Annual General Meeting
April 12, 2011

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 2010

Christopher Mattheisen
Chairman and CEO

Main strategic priorities of MT for 2011-15

Based on core beliefs MT set its main priorities for the next strategic timeframe

Save for Service

- Simplified and focused lean operation
- Lower cost structure
- E2E responsibilities

Maintain leadership

- Keep or increase market shares
- Excel in mobile BB and TV segments
- Keep positions in high-margin voice segments

Focused innovation

- Innovation to clearly support core business
- Add new services to increase share of wallet

FIX

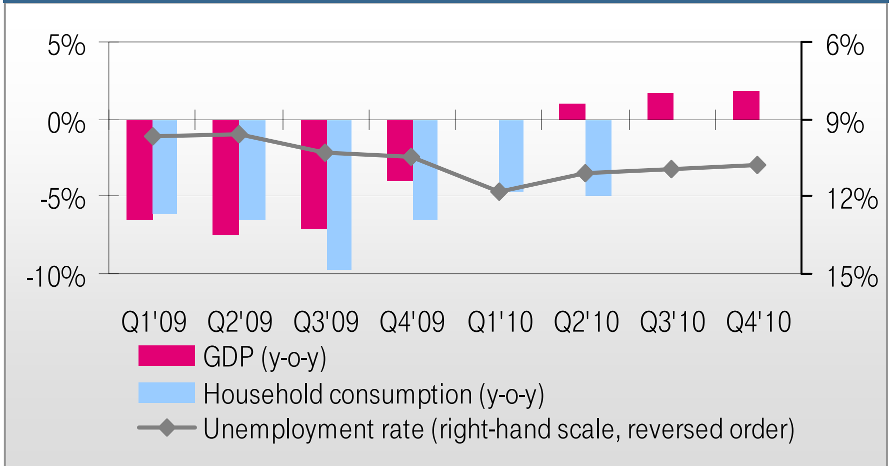
TRANSFORM

INNOVATE

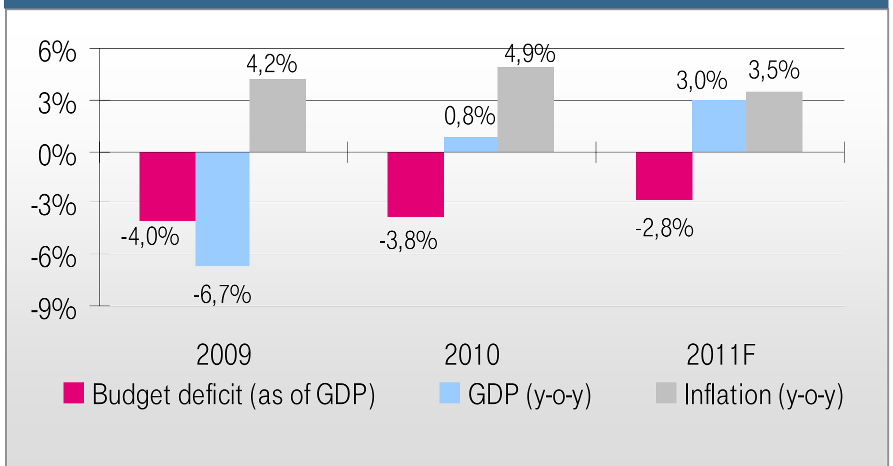
STABLE CASH GENERATION

Macroeconomic environment

Macroeconomic trends



Macroeconomic outlook



Economic indicators influence telecommunication spending in different ways

- Although GDP has started to grow in 2010, household consumption is still under pressure
- telecommunication spending lags GDP trend
- demand for telecommunication services is more closely correlated with trends in employment, disposable income and household consumption

The sustainability of improvement is uncertain: weak labor market and tight credit conditions

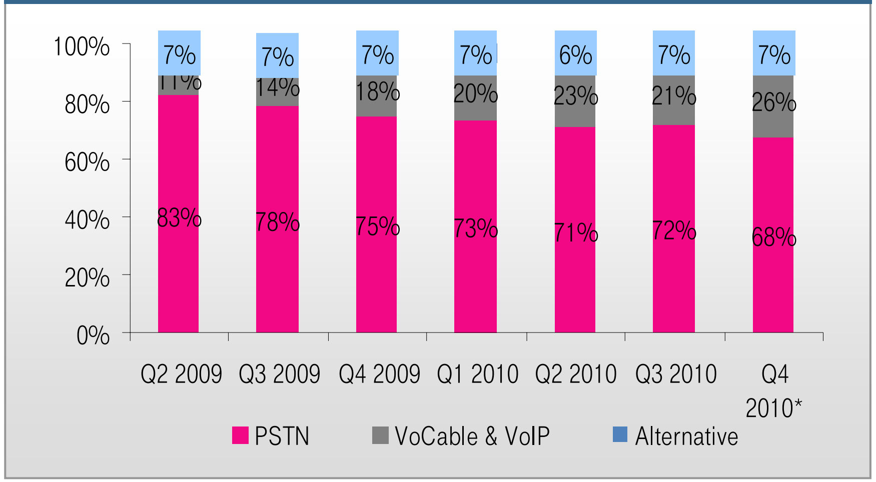
- unemployment slightly decreased in H2 2010
- contained wage and disposable income development
- continued relatively tight credit conditions and increasing debt burden on FX loans

