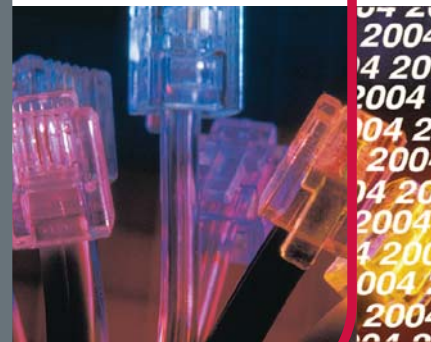
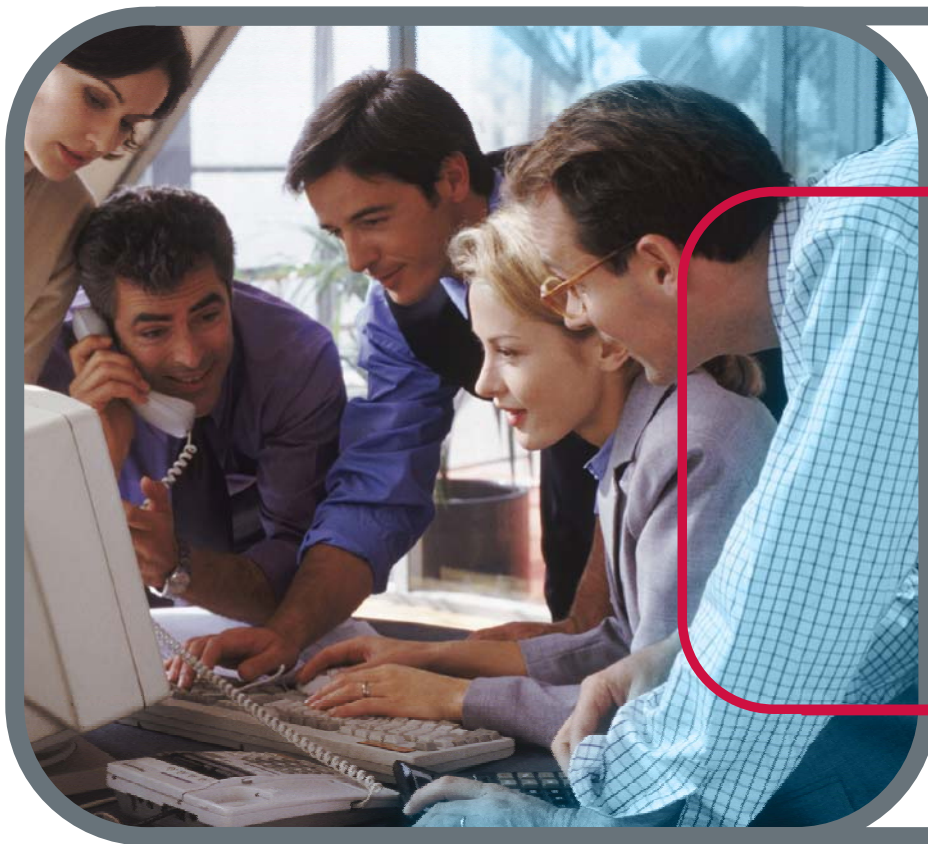


Annual
General Meeting
*of the Hungarian Telecommunications
Company Limited*



28 April 2004. at 11.00 a.m.
*Headquarters of Matáv Ltd.,
Budapest I. Krisztina krt. 55.*



•  **matáv**
beyond words

WRITTEN DOCUMENTS OF Matáv's
2004 ANNUAL GENERAL MEETING

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1. Report of the Board of Directors on the management of the Company, the business policy of Matáv Group and report on the business operations and the financial situation of Matáv Group in 2003 according to the requirements of the Accounting Act.	3
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Hungarian Telecommunications Company Ltd.

SUBMISSION

for Matáv Ltd.'s General Meeting

Subject: *Report of the Board of Directors on the management of the Company, the business policy of Matáv Group and report on the business operations and the financial situation of Matáv Group in 2003 according to the requirements of the Accounting Act.*

Budapest, April, 2004

Matáv has elaborated its financial statements in compliance with both International Accounting Standards (IFRS) and Hungarian Accounting Rules (HAR). The management of the Company uses IFRS statements, and international investors receive these reports.

HAR statements comply with Hungarian provisions of law. The Annual General Meeting shall approve the Report elaborated in accordance with the Hungarian Accounting Act, and this Report shall also be deposited at the Court of Registration.

After the AGM, Matáv will deposit and publish its reports in compliance with the provisions of the Accounting Act and the Securities Act.

Resolution proposal

The Annual General Meeting approves the 2003 Consolidated Annual Report of Matáv Group prepared according to the Hungarian Accounting Regulations (HAR), including

Balance Sheet Total Assets of HUF 1 051 974 million and After-tax Net Income of HUF 80 919 million (before the deduction of HUF 13 413 million to be disbursed to minority shareholders).

To the shareholders of Magyar Távközlési Rt.

Independent Auditors' Report

(Free translation)

PricewaterhouseCoopers Kft.
1077 Budapest
Wesselényi u. 16.
1438 Budapest, P. O. Box 517
HUNGARY
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We have audited the components of and disclosures in the consolidated financial statements as at 31 December 2003 and for the year then ended of Magyar Távközlési Rt. (the "Company") along with the underlying accounting records and supporting documentation. The consolidated financial statements show a balance sheet total of mHUF 1,051,974 (of which mHUF -529 is self revision with respect to the prior years) and a profit per balance sheet for the year of mHUF 67,506 and mHUF -745 self revision with respect to the prior years. The consolidated financial statements and the business report are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements based on our audit and to assess whether or not the accounting information in the business report is consistent with that contained in the consolidated financial statements. These consolidated financial statements have been prepared for the consideration of the shareholders at the forthcoming General Meeting and as such do not reflect the effects, if any, of resolutions that might be adopted at that meeting.

Referring to our audit report issued on 25 April 2003 we confirm to you that on the basis of our audit we issued an unqualified audit opinion for the prior year.

We conducted our audit in accordance with International and Hungarian Standards on Auditing and with applicable laws and regulations in force in Hungary. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statements presentation. Our work with respect to the business report was limited to checking it within the aforementioned scope, and did not include a review of any information other than that drawn from the audited accounting records of the Company. We believe that our audit provides a reasonable basis for our audit opinion.

On the basis of our audit work, we have gained sufficient and appropriate evidence that the consolidated financial statements have been prepared in accordance with the provisions of the accounting law and with accounting principles generally accepted in Hungary. In our opinion, the consolidated financial statements give a true and fair view of the financial position of Magyar Távközlési Rt. as at 31 December 2003 and of the results of its operations for the year then ended. The business report is consistent with the disclosures in the consolidated financial statements.

Budapest, 27 February 2004

Szabados Szilvia
Registered auditor
Licence no.: 005314
Office address:
16 Wesselényi u., 1077 Budapest

Nick Kós
Partner
PricewaterhouseCoopers Kft.
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Translation note:

The accompanying financial statements are not intended to present the financial position and the results of operations and cash flows in accordance with accounting principles generally accepted in jurisdictions other than Hungary.

MATÁV GROUP

HUNGARIAN TELECOMMUNICATIONS COMPANY LIMITED

***CONSOLIDATED BALANCE SHEET AND INCOME STATEMENT OF THE 2003
ANNUAL REPORT***

April, 2004

MATÁV GROUP
CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 2003
(All amounts in millions of HUF)

ASSETS

	Note	2002	Self-revision	2003
A. NON CURRENT ASSETS		940,802	-364	912,237
I. Intangible assets	4	46,240	78	52,742
Capitalised costs of foundation and restructuring		407		241
Capitalised costs of research and development		121		0
Rights		16,576	2	16,757
Intellectual property		29,132	76	35,744
Advance payments on intangible assets		4		0
II. Tangible assets	5	649,069	-442	622,565
Real estate and related rights		291,385	49	288,316
- Land		3,761	67	3,284
- Buildings		83,373	11	72,449
- Telecommunication network		192,057	56	191,952
- Other properties		9,441	-32	18,342
- Property rights		2,753	-53	2,289
Technical equipment, machinery and vehicles		301,710	87	291,430
- Telecommunication equipment and machinery		298,289	86	281,711
- Other technical equipment, machinery and vehicles		3,421	1	9,719
Other equipment and vehicles		35,227	131	25,563
Construction-in-progress, renovation		20,580	-699	17,175
Advance payments on construction-in-progress		167	-10	81
III. Financial investments		245,493	0	236,930
Non current investments in affiliated companies	6	5,644	0	5,829
- not fully consolidated subsidiaries		656		503
- associated companies		4,988		5,326
Non current loans granted to affiliated companies	7	2,613	0	2,496
- not fully consolidated subsidiaries		0		2
- associated companies		2,613		2,494
Other investments	8	438		1,308
Other non current loans granted	9	4,192		5,207
Positive consolidation difference (goodwill on consolidation)	10	232,606	0	222,090
- subsidiaries		231,447		221,562
- associated companies		1,159		528
B. CURRENT ASSETS		100,843	-74	107,084
I. Inventories	11	12,906	-29	11,380
Raw materials		4,066	7	3,024
Work in progress and semi-finished products		10		6
Goods available for sale		8,830	-36	8,269
Advance payments on inventories		0		81
II. Receivables		75,347	-41	70,503
Accounts receivable	12	53,947	-126	53,529
Receivables from affiliated companies		1,305	1	1,478
- not fully consolidated subsidiaries		272		113
- associated companies		1,033	1	1,365
Receivables from other related companies		295		26
Other receivables	13	16,990	84	14,718
Deferred tax on consolidation		2,810		752
III. Securities	14	4,638	-5	3,842
Other investments		1		0
Treasury stock, quotas		4,488		3,842
Marketable securities		149	-5	0
IV. Liquid assets		7,952	1	21,359
Cash and cheques		45	-2	196
Bank deposits		7,907	3	21,163
C. PREPAYMENTS	15	30,271	-91	32,653
Accrued income		28,896	-91	31,136
Prepaid expenses		1,375		1,517
TOTAL ASSETS		1,071,916	-529	1,051,974

