

Rules of Procedure of the Board of Directors of Magyar Telekom  
Telecommunications Public Limited Company

# **Rules of Procedure of the Board of Directors of the Magyar Telekom Telecommunications Public Limited Company**

## **Preamble**

The provisions of these Rules of Procedure (hereinafter referred as the “Rules”) are applicable to the operation of the Board of Directors of Magyar Telekom Telecommunications Public Limited Company (hereinafter referred as the “Company”) within the authorization granted by the effective laws and the Articles of Association of the Company.

## **1. The Board of Directors**

- 1.1. The Board of Directors shall be the management body of the Company and the Board of Directors shall represent the Company with regard to third parties, in court and before other authorities.
- 1.2. The members of the Board of Directors are elected by the General Meeting.
- 1.3. The Board of Directors shall be comprised of a minimum of six (6), and a maximum of eleven (11) members.

## **2. Convocation of Board of Directors' meetings**

- 2.1. Meetings of the Board of Directors of the Company shall be held as necessary according to the annual work plan but at least four (4) times per year and shall be called by the Chairman of the Board of Directors.
- 2.2. In addition to Members of the Board of Directors, the following persons shall be invited to the Board meetings:
  - Members of the Management Committee,
  - Chairman of the Supervisory Board,
  - Chief Legal Counsel of the Company,
  - Head of the Chairman-CEO's Secretariat.
- 2.3. The Chairman of the Audit Committee shall be invited for any agenda item on compliance issues.
- 2.4. In order to prepare decisions that require special expertise, the Board of Directors may use the services of external advisors at the expense of the Company, in accordance with the relevant internal regulations of the Company. If necessary, the expert can be invited to the meeting of the Board of Directors.

## **3. Notices and materials for Board of Directors' meetings**

- 3.1. The Chairman of the Board of Directors shall be responsible for sending out to the Members of

the Board of Directors the invitation, the Agenda and supporting materials needed for scheduling a meeting.

- 3.2. Notices of Board of Directors' meetings shall be in English and shall be sent by mail or e-mail to the address communicated by the Members of the Board or if none is so available, to his/her last known address.
- 3.3. Notices of regular meetings of the Board of Directors shall be sent at the latest on the tenth (10th) day prior to the date of the meeting, and shall be deemed delivered with a confirmation of successful transmission to the given address or via e-mail which was successfully relayed to the registered e-mail address of the Member of the Board of Directors.
- 3.4. Notices of extraordinary meetings of the Board of Directors shall be sent at the latest on the fifth (5th) day prior to the date of the meeting.
- 3.5. A notice shall contain the date, time, venue and Agenda of the meeting. Any supporting materials shall be attached likewise to notices.
- 3.6. Head of the Chairman-CEO Secretariat shall support the Chairman for arrangements of the meetings (e.g.: providing a meeting room and interpreters, sending submissions and keeping, preparing, sending the minutes).
- 3.7. Members of the Board of Directors may request presence of guests (e.g. experts) who can attend an entire or part of a meeting. The Chairman of the Board decides whether to invite somebody to the meeting and the Secretariat of the CEO shall arrange the invitation of such expert.

#### **4. Chairman and Vice-Chairman of the Board of Directors, Chairing the meetings**

- 4.1. Members of the Board of Directors shall elect the Chairman and the Vice-Chairman of the Board of Directors from its members, with majority votes. In the absence of the Chairman, the Vice-Chairman shall substitute for the Chairman, with full scope of authority. The Chairman of the Board of Directors, or in his absence, the Vice-Chairman shall chair the meetings. If both are absent, the meeting shall be chaired by a Chairperson, elected from its members with majority votes of the present Members. The Chairman and the Vice-Chairman of the Board may have other positions in the management of the Company as well.
- 4.2. The Chairman of the Board of Directors shall convoke the meetings of the Board of Directors pursuant to these Rules of Procedure. The Chairman of the Board shall convoke the extraordinary meeting when the convocation of the meeting is requested by a Member of the Board in writing, with the purpose and Agenda specified of such meeting.

#### **5. Issues not on the Agenda**

If a Member of the Board of Directors wishes to discuss an issue that is not on the agenda, the Board may discuss it and vote on such issue provided that the majority of the Board Members present give their consent to discuss and decide on such an issue.

