of the continuing improvement of utilization of properties and headcount reductions.

11 Property, plant and equipment

	Land	Buildings	Duct, cable and other outside plant	Telephone-exchanges	Other	Capital work in progress	Total
				(in HUF millions)			
Cost							
January 1, 2003	4,495	113,647	264,058	542,525	114,432	20,531	1,059,688
Change in the Composition of the Group				18	37		55
Additions	40	4,188	9,170	47,860	13,043	(3,534)	70,767
Disposals	(191)	(1,789)	(1,456)	(30,944)	(6,733)	(183)	(41,296)
Translation adjustment	3	1,544	3,426	5,731	1,497	326	12,527
Reclassifications	66	(1,224)	(276)	616	818		0
December 31, 2003	4,413	116,366	274,922	565,806	123,094	17,140	1,101,741
Depreciation							
January 1, 2003		20,465	70,385	249,659	71,807		412,316
Change in the Composition of the Group					23		23
Charge for the year		3,255	10,729	65,929	19,370		99,283
Impairment losses	59	568	21	290	24		962
Disposals	(59)	(681)	(1,402)	(30,855)	(6,733)		(39,730)
Translation adjustment		361	1,239	1,911	774		4,285
Reclassifications		(273)	584	240	(551)		0
December 31, 2003	0	23,695	81,556	287,174	84,714		477,139
Net book value							
December 31, 2003	4,413	92,671	193,366	278,632	38,380	17,140	624,602
Of which assets held for disposal							(3,612)
Net book value as at December 31, 2003							620,990
Net book value							
December 31, 2002	4,495	93,182	193,673	292,866	42,625	20,531	647,372
Of which assets held for disposal							(2,285)
Net book value as at December 31, 2002							645,087

Change in the composition of the Group includes the assets of the companies that were acquired by Matáv in 2003.

Additions to capital work in progress are shown net of transfers to assets in service.

Impairment losses charged in 2003 relate to real estate held for disposal and certain IT equipment. The recoverable amount for assets held for disposal was defined as the expected selling price established by independent property valuation companies less transaction costs. The recoverable amount for the IT equipment was defined based on the value in use, determined using discounted cashflow analysis.

Impairment losses of HUF 2,850 million charged in 2002 related to the public payphone assets and certain assets using 3.5 GHz technology (fixed line segment) accounted for due to changes in market conditions.

Included in telephone exchanges at December 31, 2003 are assets subject to finance leases with a gross book value of HUF 1,476 million and net book value of HUF 110 million.

Included in buildings are assets sold and leased back under finance lease conditions. At December 31, 2003 the gross book value of the leased back assets is HUF 406 million and net book value of HUF 403 million.

Included in telephone exchanges at December 31, 2003 are assets leased under operating lease contracts to customers with a gross book value of HUF 7,406 million and net book value of HUF 3,445 million. Depreciation for the year of these assets amounted to HUF 1,150 million.

As of January 1, 2003, and as of May 31, 2003, the Group revised the useful lives of certain tangible fixed assets, which resulted in increase to the depreciation charge of HUF 5,099 million for the year. These assets include buildings, network items (multiplexers, interfaces, regenerators, subscriber telephones), exchanges (ATM and VSAT assets), assets of operation and service supporting systems, vehicles and computers. The useful lives of these assets were revised as part of a regular practice in line with the requirements of IFRS, and have been changed to reflect technological changes since their setting into operation.

12 Intangible assets

	Consession costs and licenses	Software	Leasehold interest	Brand name	Goodwill	Total
			(in HUF millions)			
Cost						
January 1, 2003	20,210	62,520	7,053	7,546	285,745	383,074
Change in the composition of the Group	235	4	3	160	3,438	3,840
Additions	(111)	17,452	165			17,506
Disposals		(3,753)	(204)			(3,957)
Translation adjustment	65	960				1,025
December 31, 2003	20,399	77,183	7,017	7,706	289,183	401,488
Amortization						
January 1, 2003	5,553	33,411	3,568	2,076	43,267	87,875
Change in the composition of the Group		2	2			4
Charge for the year	1,286	11,176	658	763	13,795	27,678
Impairment losses		382				382
Disposals		(3,747)	(197)			(3,944)
Translation adjustment	30	229				259
December 31, 2003	6,869	41,453	4,031	2,839	57,062	112,254
Net book value						
December 31, 2003	13,530	35,730	2,986	4,867	232,121	289,234
Net book value						
December 31, 2002	14,657	29,109	3,485	5,470	242,478	295,199

Change in the composition of the Group includes mostly the assets recognized on the acquisition of an additional 3.05% share of ownership in Stonebridge.

The negative addition in the Concession costs and licenses represents the reversal of the unrealized portion of borrowing costs capitalized in prior years related to license fees payable denominated in foreign currency.

The amortization expense of intangible assets including goodwill is accounted for in the Depreciation and amortization line of the Income statement.

Impairment losses charged in 2003 relate to customer relationship management software, which was written down to its value in use.

Impairment losses of HUF 520 million charged in 2002 relate to the 3.5 GHz license (fixed line segment), accounted for due to changes in market conditions. The recoverable amount represents the value in use determined using discounted cashflow analysis. The impairment losses on goodwill of HUF 916 million charged in 2002 relate to investments in various subsidiaries of the fixed line segment.

13 Purchase of tangible and intangible assets

	For the year ended December 31,		
	2001	2002	2003
	(in HUF millions)		
Additions to property, plant and equipment	101,725	84,906	70,767
Additions to intangible assets	15,817	13,033	17,506
Total additions to tangible and intangible assets	117,542	97,939	88,273
Change in payables relating to capital expenditures	10,205	12,049	2,515
	127,747	109,988	90,788

14 Associates

	For the year ended December 31,	
	2002	2003
	(in HUF millions)	
Opening balance of associates	6,209	4,607
Additions to associates	80	-
Share of associates' profit before tax	691	963
Share of associates' corporate tax	(136)	(168)
Dividend payments	(1,437)	(575)
Associates becoming subsidiaries	(800)	-
Closing balance of associates	4,607	4,827

Certain companies included in the opening balance of associates as of January 1, 2002 became consolidated subsidiaries in 2002 as they fell under the scope of SIC 33 – Consolidation and Equity Method – Potential Voting Rights and Allocation of Ownership Interests (effective January 1, 2002).

