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## **MATÁV ANNOUNCES 2001 FULL YEAR RESULTS**

BUDAPEST – February 14, 2002 - Matáv (NYSE: MTA.N and BSE: MTAV.BU), the leading Hungarian telecommunications service provider, today reported its consolidated financial results for 2001 according to International Accounting Standards (IAS).

### **Highlights:**

- **Total revenues grew by 22.8% (24.4% in EUR terms) to HUF 547.7 bn (EUR 2.1 bn)** primarily due to the first consolidation of MakTel and strong growth of mobile and data business.
- **EBITDA<sup>(1)</sup> was HUF 236.0 bn and EBITDA margin was 43.1%** due to the outstanding contribution of MakTel, and efficiency improvements in mobile operations (Westel).
- **Mobile segment revenues increased by 24.9%** mainly driven by a substantial increase in traffic and enhanced service revenues.
- **Westel had 2.5 million customers, equivalent to 25% of the population.** Westel continues to maintain its market leader position.
- **MakTel's EBITDA margin reached an outstanding 56.4%** due to continued development in the fixed and mobile business.
- **Pro-forma net income<sup>(1)</sup> was HUF 75.2 bn (EUR 293.0 m), up by 9.4%** driven by the higher profitability of Westel and the strengthening forint against the euro.

Elek Straub, Chairman and CEO commented: "I am glad to report to you another successful year for Matáv with revenue growth of 23% and EBITDA margin of 43%, as we had promised to our shareholders. In line with our strategy we have strengthened our position in the fast growing mobile market during the year by acquiring the remaining stake in Westel. In addition we have made our first international investment, in Macedonia, which has made a significant contribution to revenue and EBITDA growth.

In anticipation of an expected increase in competition in 2002, we will continue with our clearly defined strategy of focusing on growth areas and sustaining cash generation in the fixed voice telephony market. Having a stable regulatory environment and given our increasing focus on strict cost control measures it is

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<sup>(1)</sup> Pro-forma numbers are stated before the effects of restatement in relation to the Westel as described in section "c" of the flash report.

anticipated that Matáv Group revenue growth will be in the high single digit range in 2002. We target EBITDA margin to remain at over 40% for the year. Capital expenditure is planned to be around 105 billion forints in 2002.”

### **Targets for 2002**

Revenue growth:	high single digit
EBITDA margin:	over 40%
Capex - Group level (HUF bn):	approximately 105

#### Fixed line: Cash generation, prepared for liberalization

In our fixed segment revenues grew by 2.3% with EBITDA margin of 37.8%.

In the fixed voice business a major marketing effort in 2001 was focused on the development and introduction of a number of highly successful customized tariff-packages. Matáv now offers a variety of tariff packages targeting each major customer segment and usage pattern.

Our data revenues continued to deliver an excellent growth rate of 25.9%, driven by the strong volume growth in managed leased lines, ISDN data, Internet and cable TV subscribers.

On the cost side Matáv placed strong emphasis on cost management and efficiency improvement throughout the year. As a result, headcount decreased by 17.2% at Matáv Rt. during the year, so that the company reached a lines per fixed line employee ratio of 316.

#### Mobile: Highly profitable player with market-leadership

Mobile segment revenues increased by 24.9% to reach HUF 198.9 billion for the year. Westel outperformed its competitors in terms of net customer additions whilst at the same time EBITDA margin to 38.2% from 37.1% a year earlier. A major contributory factor to this excellent EBITDA margin performance was the careful management of entry-level tariffs particularly in the prepaid segment. Pro-forma net income went up by 41.3% driven by strong volume growth, efficiency improvements and foreign exchange gain on Westel's debt portfolio.

Westel's subscriber base was 2.5 million at the end of 2001. The Company had a GSM market share of 50.6% and added 46.5% of the total market net additions in 2001. Of the total net additions at Westel in 2001 94.3% were prepaid customers. Prepaid customers at year end represented 67.4% of the total customer base.

Despite the continuous dilution in its customer base Westel managed to keep both MOU (monthly average minutes of use per subscriber) and ARPU (average revenue per unit) at a relatively healthy level providing an average MOU of 146 and ARPU of HUF 6,946 at year-end.

#### International: Further growth and high margins

MakTel's revenues were HUF 60 billion in 2001. Our first international subsidiary has delivered an EBITDA margin of 56.4% in its first year as a member of the Matáv Group. The subscriber base has continued to grow in each business segment. Fixed line customers amounted to 550,000, up 7.0% from a year earlier. The mobile customer base now amounts to 234,000 an increase of 134.0%. This provides a strong platform for further growth in advance of the second GSM provider starting operation. The number of Internet subscribers was 21,700 at the end of 2001, comparing with 9,900 at the end of 2000.

Matáv is the principal provider of telecom services in Hungary. Matáv provides a broad range of services including telephony, data transmission, value-added services, and through its subsidiaries is Hungary's largest mobile telecom provider. Matáv also holds a majority stake in Stonebridge Communications AD controlling MakTel, the sole fixed line and the leading mobile operator in Macedonia. Key shareholders of Matáv as of December 31, 2001 include MagyarCom, owned by Deutsche Telekom AG (59.49%), while 40.51% is publicly traded.