MATÁV GROUP
CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 2003
(All amounts in millions of HUF)

LIABILITIES AND SHAREHOLDERS' EQUITY

	Note	2002	Self-revision	2003
D. <u>SHAREHOLDERS' EQUITY</u>	16	541,362	-745	625,234
I. Common stock		104,281		104,281
- of this treasury stock at par value		490		490
II. Unpaid share capital (-)		0		0
III. Capital reserves		55,696		55,696
IV. Retained earnings		220,951		201,406
V. Restricted reserves		4,609		3,842
VI. Valuation reserves		0		0
VII. Balance sheet profit		36,512	-745	67,506
VIII. Change in the equity of fully consolidated subsidiaries (+-)		65,428		126,053
IX. Change arising on consolidation (+-)		-1,385		-1,171
X. Minority interest		55,270		67,621
E. <u>PROVISIONS</u>	17	12,493	0	7,635
Provision for expected obligations		11,946		4,940
Provision for expected expenses		376		2,490
Other provisions		171		205
F. <u>LIABILITIES</u>		449,758	294	368,863
I. Subordinated liabilities	18	3,189	0	3,270
Consolidation difference of subsidiaries and associated companies		3,189		3,270
II. Non current liabilities		144,819	0	120,435
Other bonds		131		129
Construction loans	19	70,993		46,625
Liabilities to other affiliated companies	20	73,675		73,675
Other liabilities		20		6
III. Current liabilities		301,750	294	245,158
Loans	21	23,077		76
Other borrowings	21	41,809		65,685
Advances received		1,018	-22	2,056
Accounts payable		36,785	280	36,834
Liabilities to affiliated companies		357		544
- not fully consolidated subsidiaries		211		389
- associated companies		146		155
Liabilities to other affiliated companies	22	162,771		126,644
Other liabilities	24	35,933	36	13,319
- of this dividends payable		18,682		0
G. <u>ACCRUALS</u>	25	68,303	-78	50,242
Deferred income		24,317		8,425
Accrued expenses		43,795	-78	41,552
Other deferred revenues		191		265
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		1,071,916	-529	1,051,974

MATÁV GROUP
CONSOLIDATED INCOME STATEMENT OF OPERATIONS FOR THE PERIOD ENDED 31 DECEMBER, 2003
(All amounts in millions of HUF)

	Note	2002.	Self-revision	2003.
1. Domestic sales revenue	26	539,211	-197	561,173
- not fully consolidated subsidiaries		399		350
- associated companies		281		337
- other companies		538,531	-197	560,486
2. Export sales revenue	27	30,956	-46	24,836
- not fully consolidated subsidiaries		682		0
- associated companies		0		0
- other companies		30,274	-46	24,836
I. Sales revenues		570,167	-243	586,009
3. Change in self-manufactured inventories		-7		-4
4. Capitalized value of self-manufactured assets		11,708		14,362
II. Own work capitalized	28	11,701	0	14,358
III. Other revenues	29	22,306	39	29,339
- not fully consolidated subsidiaries		1		11
- associated companies		139		0
- other companies		22,166	39	29,328
of which: write back of impairment losses		4,498		3,170
III/A Consolidation difference arising from debt consolidation - income		0		0
5. Material costs		19,135	141	20,845
6. Cost of services used		90,180	-462	96,240
7. Cost of other services		10,742	21	11,206
8. Cost of goods sold		45,122		43,622
9. Cost of mediated services		76,204	286	78,805
IV. Material-type expenses	30	241,383	-14	250,718
10. Salaries and wages		51,823	140	56,282
11. Other employee related expenses		11,957	37	18,724
12. Employee related contributions		20,583	46	22,974
V. Employee related expenses	31	84,363	223	97,980
VI. Depreciation and amortization	32	112,703	381	122,263
VII. Other expenses	33	49,871	13	40,547
of which: impairment losses		9,836		7,194
VII/A Consolidation difference arising from debt consolidation - expense		0		0
A. PROFIT FROM OPERATING ACTIVITIES		115,854	-807	118,198
13. Dividends		-55		594
of which: from affiliated companies		-55		594
14. Gains on sale of investments		158		8
of which: from affiliated companies		0		0
15. Interest income and gains on financial investments		305	-2	247
of which: from affiliated companies		268		240
16. Other interest income		6,598	1	2,739
of which: from affiliated companies		55		81
17. Other financial income		7,070	16	28,089
VIII. Revenues from financial transactions		14,076	15	31,677
18. Loss on the sale of financial investments		79		0
of which: related to affiliated companies		0		0
19. Interest expense		37,091	-2	30,751
of which: related to affiliated companies		11		0
20. Impairment of investments, securities and bank deposits		-243		73
21. Other financial expenses		10,113	5	20,485
IX. Expenses from financial transactions		47,040	3	51,309
B. RESULT OF FINANCIAL ACTIVITIES	34	-32,964	12	-19,632
C. INCOME FROM ORDINARY ACTIVITIES		82,890	-795	98,566
X. Extraordinary revenues		2,334	3	180
XI. Extraordinary expenses		4,222	15	3,595
D. EXTRAORDINARY RESULT	35	-1,888	-12	-3,415
E. PROFIT BEFORE INCOME TAX		81,002	-807	95,151
XII. Corporate income tax		15,092	-62	12,175
XII/A Income tax expense from consolidation		-2,843		2,057
F. NET INCOME		68,753	-745	80,919
22. Minority interest in NET INCOME (-)		13,559		13,413
23. Use of retained earnings for dividends (+)		0		0
24. Dividend paid (approved) (-)		18,682		0
G. BALANCE SHEET PROFIT		36,512	-745	67,506

Hungarian Telecommunications Company Ltd.

SUBMISSION

for Matáv Ltd.'s General Meeting

Subject: *Report of the Board of Directors on the business operations of the Company in 2003*

Budapest, April, 2004

Matáv has elaborated its financial statements in compliance with both International Accounting Standards (IFRS) and Hungarian Accounting Rules (HAR). The management of the Company uses IFRS statements, and international investors receive these reports.

HAR statements comply with Hungarian provisions of law. The Annual General Meeting shall approve the Report elaborated in accordance with the Hungarian Accounting Act, and this Report shall also be deposited at the Court of Registration.

After the AGM, Matáv will deposit and publish its reports in compliance with the provisions of the Accounting Act and the Securities Act.

Resolution proposal

The Annual General Meeting approves the 2003 Annual Report of the Company prepared according to the Hungarian Accounting Regulations (HAR), including

***Balance Sheet Total Assets of HUF 923 268 million and
After-tax Net Income of HUF 75 174 million.***

To the shareholders of Magyar Távközlési Rt.

Independent Auditors' Report

(Free translation)

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HUNGARY

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We have audited the components of and disclosures in the financial statements as at 31 December 2003 and for the year then ended of Magyar Távközlési Rt. (the "Company") along with the underlying accounting records and supporting documentation. The financial statements show a balance sheet total of mHUF 923,268 (of which mHUF -464 is self revision with respect to the prior years) and a profit per balance sheet for the year of mHUF 75,174 and mHUF -221 self revision with respect to the prior years. The financial statements and the business report are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audit and to assess whether or not the accounting information in the business report is consistent with that contained in the financial statements. These financial statements have been prepared for the consideration of the shareholders at the forthcoming General Meeting and as such do not reflect the effects, if any, of resolutions that might be adopted at that meeting.

Referring to our audit report issued on 25 April 2003 we confirm to you that on the basis of our audit we issued an unqualified audit opinion for the prior year.

We conducted our audit in accordance with International and Hungarian Standards on Auditing and with applicable laws and regulations in force in Hungary. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatements. 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 statements presentation. Our work with respect to the business report was limited to checking it within the aforementioned scope, and did not include a review of any information other than that drawn from the audited accounting records of the Company. We believe that our audit provides a reasonable basis for our audit opinion.

On the basis of our audit work, we have gained sufficient and appropriate evidence that the financial statements have been prepared in accordance with the provisions of the accounting law and with accounting principles generally accepted in Hungary. In our opinion, the financial statements give a true and fair view of the financial position of Magyar Távközlési Rt. as at 31 December 2003 and of the results of its operations for the year then ended. The business report is consistent with the disclosures in the financial statements.