15 Other non current assets

	At December 31,	
	2002	2003
	(in HUF millions)	
Originated loans	3,021	3,523
Prepayments falling due after 1 year	6,103	1,388
Derivatives	1,001	-
Other non current assets	2,247	3,147
	12,372	8,058

Originated loans at December 31, 2002 and 2003 include loans given to employees and third parties. Originated loans are carried at amortized cost which approximates their fair value.

Derivatives at December 31, 2002 included the fair value of the swap agreements related to the USD denominated loans that were fully prepaid in 2003, consequently the related swap agreements were terminated.

Other non current assets include payments made for future acquisitions of ownership interests in subsidiaries and business units.

16 Financial Instruments

Financial instruments carried on the balance sheet include cash and bank balances, investments, receivables, trade payables, leases and borrowings. Matáv is also a party to financial instruments that reduce exposure to fluctuations in foreign currency exchange.

In connection with the acquisition of a 44% stake in MakTel, Matáv received a loan of EUR 301.5 million (HUF 79,985 million) from Deutsche Telekom Finance B.V. on January 15, 2001. The loan was based on a variable rate of EURIBOR+30 basis points and repayable in one amount on January 31, 2006. Interest payments are due semi-annually.

Matáv entered into a swap agreement in 2002 in order to exchange the cash flows of the EUR 301.5 million loan to HUF cash flows. The counter-party in the transaction was Deutsche Telekom AG. The cross currency swap agreement entitled Matáv to receive EUR interest and principal payments and pay HUF principal and interest payments based on 6 month BUBOR plus a margin of 34 basis points. In 2002, the loan and the swap agreement were replaced with a new fixed 9.36% interest HUF loan of HUF 73,675 million, leaving the repayment terms unchanged.

In connection with the acquisition of the remaining 49% stake in Westel, Matáv received a loan of EUR 920 million (HUF 226,750 million) from Deutsche Telekom Finance B.V. on December 20, 2001. The loan was based on a variable rate of EURIBOR+50 basis points and repayable in one amount on August 14, 2003. Interest payments were due quarterly.

In 2002 Matáv concluded four swap agreements in order to exchange EUR 525 million of the above mentioned EUR 920 million loan to HUF cash flows. The counter-party in the transaction was Deutsche Telekom AG. The cross currency swap agreement entitled Matáv to receive EUR interest and principal amount, while Matáv had the obligation to pay variable HUF interest and HUF 126,644 million principal amount.

In 2002 EUR 230 million while in 2003 further EUR 165 million was repaid of the portion of the loan for which no swap agreements were in place. In August 2003 all the remaining portion of this loan was refinanced in HUF in the amount of HUF 126.6 billion with Deutsche Telekom International Finance B.V. Simultaneously, the respective EUR 525 million loan and the related swap agreements were terminated. The exchange rate of this transaction was based on the terminated swap agreements. See also note 18 for more details.

The refinancing of the EUR loan with HUF loans and the termination of the swap agreements in 2003 are not included in the cash flow statement as these are considered non cash transactions.

The above mentioned loans were accounted for in the originally denominated currency (EUR), while the related swap agreements were accounted for as derivative instruments.

All swap agreements were terminated in 2003 parallel with the refinancing of the underlying loans, therefore, derivative contracts entered into in 2003 were limited to foreign currency forward contracts and embedded derivatives and are disclosed as Financial instruments held for trading or Derivative liabilities.

The financial asset portfolio is relatively small compared to the debt portfolio of Matáv and mainly includes bank deposits.

The net carrying amounts of financial assets including cash, investments, receivables and payables and finance lease obligations reflect reasonable estimates of fair value due to the relatively short period to maturity of the instruments.

17 Derivatives

Derivatives as at December 31, 2003 include open short term forward agreements and embedded derivatives, the fair value of which is recognized in the balance sheet. The balance as at December 31, 2002 included the fair value of the swap agreement with Deutsche Telekom AG (see note 16).

18 Loans and other borrowings

	Notes	At December 31, 2002	At December 31, 2003
		(in HUF millions)	
Bank loans	(a)	112,798	112,310
Bonds	(b)	23,207	204
Finance leases		552	725
Other		1,004	722
Loans and other borrowings – third party		137,561	113,961
Loans from related parties	(d)	236,446	200,319
Total loans and other borrowings		374,007	314,280

At December 31, 2003, principal repayments fall due in:

	Maturity At December 31, 2002	Maturity At December 31, 2003
Year	(in HUF millions)	
2003	228,340	-
2004	40,660	192,936
2005	15,733	15,660
2006	76,576	97,007
2007	5,225	5,163
2008	-	3,042
Thereafter	7,473	472
Total loans and other borrowings	374,007	314,280

The effective borrowing cost (total interest payable and other charges) for Matáv's loans and borrowings was 11.9% in 2003 (7.0% in 2002, 7.5% in 2001). The weighted average interest rate on borrowings (denominated in Hungarian Forints and foreign currencies) was 7.5% in 2003 (6.4% in 2002, 9.6% in 2001).

(a) Bank loans

Bank loans analyzed by currency are as follows:

	At December 31, 2002	At December 31, 2003
	(in HUF millions)	
HUF	94,966	112,310
EUR	9,726	-
USD	8,106	-
	112,798	112,310

For maturities of the loans and average interest rate information see (c).

The total of the December 31, 2002 balance of the USD and EUR denominated loans was repaid in 2003. For the USD loans Matáv had related swap agreements in place that were also terminated in 2003.