## **6. Quorum**

The Board of Directors shall have a quorum provided that at least six (6) Members of the Board of Directors are present at the Board meeting.

## **7. Decisions of the Board of Directors**

- 7.1. As general rule, the Resolutions will be adopted on the meeting of the Board of Directors.
- 7.2. If there is a quorum for holding the meeting of the Board of Directors, Resolutions of the Board of Directors shall be adopted by simple majority of votes of the present Members (including those Members who participate via conference call or similar communications equipment), unless a qualified majority of votes is mandatory by law or by the Articles of Association of the Company.
- 7.3. Each Member of the Board of Directors will have one vote, except if otherwise provided by applicable law.
- 7.4. Any Member of the Board of Directors may vote in favor or against or may abstain from voting.
- 7.5. Board Resolutions shall take effect as of the date of its adoption the meeting of the Board of Directors.
- 7.6. Resolutions may be adopted by the Board of Directors without a meeting by votes in writing if at least six (6) Board Members cast his/her vote in writing within seven (7) days of the delivery of the resolution proposal. The written votes of Board members shall be attached to the Minutes, containing the Resolution.

## **8. Participation at meetings via Conference Call or Similar Communication Tools**

Any Members of the Board of Directors may participate in a meeting of the Board via conference call or similar communication tools provided that all those present at the meeting can communicate with each other at the same time. Participation by such means shall be deemed presence at a meeting in person and it has to be included the Minutes of the meeting.

## **9. Proceedings of meetings, Recording the Events**

- 9.1. Meetings of the Board of Directors shall be conducted in Hungarian and English. Remarks made in Hungarian shall simultaneously be translated into English, and remarks made in English shall be simultaneously translated into Hungarian. The Chairman of the Board of Directors shall always ensure that a qualified interpreter is present at the meeting. The interpreter must enter into a non-disclosure agreement with the Company.
- 9.2. Minutes of the meetings shall be taken in English. If necessary, a Hungarian translation shall be

prepared.

- 9.3. Board Members shall have fifteen (15) days to object or comment to the accuracy of the Minutes, including the translation thereof (if prepared).
- 9.4. The Chairman and the Keeper of the Minutes shall sign the Minutes of the meeting, with a Board Member present at the respective meeting and appointed to certify the Minutes. The Minutes of the meeting shall contain the following information: place and time of the meeting, names of the Chairman, the Minutes Keeper and the certifier of the Minutes, the number of affirmative and negative votes cast, plus abstentions, the objections by Board Members against Resolutions (it is not necessary that the objecting Board Member requests to have his objection indicated in the Minutes)<sup>1</sup>.
- 9.5. The authenticated minutes shall be sent to the Chairman of the Supervisory Board and the auditor of the Company for information purposes.

## **10. Duties and Scope of Authority of the Board of Directors**

### **10.1. Duties and Scope of Authority pursuant to the Articles of Association**

The Board of Directors is the executive body of the Company and represents the Company before third parties, courts of law and other authorities.

The Board shall:

- a) Be responsible for all matters relating to the Company's management and course of business not otherwise reserved to the General Meeting or to other corporate bodies by the provisions of the Articles of Association or the Companies Act;
- b) Cause the report including the balance sheet and the profit and loss statement of the Company to be prepared pursuant to the Accounting Act together with the responsible corporate governance and management report and submit such reports to the General Meeting with a proposal on the utilization of the after-tax earnings;
- c) Have the books of the Company, including among others accounting records and the Shareholders' Register, maintained in compliance with applicable regulations;
- d) Make such filings with the Court of Registration and publish such information as may be required by applicable law and the Articles of Association;
- e) Draw up, at the end of each business year, a report for the General Meeting on the management of the Company, the assets of the Company, the financial situation of the Company and the business policy of the Company;
- f) Adopt the annual business plan of the Company which shall contain specific authorizations to the management needed for the operation of the business of the Company;
- g) Have the authority to create committees of the Board consisting exclusively of Board members and to delegate part of its authority to such committees;

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<sup>1</sup> According to Section 30 (4) of Act IV of 2006 indemnification liabilities of Board members, pursuant to the provisions of the Civil Code on joint cause of damage, is joint and severable. If the decision (resolution) of the Board, as a body, causes damage to the Company, those members who did not participate in the decision making process or voted against the resolution, are exempted.

