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## **MATÁV ANNOUNCES 1999 FIRST QUARTER RESULTS**

BUDAPEST, May 13, 1999 -- MATÁV (NYSE: MTA and BSE: MTAV.BU), the leading Hungarian telecommunications service provider, today reported continued strong improvement in financial results and operating performance for the first quarter of 1999.

- Revenues grew 19.2% to 105.1 billion forints, compared to 88.2 billion in the first quarter of 1998.
- Net income increased 29.5% (20.3% in USD terms), to 17.1 billion forints versus 13.2 billion forints last year despite the fact that after a five year tax holiday we started to pay corporate tax at a rate of 7.2%. Net income margin increased to 19.3%, compared to 17.9% in the same period last year.
- Basic earnings per share grew by 29.5% to 16.4 forints as compared to first quarter of 1998.
- EBITDA increased 25.7% to 42.6 billion forints and the EBITDA margin reached 48.3% versus 47.1% for the full year of 1998 and 46.1% in the first quarter of 1998.
- Operating income increased 23.7% to 27.7 billion forints and the operating margin reached 31.4% versus 30.4% for the first quarter of 1998.

Elek Straub, Chairman and Chief Executive Officer commented: „MATÁV has made dramatic improvements in all facets of its business. We have upgraded our operational systems, improved our productivity and continued to develop new products and better services for our customers. With these improvements, complemented by a healthy and robust Hungarian economy, I am confident that we will be able to sustain a 20% plus net income growth rate (USD terms) in the coming years.”

The main drivers of MATÁV's superior financial performance in the first quarter of 1999 continue to be strong customer and volume increases:

- Domestic telecommunications revenues grew by 18.0% relative to March 1998 and account for approximately 58% of total revenue. Total fixed lines increased by 48,510 in the first quarter to over 2,693,600 lines, including ISDN channels. As a result penetration reached 35.7% by the end of March, 1999. The network digitalization rate increased to 76.7%, supporting continued service quality improvements.

- During the course of the first quarter we launched targeted campaigns to generate demand for new lines. To date the campaign has been very successful. Currently we have over 65,000 orders for new lines still to be installed.
- Mobile service revenues increased 28.6% to 17.4 billion forints relative to the first quarter of 1998. This increase was mainly driven by the accelerated growth in the number of GSM subscribers, up by over 89,000 in the first three months of 1999 to a total of nearly 636,000.
- Growth in data communications remained strong, supported by the global trend towards high bandwidth services. Revenues from leased lines and data communications increased by 39.9% to 5.7 billion forints relative to the end of March, 1998. In total, data communications grew to 6.4% of the total revenue as compared to 5.5% in first quarter 1998.
- From January 1, 1999 we introduced a more transparent per-second billing system, a key platform for maintaining MATÁV's competitiveness. This system will help MATÁV introduce new customized products with relevant tariff discounts, such as the „Favorite Numbers” (Friends and Family) plan launched this quarter which gives MATÁV customers discounts on pre-specified numbers.
- Lines per telephone employee continued to grow reaching 204, as we achieved further productivity increases.

MATÁV is the principal provider of telecom services in Hungary and holds the national concession for national and international long distance telephony. 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. Key shareholders as of March 31, 1999 include the Ministry for Transport, Communications and Water Management (holder of the Golden Share), MagyarCom, a consortium of Ameritech International, Inc. and Deutsche Telekom AG (59.58%), ÁPV Rt. (5.75%), while 34.67% is publicly traded.

**Analysis of the income statement**  
**for the 3 months ended March 31, 1999**

**Sales**

Revenues from subscriptions, connections and other charges for the 3 months ended March 31, 1999 amounted to HUF 15,268 million, compared to HUF 13,495 for the same period in 1998 (a 13.1% increase). Growth resulted primarily from an increase in the number of subscribers and tariff increases. The average number of lines increased 9.7% to 2,670,118 in 1999 from 2,434,982 for the first quarter in 1998. New line growth in 1999 amounted to 48,510 after an adjustment moving the line count database to the new centralized time-based billing environment.

Domestic traffic revenue for the first 3 months in 1999 totaled HUF 31,929 million, compared to HUF 25,502 million for the same period in 1998 (a 25.2% increase). Revenue growth was driven primarily by increases in the number of subscribers and tariff increases.