Fiscal policy to focus on budget deficit goals

- lower personal income tax rates (flat 16% tax rate from 2011)
- pension funds transfers halted and opening the return from private pensions to the state owned system
- Magyar Telekom paid HUF 27.7 billion in special telco tax in 2010

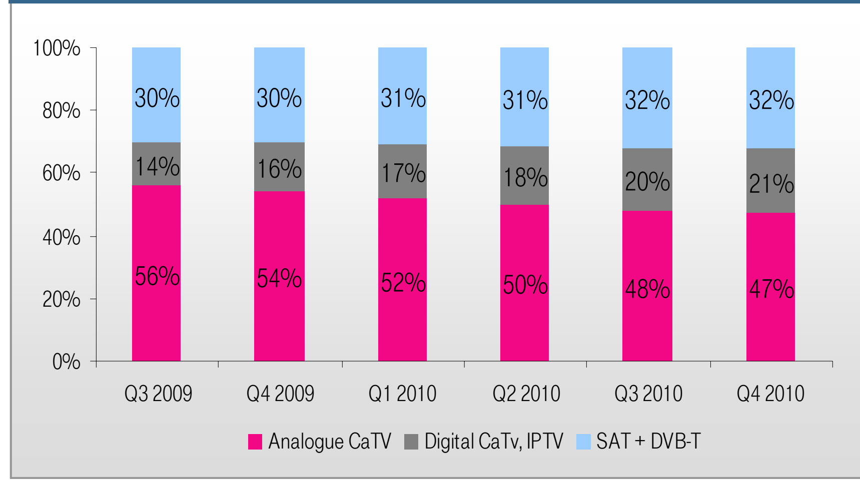
Major determinants – Infrastructure based-competition

Wireline voice traffic trends

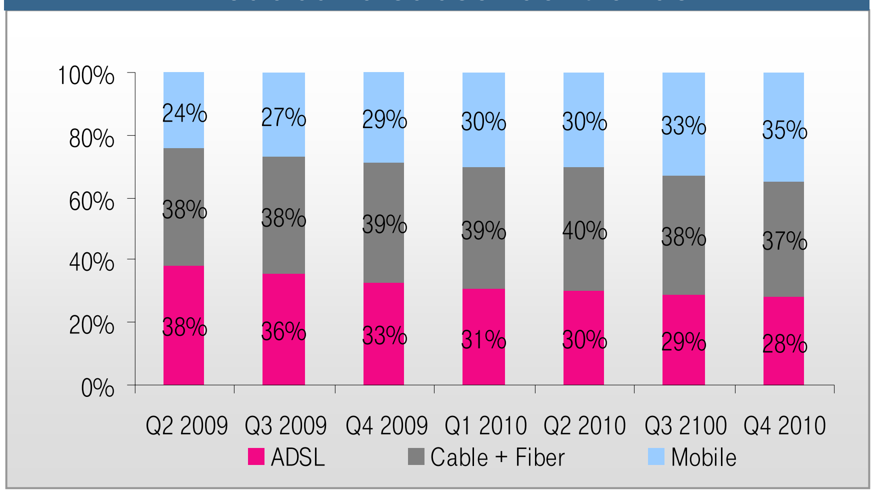


* based on 2010 November figures

Pay TV trends



Broadband subscriber trends



Source: NRA

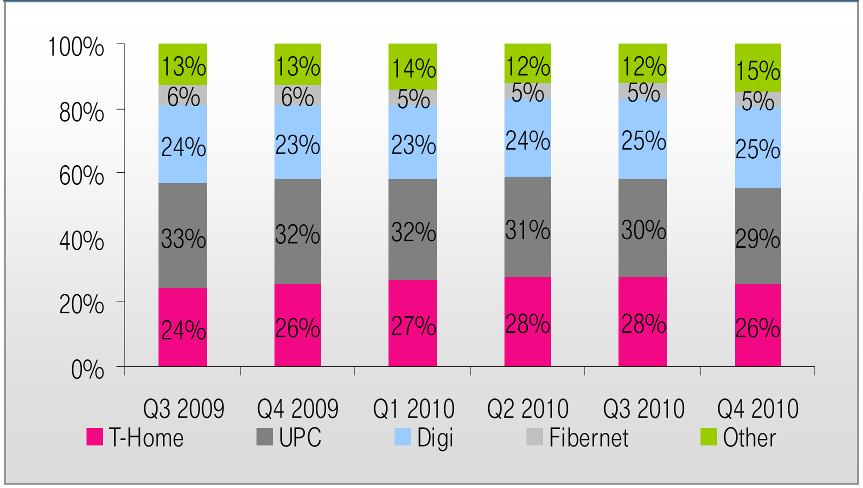
Competing infrastructures:

- Copper network: LTO structure, 80% of households served by Magyar Telekom
- Cable network: over 70% households covered (of which most have been upgraded to high-speed broadband service)
- Mobile network: three quality networks with UMTS capability
- Fiber rollout: not just LTOs but other start-up/cable companies also rolling out fiber networks

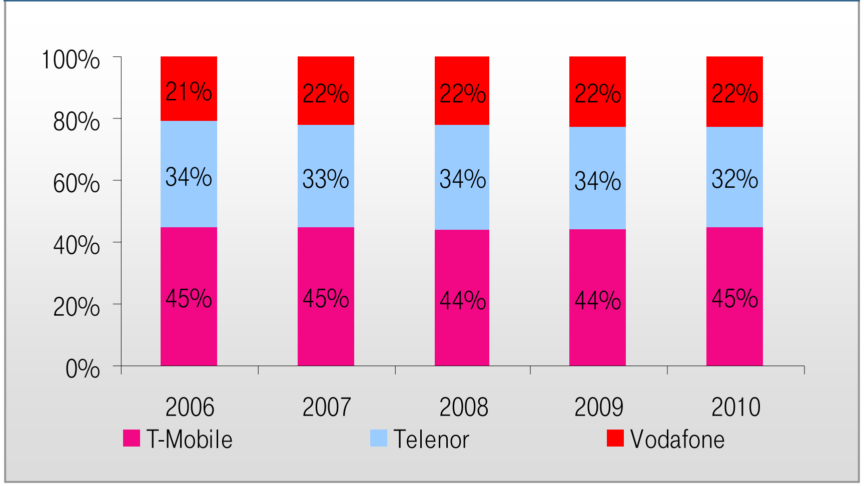
Strong infrastructure based competition with triple play services offered on copper, fiber, cable and mobile networks