- h) Have the authority to create committees of Board members and non-Board members and to delegate authority to such committees;
- i) Exercise employer's rights towards the employees of the Company pursuant to the Rules of Organization and Operation as defined by the Board;
- j) Have the authority to initiate and approve on behalf of the Company any amendment to the contract regarding the provision of the Universal Electronic Telecommunications Services;
- k) Prepare quarterly reports for the Supervisory Board on the management, financial status and the business policy of the Company;
- l) Ensure the purchase of own shares on the basis of the authorization of the General Meeting and arranges for the alienation of the Company's own shares;
- m) Decide on such increasing of the registered capital of the Company that is allocated to its scope of authority and the related amendment of the Articles of Association;
- n) Conclude the relevant contract with the auditor to carry out the relevant activities within 90 days upon making the resolution on the election of the auditor by the General Meeting;
- o) Decide on termination of trading of shares on a given regulated market by transfer between trading venues.

#### 10.2. Scope of authority regarding the Rules of Organization and Operation ("ROO")

- a) Establishment of Management Committee;
- b) Approval of the management rules for Magyar Telekom Group;
- c) Approval of the Basic Volume of Magyar Telekom Nyrt.'s Rules of Organization and Operation (ROO);
- d) Definition and approval of organizational and operational development strategy;
- e) Determination of the number of functional chief officers and chief operating officers, and their titles;
- f) Definition of the responsibilities, scope of authority, functional area of the Chief Executive Officer, the functional chief officers and the chief operating officers;
- g) Decision on the amendments of organization resulting the increase of CAPEX, costs or headcount whereby the management area of two or more chief operating officers and/or functional chief officers is affected;
- h) Approval of the non-budgeted costs of corporate level projects.

#### 10.3. Scope of authority regarding movements of capital and funds

- a) Approval of any changes concerning the dividend policy of the Company and proposals for determination or disbursement of annual or interim dividends and in case of its approval by the Supervisory Board its submission to the General Meeting;
- b) As for commitments created beyond the ordinary course of business, and in excess of sums approved in the Annual Business Plan, taking loans or issuing debt securities if the amount of loan or debt securities exceeds HUF 3 billion in the respective business year;
- c) Capital investments (inclusive of financial leasing) in excess of HUF 3 billion in the respective business year which has not been approved in the Annual Business Plan;
- d) Undertaking guarantees or granting securities in excess of HUF 3 billion in the respective business year which have not been approved in the Annual Business Plan.

#### 10.4. Scope of authority regarding utilization of tangible assets

- a) Selling or letting out real estates, premises or equipment in the ownership of any firm within the Group if the amount of the transaction exceeds HUF 3 billion in the respective business year, and is

not approved in the Annual Business Plan (except for the sale of obsolete equipment, the depreciation of which is in excess of 80% of the original price) or granting the relevant authorization for the party exercising the right of approval.

#### 10.5. Scope of authority relating to or resulting from subsidiaries of Magyar Telekom

- a) Purchase or sale of a company or business activity, whether through either purchase/sale of securities, assets, business interests, or in any other way;
- b) Creation, termination, liquidation of companies or associations, decision on merger, amalgamation, demerger or transformation into another form of company of subsidiaries, in addition to capital increases or decreases in companies or associations or granting the relevant authorization for the party exercising the right of approval;
- c) Approval of all foreign and domestic investments and sale of business quotas/shares;
- d) Decisions on any amendments to the Articles of Association or Deed of Foundation of the 100% Magyar Telekom owned subsidiaries (except for legal reasons which do not impact the content) or granting the relevant authorization for the party exercising the right of approval.

