

Magyar Telekom Telecommunications Public Limited Company

Submission

for Magyar Telekom Plc.'s General Meeting

Subject:	Report of the Board of Directors on the management of Magyar Telekom Plc., on the business operation, on the business policy and on the financial situation of the company and Magyar Telekom Group in 2008
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Annual General Meeting

April 2, 2009

Christopher Mattheisen
Chairman and CEO

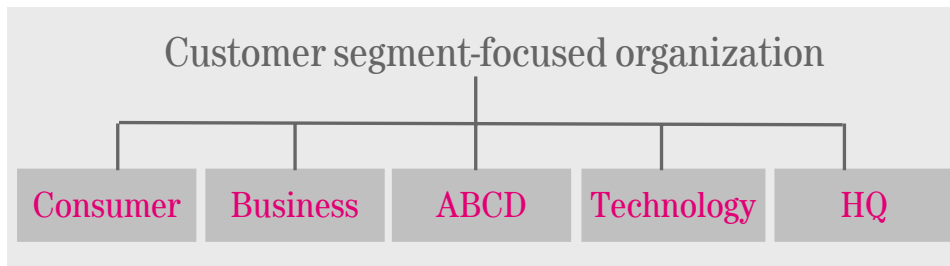


Changes in organization, brand structure

Leaner organization, simpler brand structure

New organizational structure

New organization since January 1, 2008



- **Consumer Services:** mobile and wireline consumer services under the T-Home and T-Mobile brands
- **Business Services:** mobile and wireline corporate services including SI/IT under the T-Systems brand
- **Alternative Businesses and Corporate Development (ABCD):** content, media and other non-access services, new business development
- **Technology and IT Management:** mobile and wireline network and IT management and development

Clear brand structure



- “T” as our corporate brand identifies the Magyar Telekom Group

Consumer Services



- “In the Home” wireline home communications and entertainment services



- “On the Move” wireless communication and entertainment services

Business Services



- Business and corporate solutions, ICT services

Improving service quality and portfolio

Reinforcing technological leadership

New generation access strategy

5-year plan aiming to cover 1.2 million households by 2013 (~30% of Hungarian households) offering bandwidth of up to 100 Mbit/s

Fiber-to-the-Home network

- to cover around 200,000 households by end-2009, extending to 780,000 households by end-2013
- using mainly FTTH G-PON technology

Cable network upgrade

- to cover around 380,000 households by end-2009
- using Docsis 3.0 technology

Total investment is HUF 40 billion between 2009 and 2013

- 2009 CAPEX is HUF 10bn, which will be absorbed in the annual CAPEX spending
- total 2009 Group-level CAPEX will remain at 2008 levels

Satellite TV service

T-Home Sat TV

- nationwide DVB-S service (Digital Video Broadcasting-Satellite)
- 5,000 Sat TV subscribers plus additional 13,000 orders by end-2008
- premium picture and voice quality, HD channels, electronic program listings
- discounts for 2Play and 3Play subscriptions

Investment need

- CAPEX required for the establishment of the service was less than HUF 1 billion in 2008



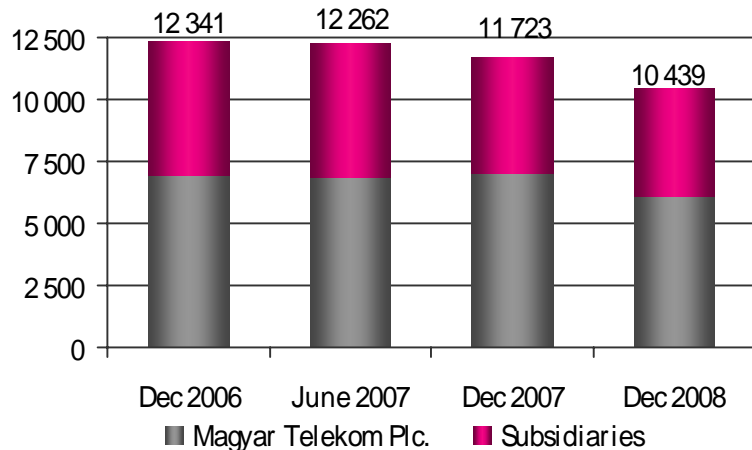
Focus on efficiency

Headcount rationalization

Efficiency improvement

- headcount reductions enabled through integrated operations and leaner corporate structure

Employee numbers



Total Workforce Management

- focus on total labor cost -including contracted, rented employees as well as outsourcing contracts
- aim to maintain or even slightly decrease total labor costs in nominal terms over the coming years