Strong positions in all segments of the Hungarian market

TV market shares

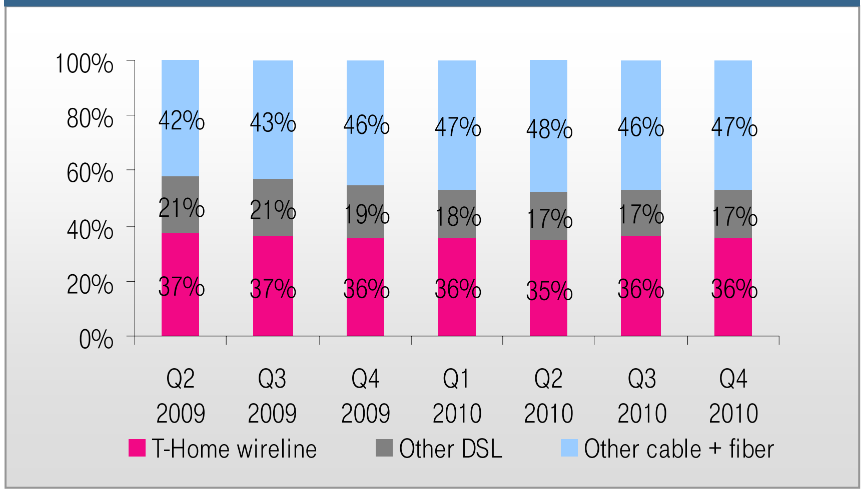


Mobile voice market shares*

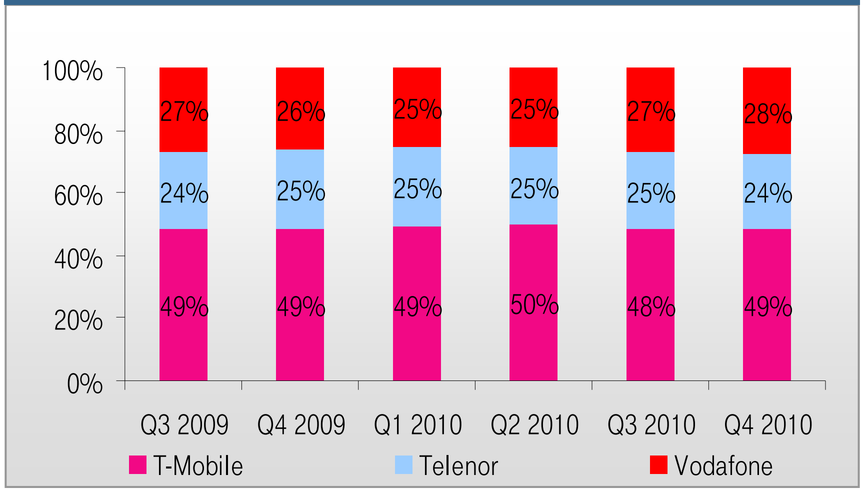


*based on active SIM cards

Wireline broadband market shares



Mobile broadband market shares**

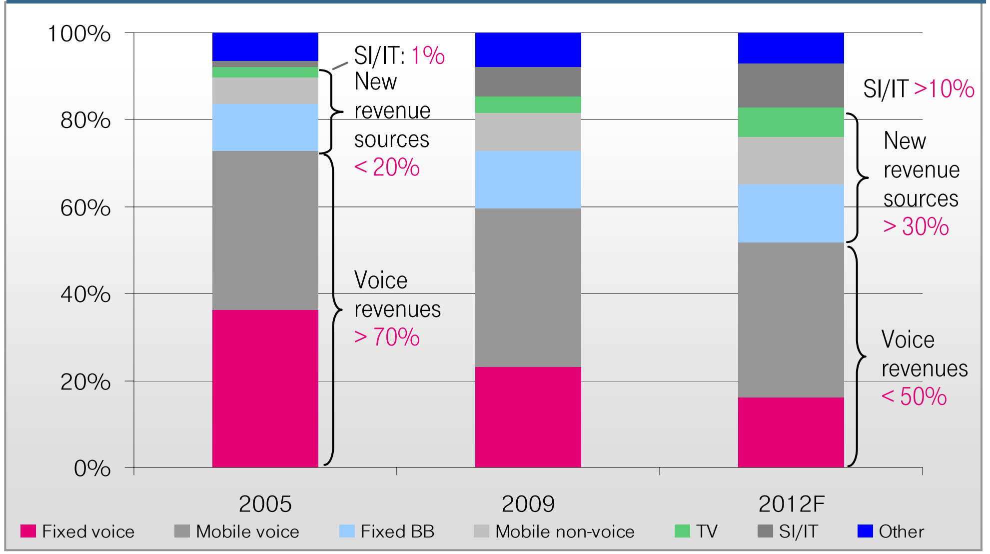


Source: NRA

**based on traffic generating subs.

Changing trends require continued efficiency improvements

Change in revenue mix



Underlying TWM expense in Hungary

Dynamic change in revenue mix

- continued decline of voice revenues
- pronounced growth in revenues from non-traditional services such as SI/IT and TV services

New revenue sources have lower EBITDA margin

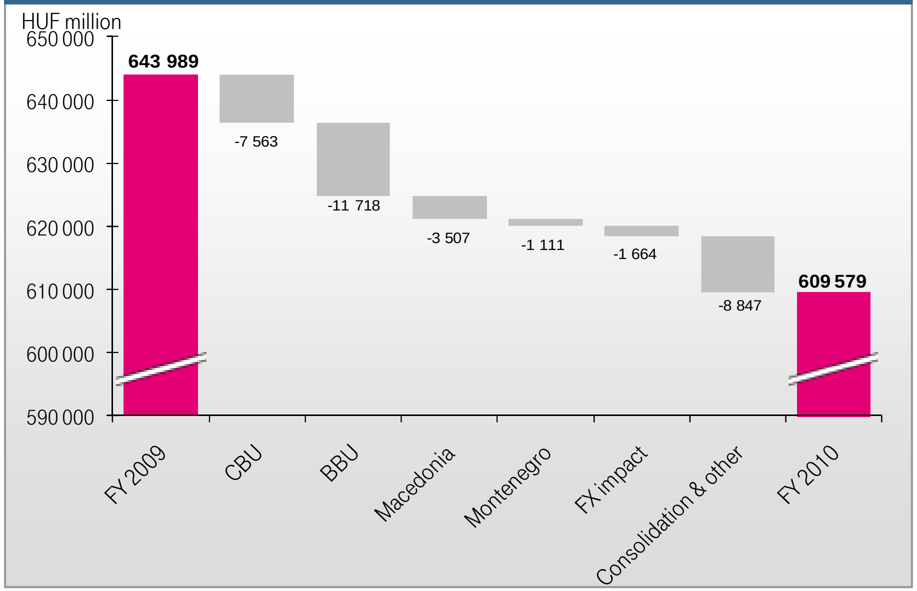
- pressure on profitability eased by efficiency improvement measures