#### 10.6. Scope of authority related to strategy and business / financial planning

- a) Determination of medium and long term targets of business strategy;
- b) Approval of the vision and mission of the Company;
- c) Approval of changes in the license agreement with Deutsche Telekom regarding the "T" brand;
- d) Definition and approval of high-level strategic goals in addition to the approval of necessary amendments thereto;
- e) Strategic decisions on investments, development of products and services;
- f) Approval of Group strategy;
- g) Approval of macro Capex plan as a part of the Business Plan;
- h) Approval of Group Capex increases exceeding HUF 3 billion, or approval of simultaneous changes in the approved Group Capex structure if such a simultaneous change exceeds the approved Capex by 15 %;
- i) Approval and amendment of the Group's Annual and Three-year consolidated Business Plans;
- j) Approval and amendment of Annual and Three-year consolidated Business Plans for the business unit and the Group's central organizations;
- k) Approval of Group-level key indicator system, to continuously evaluate performance.

#### 10.7. Scope of authority regarding employer's rights

- a) Establishment and termination of employment relations with the Chief Executive Officer, functional chief officers and the chief operating officers, definition of their remuneration, setting targets for the management and evaluation of their performance;
- b) Rewarding extra bonuses to the Chief Executive Officer, the functional chief officers and the chief operating officers (the affected persons can not vote);
- c) Claim for damages or application of other disadvantageous legal consequences against the Chief Executive Officer;
- d) Proposing stock option plan to the General Meeting.

#### 10.8. Scope of authority concerning Court Procedures

- a) Agreements in litigation or arbitration procedures, if the amount payable as a result of such

agreement is in excess of HUF 3 billion.

#### 10.9. Rights related to contracts to be concluded with legal entities consolidated by DT AG

The prior approval of the Board of Directors shall be necessary in case of contracts to be concluded with legal entities consolidated by DT AG, if

- a) it is a strategic agreement,
- b) it is a cooperation agreement,
- c) the value of the individual contract equals or exceeds HUF 500 million,
- d) the cumulated value of contracts to be concluded with the same partner in the same financial year equals or exceeds HUF 1 billion.

No approval of the Board of Directors shall be necessary in case of

- a) contracts to be concluded with the members of Magyar Telekom Group, and
- b) reference interconnection offers concluded with incumbents and other network contracts.

Section 13. of these Rules of Procedure shall apply to all contracts to be approved by the Board of Directors under this Section 10.9.

### 11. Management Committee

11.1. According to Section 7.4.1. h) of the Articles of Association of the Company the Board of Directors sets up a Management Committee.

11.2. The following individuals are designated as members of the Management Committee:

- Chief Executive Officer,
- Chief Human Resources Officer,
- Chief Financial Officer,
- Chief Technology and IT Officer,
- Chief Strategic and Corporate Development Officer,
- Chief Legal and Corporate Affairs Officer,
- Chief Sales and Services Officer,
- Chief Marketing Officer,
- Chief Operating Officer Business Services Business Unit.

11.3. The competence of the Management Committee: The Management Committee's scope of duties and authority is delegated from the Board of Directors, as it is regulated in its Rules of Procedure. Amongst others the Management Committee reports on the status and operation of the Magyar Telekom Group at each meeting of the Board of Directors.

11.4. The term, scope and the manner of operations of the Management Committee are regulated in detail by the ROO and in the Rules of Procedures of the Management Committee.

11.5. The formed committee shall prepare its own Rules of Procedure which must be approved by the Board of Directors.



## **12. Conflict of interest**

- 12.1. Members of the Board of Directors shall inform the Board of Directors and the Supervisory Board if he/she (or any other person in a close relationship to him/her) has a significant, personal interest in a transaction of the Company (or of any of the Company's subsidiaries).
- 12.2. Transactions between members of the Board of Directors (or persons in a close relationship to them) and the Company (or the Company's subsidiaries) shall be conducted according to the general rules of practice of the Company, but, with stricter transparency rules in place. In the case such a transaction is outside the normal course of the Company's business, the transaction and its terms should be approved by the Supervisory Board.

## **13. Related party transactions**

The terms of any related party transactions subject to Board approval (including transactions falling under Section 10.9. of these Rules of Procedure) shall not be less beneficial to the Company than if the same transaction would be entered into with a non-related party on usual market terms ("arm's length principle"). For the purposes of this paragraph, "related party transaction" shall mean any contract, agreement, other business arrangement or any amendment thereto or termination thereof between the Company and a legal or natural person affiliated or otherwise connected to the Company or any member of the Board of Directors.