Headcount-reduction

Headcount reduction for 2008

- 15% decrease (~1,800 employees) by end of 2008 compared to the end of June 2007 level of 12,262
- severance-related expenses of HUF 27.5bn in 2007



100% of the planned headcount reduction completed by end-2008

Headcount reduction for 2009

- ~300 employee redundancies by end-2009
- HUF 5bn severance-related expenses accounted in Q4 2008
- the related savings will reach around HUF 1.8bn on an annual basis

Wage increase for parent company employees

- 5.5% from March 2008
- 5.6% from April 2009

2008 summary

		Revenues		EBITDA		EBITDA margin
Group		HUF 673.1bn	-0.5%	HUF 268.4bn	+10.0%	39.9%
	Underlying**			HUF 282.3bn	+1.9%	41.9%
Segments*	T-Home	HUF 290.5bn	-5.6%	HUF 117.7bn	+5.5%	40.5%
	underlying			HUF 122.8bn	-3.9%	42.9%
	T-Mobile	HUF 349.4bn	+0.7%	HUF 148.4bn	-0.6%	42.5%
	underlying			HUF 149.2bn	-1.3%	42.7%
	T-Systems	HUF 85.2bn	+8.0%	HUF 23.6bn	+99.7%	27.7%
	underlying			HUF 25.1bn	+83.9%	29.4%
	HQ & shared services	HUF 22.1bn	-6.7%	HUF -21.4bn	+25.8%	n.a.
	underlying			HUF -14.8bn	+4.4%	n.a.
International contribution			16.2%		18.6%	

*Before intersegment eliminations

** Excluding special influences and including the HUF 8.5bn one-time provision reversal related to F2M IC fees accounted in Q2 2008

Public targets for 2008 and 2009

2008 public targets and results

2009 public targets

Revenue

Flat over 2007

-0.5%



1% decline compared to 2008

- due to recession disposable income will significantly fall
- competitive landscape
- strict regulation

Underlying* EBITDA

Flat over 2007

+1.9%



1-2% decline compared to 2008

- difficult macroeconomic environment
- increased competition in the international mobile markets
- regulatory impacts

**Excluding special influences*

Capex** / sales

Around 15%

15.4%



Capex: maintain the absolute 2008 level

- fiber-to-the-home roll-out
- increase BB coverage (fixed and mobile)
- develop new products and services

***Excluding the Macedonian 3G license fee of HUF 2.5bn and non-cash items totaling HUF 1.8bn in Q4 2008*

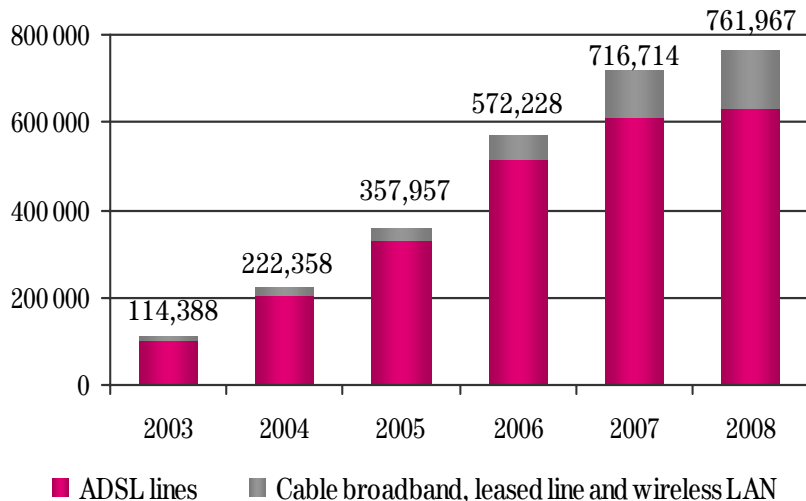
T-Home: Hungarian operations

Broadband market developments

General deceleration of BB market growth

- MTel's ADSL retail market share is 52%, cable BB 16%
- most competition comes from cable operators, while mobile BB is also becoming a competitive product
- decline in average DSL ARPU to HUF 5,300 (11% decrease compared to the level in 2007)

Broadband growth



Focus on customer retention...