Budapest, 27 February 2004

Szabados Szilvia
Registered auditor
Licence no.: 005314
Office address:
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Nick Kós
Partner
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Translation note:

The accompanying financial statements are not intended to present the financial position and the results of operations and cash flows in accordance with accounting principles generally accepted in jurisdictions other than Hungary.

MATÁV Rt.

HUNGARIAN TELECOMMUNICATIONS COMPANY LIMITED

***BALANCE SHEET, PROFIT AND LOSS STATEMENT
TO THE 2003 ANNUAL REPORT***

April, 2004

ASSETS

	Note	December 31, 2002	Self-revision	December 31, 2003
A. FIXED ASSETS AND FINANCIAL INVESTMENTS		851 287	-371	839 375
I. Intangible assets	4	198 741	71	189 225
Capitalised costs of foundation and restructuring		0	0	0
Capitalised costs of research and development		121	0	0
Rights		1 314	0	1 216
Intellectual property		13 541	71	12 505
Goodwill		183 765	0	175 504
Advance payments on intangible assets		0	0	0
II. Tangible assets	5	423 536	-442	390 939
Land and buildings and related rights		218 427	39	210 438
- Land		3 051	67	2 550
- Buildings		46 129	11	42 050
- Telecommunication network		157 689	56	155 365
- Other properties		9 199	-32	8 606
- Real estate related rights		2 359	-63	1 867
Technical equipment, machinery and vehicles		180 461	60	160 998
- Telecommunication equipment and machinery		179 069	59	159 943
- Other technical equipment, machinery and vehicles		1 392	1	1 055
Other equipment and vehicles		13 204	94	10 495
Construction-in-progress, renovation		11 434	-625	9 008
Advance payments on construction-in-progress		10	-10	0
III. Financial investments		229 010	0	259 211
Non current investments in affiliated companies	6	165 394	0	178 050
- fully consolidated subsidiaries		162 274	0	174 930
- not fully consolidated subsidiaries		161	0	161
- associated companies		2 959	0	2 959
Non current loans granted to affiliated companies	7	59 848	0	75 840
- fully consolidated subsidiaries		57 235	0	73 346
- not fully consolidated subsidiaries		0	0	0
- associated companies		2 613	0	2 494
Other investments	8	1	0	900
Other non current loans granted	9	3 767	0	4 421
Non current bonds and other securities		0	0	0
B. CURRENT ASSETS		68 232	-23	63 849
I. Inventories	10	1 376	-28	2 783
Raw materials		942	7	895
Work in progress and semi-finished products		0	0	0
Finished products		0	0	0
Goods available for sale		434	-35	1 888
Advance payments on inventories		0	0	0
II. Receivables		61 670	7	56 454
Accounts receivable	11	21 466	-138	20 184
Receivables from affiliated companies	12	27 236	147	27 270
- fully consolidated subsidiaries		26 453	146	25 887
- not fully consolidated subsidiaries		114	0	45
- associated companies		669	1	1 338
Bills receivable		0	0	0
Receivables from other related companies		39	0	26
Other receivables	13	12 929	-2	8 974
III. Securities	14	4 494	-5	3 842
Investments in affiliated companies		0	0	0
Other investments		1	0	0
Treasury stock, quotas		4 488	0	3 842
Marketable securities		5	-5	0
IV. Liquid assets		692	3	770
Cash and cheques		4	0	6
Bank deposits		688	3	764
C. PREPAYMENTS	15	23 126	-70	20 044
Accrued income		22 618	-70	19 441
Prepayments for costs and expenses		508	0	603
Deferred expenses		0	0	0
TOTAL ASSETS		942 645	-464	923 268

BALANCE SHEET AS OF DECEMBER 31, 2003

(All amounts in millions of HUF)

LIABILITIES AND OWNER'S EQUITY

	Note	December 31, 2002	Self-revision	December 31, 2003
D. SHAREHOLDER'S EQUITY	16	402 811	-221	477 764
I. Common stock		104 281	0	104 281
- of this treasury stock at par value		490	0	490
II. Unpaid share capital (-)		0	0	0
III. Capital reserves		52 837	0	52 837
IV. Retained earnings		233 849	0	241 630
V. Restricted reserves		4 609	0	3 842
VI. Valuation reserves		0	0	0
VII. Net income		7 235	-221	75 174
E. PROVISIONS	17	8 286	0	2 922
Provision for expected obligations		8 140	0	2 819
Provision for expected expenses		0	0	0
Other provisions		146	0	103
F. LIABILITIES		492 046	70	415 329
I. Subordinated liabilities		0	0	0
II. Non current liabilities		144 819	0	120 435
Non current credits		0	0	0
Convertible bonds		0	0	0
Debt from issuance of bonds		131	0	129
Investment and development loans	18	70 993	0	46 625
Other non current loans		0	0	0
Non current liabilities to affiliated companies		0	0	0
Non current liabilities to other affiliated companies	19	73 675	0	73 675
Other non current liabilities		20	0	6
III. Current liabilities		347 227	70	294 894
Current loans		23 076	0	75
- of this convertible bonds		0	0	0
Current credits	20	41 497	0	65 525
Advances received		907	-22	1 848
Accounts payable		19 020	0	20 146
Bills of exchange payable		0	0	0
Current liabilities to affiliated companies	21	72 036	0	72 309
- fully consolidated subsidiaries		71 766	0	71 856
- not fully consolidated subsidiaries		126	0	339
- associated companies		144	0	114
Current liabilities to other affiliated companies	22	162 771	0	126 644
Other current liabilities	24	27 920	92	8 347
- of this dividends payable		18 682	0	0
G. ACCRUED EXPENSES	25	39 502	-313	27 253
Deferred income		8 792	0	1 713
Accrued expenses		30 602	-313	25 449
Other deferred revenue		108	0	91
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		942 645	-464	923 268

	Note	2002.	Self-revision	2003.
1. Domestic sales		283 230	-63	271 560
- fully consolidated subsidiaries		18 276	108	19 830
- not fully consolidated subsidiaries		221	0	167
- associated companies		203	1	136
- other companies		264 530	-172	251 427
2. Export sales	26	18 308	-46	16 354
- fully consolidated subsidiaries		202	3	1 297
- not fully consolidated subsidiaries		652	0	0
- associated companies		0	0	0
- other companies		17 454	-49	15 057
I. Sales revenues		301 538	-109	287 914
3. Change in self-manufactured inventories		0	0	0
4. Capitalised value of self-manufactured assets		9 355	0	10 442
II. Own work capitalized		9 355	0	10 442
III. Other revenues	27	17 470	39	19 172
- fully consolidated subsidiaries		48	0	51
- not fully consolidated subsidiaries		0	0	0
- associated companies		56	0	0
- other companies		17 366	39	19 121
of which: reversal of write-down for assets		3 846	0	1 010
5. Costs of raw material		12 220	-29	13 635
6. Costs of services	28	52 891	-541	52 993
7. Costs of other services		2 568	1	3 694
8. Cost of goods sold		5 832	-1	4 078
9. Costs of services sold (intermediated)		68 455	258	63 551
IV. Material-type expenditures		141 966	-312	137 951
10. Salaries and wages	29	31 632	11	33 242
11. Other payroll related costs	29	7 941	30	14 616
12. Payroll related contributions		12 398	8	14 327
V. Payroll and related expenditures		51 971	49	62 185
VI. Depreciation		71 150	378	70 254
VII. Other expenditures	31	32 722	10	21 180
of which: write-down for assets		5 746	0	2 837
A. PROFIT FROM OPERATING ACTIVITIES		30 554	-195	25 958
13. Dividends and profit sharing (received or due)		28 937	0	65 296
of which: received from affiliated companies		28 937	0	65 296
14. Foreign exchange gains on sale of investments		18	0	0
of which: received from affiliated companies		0	0	0
15. Interest income and f/x gains on financial investments		4 071	-2	7 183
of which: received from affiliated companies		4 034	0	7 176
16. Other interest income received		7 586	1	3 654
of which: received from affiliated companies		1 526	0	1 604
received from other affiliated company		5 143	0	1 661
17. Other revenues on financial activities		2 976	0	25 158
received from other affiliated company		1 780	0	17 499
VIII. Revenues from financial transactions		43 588	-1	101 291
18. Foreign exchange loss on the sale of financial investments		94	0	0
of which: related to affiliated companies		94	0	0
19. Interest expense		36 840	-2	31 179
of which: related to affiliated companies		542	0	466
related to other affiliated company		23 837	0	19 889
20. Write-down for investments, securities and bank deposits		1 937	0	0
21. Other expenses on financial activities		6 234	5	17 221
related to other affiliated company		3 500	0	13 885
IX. Expenditures from financial transactions		45 105	3	48 400
B. FINANCIAL RESULTS	32	-1 517	-4	52 891
C. INCOME FROM ORDINARY ACTIVITIES		29 037	-199	78 849
X. Extraordinary revenues	33	56	3	1 694
XI. Extraordinary expenditures	34	2 685	0	5 369
D. NET INCOME ON EXTRAORDINARY ACTIVITIES		-2 629	3	-3 675
E. NET INCOME BEFORE TAXES		26 408	-196	75 174
XII. Corporate income tax	35	491	25	0
F. NET INCOME		25 917	-221	75 174
22. Use of retained earnings for dividends		0	0	0
23. Dividend paid (approved)		18 682	0	0
G. BALANCE SHEET NET PROFIT FIGURE		7 235	-221	75 174

Hungarian Telecommunications Company Ltd.