Headcount reduction in 2011

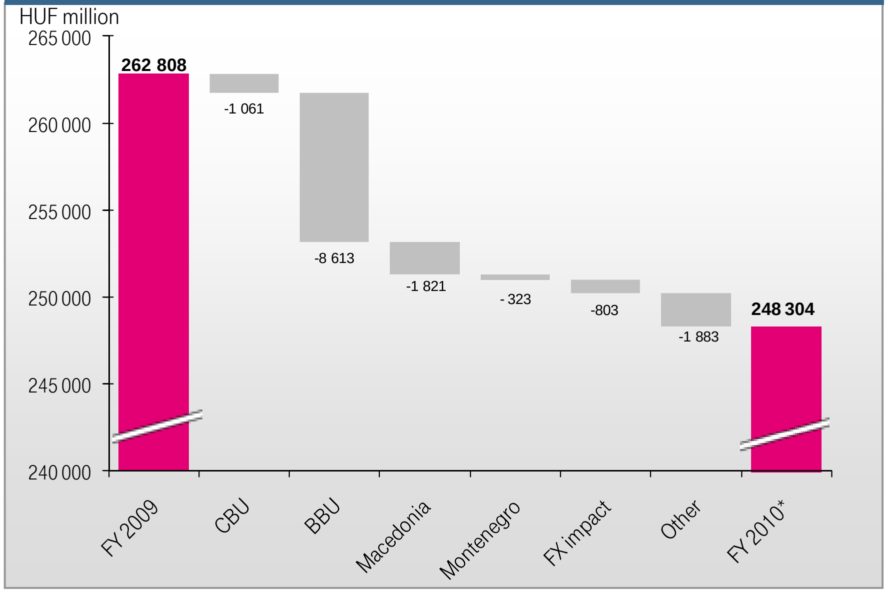
- 300+ employee redundancies at the parent company by end-2011
- severance-related expenses of HUF 3.5bn (majority was accounted in Q4 2010)
- 4% wage increase for parent company employees from July 2011, but only 2% for managers

2010 results – Business Unit analysis

Revenue development



Underlying EBITDA development



excluding the special tax in the amount of HUF 27.0bn

5.3% revenue decline driven by recession, competition and regulation

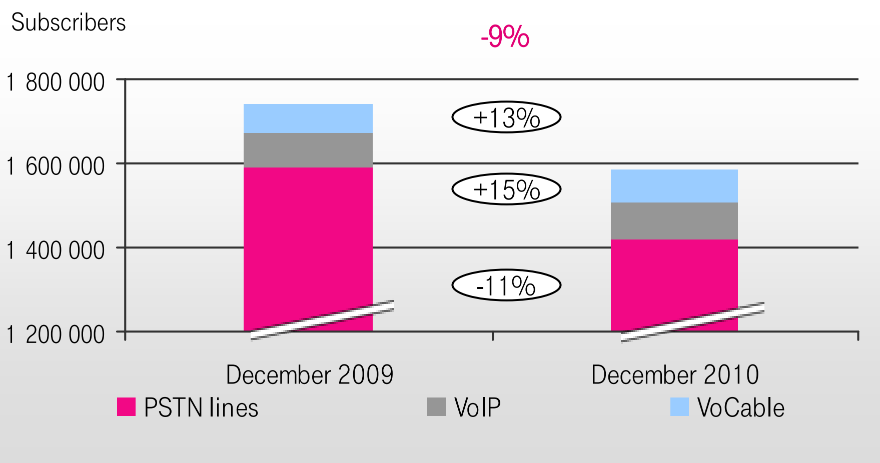
- CBU revenues declined primarily due to continuing intense competition and depressed household consumption
- BBU revenues down driven by decline in both private and public sector spending
- International revenues were negatively impacted by unfavorable transaction impact

5.5% underlying EBITDA decline driven by changing revenue mix and economic recession

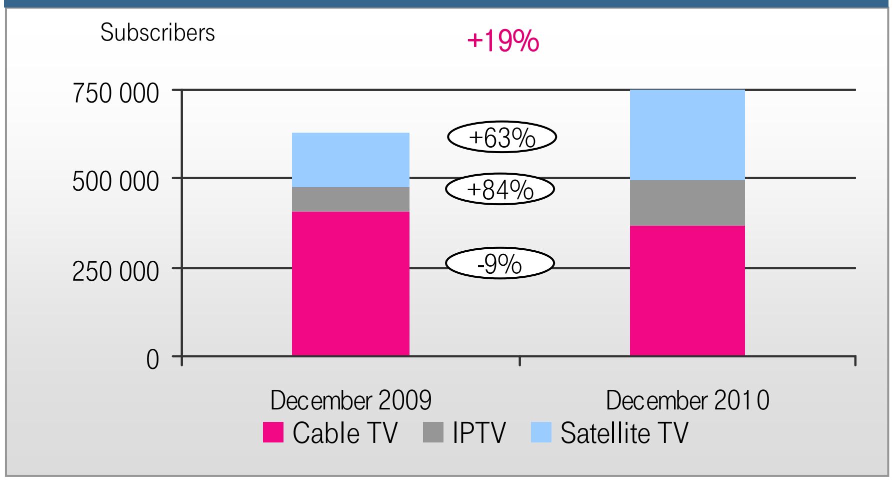
- business unit results under pressure due to further erosion of traditional voice revenues
- cost cutting measures to mitigate margin pressure
- FX negatively impacted the financial result of international subsidiaries

xPlay and bundling as growth engine & retention tool in the residential segment

Fixed voice access



TV customer growth



Strong focus on xPlay and bundling on all networks (fixed line, cable and mobile)

- new packages include improved VoIP solutions
- ratio of xPlay customers ~43%
- launch of quadruple play packages by adding mobile voice service as well (ca. 30,000 customers)
- energy and insurance bundling to retain customers