Voice revenues under threat from competition

- increasing threat from cable operators offering 3Play
- strong mobile substitution as mobility premium diminishes
- annualized churn of fixed lines was 9.6% at the end of 2008

... and on Triple play offers



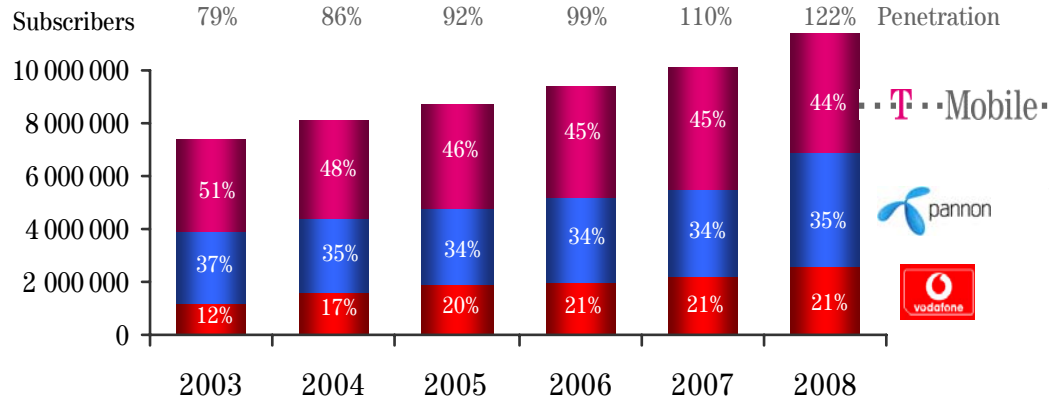
Strong focus on Triple play on both fixed line and cable network

- Rebranding and repositioning of our 3Play offers
- New, simple and competitive offers under the T-Home brand, launch of Sat TV service
- fixed line: IPTV, ADSL, VoIP
- cable: CaTV, Cablenet, VoCable
- offers starting from HUF 6,480/month (~EUR 26)

T-Mobile: Hungarian operations

Competitive environment

Subscribers, market shares and penetration*



*Subscribers and market shares are based on active SIM cards reported by NRA

Focus on broadband service

Mobile network development

- HSDPA network covering ~67% of population
- up to 7Mbps bandwidth

Clear market leadership in mobile broadband customers

- number of internet subscribers reached 221,000 at the end of 2008
- market share in mobile broadband customer base stood at 53% at year-end

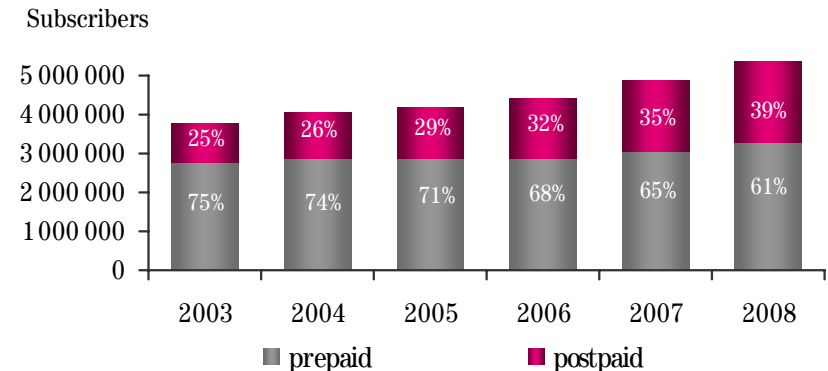
Still growth in customer base

- penetration exceeded 120% at end-2008
- continued growth in RPC base (up 11%)
- acquisition cost/new RPC increased by 13% to HUF 7,376 in 2008

Continuing tariff decline

- MOU increased by 2% yoy to 152 in 2008
- ARPU down by 10% to HUF 4,087 (~EUR 16)
- growing importance of VAS (17% of ARPU)
- postpaid ratio continuously increasing

Increasing postpaid ratio in customer base



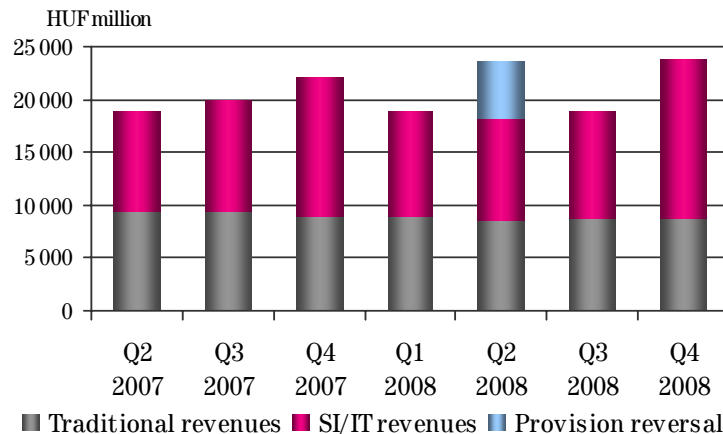
Growing importance of SI/IT services

Leading position in the Hungarian SI/IT market

- full scale IT service portfolio offered through acquisitions of KFKI and T-Systems Hungary
- cross-selling opportunities through integrated sales channels
- new cost-efficient bundled products for our corporate customers