SUBMISSION

for Matáv Ltd.'s General Meeting

Subject: *Proposal of the Board of Directors for the use of the profit after tax earned in 2003*

Budapest, April, 2004

Resolution proposal

A dividend of HUF 70 per one ordinary share (with a face value of HUF 100) and dividend of HUF 7 000 per preference share (with a face value of HUF 10 000) shall be paid to the shareholders from the profit of 2003. The Company will put in profit reserves the HUF 2 520 165 296 amount of profit after tax remaining after the deduction of the HUF 72 653 819 000 dividend.

June 2nd, 2004 shall be the first day of disbursement of dividends.

On May 21st, 2004, the Board of Directors of Matáv Ltd. shall publish a detailed announcement on the order of the disbursement of dividends on the website of the Budapest Stock Exchange and in the following newspapers: Magyar Hírlap, Napi Gazdaság, Népszabadság and Magyar Tőkepiac.

In compliance with Matáv Ltd.'s assignment, KELER Ltd. shall disburse dividends claimed after the 30 days term for disbursement of dividend expires.

Hungarian Telecommunications Company Ltd.

SUBMISSION

for Matáv Ltd.'s General Meeting

Subject: *Report of the Supervisory Board on the operations of the Company
in 2003*

Budapest, April, 2004

In 2003 the Supervisory Board was supported by an Audit Committee comprised of three members of the SB, one of them a financial expert. The Audit Committee served as an advisory and decision-preparing body in line with its Charter approved by the Supervisory Board. The Supervisory Board also approved the Audit and Non-Audit Pre-Approval Policy whose aim is to ensure full transparency regarding contracts concluded with Matáv's statutory auditor.

The 2003 yearly work schedule of Internal Audit was again the guideline of the Supervisory Board for the 2003-business year. At its 3 meetings in 2003, the Supervisory Board was informed about the operations, financial transactions and business results of the Company. Additionally to the yearly work schedule the SB ordered audits to review the effectiveness of the controls and control systems of the Company. This was possible because Internal Audit planned the yearly work schedule only with 60% of its theoretical working-capacity, having 40% of it as a „reserve” for ad-hoc-audits. As examples, the following topics were audited additionally on request of either the SB or the Management Committee: “Security of Axelero's Data center”, “External IT-support”, “Project ‘Intelligent Cities’ ”, “Intranet and Internet misuse”, “Procurement process at Westel Rt.”, “Employee dismissal at Westel 450 Kft.” and “Network construction within the Metro-project”.

Reports on 97 audits were prepared in the course of the year.

The 2003 audit schedule was developed by taking into account different priorities and criteria:

- *Control environment*
- *Business impact (financial, strategic)*
- *Functional stability*
- *Audit frequency*
- *Complexity*

With all Chief Officers, all Directors, all Chief Executive Officers of the main subsidiaries, all MagyarCom-Advisors and PWC it was discussed in advance, if they have any additional ideas or requests. A mid-year evaluation was done in June by discussing with all Chief Officers their individual audit-results, the status-quo of the fulfillment of the measures in their areas and their individual feedback how satisfied they were with the cooperation with Internal Audit. The primary goal of these meetings was to examine, if Internal Audit is still “on the right track” and focusing on topics with the highest risks.

Main topics in 2003 of the yearly Internal Audit schedule were:

- *Competition (Customer, Revenue, Market)*
- *Financial Auditing according to Sarbanes-Oxley Act*
- *IT Business solutions*
- *Product development*

- Efficiency of procurement
- Security (IT, business, assets)
- Foreign subsidiaries
- Unused capacities
- CRM (Customer relations management)
- Group level synergy
- Management of responsibilities / controls
- Fulfillment of pillar-goals / subsidiaries
- Billing
- Cost management / CAPEX
- IT-outsourcing

These Risk Topics were developed by taking into consideration the areas with the highest risks within the Matáv Group and had been coordinated with the Risk Management Department of Matáv. Primary goal of developing and introducing the Risk Topics was to increase the overall risk-awareness of the management of the Company and to focus with most of Internal Audit activities on areas with the highest risk.

In addition to the more traditional (ex-post) audits Internal Audit was again engaged in many ex-ante audits and projects (e.g. "Maktel – Road to success", "Revenue Assurance Matav", "ADSL for the mass-market", ISO 9000 pre-Audit", "Evaluation process of Quality-assured tenders", "Improved implementation of SAP FI-AA", "Development of a CRM-system" and "Data security"). Internal Audit of Matáv also helped Internal Audit of Maktel, the Macedonian Telecom operator, to conduct their duties in a more effective and efficient way as described by the IIA (Institute of Internal Auditors).

Internal audits have found that in general MATÁV's processes have built in controls. Based on 97 audits and many project-tasks during the whole year performed in 2003, only 36 audits were satisfactory (rated as "A" or "B"), 36 out of them were rated as "significant findings" (rated as "C") while 24 had serious findings (rated as "D"). One audit was not rated. Compared with the previous yearly result, a slight decrease in reports with significant or serious findings (now 63% instead of 69%) can be recognized. The main reason for this still high level is that Internal Audit assessment is still acting strict and because Internal Audit targeted their audits to topics with high priority and / or highest risks as described above.

In 2003 Internal Audit delivered a capacity of 4546 audit-days, compared to 4456 audit-days from 2002.

About 650 measures were defined by Internal Audit in 2003. During the final meetings with the audited areas these measures became a "contract" between auditors and auditees by signing the "catalog of measures".

About 42% of the capacity were spent auditing subsidiaries in Hungary or abroad (last year it was 25% and in 2001 it was only 11%); this value does not need to be increased any more.

At the Supervisory Board meetings the Chief Audit Executive regularly informed the Supervisory Board on the fulfillment of the yearly audit schedule, their findings and the necessary measures. In addition the SB was regularly informed about the follow-up status of all audits with “significant findings” and “serious findings”. The reports were accepted by the SB in all cases.

The some years ago introduced COSO-report (Committee of Sponsoring Organizations of the Treadway Commission) was in 2003 again realized by taking into account the audit-results and by asking the feedback of all of the more than 9.000 Matáv-employees. Worldwide best practices suggest that companies belonging to major stock-exchanges conduct and report on annual control assessments.

Generally Internal Audit found that the control system of the Company is appropriate, and the controls in the audited areas are able to recognize losses and to prevent them.

Due to the fact, that the response-ratio was high enough (the response-ratio was above 71%), Internal Audit is having individual meetings with all Chief Officers to discuss with them and also with the Directors reporting to them their individual results. It should be discussed also, how the control system in specific areas (and the opinion of employees working in those areas) could be improved. In addition to the overall Matav-results and on the special request of 2 Chief Officers the results even of their Branches was evaluated to help to improve the results in the future.

Internal Audit participated during the whole year in the ISO 9000 certification process of Matáv and was re-audited successfully in December.

Auditors are being trained more then the “average” employee due to the fact that they have to work in many different areas. Therefore, the average number of training-days for auditors within the branch was 9.5 for professional training and conferences. Additionally to this, the average number of language training was 7.6 days per auditor per year within the Internal Audit Branch.

One more IT-auditor passed his CISA (Certified Information Systems Auditor) examination successfully, another one the first exam of the CIA (Certified Internal Auditor). This will help to further improve the professionalism of the Audit Branch.

First organizational steps were taken to fulfill the requirements of the Sarbanes-Oxley Act by establishing a new Internal Audit Department. This department will be responsible to conduct ordinary audits or audits via CSA (controlled self-assessment) to verify, that all controls (as described by the responsible departments) are implemented and are working according to the requirements.

During their last meeting in December 2003 the Supervisory Board approved the 2004 yearly schedule of Internal Audit and found that the audits completed in 2003 have not revealed any problem that should be presented to the General Meeting.

Matáv's earnings after taxation have grown compared to last year. The earning after tax per one share is 78 Forints, which represent an 18% increase.

The prices of the technological shares and papers have dropped on the financial markets and there was a general decline on the Hungarian Stock Exchange too, which had a negative impact on Matáv share prices. However, Matáv could achieve a relatively good share price position among the comparable telecommunications companies.

The earnings after tax of Matáv Group according to the Hungarian Accounting Rules (HAR) total to 80 919 million Forint (before the proposed dividends) as it is shown by the Balance Sheet of year 2003. This is a 17.70% growth compared to last year. The balance sheet total is 1 051 974 million Forint.

Based on the findings of continuous monitoring of the business activities of the Company and Matáv Group the Supervisory Board recommends to the General Meeting

- to accept the report of the Company and the Group on the business year 2003,*
- to accept the Company and Group financial statements with the balance sheet profits in accordance with the proposal of the Board of Directors,*
- to accept the proposal of the Board of Directors for the distribution of the profits and recommend to the General Meeting to make the profits decreased with dividend available to the Company as profit reserve,*
- to accept the Auditor's report.*

Hungarian Telecommunications Company Ltd.