This press-release contains forward-looking statements. Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements. These statements are based on current plans, estimates and projections, and therefore you should not place undue reliance on them. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update publicly any of them in light of new information or future events.

Forward-looking statements involve inherent risks and uncertainties. We caution you that a number of important factors could cause actual results to differ materially from those contained in any forward-looking statement. Such factors are described in, among other things, our Annual Report on Form 20-F for the year ended December 31, 2000 filed with the U.S. Securities and Exchange Commission.

For detailed information on Matáv's 2001 full year results please visit our website: (<http://www.matav.hu/english/world/investors>) or the website of the Budapest Stock Exchange ([www.bse.hu](http://www.bse.hu) Listed Securities/ Issuer's news).

**MATÁV**  
**Consolidated**  
**Income Statements - IAS**  
**(HUF million)**

	<b>Year ended Dec 31,</b>		
	<b>2000</b>	<b>2001</b>	<b>%</b>
	<b>(audited)</b>	<b>(unaudited)</b>	<b>change</b>
	<b>Before</b>	<b>Before</b>	
	<b>restatement</b>	<b>restatement</b>	
<b>Revenues</b>			
Subscriptions, connections and other charges	82 918	96 673	16,6%
Domestic traffic revenue	129 517	123 366	(4,7%)
Other usage	19 136	17 254	(9,8%)
	<hr/>	<hr/>	
Domestic telecommunications services	231 571	237 293	2,5%
International traffic revenues	41 432	34 992	(15,5%)
Mobile telecommunications services	108 885	140 234	28,8%
Revenues from international activities	0	59 977	n.a.
Leased lines and data transmission	26 819	33 534	25,0%
Other services	37 238	41 705	12,0%
<b>Total revenues</b>	<b>445 945</b>	<b>547 735</b>	<b>22,8%</b>
Employee related expenses	(66 024)	(75 962)	15,1%
Depreciation and amortization	(77 940)	(100 211)	28,6%
Payments to other network operators	(55 617)	(72 606)	30,5%
Cost of telecommunications equipment sales	(34 111)	(39 101)	14,6%
Other operating expenses	(99 382)	(124 044)	24,8%
	<hr/>	<hr/>	
<b>Total operating expenses</b>	<b>(333 074)</b>	<b>(411 924)</b>	<b>23,7%</b>
<b>Operating profit</b>	<b>112 871</b>	<b>135 811</b>	<b>20,3%</b>
Net interest and other charges	(20 992)	(13 104)	(37,6%)
Share of associates' results before income tax	2 174	1 703	(21,7%)
	<hr/>	<hr/>	
<b>Profit before income tax</b>	<b>94 053</b>	<b>124 410</b>	<b>32,3%</b>
Income tax expense	(8 208)	(11 759)	43,3%
	<hr/>	<hr/>	
<b>Profit after income tax</b>	<b>85 845</b>	<b>112 651</b>	<b>31,2%</b>
Minority interest	(17 082)	(37 445)	119,2%
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<b>Net income</b>	<b>68 763</b>	<b>75 206</b>	<b>9,4%</b>

<b>MATÁV Consolidated Balance Sheets - IAS (HUF million)</b>	<b>Dec 31, 2000 (audited) Before restatement</b>	<b>Dec 31, 2001 (unaudited)</b>	<b>Dec 31, 2000 - Dec 31, 2001 % change</b>
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	13 296	10 117	(23,9%)
Financial investments	6 045	327	(94,6%)
Receivables	71 951	88 079	22,4%
Inventories	10 587	13 297	25,6%
<b>Total current assets</b>	<b>101 879</b>	<b>111 820</b>	<b>9,8%</b>
<b>Property, plant and equipment</b>			
Property, plant and equipment	561 702	654 298	16,5%
Intangible assets	51 964	306 029	488,9%
Associates and other long term investments	14 062	13 199	(6,1%)
<b>Total fixed assets</b>	<b>627 728</b>	<b>973 526</b>	<b>55,1%</b>
<b>Other non current assets</b>	<b>15 902</b>	<b>18 850</b>	<b>18,5%</b>
<b>Total assets</b>	<b>745 509</b>	<b>1 104 196</b>	<b>48,1%</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Loans and other borrowings	78 725	33 607	(57,3%)
Trade and other payables	96 068	122 126	27,1%
Deferred revenue	3 690	3 430	(7,0%)
Provisions for liabilities and charges	11 624	3 320	(71,4%)
<b>Total current liabilities</b>	<b>190 107</b>	<b>162 483</b>	<b>(14,5%)</b>
<b>Non current liabilities</b>			
Loans and other borrowings	110 641	419 763	279,4%
Deferred revenue	9 949	7 101	(28,6%)
Provisions for liabilities and charges	30	0	(100,0%)
Deferred tax liability	0	1 763	n.a.
Other non current liabilities	7 067	4 617	(34,7%)
<b>Total non current liabilities</b>	<b>127 687</b>	<b>433 244</b>	<b>239,3%</b>
<b>Minority interests</b>	<b>40 731</b>	<b>48 169</b>	<b>18,3%</b>
<b>Shareholders' equity</b>			
Common stock	103 736	103 736	0,0%
Additional paid in capital	22 955	22 955	0,0%
Treasury stock	(127)	(163)	28,3%
Retained earnings	260 420	333 772	28,2%
<b>Total shareholders' equity</b>	<b>386 984</b>	<b>460 300</b>	<b>18,9%</b>
<b>Total liabilities and shareholders' equity</b>	<b>745 509</b>	<b>1 104 196</b>	<b>48,1%</b>