SI/IT revenues grew by 8% in 2008

T-Systems quarterly revenue breakdown



Declining traditional revenues

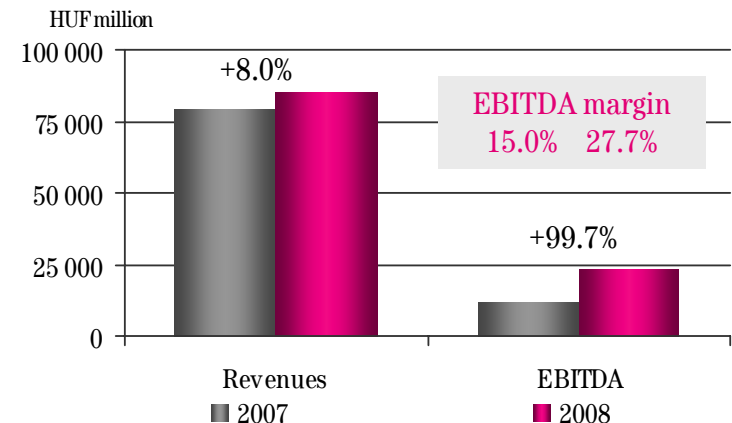
Pressure on voice and data revenues

- intense competition from alternative service providers and strong mobile substitution

Change in revenue mix puts pressure on EBITDA margin

- increasing contribution of low-margin SI/IT revenues
- financials were helped by a one-time HUF 5.3bn provision reversal in Q2 2008

Financial performance



International operations

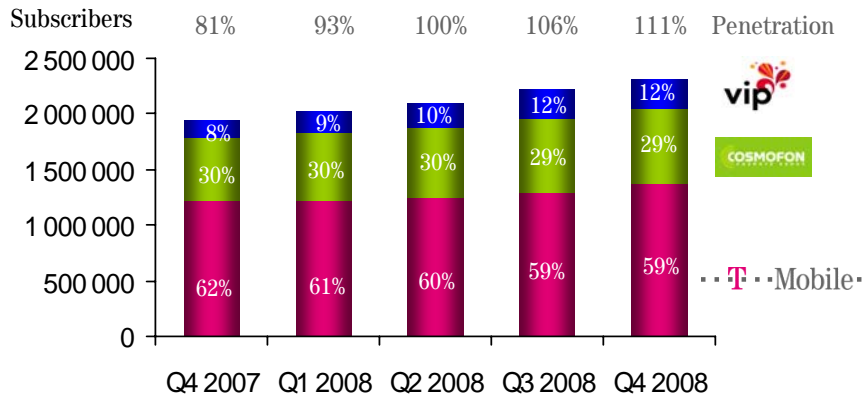
Macedonia

T-Home

Limited top line growth opportunities

- fixed line penetration was 20.9% (down 1.5ppt)
- number of lines ~458,000 (down 7.0%)
- strong mobile substitution, competition from altnets, cables

T-Mobile



- 3rd operator VIP (Telekom Austria) entered in September 2007
- focus on customer acquisition, 14% growth in customers
- MOU 96 (up 7%); ARPU HUF 2,586 (~EUR 10)

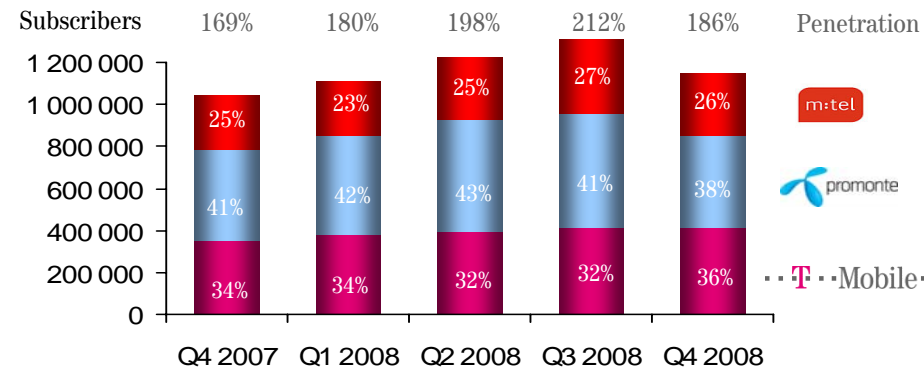
Montenegro

T-Com

Booming broadband market

- fixed line penetration at 28.0% (down 2.6ppt)
- number of lines ~187,000 (down by 1.7%)
- rapidly growing broadband market, 68% growth in internet revenues