SUBMISSION

for Matáv Ltd.'s General Meeting

Subject: *Decision on transforming the printed shares of the Company to dematerialized shares*

Budapest, April, 2004

Act CXX of 2001 on Capital Markets entered into force on 2002, January 1. Section 408 (1) of the above Act states that „ printed shares, already publicly traded at the date of the Act’s entry into force must be transformed to dematerialized securities by their issuer at the latest by 2004, December 31.”

Due to the fact that the shares of Matáv are printed, publicly traded shares the shares must be transformed to dematerialized shares. The deadline of dematerialization expires on 2004, December 31 and the transformation falls into the exclusive scope of authority of the General Meeting, therefore the annual General Meeting must decide on transforming the printed shares.

The General Meeting will give a full-scope authorization for the Board of Directors to carry out the necessary tasks in connection with the execution of transforming the shares.

The shareholders will be informed in details about their tasks in connection with the transforming process through an announcement.

Resolution proposal

The General Meeting hereby approves the submission on transforming the printed shares of the Company to dematerialized shares and empowers the Board of Directors to carry out all necessary tasks in connection with the execution of transforming the shares.

Hungarian Telecommunications Company Ltd.

SUBMISSION

for Matáv Ltd.'s General Meeting

Subject: Modification of the Articles of Associations of Matáv Rt.

Budapest, April, 2004

Due to the organizational changes within Matáv Rt. and the moving of organizational units it has become necessary to update the data of sites and branch offices in the Articles of Associations.

It has become necessary to update the scope of activities of the company with new activities in the Articles of Associations.

According to the modification of the Act on Business Associations the Articles of Associations must dispose over the payment of dividend in proportion to the company's own shares in lack of which the said dividend is distributed among the other shareholders.

According to the modification of the Act on Business Associations in case of shares belonging to different share series the detailed rules of decreasing the registered capital must be set out in the Articles of Associations.

The name of the Company has to be adjusted to the writing style of the Matáv brand name.

According to the proposal of the Budapest Stock Exchange certain provisions of the Rules of Operation of the Stock Market have to be incorporated into the rules of the Articles of Associations.

The rules of issuing convertible and subscription right ensuring bonds was modified by the Act on Business Associations.

The Act on Business Associations modified its pre-emptive right related provisions.

The Act on Electronic Communications superseded the former Act on Communications therefore the relevant references to the Act have to be modified.

Pursuant to the Act on Capital Markets the printed shares of public share Companies must be transformed to dematerialized shares by 2004, December 31.

It is expedient to define the assignment of the members of the Board of Directors and the Supervisory Board in a longer period of 3 years to ensure that the members can work in a more effective and responsible manner.

It is expedient to include a content page to the Articles of Associations to make the use of the document easier.

The modification proposals of the individual sections of the Articles of Associations are set out in the Annex.

Detailed reasons of the modification proposals:

Due to the organizational changes within Matáv Rt. and the moving of organizational units it has become necessary to update the data of sites and branch offices in the Articles of Associations. The frequent change of the names of organizational units necessitates that the names of sites and branch offices of the company are not listed in the Articles of Associations, only their postal address (Asz 1.4.)

It has become necessary to update the scope of activities of the company with new activities in the Articles of Associations (Asz 1.6.)

According to the modification of the Act on Business Associations in case of shares belonging to different share series the detailed rules of decreasing the registered capital must be set out in the Articles of Associations. Due to the fact that the currently effective Articles includes two kinds of shares, namely „A” and „B” series shares, the Articles has to be amended with the detailed rules of capital decrease (Asz 12.)

The name of the Company has to be adjusted to the writing style of the Matáv brand name, therefore we modify the company name and the abbreviated company name according to the extent permitted by the law (Asz 1.1., 1.2.).

According to the proposal of the Budapest Stock Exchange certain provisions of the Rules of Operation of the Stock Market have to be incorporated in the rules of the Articles of Associations and with taking into account the changed advertisement practice of the Stock Market the provisions of contacting the Company also have to be modified (Asz 4.7., 14.2.).

The rules of issuing transferable and subscription right ensuring bonds was modified by the Act on Business Associations, according to which the the scope of authority of the General Meeting has to be specified. (Asz 6.2.).

The Act on Business Associations modified its pre-emptive right related provisions therefore we have to update the Articles accordingly (Asz 11.2.)

The Act on Electronic Communications superseded the former Act on Communications therefore the relevant references to the Act have to be modified. Since our contract for the provision of Universal Telecommunications Services will not have been modified yet by the date of the General Meeting the relevant Annex of the Articles can not be modified either (Asz 2.3.2.9. (d), 6.2. (o), 14.5.

Act CXX. of 2001 regarding Capital Markets entered into force on 2002, January 1. Article 408 (1) of the Act decrees, that printed shares of public share companies must be transformed by their issuer to dematerialized shares by 2004, December 31. The decision falls into the exclusive scope of authority of the General Meeting therefore the annual GM must decide on the transformation of our printed shares (Asz 2.1., 2.4., 2.5. (a), 2.6.2., 2.8., 4.5., 7.5.2, 10. (2), 11.5.)

It is expedient to define the assignment of the members of the Board of Directors and the Supervisory Board in a longer period of 3 years since their high-quality work necessitates and requires that they work for a longer time in the relevant business environment and the general experience also supports this approach (Asz 7.2., 8.2.).

It is expedient to include a content index to the Articles of Associations to make the use of the document easier.

Resolution proposal

The General Meeting hereby approves the amendment of the Articles of Associations, set forth in the Annex.

Annex

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1. Section 1.1. and 1.2. shall be deleted and replaced with the following:

1.1. The Company's name:

The registered name of the Company is *Matáv Magyar Távközlési Részvénytársaság*
The Company's abbreviated name is *Matáv Rt.*

1.2. The Company's name in English:

The Company's name in English is *Matáv Hungarian Telecommunications Company Ltd.*
The Company's abbreviated name: *Matáv Ltd.*

2. Section 1.4. of the Articles of Association shall be deleted and replaced with the following:

1.4. Sites and Branch Offices of the Company:

(a) Sites of the Company:

1117 Budapest, Neumann János Krt. 1/G
1122 Budapest, Maros u. 32.
1107 Budapest, Zágrábi u. 1-3.
1013 Budapest, Krisztina krt 32.
1122 Budapest, Maros u. 19-21.
1107 Budapest, Bihari u.6.
1082 Budapest, Horváth Mihály tér 17-19.
1052 Budapest, Városház u. 18.
1117 Budapest, Magyar tudósok krt.9.
1073 Budapest, Dob u. 76-78.

(b) Branch Offices of the Company:

4026 Debrecen, Bethlen u. 1.
3525 Miskolc Régiposta u. 9.
9400 Sopron, Széchenyi tér 7-10.
7601 Pécs, Rákóczi út 19.
8174 Balatonkenese, Parti sétány 51.

3. Section 1.6.2. of the Articles of Associations (Other activities) shall be amended as follows:

50.10 '03 Sale of motor vehicles
56.21 '03 Retail sale via mail order
67.13 '03 Auxiliary activities
71.10 '03 Renting of automobiles

4. Section 2.1. of the Articles of Association is amended as follows:

*„The shares of the Company are put out in a dematerialized form.
Dematerialized shares are such registered shares that do not have serial numbers and the name and other data to clearly identify their owners are contained in the securities account.”*

5. Section 2.3.2.9. (a) of the Articles of Association shall be amended with the following text:

„unless otherwise provided by the Act on Business Associations or the Articles of Associations”

6. The text following the dash in Section 2.3.2.9. (d) of the Articles of Associations shall be deleted and replaced with the following:

„- the rights ensured in the Contract regarding the provision of universal electronic communications services defined in Sections 117-118 of Act C. of 2003 –,”

7. The following text shall be deleted from point (f) of Section 2.3.2.9.: “by means of replacement or stamping of the shares”.

8. Section 2.4. of the Articles of Associations shall be deleted and replaced with the following text:

2.4. The Nominal Value of Shares and the Certificate issued on the Dematerialized Share

Shares belonging to the same share type have the same nominal value.

The security account of the owner of dematerialized shares must include the data specified by the relevant laws.

A certificate – which does not qualify as a security - shall be issued on each type of dematerialized share and deposited in the central treasury, bearing the signatures of two members of the Board of Directors.

9. The first two sentences of Section 2.5. (a) shall be deleted and replaced with the following text:

„The acquisition and transfer of the dematerialized share shall only be effected through crediting or debiting the securities account.

The owner of the security – unless the contrary is proved - shall be the person who owns of the securities account on which the security is registered.”

10. Points (a) and (b) of Section 2.6.2. shall be deleted and replaced with the following text (and point (c) consequently becomes (b)):

„ (a) statement of account issued to the name of the acquirer of the share, proving the ownership of the share on the date of issuance towards third parties; and”

11. Section 2.8. of the Articles of Association (Procedure to Be Followed in the Event of Destruction, Loss, Invalidation of or Damage to the Shares) shall be deleted.