**MATÁV**  
**Consolidated**  
**Cash Flow Statement - IAS**  
**(HUF million)**

**Year ended Dec 31,**  
**2001**  
**(unaudited)**  
**Before**  
**restatement**

**Cash flow from operating activities**

Cash generated from operations	231 764
Interest paid	(19 416)
Commissions and bank charges	(2 420)
Net income tax paid	(13 383)

**Net cash from operating activities** **196 545**

**Cash flow from investing activities**

Capital expenditure on tangible and intangible assets	(127 747)
Purchase of investments	(1 740)
Purchase of subsidiaries	(324 813)
Cash acquired	6 314
Interest received	2 141
Dividends received	779
Net change in financial assets	6 417
Proceeds from disposal of fixed assets	9 099

**Net cash flow utilized in investing activities** **(429 550)**

**Cash flow from financing activities**

Dividends paid to shareholders and minority interest	(18 806)
Net proceeds from borrowings	249 164
Net cash used for treasury stock transactions	(36)
Other	(125)

**Net cash flow utilized in financing activities** **230 197**

**Translation differences on cash and cash equivalents** **(371)**

**Change in cash and cash equivalents** **(3 179)**

**Cash and cash equivalents at beginning of year** **13 296**

**Cash and cash equivalents at end of year** **10 117**

**Change in cash and cash equivalents** **(3 179)**

## **Analysis of the Financial Statements** **for the year ended December 31, 2001**

### **a.) Acquisition of 100% of Westel and Westel 0660**

In 1999, the minority owner of Westel and Westel 0660, MediaOne International, entered into a purchase and sale agreement with Deutsche Telekom AG. As a result, on October 21, 1999 Deutsche Telekom AG entered into an agreement to purchase MediaOne International B.V. and MediaOne International's 49 percent interest in Westel 0660. This transaction was completed in March 2000.

On October 21, 1999, Matáv announced that it had entered into an agreement with Deutsche Telekom AG providing Matáv the option to acquire Deutsche Telekom AG's 49 percent interests in Westel and Westel 0660 for a fixed price of USD 885 million.

On December 21, 2001 Matáv paid Deutsche Telekom AG EUR 920 million (HUF 227 billion) and has agreed to pay in 2002 an additional amount equal to 49 percent of the dividend to be declared by Westel for 2001 for the 49 percent Westel stakes. The amount of dividend with respect to 2001 has not yet been declared by Westel, but it is expected that Matáv will have to pay an additional HUF 12 billion. No dividends will be declared by Westel 0660. The purchase price was financed by way of a medium term EUR loan provided by Deutsche Telekom AG at an interest rate of LIBOR plus 50 basis points.

### **b.) Acquisition of Macedonian Telecom (MakTel)**

In December 2000, Matáv ("the Company"), on behalf of a consortium, reached an agreement with the government of Macedonia to purchase 51 percent of Macedonian Telecom ("MakTel") upon its privatization. The closing of the transaction took place on January 15, 2001 whereby the Company paid EUR 343.3 million on behalf of the consortium in accordance with the acquisition agreement. The 51 percent ownership acquired by Matáv was contributed on January 16, 2001 to a newly established Macedonian acquisition vehicle, Stonebridge Communications AD.

In accordance with a subscription and shareholders' deed between Matáv, SEEF Holdings Ltd. and CosmoTelco Added Value Services S.A., the latter two acquired a 6.1 percent and a 7.4 percent ownership respectively in Stonebridge reducing Matáv's investment in Stonebridge to EUR 301.5 million. Matáv, consequently, has an 86.5 percent stake in Stonebridge, which owns 51 percent of MakTel, thereby Matáv has an effective ownership interest in MakTel of approximately 44 percent.

MakTel became a consolidated subsidiary of Matáv from January 15, 2001.

### **c.) Basis of presentation**

At the time of exercising the Westel option, 59% of Matáv Rt.'s share capital and 49% of the Westels' share capital were owned by Deutsche Telekom. As the transaction was carried out between entities under common control, Matáv Rt. has restated its financial statements for the years 2000 and 2001 in line with the regulations of the International Accounting Standards, and included the Westels in the consolidated financial statements as if they had been wholly owned by Matáv Rt. from March 2000. The restatements relate to goodwill and brandname taken over from Deutsche Telekom's consolidated accounts at historic values, allocation to customer base and the related amortization and deferred tax. In addition, from this date 100% of the Westels' results have been included in the Matáv Group's restated results. The previously published results effectively only included 51 percent of the Westels' results after the deduction of 49 percent minority interest.