Loans totaling HUF 38,913 million at December 31, 2003 are revolving loans (HUF 31,791 million in 2002) which can be prepaid at any time and may be drawn down in one to six month rolling periods.

Certain loan agreements contain covenant restrictions that require the maintenance of pre-defined financial ratios. Breach of those covenants would make HUF 40,550 million (HUF 54,882 million in 2002) due and payable in 30 days if not remedied. At December 31, 2003 the Company was in compliance with these covenants. One of the covenants allows a debt to EBITDA (earnings before interest, tax, depreciation and amortization) ratio of maximum 2.5 and 3.0 (in the different agreements). The other covenant requires the maintenance of an EBITDA to interest expense ratio of minimum 2.0.

(b) Bonds

The five-year bonds issued in 1998 with a total amount of HUF 10 billion were redeemed in 2003.

In 2000 Matáv launched a HUF 45 billion bond program. This program allows Matáv to issue fixed, floating or zero coupon bonds with maturities of between 1 and 10 years. In 2000 Matáv issued three-year fixed rate bonds in the nominal amount of HUF 10 billion and in 2001 2.5-year fixed rate bonds in the nominal amount of HUF 3 billion. These bonds were also redeemed in 2003.

(c) Average interest rates of bank loans and bonds

The following table shows the weighted average rates of fixed rate and variable rate bank loans and bonds as at December 31, 2003.

	Maturities						
	2004	2005	2006	2007	2008	after 2008	Total
	(in HUF millions, except percentages)						
Bank loans (HUF denominated)							
Fixed rate	14,500	-	-	-	-	-	14,500
Average interest rate	11.90%						11.90%
Variable rate	51,185	15,375	23,125	5,125	3,000	-	97,810
Average interest rate	11.75%	11.17%	10.86%	11.26%	9.70%		11.36%
Total	65,685	15,375	23,125	5,125	3,000	0	112,310
Bonds (HUF denominated)							
Fixed rate	75	-	-	-	-	129	204
Average interest rate	0.00%					0.00%	0.00%
Total	75	-	-	-	-	129	204

(d) Loans from related parties

Loans from related parties include loans received from Deutsche Telekom Finance BV. The December 31, 2003 balance of these loans includes three HUF denominated loans.

A loan in an amount of HUF 73,675 million is subject to fixed 9.36% interest rate, repayable in one amount on January 31, 2006. Interest payments are due semi-annually.

A loan in an amount of HUF 76,644 million is subject to fixed 9.17% interest rate, repayable in one amount on August 20, 2004. Interest payments are due quarterly.

A loan in an amount of HUF 50,000 million is subject to variable interest rate (current rate is 3-month BUBOR plus 64 basis points corresponding to 3-month EURIBOR plus 50 basis points), repayable in one amount on August 20, 2004. Interest payments are due quarterly.

The December 31, 2002 balance of the Loans from related parties included a EUR denominated loan in an amount of HUF 162,771 million (EUR 690 million) that was repaid in August 2003. This loan was subject to various cross-currency interest rate swap agreements, which were also closed in August 2003, at the time of the repayment (note 16).

(e) Fair values

The following table is a summary of Matáv's market sensitive debt instruments, including fair value calculated using the discounted cash flow method.

	At December 31,			
	2002		2003	
	(in HUF millions)			
	Book value	Fair value	Book value	Fair value
HUF denominated bank loans				
Fixed rate	18,800	19,437	14,500	15,202
Variable rate	76,166	76,166	97,810	97,810
Foreign currency denominated bank loans				
Fixed rate	17,832	19,963	-	-
Total bank loans	112,798	115,566	112,310	113,012
HUF denominated bonds				
Fixed rate	13,207	13,246	204	118
Variable rate	10,000	10,000	-	-
Total bonds	23,207	23,246	204	118
HUF denominated related party loans				
Fixed rate	73,675	79,988	150,318	147,683
Variable rate	-	-	50,000	50,000
EUR denominated related party loans				
Variable rate	162,771	162,771	-	-
Total related party loans	236,446	242,759	200,318	197,683

(f) Credit facilities and pledges

At December 31, 2003 Matáv had undrawn committed credit facilities of HUF 8,831 million. These credit facilities, should they be drawn down, are subject to an interest rate of LIBOR, BUBOR and commercial floating bank prime rates plus a margin depending on the currency and institution providing the facilities. There are pledges on receivables for loans totaling HUF 722 million.

19 Trade and other payables

	At December 31,	
	2002	2003
	(in HUF millions)	
Domestic trade payables	35,513	37,450
Foreign trade payables	8,854	6,155
Amounts owed to related parties	1,406	1,561
Payables to associates	230	143
Income tax payable	575	506
Other taxation and social security	7,714	9,351
Accrued interest	5,827	5,696
Accrued expenses and prepayments	13,801	13,426
Amounts received in advance	7,000	8,314
Salaries and wages	7,378	9,670
Dividends payable	8	50
Other payables	13,551	9,051
	101,857	101,373

20 Deferred revenue

	At December 31, 2002	At December 31, 2003
	(in HUF millions)	
Beginning of period	10,531	7,178
Amortization	(3,353)	(2,732)
End of period	7,178	4,446
Amount to be recognized within one year	2,722	1,971

21 Provision for liabilities and charges

	Severance	Customer loyalty programs	Other	Total
	(in HUF millions)			
January 1, 2003	8,623	2,536	1,031	12,190
Amounts utilized / retired	(8,099)	(2,536)	(749)	(11,384)
Additions	1,046	1,453	3,194	5,693
December 31, 2003	1,570	1,453	3,476	6,499

The provision for severance relates to the employee termination benefit payable in 2004 in accordance with the agreement made with employee representatives in 2002.

The remaining number of employees from the restructuring plan approved in 2002 to be terminated in 2004 is 250. The overall amount charged to the provision was increased by HUF 1,046 million in 2003 due to a change in the estimate of the expected costs driven by movements in wage rates mix and actual termination dates. The employees impacted by the headcount reduction include mostly network and logistics personnel.

