

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

## Preamble

The provisions of this Rules of Procedures (hereinafter referred as the "Rules") are applicable to the operation of the Board of Directors of Magyar Telekom Telecommunications Public Limited Company (hereinafter referred as the "Company") within the authorization granted by the Law and the Articles of Association of the Company.

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

1.1 The Board of Directors shall be the management body of the Company and the Board of Directors shall represent the Company with regard to third parties, in court and before other authorities.

1.2 The members of the Board of Directors are elected by the General Meeting.

1.3 The Board of Directors shall be comprised of a minimum of six (6), and a maximum of eleven (11) members.

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

2.1 Meetings of the Board of Directors of the Company shall be held as necessary according to the annual work plan but at least four (4) times per year and shall be called by the Chairman of the Board of Directors.

2.2 In addition to Members of the Board of Directors, the following persons shall be invited to the Board Meetings:

- Members of the Management Committee,
- Chairman of the Supervisory Board,

- Director of the Central Strategic Branch,
- Chief Legal Counsel of the Company,
- Head of the Chairman-CEO's Office.

2.3 The Chairman of the Audit Committee shall be invited for any agenda item on compliance issues.

2.4. In order to prepare decisions that require special expertise, the Board of Directors may use the services of external advisors at the expense of the Company, in accordance with the relevant internal regulations of the Company. If necessary, the expert can be invited to the meeting of the Board of Directors.

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

3.1 The Chairman of the Board of Directors shall be responsible for sending out to the Members of the Board of Directors the invitation, the Agenda and supporting materials needed for scheduling a meeting.

3.2 Notices of Board of Directors' Meetings shall be in English and Hungarian, and shall be sent by mail or e-mail to the address communicated by the Members of the Board or if none is so available, to his/her last known address

3.3 A minimum of eight (8) days notice shall be given for any regular Board Meeting, and shall be deemed delivered with a confirmation of successful transmission to the given address or via e-mail which was successfully relayed to the registered e-mail address of the Member of the Board of Directors .

3.4 Notices of extraordinary Meetings of the Board of Directors shall be sent at least five (5) days prior to the date of the meeting.

3.5 A notice shall contain the date, time, venue and Agenda of the Meeting. Any supporting materials shall be attached likewise to notices.

3.6 Head of the Chairman-CEO Secretariat shall support the Chairman for arrangements of the Meetings (e.g.: providing a meeting room and interpreters, sending submissions and keeping, preparing, sending the minutes).

3.7 Members of the Board of Directors may request presence of guests (e.g. experts) who can attend an entire or part of a Meeting. The Chairman of the Board decides whether to invite somebody to the meeting and the Secretariat of the CEO shall arrange the invitation of such expert.

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

4.1. Members of the Board of Directors shall elect the Chairman and the Vice-Chairman of the Board of Directors from its members, with majority votes. In the absence of the Chairman, the Vice-Chairman shall substitute for the Chairman, with full scope of authority.

The Chairman of the Board of Directors, or in his absence, the Vice-Chairman shall chair the Meetings. If both are absent, the Meeting shall be chaired by a Chairperson, elected from its members with majority votes of the present Members. The Chairman and the Vice-Chairman of the Board may have other positions in the management of the Company as well.

4.2. The Chairman of the Board of Directors shall convoke the Meetings of the Board of Directors pursuant to these Rules of Procedure. The Chairman of the Board shall convoke the extraordinary meeting when the convocation of the meeting is requested by a Member of the Board in writing, with the purpose and Agenda specified of such meeting.

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

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

## **6. Quorum**

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

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

7.1 The decisions of the Board of Directors are made in a form of written Resolutions. As general rule, the Resolutions will be adopted on the meeting of the Board of Directors.

7.2 If there is a quorum for holding the Meeting of the Board of Director, Resolutions of the Board of Directors shall be adopted by simple majority of votes of the present Members (including those Members who participate via conference call or similar communications equipment), unless a qualified majority of votes is mandatory by law or by the Articles of Association of the Company.

7.3 Each Member of the Board of Directors will have one vote, except if otherwise provided by applicable law.

7.4 Any Member of the Board of Directors may vote in favor or against or may abstain from voting.

7.5 Board Resolutions shall take effect as of the date of its adoption the meeting of the Board of Directors.

7.6 Resolutions may be adopted by the Board of Directors without a Meeting by votes cast in writing by fax if the majority of the Members of the Board send a signed copy of the proposed Resolution on the designated fax number. The written votes of Board members shall be attached to the Minutes, containing the Resolution.