Revenues from other usage for the first 3 months in 1999 amounted to HUF 4,231 million, compared to HUF 4,587 million for the same period in 1998 (a 7.8% decrease). This decrease is attributable to lower fees paid to MATÁV by other domestic operators.

International traffic revenues amounted to HUF 10,423 million for the 3 months ended March 31, 1999, compared to HUF 9,141 million for the same period in 1998 (a 14.0% increase).

Revenues from mobile telecommunications services totaled HUF 17,389 million for the first quarter in 1999, compared to HUF 13,527 million for the 3 months ended March 31, 1998 (a 28.6% increase). The growth in revenues resulted primarily from the increased number of mobile subscribers. The number of Westel 900 subscribers increased to 635,975 in 1999 from 410,745 on March 31, 1998. The number of Westel 450 subscribers increased to 94,320 in 1999 from 82,762 on March 31, 1998. Westel 900 digital service accounted for 87.1% of our total mobile customers on March 31, 1999, while our Westel 450 analog service represented 12.9% of our total mobile customers.

Revenue from leased lines and data transmission amounted to HUF 5,652 million for the first quarter in 1999, compared to HUF 4,039 million for the same period in 1998 (a 39.9% increase). This growth was due to strong growth in managed leased lines, ISDN, internet and audiotex.

Revenues from other services amounted to HUF 3,338 million for the first 3 months in 1999, compared to HUF 3,336 million for the same period in 1998 (a 0.1% increase). Revenue from other services includes equipment sales, construction and maintenance.

## **Expenses**

Employee-related expenses for the 3 months ended March 31, 1999 totaled HUF 13,138 million compared to HUF 11,638 million for the same period in 1998 (an increase of 12.9%). This increase results primarily from wage increases effective April 1, 1998 which were partially offset by a decrease in headcount from 18,042 on March 31, 1998 to 16,542 on March 31, 1999.

Depreciation and amortization for the 3 month ended March 31, 1999 amounted to HUF 14,956 compared to HUF 11,556 million for that period in 1998 (an increase of 29.4%). The growth is a result of increased investment in fixed assets.

Payments to other network operators for the 3 months ended March 31, 1999 totaled HUF 9,799 compared to HUF 8,180 million for the same period in 1998 (an increase of 19.8%). The increase was due to the increased penetration of mobiles and fixed lines and an increase in the fees that MATÁV pays to other operators.

The cost of telecommunications equipment sales for the first quarter in 1999 was HUF 5,851 million compared to HUF 4,375 million for the same period in 1998 (an increase of 33.7%). This increase relates to cost of sales for mobile handsets and other phone equipment sold.

Other operating expenses for the first 3 months in 1999 amounted to HUF 16,807 million compared to HUF 15,511 million for the same period in 1998 (an increase of 8.4%). Other operating expenses include materials and maintenance, marketing, fees and levies, energy, service fees and consultancy.

## **Operating Profit**

Operating profit totaled HUF 27,679 million for the 3 months ended March 31, 1999, compared to HUF 22,367 million for the same period in 1998. Total revenues increased 19.8% to HUF 88,230 million for the first quarter in 1999 compared to HUF 73,627 million for the first quarter in 1998. Total operating expense increased 18.1% to HUF 60,551 million for the first 3 months in 1999 from HUF 51,260 million for the same period in 1998. Operating margin for the 3 months ended March 31, 1999 was 31.4%, while operating margin for the same period in 1998 was 30.4%.

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

Net interest and other charges were HUF 7,286 million for the first quarter in 1999 compared to HUF 6,727 million for the same period in 1998. Net interest and other charges show an increase due to higher foreign exchange loss. Total loans and other borrowings increased from HUF 169,233 million on March 31, 1998, to HUF 180,670 million on March 31, 1999.

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

Share of associates' results before income tax amounted to HUF 73 million for the 3 months ended March 31, 1999 compared to a loss of HUF 360 million for the same period in 1998, reflecting improved results of EMITEL.

### **Profit before taxation**

Profit before tax amounted to HUF 20,466 million for the 3 months ended March 31, 1999 versus HUF 15,280 million for the same period in 1998.

### **Income tax**

Income tax increased for the first quarter in 1999 due to the fact that MATÁV Rt. and Westel 900 started to pay corporate tax in 1999. Income tax for the first three months of 1999 amounted to HUF 1,571 million compared to HUF 100 million for the same period in 1998.