The total payment made in relation to employee termination in 2003 amounted to HUF 9,200 million, of which HUF 8,099 million was charged against the provision for liabilities and charges as at December 31, 2002, while the rest was recognized as employee related expense in 2003.

The total payment made in relation to employee termination in 2002 amounted to HUF 1,982 million, of which HUF 540 million was charged against the provision for liabilities and charges as at December 31, 2001, while the rest was recognized as an expense in 2002.

Provision for customer loyalty programs includes the fair value of discount credits earned by customers that have not been utilized.

Other provisions include liabilities deriving mainly from legal cases and tax revisions.

22 Minority interests

In cases where subsidiaries are not wholly owned by the Group, the consolidated balance sheets and income statements reflect the share of investment and results held by third parties.

	For the year ended December 31, 2001	2002	2003
	(in HUF millions)		
Beginning of period	1,228	48,169	59,436
Acquisition of MakTel/Stonebridge and subsequent purchase	35,963	-	(1,871)
Share of results for the year	13,706	13,639	11,865
Dividends paid / payable to minority shareholders	(58)	(56)	(4,796)
Payment to CosmoTelco	-	(1,126)	(658)
Other movement in capital contributed by minority interest	396	1,254	105
Cumulative translation adjustment	(3,066)	(2,444)	6,193
End of period	48,169	59,436	70,274

The balance of minority interest at December 31, 2002 included an amount of HUF 1,275 million in relation to CosmoTelco's call option for a 10% stake in Stonebridge. This amount equals the loss Matáv would have suffered if CosmoTelco had exercised its option. This amount *was fully reversed in 2003 after Matáv paid HUF 658 million to CosmoTelco for letting the option expire unused. The difference of the balance as at December 31, 2002 and the amount paid in 2003 was recognized in the minority interest line of the income statement.*

23 Revenues

	For the year ended December 31,		
	2001	2002	2003
		(in HUF millions)	
Domestic fixed line telecommunications services:			
Subscriptions, connections and other charges	97,487	98,050	97,541
Domestic traffic revenue	123,366	118,812	112,201
Other usage	17,254	15,024	10,735
International traffic revenues	32,212	27,076	22,354
Mobile telecommunications services	140,234	178,492	200,385
Revenue from international activities	59,977	67,330	69,764
Leased lines and data transmission	30,977	34,142	39,262
Equipment sale	26,127	20,966	24,592
Other services	20,101	30,693	30,418
	547,735	590,585	607,252

Revenue from international activities includes the total consolidated revenues of the Macedonian companies.

Included in other services in 2003 is HUF 6,032 million (HUF 6,061 million in 2002) of subsidies from the Universal Telecommunication Support Fund to compensate for the maintenance of low usage discount packages provided by the Hungarian fixed line telecom service providers of the Group. Contributions payable to the Fund are shown as part of fees and levies in other operating expenses (see below), in an amount of HUF 5,098 million in 2003 (HUF 5,064 million in 2002).

24 Employee related expense

Matáv had 14,710 full time equivalent employees at December 31, 2003, while at the end of 2002 the number of employees was 16,114.

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

Payments to defined contribution pension plans are included in employee related expenses and amounted to HUF 2,537 million in 2003 (HUF 2,218 million in 2002 and HUF 2,082 million in 2001).

25 Other operating expenses

	For the year ended December 31,		
	2001	2002	2003
		(in HUF millions)	
Materials, maintenance and service fees	53,946	57,538	57,992
Subcontractors and agent commissions	11,514	18,098	21,792
Fees and levies	15,921	24,014	23,833
Marketing	13,360	13,514	16,902
Consulting	6,736	7,483	6,102
Rental fees	5,667	6,348	6,338
Other expenses	16,900	8,523	10,715
	124,044	135,518	143,674

The remuneration of the members of the Company's Board of Directors amounted to HUF 9 million in 2003 (HUF 7 million in 2002, HUF 7 million in 2001). The remuneration of the members of the Company's Supervisory Board amounted to HUF 9 million in 2003 (HUF 7 million in 2002, HUF 7 million in 2001).

26 Net interest and other charges

	For the year ended December 31,		
	2001	2002	2003
		(in HUF millions)	
Interest expense:			
Hungarian Forint	11,592	14,173	21,315
Foreign currency	9,149	12,459	4,469
(Gains) / losses on derivatives	(582)	9,435	972
Net foreign exchange losses / (gains)	(6,930)	(10,948)	8,799
Bank charges and other financial expenses	2,420	3,686	5,364
Total interest expense and other charges	15,649	28,805	40,919
Interest capitalized	(404)	(226)	(41)
Interest and other financial income	(2,141)	(660)	(876)
	13,104	27,919	40,002

27 Income tax

	For the year ended December 31,		
	2001	2002	2003
		(in HUF millions)	
Income tax charge on the profit for the year	(9,464)	(15,113)	(12,259)
Deferred income taxes	(2,218)	2,004	(1,258)
Income tax on the Group's share of the results of associates	(51)	(136)	(168)
Income tax expense	(11,733)	(13,245)	(13,685)

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

As result of Matáv's acquisition of the remaining 49% of Westel, foreign ownership fell below 30%, hence Westel lost its 60% reduction in income tax as of December 21, 2001. This resulted in a deferred tax credit of approximately HUF 1,600 million in 2001. All other Hungarian subsidiaries were subject to income tax of 18%, while the Macedonian companies are subject to income tax of 15%.

In order to increase broadband internet penetration in Hungary, the Hungarian Government decided that companies investing over HUF 100 million in internet broadband assets (e.g. ADSL lines) in 2003 can apply for a corporate tax reduction. The potential reduction of the corporate tax charge is defined as a percentage of the companies' capital investment in broadband internet assets in 2003, which was HUF 7.0 billion in Matáv's case. As a result of this new tax incentive, Matáv Rt. is entitled to a total corporate tax reduction of HUF 2.9 billion, which can be used by Matáv Rt. in the years 2003–2007, of which Matáv used HUF 33 million in 2003. As this incentive is still applicable in 2004, further investments in broadband internet assets in 2004 can result in further allowance for tax reductions in the coming years.