The impact of the restatement is to increase the amortization of intangibles by HUF 16,780 million in 2000 and HUF 16,411 million in 2001, increase deferred tax credit by HUF 456 million in 2000 and reduce deferred tax charge by HUF 26 million in 2001 and decrease minority interest in the income statement by HUF 14,213 million in 2000 and HUF 23,739 million in 2001.

In order to provide a meaningful comparison of the 2001 results with prior years, we present our income statements on a pro-forma basis, i.e. before the effects of restatements outlined above. Following the analysis of the pro-forma results for 2001 compared to 2000, we also present our financial statements on a restated basis.

### **d.) Analysis of group income statements**

The analysis on the following pages is based on the income statements excluding the impact of the restatements as described in section c.

#### **Sales**

Revenues from domestic telecommunications services for the year ended December 31, 2001 reflect significant rebalancing of tariffs that took place effective February 1, 2001. The new tariffs indicate significant progress towards cost based tariffing. Subscription fees increased nearly 30%, while domestic and international usage tariffs decreased, which are reflected in the mixed growth figures below.

Revenues from subscriptions, connections and other charges for the year ended December 31, 2001 amounted to HUF 96,673 million, compared to HUF 82,918 million for the same period in 2000 (a 16.6% increase). Growth resulted mainly from subscription fee increases. The average number of lines increased by 0.7% to 2,940,383 in 2001 from 2,919,631 in



2000. Increase in subscription revenues was partially offset by the decline in revenues from connection fees. The decreased connection fee revenues resulted from the lower number of analog line gross additions as well as lower connection fees due to marketing campaigns. Other charges increased as a result of wider usage of digifon services, voice-mail and phone-directory as well as subscriptions to tariff packages, such as Mindenkinék.

Domestic traffic revenue for the year ended December 31, 2001 amounted to HUF 123,366 million, compared to HUF 129,517 million for the same period in 2000. The 4.1 percent growth in domestic usage was offset by tariff rebalancing. In addition to lowering both local and long distance tariffs in nominal terms, Matáv offers tariff discounts, such as the night discount and the Mindenkinék package.

Revenues from other usage for the year ended December 31, 2001 amounted to HUF 17,254 million, compared to HUF 19,136 million for the same period in 2000 (a 9.8% decrease). This decrease is attributable to lower fees paid to Matáv by other domestic operators. This decrease was partially offset by the increased number of minutes, especially by the significantly higher traffic between the mobile service providers and Matáv.

International traffic revenues amounted to HUF 34,992 million for the year ended December 31, 2001, compared to HUF 41,432 million for the same period in 2000 (a 15.5% decrease). Both outgoing and incoming international revenue show a decrease. Decrease in outgoing international traffic revenue is due to a 15% reduction in international traffic rates effective from February 1, 2001 as well as volume decreases. International incoming traffic revenue decreased as well, resulting from lower volume of incoming minutes.

Revenues from mobile telecommunications services amounted to HUF 140,234 million for the year ended December 31, 2001, compared to HUF 108,885 million for the year ended December 31, 2000 (a 28.8% increase). The growth resulted from the increased number of subscribers, partly offset by lower tariffs. The average number of Westel customers increased by 69.3%, while the average number of Westel 0660 customers decreased by 31.3%. Within the Westel customers, the prepaid group shows a significant, 100.5% increase. Prepaid customers accounted for approximately 84.9% of gross additions in the year ended December 31, 2001 and represent 67.4% of total Westel customers at December 31, 2001.

Westel's ARPU (average revenue per user) decreased by 23.4%, from HUF 9,067 in the year ended 2000 to HUF 6,946 in the same period of 2001 due to the dilution of customer base as the ARPU of the newly acquired prepaid customers is relatively low.

Within mobile telecommunications services enhanced services show the highest increase, with 85.0% growth year over year. Enhanced services now represent 7.0% of revenues from mobile telecommunications services. This revenue includes primarily SMS (short message service). Increases in mobile customer base were partly offset by decreased usage per subscriber and decreasing tariffs. Westel's usage measured in MOU (minutes of use) decreased from 184 minutes per customer per month in the year ended 2000 to 146 minutes per customer per month for the same period in 2001. The decreasing MOU is due

to the increasing proportion of the prepaid customer base, which has lower minutes of usage than regular subscribers. Per minute tariff charges decreased by 2.6%, due to increasing competition in the mobile telecommunications market as well as change in call patterns, whereby the proportion of lower tariff calls (such as within network and off-peak period) is increasing in the call distribution.

Revenues from international activities show revenues of MakTel, our subsidiary acquired in 2001. Revenues from international activities amounted to HUF 59,977 million for the year ended December 31, 2001.