Increasing number of TV customers

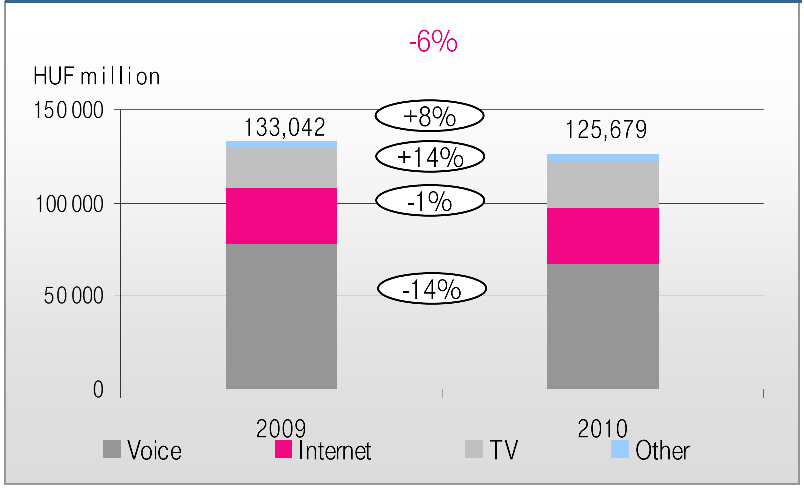
- TV service is the best retention tool in Hungary
- number of TV customers reached 750,000, increasing market share and stable market position
- retention benefit: 78% of TV customers are 2Play or 3Play package subscribers

Infrastructure development to remain competitive

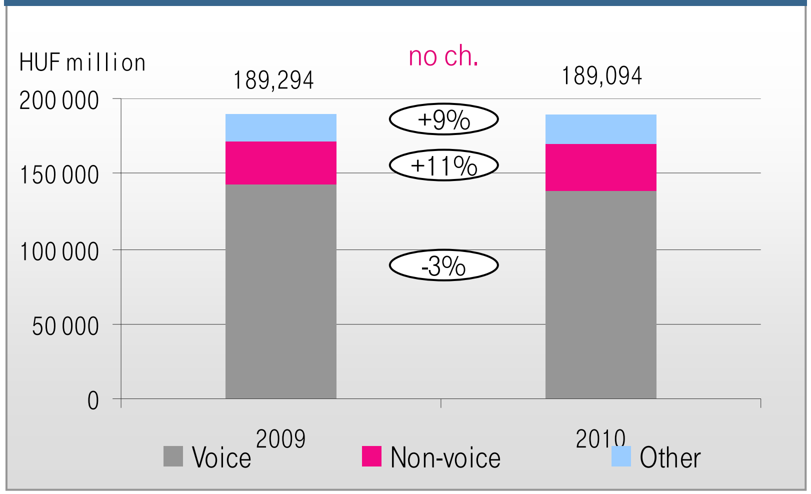
- over 1 million households reached with HSI capable network
- 75% population-based 3G coverage, best 3G network in the country

Consumer Services Business Unit (CBU)

Fixed line revenues



Mobile revenues



Revenue decline principally driven by economic recession

- lower consumer spending and intense competition remain the most significant negative drivers
- fixed voice migration towards IP-based solutions
- fixed internet revenues down due to price reductions
- regulatory impacts on mobile revenues (cut in mobile termination rates and roaming tariffs)

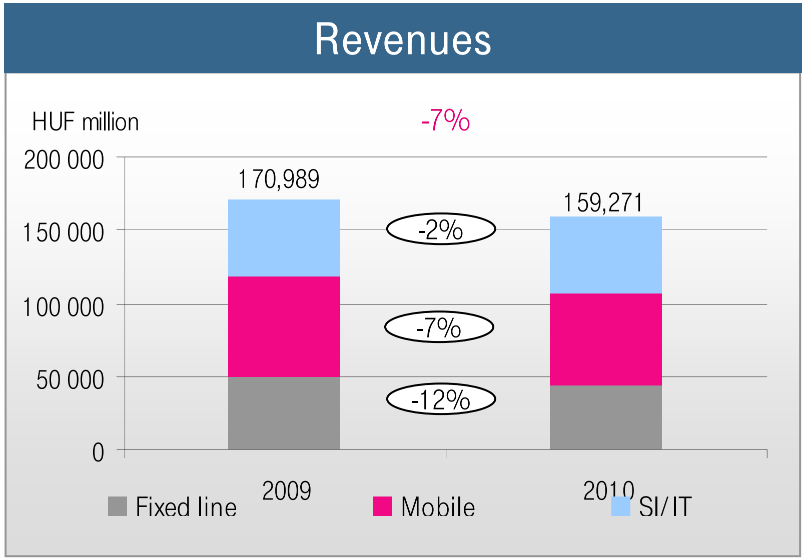
Mobile voice market shows some signs of improvement