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

Deferred taxes have been recognized for all temporary differences arising on the valuation of investments in subsidiaries and associates in the parent companies' books.

Deferred tax assets are recognized for tax loss carry forwards only to the extent that realization of the related tax benefit is probable. Recognized tax losses of HUF 5,334 million will expire in 2006, HUF 4,418 million in 2007 and HUF 2,298 million in 2008. The remaining balance of the recognized tax losses of HUF 2,809 million is not subject to statutory limitations.

Matáv's deferred tax balances are as follows.

	Balance at December 31, 2002	Income statement effect	Other movements	Balance at December 31, 2003
		(in HUF millions)		
Deferred tax assets and (liabilities)				
Net operating loss carry-forward	3,169	(792)	-	2,377
Investments in subsidiaries	(2,071)	1,571	-	(500)
Impairment of receivables, inventory and financial investments	3,405	(328)	65	3,142
Property, plant and equipment and intangible assets	(2,141)	(1,618)	34	(3,725)
Derivative assets	(409)	373	-	(36)
Trade and other payables	(225)	162	2	(61)
Loans and other borrowings	150	71	-	221
Deferred revenue	808	(192)	-	616
Provisions for liabilities and charges	1,287	(505)	-	782
Total net deferred tax assets	3,973	(1,258)	101	2,816
Add back: deferred tax liability	2,646			1,768
Deferred tax assets	6,619			4,584

Deferred tax assets and liabilities are determined by the legal entities of the Group and disclosed as assets and liabilities accordingly in the balance sheet.

Other movements include cumulative translation adjustments of HUF 159 million and HUF 58 million deferred tax asset on the acquisition of additional 3.05% share in Stonebridge.

The reconciliation between the reported income tax expense and the theoretical amount arising by applying the statutory income tax rates is as follows:

	For the year ended December 31, 2001	2002	2003
		(in HUF millions)	
IFRS profit before income tax	107,999	95,012	83,025
Tax at 18%	(19,440)	(17,102)	(14,945)
Effect of reduced tax rates	11,259	2,686	567
Impact of tax rate change from 18% to 16% enacted for 2004	-	-	(296)
Impact of tax incentives	763	1,015	901
Tax on items not subject to tax	605	1,012	1,745
Tax effect of recognition/(non-recognition) of tax losses	(1,151)	1,925	-
Tax on non deductible expenses	(4,459)	(2,837)	(2,586)
Temporary differences reversing at different rates	741	192	1,097
Income tax expense (before associates' tax)	(11,682)	(13,109)	(13,517)
Share of associates tax expense	(51)	(136)	(168)
Income tax expense	(11,733)	(13,245)	(13,685)

Items not subject to income tax consist primarily of amortization of deferred connection fees to revenue as well as the share of associates' profit before income tax as the results of the associates are not included in the reconciliation.

28 Cash generated from operations

	For the year ended December 31,		
	2001	2002	2003
	(in HUF millions)		
Net income	82,560	68,128	57,475
Minority interest	13,706	13,639	11,865
Income tax expense	11,733	13,245	13,685
Share of associates' results before income tax	(1,703)	(691)	(963)
Net interest and other charges	13,104	27,919	40,002
Depreciation and amortization	116,622	122,741	128,334
Change in payables	13,978	(4,454)	2,885
Change in inventory	(3,450)	552	4,117
Change in receivables	(5,587)	(1,092)	(2,168)
Amortization of deferred revenue	(3,499)	(3,353)	(2,732)
Bank charges and other financial expenses	(2,420)	(3,296)	(5,364)
Other cash flows from operations	(5,700)	6,198	(6,639)
Cash generated from operations	229,344	239,536	240,497

29 Share option plan

On April 26, 2002, the annual Shareholders' Meeting approved the introduction of a new management share option plan and authorized the Company's Board of Directors to purchase 17 million "A" series registered ordinary shares, each having a nominal value of HUF 100 as treasury shares.

On July 1, 2002, the Company granted 3,964,600 options to participants of the stock option plan at an exercise price of HUF 933 for the first tranche (exercisable in 2003) and HUF 950 for the second and third tranches (exercisable in 2004 and 2005). As the Company's share price as quoted on the BÉT (Budapest Stock Exchange) on the grant date was HUF 833 per share, there was no intrinsic value to the options. The options have a life of five years from the grant date, meaning that the options are forfeited without replacement or compensation on June 30, 2007.

The option with respect to the maximum of one-third of the shares that can be purchased under the relevant option (first tranche) could be exercised from July 1, 2003 until the end of the term. No options were exercised in 2003 as they were out of the money through the period.

The option with respect to the maximum of a further one-third of the shares that can be purchased under the option (second tranche) may be exercised from July 1, 2004 until the end of the term.

The option with respect to the rest of the shares that can be purchased under the option (the third tranche) may be exercised from July 1, 2005 until the end of the term.

Compensation cost was not recognized in these financial statements for the fair value of the options granted.