12. The first paragraph of Section 4.5. of the Articles of Associations shall be deleted and replaced with the following:

„If the Annual General Meeting establishes that the company has made profit and determines that dividends should be paid, the shareholders shall only be entitled to such dividends if they have been entered in the shareholders’ register as owners of the shares and when they submit the certificate of the financial institution – keeping their account – on their dematerialized shares at the place of disbursement as determined by the Company for the purpose of payment of the dividend.”

Those shareholders shall be entitled to receive dividend for dematerialized shares who qualify as owners thereof, certified by a statement of account on the turning date as defined by the issuer.

13. The last two paragraphs of Section 4.5. of the Articles of Associations shall be deleted and replaced with the following text:

An interim dividend may be disbursed between the approval of two consecutive reports under the Act of Accounting, if

- *on the basis of the interim balance it can be stated that the Company possesses sufficient coverage to pay the interim dividend and that the sum to be paid does not exceed the profit generated since closing the books according to the last business year’s annual report under the Act of Accounting plus the unused profit*

reserve, and subsequent to the said outpayment the own capital of the share company – adjusted according to the Act of Accounting – must not fall under the registered capital, and

- *shareholders undertake to return the interim dividend if later, according to the report under the Act of Accounting - and pursuant to Section 223 (1) of the Act on Business Associations – the law would not allow the outpayment of such dividend.*

No dividend shall be paid for the Company for its own shares.

14. Section 4.7. of the Articles of Associations shall be deleted and replaced with the following text:

The General Meeting may only pass a resolution resulting in the delisting of shares from the stock exchange – including the decision resulting in the delisting a series of shares as a sanction - if any shareholder previously undertakes the obligation to submit a public bid for purchasing the shares in relation to delisting, according to the Regulations of the Budapest Stock Market for Listing, Continued Trading and Disclose.

15. Section 6.2. of the Articles of Association shall be amended as follows:

point (a) is amended as follows: „unless otherwise provided by the law”

point (b) shall be deleted and replaced with the following text:

“unless otherwise provided by the law, the increase or decrease of the registered capital of the Company”

the following shall be deleted from point (e): “by means of replacement or the stamping of the shares”

point (f) is amended with the following text: „unless otherwise provided by the law”

(o) the text after the dash shall be deleted and replaced with the following:

„- rights granted in the Contract that was concluded for the purpose of providing universal electronic telecommunications services pursuant to Articles 117-118 of Act C of 2003 on electronic communications,,

point (t) shall be amended with the following text: „– unless otherwise provided by the law –,,

point (u) shall be deleted,

point (v) is changed to point (u) and amended as follows: „- unless otherwise provided by the law,,

the list is amended by a new point (v):

„(v) decision on the exclusion of subscription preference right”.

In point (z) the expression “Act on Business Associations” is replaced with the word “Act”

16. Section 6.18.1. of the Articles of Associations shall be amended with the following paragraphs:

Disadvantageous resolutions regarding rights related to a series of shares can only be made by the General Meeting if the shareholders of the affected share series give their separate consent thereto. During this, provisions related to possible limitation or exclusion of share related voting rights – including the exclusion from own shares - shall not apply.

Such resolution – according to the general rules – can be made with casting the votes of the „A” series shareholder first, than those of the holder of „B” series, in each case at least with a three-quarters majority per series.

Resolutions regarding the modification of the form of operation of the Company can only be made if at least three-quarters of the shareholders, each representing minimum one percent of the votes, gives his prior consent thereto.

During the acquisition of the above mentioned consents the Board of Directors shall notify the shareholders in a public notice to declare within 30 days upon receiving such notification whether they give their consent to the planned modification. The notification must include the reasons of the planned modification.

The record taken by the Company on the declarations shall be authenticated by KELER Rt., keeper of the share register of the Company.

17. The second and the third sentence of Section 7.2. of the Articles of Associations shall be deleted and replaced with the following text:

„The members of the Board of Directors shall be elected by the General Meeting. The assignment of the members of the Board of Directors lasts for a term of three years from the date of the annual General Meeting until May, 31 of the third year subsequent to the date of the said General Meeting with the exception, that if the General Meeting in the third year is held prior to May 31 than their assignment lasts until the date thereof.”

18. Section 7.5.1. of the Articles of Associations shall be modified as follows:

The Universal Telecommunications Service expression in point (j) shall be replaced with „Universal Electronic Telecommunications Service”.

point (l) shall be deleted and replaced with the following text:

(l) Ensures 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.

19. Section 7.5.2. of the Articles of Associations shall be deleted and the numbering of Section 7.5.3. is changed to 7.5.2

20. The second sentence of Section 8.2. (a) of the Articles of Associations shall be deleted and replaced with the following text:

„The members shall be elected by the General Meeting. The assignment of the members of the Supervisory Board lasts for a term of three years from the date of the annual General Meeting until May, 31 of the third year subsequent to the date of the said General Meeting with the exception, that if the General Meeting in the third year is held prior to May 31 than their assignment lasts until the date thereof.”

21. The second paragraph of Section 10.2. of the Articles of Associations (Proper signature on behalf of the Company) shall be deleted.

22. Section 11.2. of the Articles of Associations shall be deleted and replaced with the following text:

11.2. Subscription preference right

11.2.1. If the registered capital is increased through contribution in cash each shareholder – first those who possess the same share series as the issued shares thereafter those who possess convertible of subscription right bonds – in the aforementioned order - are entitled to receive subscription preference rights as set out in this Articles of Associations.

If the registered capital is increased through closed issuance the subscription preference right shall mean the preference right to take-over the shares.

11.2.2. Exercising the subscription or take-over preference rights can be excluded by the General Meeting – on the basis of the written submission of the Board of Directors. In this case the said submission of the Board of Directors must present the

reasons of submitting the proposal on excluding subscription preference rights and the planned issuing value of the shares.

Content of the submission and its discussion:

The Board of Directors shall discuss and decide on the approval of the submission according to the rules set out in its Rules of Procedure than submits it to the General Meeting for approval.

The following must be defined in the submission:

- nominal value, pieces and series of the shares,*
- in case of issuing new shares in a closed circle the declaration on undertaking the obligation to take-over of the shares, specifying the person(s) making the declaration,*
- method of the increase of the registered capital,*
- subscription minimum,*
- draft modification of the Articles of Associations,*
- issuance value of the shares and the conditions of their payment,*
- in case of non-cash contributions the data related to their provision*
- other significant data.*

23. Section 11.3. shall be modified as follows:

The expression „pre-emptive” shall be replaced with „subscription preference”

24. Section 11.4 shall be modified as follows:

The expression „the planned increase of the registered capital” shall be replaced with „the subscription minimum”.

25. Section 11.5. of the Articles of Associations shall be replaced with the following text:

The Company may increase its registered capital with its assets above the registered capital or a part thereof if according to the previous year’s report under the Act of Accounting or the interim balance the sufficient coverage of the capital increase is available and subsequent to the capital increase the amount of registered capital does not exceed its own capital, adjusted according to the Act of Accounting. The statement on the availability of the sufficient coverage from the assets above the registered capital, the figures of the annual report and the interim balance can be applied within six months upon the turning date of the above documents.

Shares falling on the increased registered capital shall be granted to the shareholders of the share company free of charge, in proportion to the nominal value of the shares of such shareholders.

26. The Articles of Associations shall be amended with a new Section, namely with Section 12. And the numbering of the following Sections shall be modified accordingly.

12. Decrease of the registered capital of the Company

The Company is entitled to decrease its registered capital.

The prevailing rules of decreasing the registered capital are set out in Section 8 of Chapter XII of the Act on Business Associations.

The validity of the resolution aiming to decrease the registered capital is subject to the separate consent of the affected „A” and „B” series share owners, in each case with three-quarters majority of the votes cast. During this, provisions related to possible limitation or exclusion of share related voting rights – including the limitations related to own shares - shall not apply.

If, in the order of voting, the three-quarters majority approval of the „A” series share owners is granted first, than the three-quarters majority approval of the „B” series share owners is necessary for the validity of the resolution. If the three-quarters majority can not be obtained in case of any share type the proposal on decreasing the registered capital must be withdrawn from the agenda.

The detailed conditions of exercising shareholder rights must be included in the resolution of the General Meeting regarding the decrease of the registered capital.

27. The original 14.2. Section of the Articles of Associations shall be deleted and replaced with the following text:

Notices and advertisements of the Company shall be published in the nationwide, official journal of the Budapest Stock Exchange and in the official publication space of the Budapest Stock Exchange Ltd. (i.e. home page of the Stock Exchange) and the Official Gazette ("Cégekzlöny") in cases required by applicable law.

28. The original 14.5. Section of the Articles of Associations shall be deleted and replaced with the following text:

„15.5. Universal electronic communications service providing obligations:

Pursuant to Section 119-120 of Act C of 2003 on electronic communications and as a performance thereof the provisions of the Universal Telecommunications Service Provisioning Contract and its Annex 1 (Articles of Associations) concluded between the Minister heading the Prime Minister's Office and Magyar Távközlési Részvénytársaság shall remain effective until the conclusion of the universal electronic communications service provisioning contract between the Minister of Informatics and Communications and Matáv Magyar Távközlési Részvénytársaság.”

Hungarian Telecommunications Company Ltd.