Revenues from leased lines and data transmission amounted to HUF 33,534 million for the year ended December 31, 2001, compared to HUF 26,819 million for the same period in 2000 (a 25.0% increase). This strong growth was due to the increase in the number of managed leased lines, ISDN, Internet and cable TV subscribers. The number of managed leased lines increased to 11,386 at December 31, 2001 compared to 8,920 at December 31, 2000. The number of ISDN channels increased nearly by 50% over the period, from 305,882 at December 31, 2000 to 448,396 at December 31, 2001. Residential customers account for 21.9% of ISDN channels at the end of 2001, compared to 16.2% a year ago. The number of Internet connections grew by 39.1%, while the number of cable television customers increased by 12.6% year over year.

Revenues from other services amounted to HUF 41,705 million for the year ended December 31, 2001, compared to HUF 37,238 million for the same period in 2000 (a 12.0% increase). Other services include equipment sales, construction, maintenance, audiotex, telex, telegraph and miscellaneous revenues. The increase in this category is mainly due to equipment sales of Westel. In addition to the significant increase in prepaid gross additions, the equipment sales ratio (the proportion of customers purchasing a phone set) also increased. The average sales price of the mobile phonesets sold by Westel show a 14.7% decrease as of December 31, 2001, compared to December 31, 2000.

## **Expenses**

Employee-related expenses for the year ended December 31, 2001 amounted to HUF 75,962 million, compared to HUF 66,024 million for the same period in 2000 (an increase of 15.1%). The growth results from wage increases effective April 1, 2001 at Matáv Rt., as well as the 15.7% increase in group headcount figures to 16,633 by December 31, 2001 compared to 14,380 as of December 31, 2000. While headcount reductions at Matáv continued, growth resulted mainly from the acquisition of MakTel. MakTel had 3,776 employees at December 31, 2001. Therefore without the inclusion of MakTel, the group headcount figure would have decreased 10.6% by December 31, 2001 compared to December 31, 2000. MakTel accounted for HUF 6,211 million in employee-related expenses in the year ended December 31, 2001. In addition, headcount also increased at Westel in line with the increased operation of our GSM subsidiary. Efficiency improvements continued, and resulted in an increased number of lines per fixed line employee, 316 at the end of December 2001, compared to 264 a year earlier.

Depreciation and amortization for the year ended December 31, 2001 amounted to HUF 100,211 million, compared to HUF 77,940 million for the same period in 2000 (an increase of 28.6%). The growth is a result of increased investment in fixed assets. MakTel accounted for HUF 7,925 million in depreciation expenses in the year ended December 31, 2001. In addition, depreciation and amortization also includes the amortization expense of the goodwill that arose on the acquisition of MakTel.

Payments to other network operators for the year ended December 31, 2001 amounted to HUF 72,606 million, compared to HUF 55,617 million for the same period in 2000 (an increase of 30.5%). The increase was mainly due to the increased penetration of mobile customers. MakTel's international outpayments accounted for HUF 4,957 million in payments to other network operators in the year ended December 31, 2001.

The cost of telecommunications equipment sales for the year ended December 31, 2001 was HUF 39,101 million, compared to HUF 34,111 million for the same period in 2000 (an increase of 14.6%). This is mainly due to the increased number of gross additions at Westel during the year ended December 31, 2001 compared to the year ended 2000 as well as the increase in the equipment sales ratio, i.e. the proportion of customers purchasing a phoneset. This increase was partly offset by the lower average cost of mobile handsets. MakTel accounted for HUF 2,544 million in cost of telecommunications equipment sales in the year ended December 31, 2001.

Other operating expenses for the year ended December 31, 2001 amounted to HUF 124,044 million, compared to HUF 99,382 million for the same period in 2000 (an increase of 24.8%). Other operating expenses include materials, maintenance, marketing, service fees, outsourcing expenses, energy and consultancy. MakTel accounted for HUF 12,333 million in other operating expenses in the year ended December 31, 2001.

### **Operating Profit**

Operating profit amounted to HUF 135,811 million for the year ended December 31, 2001, compared to HUF 112,871 million for the same period in 2000. Total revenues for the year ended December 31, 2001 increased 22.8% to HUF 547,735 million, compared to HUF 445,945 million for the year ended 2000. Total operating expenses increased 23.7% to HUF 411,924 million in the year ended December 31, 2001 from HUF 333,074 million for the same period in 2000. Operating margin for the year ended December 31, 2001 was 24.8%, while operating margin for the same period in 2000 was 25.3%.

### **Net Interest and Other Charges**

Net interest and other charges were HUF 13,104 million for the year ended December 31, 2001, compared to HUF 20,992 million for the same period in 2000. Net interest and other charges show a decrease due to the 13.8 billion HUF foreign exchange gain (excluding

foreign exchange gain on derivatives). This foreign exchange gain resulted mainly from the strengthening of the HUF due to the widening of the intervention band by the National Bank of Hungary. This foreign exchange gain more than offset the 3.7 billion HUF increase in interest expense on foreign exchange denominated loans resulting from the higher average loan balance. Total loans and other borrowings increased from HUF 189,366 million at December 31, 2000, to HUF 453,370 million at December 31, 2001, mainly because of the loan taken from Deutsche Telekom AG to finance the MakTel acquisition, as well as the loans taken in the fourth quarter to finance the acquisition of Westel. Net interest and other charges include MakTel's HUF 2,027 million of net interest and other charges in the year ended December 31, 2001.