30 Commitments

(a) Lease commitments

Operating lease commitments were mainly in respect of the lease of buildings, network and other telecommunications facilities. Finance leases relate to the sale and lease back of PBX and buildings for switches. Future minimum lease payments under finance and operating leases at December 31, 2002 and 2003 are as follows:

	Finance Leases At December 31, 2002	Finance Leases At December 31, 2003
Year	(in HUF millions)	
2003	455	-
2004	155	347
2005	-	104
2006	-	104
2007	-	104
2008	-	104
Thereafter	-	520
Total minimum lease payments	610	1,283
Less: amounts representing interest	(58)	(558)
Present value of net minimum lease payments	552	725
Less: finance lease obligations included in short-term debt	406	250
Long-term finance lease obligations	146	475

	Operating Leases At December 31, 2002	Operating Leases At December 31, 2003
Year	(in HUF millions)	
2003	2,065	-
2004	1,579	2,902
2005	1,324	1,725
2006	1,348	1,594
2007	1,415	1,335
2008	-	1,125
Thereafter	1,533	1,017
Total minimum lease payments	9,264	9,698

(b) Purchase commitments

As of December 31, 2003 Matáv had contractual commitments for capital expenditures of HUF 3.4 billion (HUF 7.5 billion in 2002, HUF 11.2 billion in 2001) falling due within 1 year.

31 Lease revenues

Operating lease revenues relate primarily to the leasing of PBX equipment where Matáv is the lessor. The following table sets forth the future minimum lease payments receivable by the Company.

Year	Lease revenues (in HUF millions)
2004	5,144
2005–2007	7,866
2008 and thereafter	740
Total minimum lease payments receivable	13,750

32 Related party transactions

All transactions with related parties are on an arm's length basis.

MagyarCom GmbH

The Company is majority owned by MagyarCom GmbH (59.49%), which is owned by Deutsche Telekom AG. In 2003 Matáv paid dividends of HUF 11,114 million to MagyarCom GmbH, while the amount in 2002 amounted to HUF 6,762 million.

Matáv had no revenues or expenses incurred in the three-year period ended December 31, 2003 or receivables and payables at the end of 2002 or 2003.

MagyarCom Services Kft.

MagyarCom Services Kft., a Hungarian company owned by Deutsche Telekom, provides Matáv with management and consulting services. The total service fees charged in 2003 amounted to HUF 1,287 million (HUF 2,028 million in 2002 and HUF 1,563 million in 2001). Matáv had outstanding payable to MagyarCom Services Kft. of HUF 456 million at December 31, 2003 (HUF 573 million at December 31, 2002). Matáv had no amounts receivable from MagyarCom Services Kft. as of the same dates.

Deutsche Telekom Group

Matáv acquired Westel from MediaOne B.V., a Deutsche Telekom Group member and Westel 450 from Deutsche Telekom AG in 2001. See the details of the acquisitions in note 5.

Matáv had telecommunications revenues amounting to HUF 8,682 million (HUF 7,589 million in 2002, HUF 5,992 million in 2001) from other Deutsche Telekom Group members. Operating expenses to Deutsche Telekom Group members amounted to HUF 4,955 million in 2003. (HUF 4,852 million in 2002, HUF 5,900 million in 2001)

Matáv had outstanding payable to other Deutsche Telekom Group members of HUF 1,105 million at December 31, 2003 (HUF 833 million at December 31, 2002). Matáv had amounts receivable from other DT Group members amounting to HUF 2,692 million in 2003 (HUF 1,731 million in 2002).

Related to the loan agreement concluded with Deutsche Telekom Finance B.V. Matáv had interest expense of HUF 15,009 million in 2003 (HUF 13,654 million in 2002 and HUF 3,846 million in 2001). For the loan balances refer to note 18. Accrued interest at December 31, 2003 amounted to HUF 4,674 million (HUF 4,298 million in 2002).

As described in note 16, Matáv closed its swap agreements with Deutsche Telekom AG. Matáv had interest expense of HUF 3,219 million in 2003 included in the gains and losses on derivatives (HUF 5,040 million in 2002). Accrued interest amounted to HUF 1,041 million at December 31, 2002 included in the fair value of the swap agreements in derivative liabilities, while there were no such balances at December 31, 2003.

Deutsche Telekom has pledged its support for Matáv's financing needs through to June 30, 2005.

Governments

Matáv provides services to Government departments and businesses in Hungary and Macedonia on an arm's length basis, however, individually none of these customers represent a significant source of revenue.

Associates

Hunsat is an enterprise founded by the Company (50%) and Antenna Hungária Rt. (50%). The revenues of Hunsat include commissions received from Hungarian telecommunications companies for the use of services of international satellite agencies. Costs incurred by Matáv related to these services and paid to Hunsat amounted to HUF 114 million in 2003 (HUF 160 million in 2002 and HUF 269 million in 2001). Revenues from Hunsat, receivables and payables are insignificant for all the three reported periods.

M-RTL is a Hungarian television broadcast company, in which Matáv has a 25% share of ownership. As M-RTL operates mostly through production agencies, the operating transactions between M-RTL and the Group are insignificant, however at December 31, 2003 Matáv has HUF 500 million dividend receivable from M-RTL.

33 Subsequent event

On January 5, 2004 the Hungarian Competition Office approved the transaction whereby Matáv acquired a 100% stake in Rába Szolgáltatóház Kft., for which a downpayment of HUF 900 million was made in November 2003. The amount was included in other non current assets.

34 Recent Accounting Pronouncements

The IASB project "Improvements to International Accounting Standards" effected twelve Standards and resulted in the issue of Provisional Final Drafts on December 17, 2003. Matáv will adopt the relevant changes in these Standards on January 1, 2005, as required by the IASB without early adoption. The most significant changes relevant to Matáv are as follows (none of which is expected to have a significant impact on the financial statements of the Group):

IAS 16, Property, Plant and Equipment requires the review of useful life and depreciation method to be performed at least at each financial year-end, which is in line with current practice and is therefore not expected to result in significant adjustments.

When a lease of both land and buildings is concluded, the lease shall be split into two elements, a lease of land and a lease of buildings. Matáv will account for each element according to the requirement of revised IAS 17, Leases.

Based on the provisions of IAS 21, The Effects of Changes in Foreign Exchange Rates goodwill and fair value adjustments to assets and liabilities that arise on the acquisition of a foreign entity should be treated as part of the assets and liabilities of the acquired entity and translated at the closing rate.