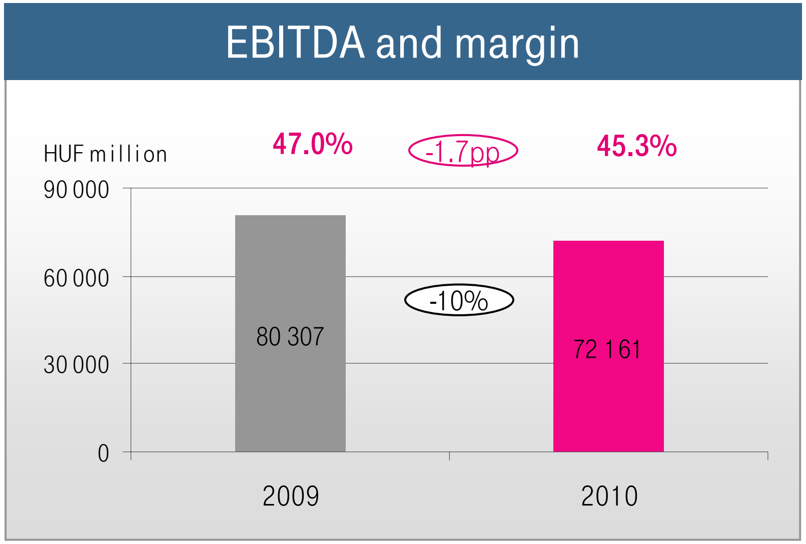
- customers are cost sensitive
- churn levels are declining but still above pre-crisis levels

Mobile internet development

- leading market position with 49% market share
- number of T-Mobile’s subscribers exceeded 624,000 at the end of 2010

Business Services Business Unit (BBU) - Financials





Falling voice and data revenues

- strong pressure on clients to renegotiate contract terms
- high churn among fixed voice, data and internet customers
- continued pressure on mobile tariffs resulting in lower ARPU level
- Governmental measures negatively affecting revenues and EBITDA

Slight decline in SI/IT revenues

- leading market position maintained
- project-driven business, fluctuations in quarterly revenues
- selected private sector projects delayed/cancelled due to cost restrictions

Change in revenue mix puts pressure on EBITDA margin

- ratio of lower-margin SI/IT revenues is continuously increasing, while high-margin voice revenues are declining
- due to their lower capex-intensity, SI/IT services have similar return characteristics
- despite cost control measures, 2010 EBITDA margin decreased due to structural pressures

International operations

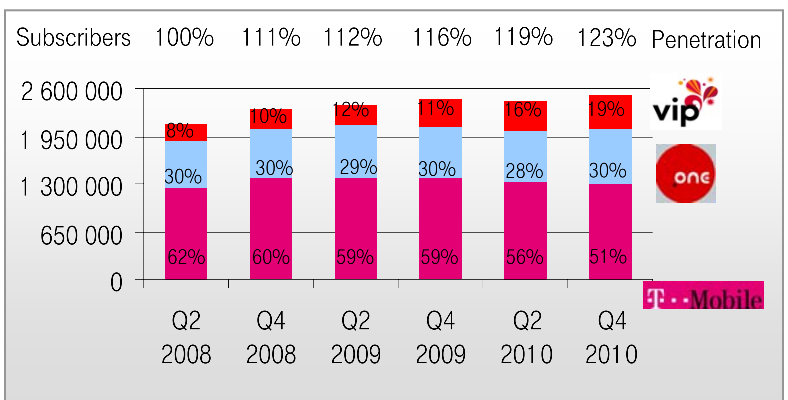
Macedonia

Intense competition in the fixed line market

- competition from altnets, cables and mobile operators
- positive contribution from revenues related to broadband services
- number of ADSL lines up by 19%
- successful launch of IPTV and 2Play/3Play offers

Mobile revenue growth thanks to improved usage trends

- improving customer mix, increasing post-paid ratio
- MOU up by 12% to 125 minutes
- ARPU rose by 4% to HUF 2,690
- 3G services launched in June 2009



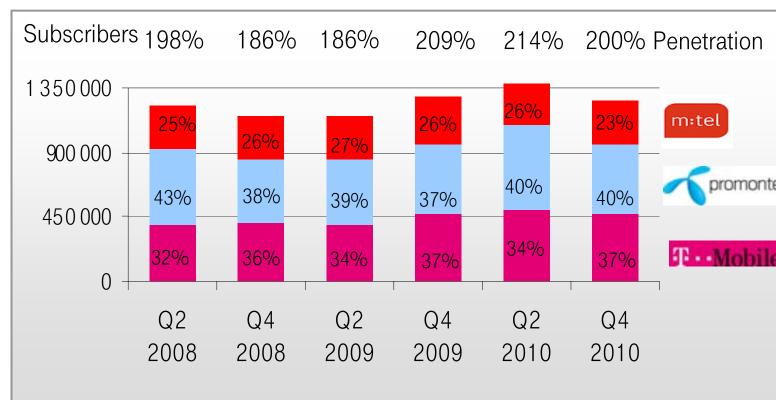
Montenegro

Fixed voice revenues under pressure

- deterioration in retail voice revenues driven by high mobile substitution
- growing internet and TV revenues thanks to strong increases in the customer base
- number of DSL access up by 25%
- 35% increase in IPTV customer numbers (40,000 customers by end-2010)