### **Share of associates' results**

Share of associates' results amounted to HUF 1,703 million for the year ended December 31, 2001, compared to HUF 2,174 million for the same period in 2000, reflecting decreased financial results of HUNSAT.

### **Profit before taxation**

Profit before income tax amounted to HUF 124,410 million for the year ended December 31, 2001 versus HUF 94,053 million for the same period in 2000.

### **Income tax**

Income tax expense increased from HUF 8,208 million for the year ended December 31, 2000 to HUF 11,759 million for the same period of 2001, due to the inclusion of MakTel and higher deferred tax charges.

### **Minority Interest**

Minority interest for the year ended December 31, 2001 was HUF 37,445 million, compared to HUF 17,082 million for the same period in 2000 (an increase of 119.2%). This increase is due to the growth of Westel's profits as well as the inclusion of MakTel. MakTel accounted for HUF 13,983 million in minority interest in the year ended December 31, 2001.

### **Net Income**

Net income for the year ended December 31, 2001 was HUF 75,206 million, compared to HUF 68,763 million for the same period in 2000 (an increase of 9.4%).

### **e.) Analysis of segmented income statements**

The sum of the financial results of the three segments presented below does not equal the group financial results because of intersegment eliminations.

This analysis is based on results excluding the impact of restatement discussed in section c.

#### **Fixed line segment**

Fixed line segment includes Matáv Rt. and its consolidated subsidiaries, other than MakTel, Stonebridge, Telemacedónia, Westel and Westel 0660.

	12 months ended Dec. 31, 2000	12 months ended Dec. 31, 2001	Change in percentage
Revenues	326,280	333,685	2.3%
EBITDA	131,769	126,091	(4.3%)
Operating profit	70,837	60,036	(15.2%)
Profit after income tax	50,945	45,139	(11.4%)
Minority interest	93	267	187.1%
Net income	51,038	45,406	(11.0%)

Revenues from the fixed line segment increased 2.3% year over year. The main contributors to this revenue growth were revenues from leased line and data transmission services, which increased by 25.9% in the year ended December 31, 2001 compared to the year ended 2000. Leased line and data transmission revenue growth was driven by strong volume increases in managed lease lines, ISDN channels, Internet and cable television customers. Matáv's domestic fixed voice business experienced only moderate, 2.2% growth, which was driven by subscription fee increases, partly offset by decreases in local and long distance tariffs. International revenues declined by 15.2%, due to lower outgoing and incoming traffic as well as decreased international tariffs.

Operating profit of the fixed line segment decreased by 15.2% because operating expenses grew at a faster rate than revenues. The main drivers of the operating expense growth were the wage increase at Matáv Rt. from April 1, 2001, the increased outpayments due to higher traffic between Matáv Rt. and the mobile service providers, and higher outsourcing, marketing, subcontracting expenses as well as higher local taxes.

## Mobile segment

Mobile segment includes Westel and Westel 0660.

	12 months ended Dec. 31, 2000	12 months ended Dec. 31, 2001	Change in percentage
Revenues	159,345	198,947	24.9%
EBITDA	59,042	76,075	28.8%
Operating profit	42,034	52,311	24.4%
Profit after income tax	34,900	48,787	39.8%
Minority interest	(17,175)	(23,738)	38.2%
Net income	17,725	25,049	41.3%

Revenues in the mobile segment increased by 24.9% in the year ended December 31, 2001 compared to the same period in 2000 due to strong increases in the number of mobile customers. Westel's customer base surged 55.9% to 2,493,485 subscribers, including 1,681,621 prepaid customers by December 31, 2001. Average monthly usage per Westel subscriber decreased by 20.7%, from 184 minutes in the year ended 2000 to 146 minutes in the year ended December 31, 2001. GSM mobile penetration reached 48.3 percent in Hungary and Westel accounts for 50.6 percent market share in the very competitive GSM market.

Operating profit shows a 24.4% increase. While revenues grew 24.9%, operating expenses increased at a higher rate, 25.0% year over year. The majority of the increase in operating expenses relates to customer acquisitions, such as cost of phonesets, SIM cards, marketing expenses, etc. Employee related expenses also increased at Westel due to increased headcount as well as wage increases. To accommodate the traffic of the increased subscriber base, the mobile network is continuously expanding, resulting in higher depreciation expense. Depreciation and amortization also increased because of the inclusion of the 1800 DCS license in concession rights in the last half of 2000. Because of the 39.7% increase in depreciation expense, the growth in operating profit is below the growth of EBITDA. Net income in the mobile segment increased by 41.3%, at a much faster rate than operating profit, due to a 79.4% decrease in net interest and other charges. This decrease in net interest and other charges was mainly due to the 2.3 billion HUF decrease in foreign exchange loss resulting from the strengthening of the HUF.