The IASB has also published revisions on the financial instruments standards IAS 32 and IAS 39 on December 17, 2003. Matáv believes that these will have no significant impact on the Financial Statements of the Group as its use of derivatives has become limited.

Reconciliation to U.S. GAAP (Unaudited)

Matáv's consolidated financial statements are prepared in accordance with International Financial Reporting Standards, which differ in certain respects from U.S. GAAP. The principal differences between IFRS and U.S. GAAP are presented below, together with explanations of the adjustments that affect consolidated net income for each of the three years in the period ended December 31, 2003 and total shareholders' equity as of December 31, 2002 and 2003.

	Notes	2001	2002	2003
		For the year ended December 31,		
		(in HUF millions, except per share amounts)		
Net income under IFRS		82,560	68,128	57,475
Adjustments for U.S. GAAP:				
Deferred revenue	(a)	2,433	2,456	3,712
Management Incentive Plan Bonds	(b)	(37)	-	-
Intangible assets	(c)	(2,546)	7,889	7,075
Cumulative effect of adopting SFAS 133 net of deferred tax	(d)	501	-	-
Options	(e)	-	(155)	(1,012)
Asset retirement obligation	(f)	-	-	(136)
Deferred income tax on U.S. GAAP adjustments		(1,194)	(627)	(652)
Minority interest impact of U.S. GAAP adjustments		514	462	(358)
Net income under U.S. GAAP		82,231	78,153	66,104
Basic earnings per share under U.S. GAAP		79.30	75.32	63.69
Diluted earnings per share under U.S. GAAP		79.30	75.32	63.69

	Notes	2002	2003
		At December 31,	
		(in HUF millions)	
Shareholders' equity under IFRS		516,144	560,110
Adjustments for U.S. GAAP:			
Deferred revenue	(a)	(15,146)	(11,434)
Intangible assets	(c)	7,877	14,952
Options	(e)	(155)	(1,167)
Asset retirement obligation	(f)	-	(136)
Deferred income tax on U.S. GAAP adjustments		595	(57)
Minority interest impact of U.S. GAAP adjustments		1,721	1,363
Shareholders' equity under U.S. GAAP		511,036	563,631

(a) Deferred revenue

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" (SAB 101), which provides additional guidance in applying generally accepted accounting principles. In certain cases, SAB 101 requires up-front fees to be deferred and recognized over the expected period of customer relationship.

Under U.S. GAAP Matáv applied the guidance of SAB 101 as follows:

For fixed line customers a relationship period of 10 years was assessed and up-front connection fees are deferred over that term. Incremental direct costs are also deferred to the extent of the revenues. For mobile subscribers activation fees are deferred over a 4-year customer relationship period together with incremental direct costs up to the amount of revenue deferred.

(b) Convertible bonds — The Management Incentive Program

Compensation expense is calculated on convertible bonds granted under the "Management Incentive Plan" and disclosed in the U.S. GAAP income statement adjustments in accordance with APB 25. Total compensation expense is based on the difference between the exercise price and the market price on the grant date. Total compensation expense of HUF 143 million was going to be recognized over the three-year vesting period starting July 1, 1998. Taking into account the forfeits and the new grants, the amount to be recognized in 2001, the last year of amortization, was HUF 37 million.

The new incentive program required no U.S. GAAP adjustment as the share price on the grant date was higher than the exercise price.

(c) Intangible assets

Due to the different revenue and intangible asset recognition rules of IFRS and U.S. GAAP, the shareholders' equity of Westel, MakTel and Emitel on acquisition was different, consequently the goodwill and the value of customer base on acquisition and their amortization are different.

As a result of the new accounting announcements (SFAS 141 and 142) goodwill on the acquisition of Emitel is not amortized under U.S. GAAP as the transaction was concluded after July 2, 2001.

The amortization of goodwill related to other acquisitions was stopped at January 1, 2002 for U.S. GAAP purposes.

(d) Adoption of SFAS 133

IAS 39 is substantially similar to SFAS 133, however the cumulative effect of adopting the new standard was recognized against the retained earnings under IFRS, while the same effect was recognized in the income statement under U.S. GAAP.

(e) Options

The Company has several call options for the remaining shares of certain consolidated subsidiaries. Co-owners of subsidiaries also have call and put options for shares held by Matáv in consolidated subsidiaries. The accounting treatment for these options differs in certain cases under IFRS and U.S. GAAP. These valuation differences are recognized as adjusting items for U.S. GAAP.

(f) Asset retirement obligation

On January 1, 2003 Matáv adopted Statement of Financial Accounting Standards (SFAS) No. 143, "Accounting for Asset Retirement Obligations". SFAS 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset.

The net book value of the obligation capitalized as part of the value of the related asset as at January 1, 2003 and the fair value of the obligation as at January 1, 2003 was equal, no cumulative effect of adopting the standard resulted in an income statement impact. The asset retirement obligation adjustment in the reconciliation tables reflects the net impact of the movements in the asset and provision balances in 2003.

MATÁV HUNGARIAN TELECOMMUNICATIONS COMPANY LIMITED

MATÁV GROUP CENTER: KRISZTINA KRT. 55., 1013 BUDAPEST

Mailing address: 1541 Budapest, Hungary

Phone: (+36 1) 458 0000, 458 7000, 457 4000

Telefax: (+36 1) 458 7176, 458 7177

Internet: www.matav.hu

INVESTOR INFORMATION

MATÁV GROUP INVESTOR RELATIONS

Mailing address: 1541 Budapest, Hungary

Phone: (+36 1) 458 0437, 458 0424

Fax: (+36 1) 458 0443

E-mail: investor.relations@ln.matav.hu

MATÁV STOCK TICKER SYMBOL

BUDAPEST STOCK EXCHANGE (BÉT): *MTAV.BU*

NEW YORK STOCK EXCHANGE (NYSE): *MTA.N*

STOCK REGISTRATION

KELER RT.