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

Any Members of the Board of Directors may participate in a Meeting of the Board via conference call or similar communication tools provided that all those present at the Meeting can communicate with

each other at the same time. Participation by such means shall be deemed presence at a Meeting in person and it has to be included the Minutes of the meeting.

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

- 9.1. Meetings of the Board of Directors shall be conducted in Hungarian and English. Remarks made in Hungarian shall simultaneously be translated into English, and remarks made in English shall be simultaneously translated into Hungarian. The Chairman of the Board of Directors shall always ensure that a qualified interpreter is present at the meeting. The interpreter must enter into a non-disclosure agreement with the Company.
- 9.2. Minutes of the Meetings shall be taken in Hungarian or in English and shall be translated to the other language prior to the distribution of the minutes to the Members of the Board of Directors. Each Board Member shall receive the Minutes both in Hungarian and in English. In case of a conflict between the two versions the English version shall be the prevailing one, to the extent that is permitted by the Hungarian law.
- 9.3. Board Members shall have fifteen (15) days to object or comment to the accuracy of the Minutes, including the translation thereof.
- 9.4. The Chairman and the Keeper of the Minutes shall sign the Minutes of the Meeting, with a Board Member present at the respective Meeting and appointed to certify the Minutes.  
The Minutes of the Meeting shall contain the following information: place and time of the Meeting, names of the Chairman, the Minutes Keeper and the certifier of the Minutes, the number of affirmative and negative votes cast, plus abstentions, the objections by Board Members against Resolutions (it is not necessary that the objecting Board Member requests to have his objection indicated in the Minutes)<sup>1</sup>.
- 9.5. The authenticated minutes shall be sent to the Chairman of the Supervisory Board and the auditor of the Company for information purposes.

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

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

I. Duties and Scope of Authority pursuant to the Articles of Association

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

The Board shall have the authority to:

- a Deal with all matters relating to the Company's management and course of business not reserved for the General Meeting or other corporate bodies pursuant to provisions of the Articles of Association or the Act on Business Associations;
- b Have the Corporate Governance and Management Report and the Annual Report of the Company including the Balance Sheet and the Profit and Loss Statement prepared in compliance with the Accounting Act together with the report on responsible corporate governance, and submit them to the General Meeting, in addition to a motion on the utilization of the after-tax earnings;
- c Have the books of the Company, including among others, financial records and the Stock Register, maintained in compliance with applicable regulations;
- d Make filings with the Court of Registration and publish information as required by applicable law and the Articles of Association;
- e Elaborate a report for the General Meeting at the end of each business year on the management of the Company, the assets of the Company, the financial status and the business policy of the Company;
- f Adopt the Annual Business Plan of the Company that shall contain specific authorizations of the management needed for the operation of the Company in the respective year;
- g Set up committees of the Board of directors consisting exclusively of the Members of the Board of Directors, and delegate a part of the Board of Directors' authority to such committees;
- h Establish committees of Members of the Board of Directors and non Members of the Board of Directors designate the individuals who will serve on these committees and delegate authority to such committee.
- i Exercise the employer's rights concerning the employees of the Company in accordance with the Basic Volume of the Rules of Organization and Operation as defined by the Board;
- J Initiate amendments to the Universal Service Contract and its approval on behalf of the Company;
- k Prepare a report for the Supervisory Board in every three months on the management, the financial status and business policy of the Company.

- l The Board of Directors, upon the authorization of the General Meeting, is responsible for the purchase of own shares ;
- m Concludes the relevant agreement with the auditor within 90 days upon making the resolution on the election of the auditor;

## II. Scope of authority regarding the Rules of Organization and Operation (“ROO”)

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

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

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

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

- a.) Selling or letting out real estates, premises or equipment in the ownership of any firm within the Group if the amount of the transaction exceeds HUF 3 billion in the respective business year, and is not approved in the Annual Business Plan (except for the sale of obsolete equipment, the depreciation of which is in excess of 80% of the original price) or granting the relevant authorization for the party exercising the right of approval.