## International segment

International segment includes the operations of MakTel, Stonebridge, Telemacedónia, and the goodwill amortization arising from the consolidation of MakTel.

	12 months ended Dec. 31, 2001
Revenues	60,034
EBITDA	33,856
Operating profit	23,464
Profit after income tax	18,725
Minority interest	(13,974)
Net income	4,751

MakTel has been a consolidated company of Matáv beginning January 15, 2001. MakTel had 549,988 fixed line subscribers, 233,820 mobile subscribers and 21,674 Internet subscribers at December 31, 2001.

About 44.1% of MakTel's revenue is derived from domestic telecommunications services, about 23.8% from international traffic and about 27.5% from mobile telecommunications services. The revenues from leased lines, data transmission and other services account for only 4.6% of total revenues.

The international segment has a strong, 56.4% EBITDA margin and 39.1% operating margin for the year ended December 31, 2001.

Minority interest of HUF 13,974 million mainly represents the share of income accruing to the minority owners in MakTel and in Stonebridge. Minority interest is not calculated on the amortization relating to the goodwill acquired by Matáv Rt.

## **f.) Analysis of group balance sheets**

This analysis is based on the December 31, 2000 balance sheet excluding the impact of the restatement outlined in section c.

Total assets and total shareholders' equity and liabilities at December 31, 2000 were HUF 745,509 million. Total assets and total shareholders' equity and liabilities amounted to HUF 1,104,196 million as of December 31, 2001. The increase is mainly attributable to the acquisition of MakTel.

### **Receivables**

Receivables increased by 22.4% from December 31, 2000 to HUF 88,079 million at December 31, 2001. This increase was mainly due to the acquisition of MakTel.

### **Intangible assets**

Intangible assets increased 488.9% from December 31, 2000 to HUF 306,029 million at December 31, 2001. This increase was due to goodwill on acquisition of subsidiaries, mainly Westel, MakTel and Emitel.

### **Loans and other borrowings**

The current portion of loans and other borrowings decreased 57.3% from December 31, 2000 to HUF 33,607 at December 31, 2001. This decrease in current loans and other borrowings reflects repayment of the Rt.'s and Westel's short term borrowings, as they fell due during the year 2001. (The repayment of Westel's syndicated loans was due in 2001, therefore it was reclassified as short term at the end of 2000.)

Non-current loans and other borrowing increased 279.4% from December 31, 2000 to HUF 419,763 million at December 31, 2001. This increase mainly reflects the loans received from Deutsche Telekom AG to finance the acquisition of MakTel and the two Westels.

In addition, short term loans and long term loans increased due to the inclusion of MakTel's loans in the consolidated balance sheet.

### **Trade and other payables**

Trade and other payables increased 27.1% from December 31, 2000 to HUF 122,126 million at December 31, 2001. This increase was mainly due to the 12 billion HUF accrued additional consideration payable to Deutsche Telekom AG for the Westels, representing 49% of dividend anticipated from Westel.

### **Retained earnings**

Retained earnings increased 28.2% from December 31, 2000 to HUF 333,772 million at December 31, 2001. This increase was mainly due to net income.



**MATÁV**  
**Consolidated**  
**Income Statements - IAS**

Year ended Dec 31,

(HUF million)	2000	2000	2001	2001
	(audited)	(unaudited)	(unaudited)	(unaudited)
	Before restatement	Restated	Before restatement	Restated
<b>Revenues</b>				
Subscriptions, connections and other charges	82 918	82 918	96 673	96 673
Domestic traffic revenue	129 517	129 517	123 366	123 366
Other usage	19 136	19 136	17 254	17 254
<b>Domestic telecommunications services</b>	<b>231 571</b>	<b>231 571</b>	<b>237 293</b>	<b>237 293</b>
International traffic revenues	41 432	41 432	34 992	34 992
Mobile telecommunications services	108 885	108 885	140 234	140 234
Revenues from international activities	0	0	59 977	59 977
Leased lines and data transmission	26 819	26 819	33 534	33 534
Other services	37 238	37 238	41 705	41 705
<b>Total revenues</b>	<b>445 945</b>	<b>445 945</b>	<b>547 735</b>	<b>547 735</b>
Employee related expenses	(66 024)	(66 024)	(75 962)	(75 962)
Depreciation and amortization	(77 940)	(94 720)	(100 211)	(116 622)
Payments to other network operators	(55 617)	(55 617)	(72 606)	(72 606)
Cost of telecommunications equipment sales	(34 111)	(34 111)	(39 101)	(39 101)
Other operating expenses	(99 382)	(99 382)	(124 044)	(124 044)
<b>Total operating expenses</b>	<b>(333 074)</b>	<b>(349 854)</b>	<b>(411 924)</b>	<b>(428 335)</b>
<b>Operating profit</b>	<b>112 871</b>	<b>96 091</b>	<b>135 811</b>	<b>119 400</b>
Net interest and other charges	(20 992)	(20 992)	(13 104)	(13 104)
Share of associates' results before income tax	2 174	2 174	1 703	1 703
<b>Profit before income tax</b>	<b>94 053</b>	<b>77 273</b>	<b>124 410</b>	<b>107 999</b>
Income tax expense	(8 208)	(7 752)	(11 759)	(11 733)
<b>Profit after income tax</b>	<b>85 845</b>	<b>69 521</b>	<b>112 651</b>	<b>96 266</b>
Minority interest	(17 082)	(2 869)	(37 445)	(13 706)
<b>Net income</b>	<b>68 763</b>	<b>66 652</b>	<b>75 206</b>	<b>82 560</b>