SUBMISSION

for Matáv Ltd.'s General Meeting

Subject: *Election of the auditor and determination of his remuneration*

Budapest, April, 2004

The Board of Directors recommends to the AGM to elect as Matáv Rt.'s auditor PricewaterhouseCoopers Kft (registered offices: 1077 Budapest, Wesselényi u. 16., reg. no.: 001464), and as individual auditors for a period of two years the following persons (until May 31, 2006, however, if in the last year of the contract, the Balance Sheet for the prior year is completed before May 31, then the assignments expire on the day of the approval of the Balance Sheet).

Szilvia Szabados

Chamber membership number: 005314

Address: 1031 Budapest, Amfiteátrum u. 25. VI. 53

Mother's maiden name: Terézia Bukó

PricewaterhouseCoopers Ltd. (1077 Budapest Wesselényi u. 16

Registration no.: 001464)

In the event that Szilvia Szabados is incapacitated, the AGM elects Mónika Pais (chamber membership number: 005402, mother's maiden name: Kaposi Gizella, address: 1125 Budapest, Csipke u. 5-7.) to act as responsible auditor.

The Board of Directors proposes to the Annual General Meeting that HUF 95,400,000 (+ a maximum of 5% for related costs) + VAT per year, be the auditor's compensation, covering the audit of the annual financial statements of Matáv Rt. (Company) and of the Matáv Group prepared in accordance with the Hungarian Accounting Act and also the audit of the annual financial statements of the Matáv Group prepared in accordance with International Financial Reporting Standards (IFRS).

Resolution proposal

The Annual General Meeting elects, as Matáv Rt.'s auditor, PricewaterhouseCoopers Kft (registered offices: 1077 Budapest, Wesselényi u. 16., reg. no.: 001464), and as individual auditors for a period of two years the following persons (until May 31, 2006, however, if in the last year of the contract, the Balance Sheet for the prior year is completed before May 31, then the assignments expire on the day of the approval of the Balance Sheet) .

Szilvia Szabados

Chamber membership number: 005314

Address: 1031 Budapest, Amfiteátrum u. 25. VI. 53.

Mother's maiden name: Terézia Bukó

PricewaterhouseCoopers Kft. (1077 Budapest Wesselényi u. 16

Registration no.: 001464)

In the event that Szilvia Szabados is incapacitated, the AGM elects Mónika Pais (chamber membership number: 005402, mother's maiden name: Gizella Kaposi, address: 1125 Budapest, Csipke u. 5-7.) to act as responsible auditor.

The Annual General Meeting approves the payment of HUF 95,400,000 (+ a maximum of 5% for related costs) + VAT per year, covering the audit of the annual financial statements of Matáv Rt. (Company) and of the Matáv Group prepared in accordance with the Hungarian Accounting Act and also the audit of the annual financial statements of the Matáv Group prepared in accordance with International Financial Reporting Standards (IFRS).

Hungarian Telecommunications Company Ltd.

SUBMISSION

for Matáv Ltd.'s General Meeting

Subject: *Approval of the Rules of Procedure of the Supervisory Board*

Budapest, April, 2004

Reasons for the modification of the Rules of Procedure:

It has become necessary to harmonize the Rules of Procedure of the Supervisory Board with the modifications of the Articles of Association. In consideration of the above this submission includes the amended and restated text of the Rules of Procedure of the SB in a way that the proposed text to be deleted is underlined whereas the text to be inserted is printed in strikethrough letters.

Resolution proposal

The General Meeting approves the amended and restated Rules of Procedure of the Supervisory Board of Matáv Rt.

AMENDED AND RESTATED RULES OF PROCEDURE
OF THE SUPERVISORY BOARD OF THE
HUNGARIAN TELECOMMUNICATIONS COMPANY LTD.

1. General Rules

- 1.1. The Supervisory Board (hereinafter: SB) supervises the management of the Company for the General Meeting.
The SB carries out its activities pursuant to Act no. CXLI. of 1997 on Business Associations (hereinafter: "Companies Act" or "CA"), and the Articles of Association of MATÁV Rt. in force (hereinafter: Articles).
- 1.2. Within its scope of authority provided by the statutes the SB may request information from the Company's senior officials and employees; and may examine the books and documents of the Company. (CA Section 32 (2))
- 1.3. The SB shall examine the important reports of business policy that are on the agenda of the General Meeting. The General Meeting may pass a resolution on the annual report prepared in accordance with the Act on Accounting and the use of the profit after income tax only upon receipt of the written report of the Supervisory Board. (CA Section 32 (3) Articles 8.5).
- 1.4. Reviews, and upon its agreement, approves contracts to be concluded by and between the Company and any of its shareholders holding voting rights equaling at least ten percent of the share capital of the Company or by and between the Company and a close relative of such shareholder (Companies Act Section 224. (1) (2)).
- 1.5. The SB is entitled to express its opinion regarding the selection of the auditor and the content of the contract, concluded with the said auditor.

2. Organization of the SB

- 2.1. The SB consists of 3-15 members. (Articles 8.2.)
~~Its members shall be elected by the General Meeting for a period of one (1) year. The members are elected by the annual General Meeting. The assignment of the members of the Supervisory Board lasts for a term of three years from the date of the annual General Meeting until May, 31 of the third year subsequent to the date of the said General Meeting with the exception, that if the General Meeting in the third year is held prior to May 31 than their assignment lasts until the date thereof.~~ (Articles 8.2.)
The holder of the "B" series voting preference share is entitled to nominate an SB member for election. (Articles 2.3. 2.1.)

The Works Council - after hearing the opinion of the trade union - nominates for election the employee representatives (CA Section 37. (1); Articles 8.2. (a)).

At the nomination of the employee representatives of the SB, the Works Council specifies the order of nominees with taking the prevailing number of SB members into account.

The members shall be elected by the Annual General Meeting for a period of one (1) year, until the next Annual General Meeting. The members are elected by the annual General Meeting for the same period as those of the members of the managerial bodies.

2.2. SB membership terminates with:

- expiration of the assignment period;
- recall;
- resignation;
- death;
- termination of employment of the employee delegate (*the employee delegate can only be recalled by the General Meeting upon the proposal of the Work Council, except if the Work Council does not meet its legal obligations to propose the delegate in spite of the existence of the reason for the exclusion, as set forth in the Act. CA Section 37. (1);*
- the occurrence of any disqualifying event as regulated in the CA (the SB member involved shall inform in writing the Chairman of the SB within 15 days of the occurrence of the event.

An SB member may resign at any time, but if the operation of the Company so necessitates, the resignation will only take effect on the sixtieth day from its announcement, except if the General Meeting has already arranged for the selection of the new SB member.

3. Operation of the SB

3.1. The SB acts as a body. It may assign certain supervisory tasks to any of its members, or may divide supervisory tasks among its members on a permanent basis.

The Supervisory Board may establish opinionant, proposer and advisory bodies from its members and/or external persons on a permanent or occasional basis to carry out certain tasks. In order to comply with the relevant rules of foreign laws and stock market regulations due to being listed in the NYSE the SB shall establish the Audit Committee. The task of the Audit Committee is to supervise the financial reports of MATÁV Rt. and to elaborate its opinion regarding the selection of the auditor and the content of the contract concluded with the said auditor. The Audit Committee shall be comprised of at least three (3) independent members, one of whom must be a financial expert. The members of the Audit Committee can be selected from the SB members or from external sources as well. The Rules of Procedure and the selection of members of the Audit Committee shall be approved by the Supervisory Board.

The SB holds its meetings as necessary but at least three (3) times per year. At its first meeting the SB elects a chairman, if necessary, a deputy chairman or deputy chairmen from among its members. (CA Section 34. (1) (3)).

The meetings are conducted in Hungarian and English.

Comments made in Hungarian shall be simultaneously translated into English, whereas, comments made in English shall be simultaneously translated into Hungarian.

- 3.2. The Chairman convenes and conducts the SB meetings.
Any member, specifying the reason and the purpose, may at any time request the Chairman in writing to call a meeting; the Chairman shall, within eight (8) days as of the receipt of the request, make the necessary steps to call the meeting to be held within thirty (30) days. If the Chairman does not fulfill the request the member is entitled to call the meeting. (CA Section 34. (3)).
The Chairman shall nominate the Keeper of the Minutes, the Supervisory Board member who authenticates the Minutes, puts the issues to the vote and announces the result thereof.
- 3.3. Notice of the meeting shall be sent to the SB members 15 days before the date of the meeting by courier (express mail) or telefax, to the address or fax number specified by the SB member concerned.
If there is no such address the notice shall be sent to the last known address of fax number of the member concerned.
The notice shall contain the agenda, venue and date of the meeting.
Discussion materials must be attached to the notice in Hungarian and English.
- 3.4. In case of his absence the Chairman shall be substituted by the Deputy Chairman, *in case of lacking a Deputy Chairman, the Chairman requests a member to preside over the meeting.*
- 3.5. The SB meeting has a quorum if 2/3 of the currently elected members are present. If the Supervisory Board is comprised of three members or if the above mentioned 2/3 is less than three persons the presence of three persons is necessary to constitute a quorum. (CA Section 34 (1), Articles 8.2. (b)).
- 3.6. The SB passes its resolutions by open vote and simple majority.
In the event of a tie vote, the proposal supported by the Chairman, or, in case of his absence, the proposal supported by the Deputy Chairman shall be approved. If the Chairman (Deputy Chairman) is not present at the meeting a proposal cannot be considered approved in the event of a tie vote, and the item must be discussed again at the next meeting.
- 3.7. If the meeting does not have a quorum it shall be convened again within 15 days.