## **14. Execution of Board Resolutions**

- 14.1. Board Resolutions shall take effect after certification without any separate directive on execution, and become binding within Magyar Telekom on announcement, except for decisions necessitating internal regulation of the Company.
- 14.2. Execution of Board Resolutions, control over the completion of execution

Immediately after the certification of the Minutes, the Secretariat of Chairman-CEO shall forward the Resolutions adopted by the Board of Directors in writing to the officer empowered to carry out its execution.

The Chief Executive Officer and the responsible chief officers shall approve and send written reports on the implementation of Board Resolutions to the Secretariat of Chairman-CEO.

The Secretariat of Chairman-CEO shall register the implementation of the task, and take further measures needed for the execution of the Resolution. Then, if necessary, the Secretariat of Chairman-CEO shall inform the Chairman of the Board about Resolutions not implemented by deadline.

## **15. Director Orientation and Continuing Education**

- 15.1. The Board of Directors maintains an orientation program for new members of the Board of Directors. The orientation program includes comprehensive information about the Company's business and operations, general information about the Board of Directors and its committees, including a summary of Board of Directors member compensation and benefits and a review of director duties and responsibilities.
- 15.2. The Board of Directors maintains a continuing education program for all members of the Board of Directors. The Board of Directors recognizes the importance of continuing education for its members and is committed to provide such education in order to improve the performance of the Board of Directors. It is the responsibility of the Chairman of the Board of Directors to advise the members of the Board of Directors about their continuing education, including relevant leading-edge corporate governance issues. Members of the Board of Directors are encouraged to participate in continuing Board of Directors member education programs.

## **16. Prohibition on loans to members of the Board of Directors**

It is the policy of the Company not to make any personal loans to its members of the Board of Directors and to employees (chief executive officer, functional chief officers and chief operating officers) whose employer is the Board of Directors.

## **17. Annual Evaluation of the Board of Directors**

The Board of Directors shall perform an annual comprehensive self-evaluation of its performance. This self-evaluation should include a review of the Board of Directors' contribution as a whole and also its individual members and should specifically review areas in which the Board of Directors believes a better contribution could be made. Its purpose is to increase the effectiveness of the Board of Directors. The Board of Directors shall meet annually to discuss the results of this critical self-evaluation.

## **18. Prevailing language**

The Amended Rules of Procedure of the Board of Directors shall be approved in the Hungarian and English languages, however, the English version shall be the prevailing one.

## **19. Miscellaneous**

- 19.1. Within fifteen days of accepting a new executive office, the member of the Board of Directors shall notify in writing any other company in which he/she already serves as an executive officer or a supervisory board member. The member of the Board of Directors shall inform the Supervisory Board, if he/she receives an offer of Board of Directors or Supervisory Board membership or an offer of an executive management position in a company which is not part of the Company group and also if he/she accepted the offer.

- 19.2. The Board of Directors shall be responsible for notifying the court of registry concerning any amendment of the Articles of Association, the rights, facts and data contained in the register of companies and changes therein, as well as any other data required by law. Members of the Board of Directors shall bear joint and several liability toward the Company for any damage resulting from the incorrectness of the data, rights or facts notified, or from any delay in filing or failure to file the notification, including where the annual report prescribed in the Accounting Act and the relating business report is drawn up and published not in compliance with the relevant provisions of the Accounting Act.
- 19.3. The members of the Board of Directors shall treat all business secrets (Civil Code, Section 81) of the Company as strictly confidential.
- 19.4. The members of the Board of Directors shall conduct the management of the business association with due care and diligence as generally expected from persons in such positions and – unless otherwise provided in the act – give priority to the interests of the Company. The members of the Board of Directors shall be liable to the business association in accordance with the general rules of civil law for damages caused by any infringement of the law or any breach of the Articles of Association, the resolutions of the General Meeting or their management obligations.

**Enclosure:**

These Rules of Procedure were approved by the Board of Directors of Magyar Telekom Telecommunications Public Limited Company, as of June 22, 2011 by Resolution No. 6/5 (06.22.2011).