MATÁV Consolidated Balance Sheets - IAS	Dec 31, 2000 (audited)	Dec 31, 2000 (unaudited)	Dec 31, 2001 (unaudited)
(HUF million)	Before restatement	Restated	
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	13 296	13 296	10 117
Financial investments	6 045	6 045	327
Receivables	71 951	71 251	88 079
Inventories	10 587	10 587	13 297
<b>Total current assets</b>	<b>101 879</b>	<b>101 179</b>	<b>111 820</b>
Property, plant and equipment	561 702	561 702	654 298
Intangible assets	51 964	262 416	306 029
Associates and other long term investments	14 062	14 062	13 199
<b>Total fixed assets</b>	<b>627 728</b>	<b>838 180</b>	<b>973 526</b>
Other non current assets	15 902	15 065	18 850
<b>Total assets</b>	<b>745 509</b>	<b>954 424</b>	<b>1 104 196</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Loans and other borrowings	78 725	78 725	33 607
Trade and other payables	96 068	93 876	122 126
Deferred revenue	3 690	3 690	3 430
Provisions for liabilities and charges	11 624	11 624	3 320
<b>Total current liabilities</b>	<b>190 107</b>	<b>187 915</b>	<b>162 483</b>
Loans and other borrowings	110 641	110 641	419 763
Deferred revenue	9 949	9 949	7 101
Provisions for liabilities and charges	30	30	0
Deferred tax liability	0	313	1 763
Other non current liabilities	7 067	7 067	4 617
<b>Total non current liabilities</b>	<b>127 687</b>	<b>128 000</b>	<b>433 244</b>
Minority interests	40 731	1 228	48 169
Shareholders' equity			
Common stock	103 736	103 736	103 736
Additional paid in capital	22 955	22 955	22 955
Treasury stock	(127)	(127)	(163)
Retained earnings	260 420	510 717	333 772
<b>Total shareholders' equity</b>	<b>386 984</b>	<b>637 281</b>	<b>460 300</b>
<b>Total liabilities and shareholders' equity</b>	<b>745 509</b>	<b>954 424</b>	<b>1 104 196</b>

## Summary of key operating statistics

The following ratios are based on the financial statements excluding the impact of the restatement as described in section c.

	31.dec.00	31.dec.01	Dec 00 - Dec 01 % change
EBITDA margin	42,8%	43,1%	0,7%
Operating margin	25,3%	24,8%	(2,0%)
Net income margin	15,4%	13,7%	(11,0%)
ROA	9,9%	8,1%	(18,2%)
Net debt to total capital	28,4%	46,6%	64,1%

<b>Number of closing lines</b>			
Residential	2 296 351	2 151 346	(6,3%)
Business	326 503	299 267	(8,3%)
Payphone	36 774	37 432	1,8%
ISDN channels	305 882	448 396	46,6%
<b>Total lines</b>	<b>2 965 510</b>	<b>2 936 441</b>	<b>(1,0%)</b>
Digitalization of exchanges with ISDN	85,1%	85,4%	0,4%
Penetration	39,5%	39,1%	(1,0%)

Fixed line employees (closing full equivalent)	11 227	9 298	(17,2%)
Total no of employees (closing full equivalent)	14 380	16 633	15,7%
Lines per fixed line employees	264	316	19,7%

<b>Traffic in minutes (thousands)</b>			
Domestic	9 692 678	10 088 137	4,1%
International outgoing	182 479	166 649	(8,7%)

Emitel line numbers incl. ISDN channels		80 899	n.a.
Emitel domestic traffic (thousand minutes)		91 567	n.a.
Emitel international outgoing traffic (thousand minutes)		1 370	n.a.

Westel 0660 RPCs (Revenue Producing Customers)	75 866	44 308	(41,6%)
Westel RPCs (Revenue Producing Customers)	1 599 086	2 493 485	55,9%
Total cellular RPCs	1 674 952	2 537 793	51,5%
Westel's MOU	184	146	(20,7%)
Westel's ARPU (Average Traffic Rev./RPC/Month)	9 067	6 946	(23,4%)
Westel's overall churn	(13,1%)	(13,7%)	4,8%

Managed leased lines (FLEX-Com connections)	8 920	11 386	27,6%
Internet subscribers	95 726	133 171	39,1%
Cable television customers	267 246	300 857	12,6%