Mobile revenue erosion driven by strong competition

- very intense competition resulting in lower tariff levels
- fallout in visitor revenues as economic recession negatively affected tourism
- MOU up by 9% to 105 minutes
- ARPU down by 1% to HUF 2,430

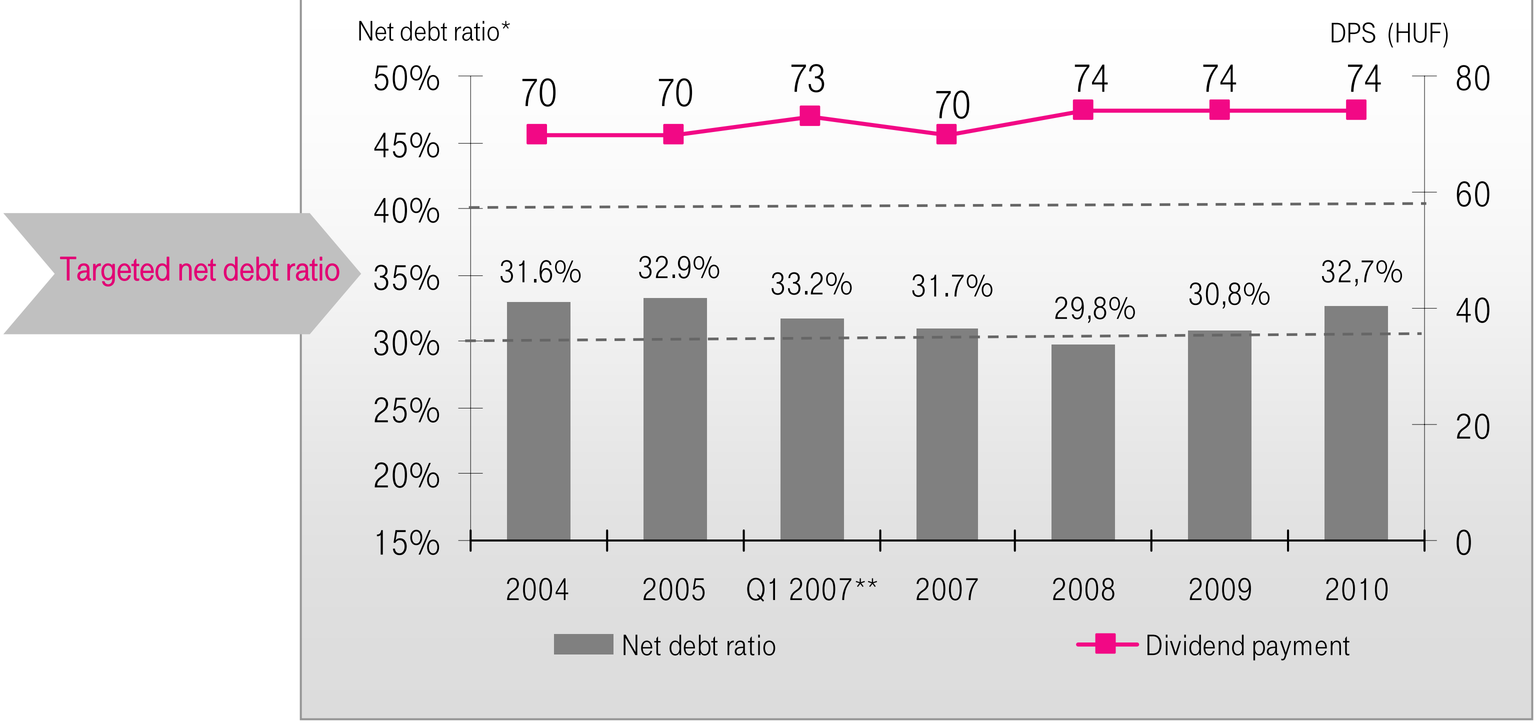


Data based on the active SIM cards published by the Montenegrin Telecom Agency

Proposal for dividend payment

The Board of Directors proposes **HUF 50 dividend per share** after 2010 earnings for approval to the Annual General Meeting.

Historical dividend payments



* net debt / total capital

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

Dividend payment details

The proposed gross dividend is HUF 50 per share with a nominal value of HUF 100

- April 22, 2011 — detailed announcement will be published on the order of dividend disbursement on the homepage of the Company and the Budapest Stock Exchange
- May 2, 2011 — last day of trading with Magyar Telekom shares entitled to dividend
- May 3, 2011 — ex-dividend date
- May 5, 2011 — record date
- May 12, 2011 — payment date (ordinary shares)
- May 19, 2011 — 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: 16% personal income tax
    - foreign private individuals: 16% 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, 2012.