Address: Asbóth u. 9–11., 1075 Budapest, Hungary

Phone: (+36 1) 269 6550 ext. 300, 301

Fax: (+36 1) 327 8378

STOCK TRADING INFORMATION

BUDAPEST STOCK EXCHANGE, INFORMATION CENTER

Address: Deák Ferenc u. 5., 1052 Budapest, Hungary

Phone: (+36 1) 429 6636, 429 6637

Fax: (+36 1) 429 6654

Internet: www.bse.hu

ADR TRADING INFORMATION

JP MORGAN, MORGAN GUARANTY TRUST COMPANY

Address: 60 Wall Street, New York, NY 10260-0060, USA

Phone: (+1 212) 483 2323

Fax: (+1 212) 648 5105

FINANCIAL CALENDAR 2004

FEBRUARY 11, 2004	Release of 2003 full year results
APRIL 28, 2004	Annual General Meeting of shareholders
MAY 13, 2004	Release of 2004 1st quarter results
AUGUST 13, 2004*	Release of 2004 1st half results
NOVEMBER 12, 2004*	Release of 2004 1st nine months results

* planned date

FORWARD-LOOKING STATEMENTS

This Annual Report contains forward-looking statements. Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements. These statements are based on current plans, estimates and projections, and therefore you should not place undue reliance on them. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update publicly any of them in light of new information or future events.

Forward-looking statements involve inherent risks and uncertainties. We caution you that a number of important factors could cause actual results to differ materially from those contained in any forward-looking statement. Such factors are described in, among other things, our Annual Report on Form 20-F for the year ended December 31, 2003 filed with the U.S. Securities and Exchange Commission.

Published by:

Group Communications

Budapest, 2004

Responsible publisher:

Elek Straub, Chairman and Chief Executive Officer

Responsible editor:

Dr. Bálint Nagy, Group Communications Director

Creative concepts and layout design:

© H-Artdirectors

Image pictures:

© Tamás Dobos

Report pictures:

© János Harmati

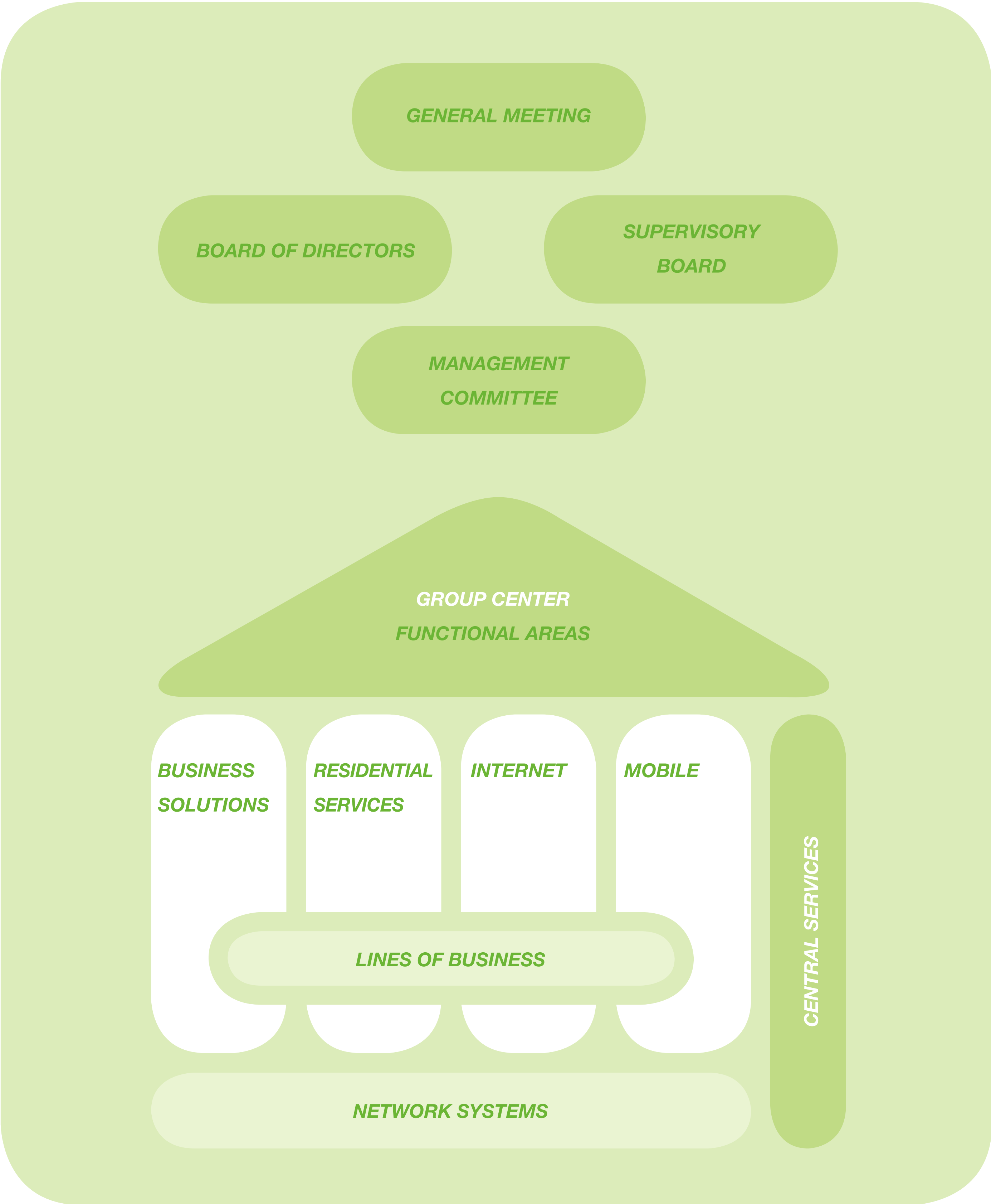
Printed by:

Present Kft.

Matáv 8073/2004

Business Intelligence and Documentation Directorate

Organization model of the Matáv Group



2003 Annual Report

we speak european