- 3.8. The members of the SB shall act in person; no representation is permitted. (CA 34 (2)).
- 3.9. If there is an appropriate reason and if the Chairman (Deputy Chairman) so decides, the meeting may be held by means of a conference call, if the communication equipment makes it possible for all members to hear each other simultaneously.
Such participation at the meeting is to be considered as presence.
- 3.10. The SB may pass resolutions on any issue without holding a meeting if SB Members received the submission requiring a decision beforehand and 2/3 of the SB members cast their affirmative votes in writing (by fax).. *The general rules apply to the validity of the resolution.* The resolution and its approval by the respective SB Members shall be handled according to the rules on the minutes. If any SB member requests to convoke an SB meeting, the said meeting must be held.
- 3.11. At the proposal of the Chairman (Deputy Chairman-*Presiding Chairman*), with a two-thirds majority vote of the members present, a private meeting may be held. Only those invited for a given issue may be present at private meetings, in addition to the SB members.
- 3.12. To prepare its position in certain issues the SB may set up committees from among its members – *on a permanent or an ad hoc basis. The rules of procedure of the permanent committee (rules of operation) shall be established by the committee itself and shall become effective upon the approval thereof by the Supervisory Board.* To prepare a position requiring special expertise the SB may commission external experts at the expense of the Company.
- 3.13. Permanent invitees to the SB meetings are:
- *the Chairman and the Deputy Chairman of the Management Committee and the member appointed by them*
 - head of the Company's internal audit unit
 - *a legal counsel of the Company*
 - administrative personnel (keeper of the minutes, interpreter)
 - the delegated member of the Audit Committee, if he is not an SB member
- 3.14. Ad hoc invitees to the SB meetings:
- The Chairman (Deputy Chairman-*Presiding Chairman*) shall decide upon the necessity of inviting the Company's Auditor (its representative). The Auditor shall participate at the meeting without the right to vote.
 - the SB members are entitled to occasionally propose the ad hoc invitation (presence) of experts to the meeting or for the discussion of certain issues on the agenda. The SB decides

upon the attendance of such expert by vote at the start of the meeting.

3.15. The administrative technical conditions required for the operation of the SB (keeping of minutes, interpretation, meeting room, tape recorder, overhead projector, etc.) will be provided and their costs will be borne by the work organization of the Company.

4. Minutes (Articles Section 8.8.)

4.1. *Minutes of the SB meetings shall be taken in Hungarian which must be translated to English prior to authentication. Both Minutes shall be authenticated. In case of any conflicts between the wording of the Hungarian and the English version, the English version shall be the prevailing one, to the extent that is permitted by the Hungarian law.*

4.2. The minutes shall contain:

- the venue and date of the meeting;
- the names of the participants;
- the agenda;
- the names of *the Chairman of the meeting, the Keeper of the Minutes and the Authenticator of the Minutes*;
- the major questions asked during discussion on individual items on the agenda, *and the answers given to questions*;
- transcription of individual SB Members' contributions to the debate, provided that the respective SB Members demand so;
- the resolutions;
- *the number of votes cast for and against the resolutions in addition to the abstentions*;
- *objections to the resolutions (provided the objecting SB Member requests the objection be entered into the Minutes).*

4.3. At the request of any participant the contributions, opinions and objections shall be recorded in the minutes verbatim.

4.4. The minutes are signed by the Chairman of the SB meeting and the keeper of minutes and are certified by an SB member present.

4.5. Following certification the minutes shall be sent, in English or Hungarian, to all SB members and participants and to persons who were invited to the discussion of specific agenda items. *SB members may query the accuracy of the Minutes, including the translation thereof, within fifteen (15) days from the receipt of the relevant minutes.*

4.6. The minutes recorded at private meetings are available exclusively to the participants specified under point 3.11.

5. Tasks relating to the General Meeting

- 5.1. Members of the SB participate at the General Meeting without the right to vote. (CA Section 32. (5); Articles 6.5.)
- 5.2. The SB convenes an extraordinary General Meeting if, in its opinion, the activities of the management
 - infringe a statute, the Articles of Association or the resolutions passed by the General Meeting; or
 - offend the interests of the Company or its shareholders.

The SB makes a proposal as to the agenda of the extraordinary General Meeting called with the aforementioned purpose. (CA Section 32.(4)).

- 5.3. The SB shall examine and prepare a report on every important report of business policy and every submission on an issue within the exclusive competence of the General Meeting. (CA Section 32 (3), Articles 8.5.)
- 5.4. The Board of Directors shall make available to the SB its submissions to the General Meeting at least 25 days before the General Meeting.
- 5.5. The SB shall forward its report set forth under point 5.3. in time to allow the publication of the main data contained in the report fifteen (15) days before the General Meeting. (CA Section 228. (2), (3))
- 5.6. At the General Meeting, the Chairman or Deputy Chairman of the SB - in case of his absence the SB member designated by him - verbally presents the report of the SB in full during the discussion of the given agenda item, or, if this is impossible because of the length of the report, he provides a summary of it.

6. Liability of the members of the SB

- 6.1. The SB members have an unrestricted and joint and several liability to the Company for damages caused by a breach of their supervisory obligations (CA Section 38. (4); Articles 8.10.)
- 6.2. The SB members are obliged to keep in strictest confidence the information obtained by them on the Company's business. (CA Section 27 (1))

7. Conflict of Interest

The members of the SB, their close relatives as defined in Section 685. (b) of the Civil Code or any business association in which these persons hold an interest of over 10 percent, may not hold a stake of over 5 percent in, may not be employed by, may not be officials of and may not enter into a contractual agreement with any business association that is a competitor of the Company,

except if permitted by law and the General Meeting, with a 3/4 majority, gives exemption from the provisions of this paragraph.

Pursuant to the authorization, set forth in CA Section 25 (1), SB members may be elected to posts or to be Members of Supervisory Boards of such other companies that do similar activity to that of the Company, in which the Company holds at least 25% ownership and/or voting right.

Members of the Supervisory Board and their close relatives (Civil Code Section 685 b) may on their own behalf and to their benefit conclude agreements with the Company relating to the use of public purpose telecommunications services available to anyone (CA Section 25 (2), Articles 12)

8. Indemnification of the SB members (Articles, Section 13)

8.1. Indemnification

To the extent permitted by law the Company shall indemnify any present or former member of the Supervisory Board who was or is a party or is threatened to be a party to any threatened, pending or concluded civil, criminal or administrative procedure by reason of his above position at the Company for costs (including attorney's costs) ordered by the court, fines or amounts paid in settlement actually and reasonably incurred by him in connection with the above proceedings or suits if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Company and, in the case of a criminal proceeding, he had no reasonable cause to believe that his conduct was unlawful.

8.2. Advancement of costs

The Company may reimburse the costs borne by a member of its Supervisory Board in any civil, criminal or administrative proceeding or action (including reasonable attorney's fees) to the given person prior to the conclusion of the procedure, if the SB member undertakes to pay back the amount if it is decided that he is not entitled to indemnification by the Company as defined under paragraph 8.1.

8.3. Insurance

The Company has the right to take out and maintain insurance to the benefit of the current and former members of the Supervisory Board in respect of the liability borne by or imputed to them by reason of or in connection with such position, irrespective of whether or not the Company is entitled to indemnify them because of the given liability in accordance with the above 8.1. and 8.2 paragraphs of these Rules of Procedure or the statutes.

9. Miscellaneous

- 9.1. The SB approves the Internal Audit Work Plan of the Company. A report on internal audit activities must be submitted to the SB meeting on a regular basis. The SB decides in a resolution whether to accept such a report.
- 9.2. Members of the SB may not be instructed by *the members of the company or his* employer in respect of their activities carried out as part of such positions. (CA Section 34. (2)).
- 9.3. The senior officials and employees of the Company are obliged, in the course of the supervisory activities of the SB, to supply all information and make the necessary documents and files available to the SB. If the above persons do not comply with their such obligation the SB shall inform the Board of Directors about such failure without delay.
- 9.4. The management of the Company provides the members of the SB the possibility of entering the official premises of the Company to facilitate fulfillment of their tasks.
- 9.5. . The General Meeting may provide remuneration to the members of the SB (CA Section 24. (3)).
- 9.6. A person elected Supervisory Board member shall, within fifteen (15) days as of acceptance of his new office, inform in writing the economic associations where he is already an SB member. (CA Section 32 (1))
- 9.7 *The Supervisory Board, according to its authorization, set forth in Section 3.12 of this Rules of Procedure, establishes the Audit Committee, the framework of operation of which shall be set forth in Annex No. 1 of this Rules of Procedure.*

Final clause

Matáv Ltd.'s Annual General Meeting held on April 25~~8~~³⁴, 200~~34~~³⁴ approved the Rules of Procedure herein, pursuant to its resolution ~~No. 29/2003. (IV. 25.)~~