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

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

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

- a) Determination of medium and long term targets of business strategy;
- b) Approval of the vision and mission of the Company;
- c) Approval of changes in the license agreement with Deutsche Telekom regarding the "T" brand;
- d) Definition and approval of high-level strategic goals in addition to the approval of necessary amendments thereto;
- e) Strategic decisions on investments, development of products and services;
- f) Approval of Group strategy;
- g) Approval of macro Capex plan as a part of the Business Plan;
- h) Approval of Group Capex increases exceeding HUF 3 billion, or approval of simultaneous changes in the approved Group Capex structure if such a simultaneous change exceeds the approved



Capex by 15 %;

- i) Approval and amendment of the Group's Annual and Three-year consolidated Business Plans;
- j) Approval and amendment of Annual and Three-year consolidated Business Plans for BUs and the Group's central organizations;
- k) Approval of Group-level key indicator system, to continuously evaluate performance.

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

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

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

- a) Agreements in litigation or arbitration procedures, if the amount payable as a result of such agreement is in excess of HUF 3 billion.

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

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

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

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

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

## **11. Management Committee**

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

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

- Chief Executive Officer,
- Chief Human Resources Officer,
- Chief Financial Officer,
- Chief Technology and IT Officer,
- Chief Operating Officer Alternative Businesses and Corporate Development Business Unit,
- Chief Operating Officer Consumer Services Business Unit,
- Chief Operating Officer Business Services Business Unit.

11.3. The competence of the Management Committee:

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

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

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

## **12. Conflict of interest**

Unless a qualified majority of votes is mandatory by law or by the Articles of Association of the

Company, any resolution, which approves a contract or business transaction of the Company in which the member of the Board of Directors has an interest even in an indirect manner, will be reached by majority votes of the Members of the Board of Directors who do not have an interest in the transaction (except for an interest in publicly traded shares).

Members of the Board of Directors should inform the Board of Directors and the Supervisory Board if he/she (or any other person in a close relationship to him/her) has a significant, personal interest in a transaction of the Company (or of any of the Company's subsidiaries).

Transactions between members of the Board of Directors (or persons in a close relationship to them) and the Company (or the Company's subsidiaries) should be conducted according to the general rules of practice of the Company, but, with stricter transparency rules in place. In the case of a transaction outside the normal course of the Company's business, the transaction and its terms should be approved by the Supervisory Board.

### **13. Execution of Board Resolutions**

13.1. Board Resolutions shall take effect after certification without any separate directive on execution, and become binding within Magyar Telekom on announcement, except for decisions necessitating internal regulation of the Company.

13.2. Execution of Board Resolutions, control over the completion of execution:

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

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

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

**14. Director Orientation and Continuing Education**

14.1 The Board of Directors maintains an orientation program for new members of the Board of Directors. The orientation program includes comprehensive information about the Company's business and operations, general information about the Board of Directors and its committees, including a summary of Board of Directors member compensation and benefits and a review of director duties and responsibilities.

14.2 The Board of Directors maintains a continuing education program for all members of the Board of Directors. The Board of Directors recognizes the importance of continuing education for its members and is committed to provide such education in order to improve the performance of the Board of Directors. It is the responsibility of the Chairman of the Board of Directors to advise the members of the Board of Directors about their continuing education, including relevant leading-edge corporate governance issues. Members of the Board of Directors are encouraged to participate in continuing Board of Directors member education programs.

**15. Prohibition on loans to members of the Board of Directors**

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

**16. Annual Evaluation of the Board of Directors**

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

**17. Prevailing language**

The Amended Rules and Procedure of the Board of Directors shall be executed in the Hungarian and

English languages, however the English version shall be the prevailing one.

## **18. Miscellaneous**

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

The members of the Board of Directors shall be responsible for notifying the court of registry concerning any amendment of the Articles of Association, the rights, facts and data contained in the register of companies and changes therein, as well as any other data required by law. Members of the Board of Directors shall bear joint and several liability toward the Company for any damage resulting from the incorrectness of the data, rights or facts notified, or from any delay in filing or failure to file the notification, including where the annual report prescribed in the Accounting Act and the relating business report is drawn up and published not in compliance with the relevant provisions of the Accounting Act.

The members of the Board of Directors shall treat all business secrets (Civil Code, Section 81) of the Company as strictly confidential.

The members of the Board of Directors shall conduct the management of the business association with due care and diligence as generally expected from persons in such positions and – unless otherwise provided in the act – give priority to the interests of the Company. The members of the Board of Directors shall be liable to the business association in accordance with the general rules of civil law for damages caused by any infringement of the law or any breach of the Articles of Association, the resolutions of the General Meeting or their management obligations.

Enclosure:

The above Rules of Procedure was approved by the Board of Directors of Magyar Telekom Telecommunications Public Limited Company, as of December 16, 2008 by Resolution No. 17/10 (2008.12.16.)