T-Mobile



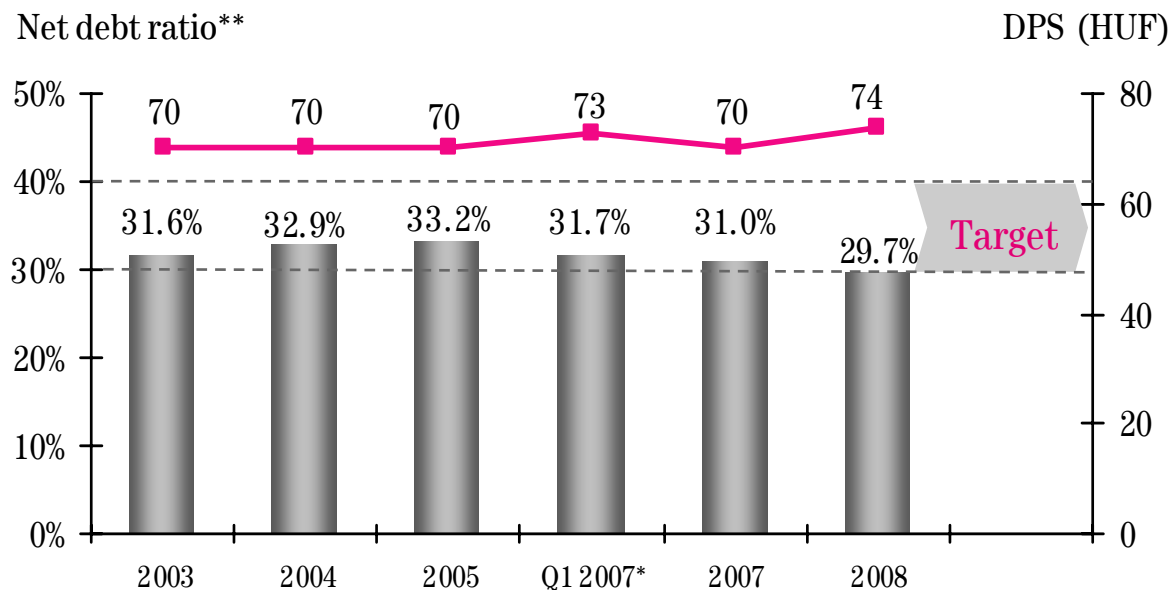
Data based on the active SIM cards published by the Montenegrin Telecom Agency

- high penetration is driven by tourism and 3rd entrant
- 3rd operator M:tel (Telekom Serbia) entered in July 2007
- MOU 105; ARPU HUF 2,886 (~EUR 9)

Proposal for dividend payment

The Board of Directors proposes HUF 74 dividend per share after 2008 earnings for approval to the Annual General Meeting.

Historical dividend payments



* 2006 dividend payment (for 2005 financials) was delayed to January 2007

** net debt / (net debt + total equity)

Dividend payment details

The proposed gross dividend is HUF 74 per share with a nominal value of HUF 100

- **April 15, 2009** detailed announcement will be published on the order of dividend disbursement in Magyar Nemzet, Népszabadság, Napi gazdaság, Világgazdaság, and on the homepage of the Company and the Budapest Stock Exchange
- **April 24, 2009** last day of trading with Magyar Telekom shares entitled to dividend
- **April 27, 2009** ex-dividend date
- **April 29, 2009** record date
- **May 7, 2009** payment date (ordinary shares)
- **May 14, 2009** payment date (ADR)

Method of payment: Magyar Telekom will transfer the dividends to the securities accounts

Dividend – tax implication

- Dividends are subject to withholding tax
- Tax will be deducted before payment
- Rates and taxes:
 - domestic private individuals: 10% personal income tax
 - foreign private individuals: 10% personal income tax
 - legal entities with Hungarian domicile: 0%
 - legal entities with foreign domicile: 0%
- Magyar Telekom issues a certificate on the amount of dividend paid, rates and taxes deducted and sends it to its shareholders not later than January 31, 2010.