### **Minority Interest**

Minority interest for the first 3 months in 1999 was HUF 1,838 million compared to HUF 2,008 million for the same period in 1998 (a decrease of 8.5%). This decrease is due to lower share of minority in Westel 900 as a result of repurchase of IFC shares.

### **Net Income**

Net income for the first quarter in 1999 was HUF 17,057 million compared to HUF 13,172 for the same period in 1998 (an increase of 29.5%).

## **Balance Sheet**

Total assets and total shareholders' equity and liabilities for March 31, 1998 were restated to HUF 491,073 million which reflects the adoption of IAS 19 „Employee Benefits” (revised 1997) as of January 1, 1998. Total assets and total shareholders' equity and liabilities amounted to HUF 560,885 million as of March 31, 1999. The increase is attributable to operating results.

### **Receivables**

Receivables for March 31, 1999 of HUF 56,768 million increased 22.6% over March 31, 1998. This increase was due to the increase in the subscriber base and tariffs.

### **Loans and other borrowings**

While the current portion of loans and other borrowings decreased 43.4% to HUF 16,359 as of March 31, 1999, the total portfolio of current and non-current loans and other borrowing increased only 6.8% from HUF 169,233 million at March 31, 1998 to HUF 180,670 million at March 31, 1999. The decrease in current loans and other borrowings reflects a shift in the Company's borrowings to longer term borrowings including the issuance of bonds.

### **Trade and other payables**

Trade and other payables amounted to HUF 61,104 million, 20.2% over its balance at March 31, 1998. This increase is mainly due to higher trade creditor balances as a result of increased capital expenditures in the first quarter of 1999 over the first quarter of 1998.

### **Retained earnings**

Retained earnings increased 59.2% from March 31, 1998 to HUF 147,740 million at March 31, 1999. The increase was due to the net income offset by the dividend of HUF 7,262 million. Retained earnings for March 31, 1998 were restated as a result of an adjustment for IAS 19 „Employee benefits” of HUF 2,506 million.

### **Number of employees**

The number of full time and equivalent employees decreased from 18,042 on March 31, 1998 to 16,542 on March 31, 1999.

### **Shareholder Structure**

The issued share capital of MATÁV is HUF 103,728,170,000 consisting of 1,037,281,600 series „A” ordinary shares, nominal value HUF 100 per share, and one registered series „B” voting preference share, nominal value HUF 10,000. The holder of the series „B” share is entitled to certain preferential voting and other rights.

MATÁV’s registered shareholders are summarized in the table below:

<b><u>Shareholder</u></b>	<b><u>Number of Shares</u></b>	<b><u>Percentage of share capital</u></b>
MagyarCom	618,059,400	59.58
ÁPV	59,608,397	5.75
Publicly traded	<u>359,613,803</u>	<u>34.67</u>
	1,037,281,600	100.00
Holder of series „B” share	<u>1</u>	
	1,037,281,601	

#### **Shareholders with over 5% ownership:**

MagyarCom - Holding company of Deutsche Telekom and Ameritech

ÁPV Rt. - Privatization agency of Hungary

Morgan Guaranty Trust - Depository for the MATÁV’s ADRs

Shares held by MATÁV in Treasury:

	<b><u>March 31, 1998</u></b>	<b><u>March 31, 1999</u></b>
<b><u>Treasury shares</u></b>		
Number	124,200	0
Book value (HUF million)	19	0
Nominal Value (HUF million)	12	0

On November 16, 1998 MATÁV has fulfilled its legal requirements and sold its 124,200 Treasury shares at an average price of 1,214 HUF/share.

### **Annual General Meeting**

On April 28, 1999, MATÁV held its Annual General Meeting (AGM). Issues covered during the AGM include:

- The shareholders approved a dividend of 8 HUF per share.
- The shareholders then elected the members of the Board of Directors and the Supervisory Board.

The members of MATÁV's Board of Directors:

Elek Straub, Timothy J. Cawley, J. Cliff Dodd, William J. Edwards, Moritz Gerke, Franz X. Hiergeist, Dr. Zsolt Lajer, Dr. Mark von Lillienkiold, Dr. Mihály Patai, Dr Károly Szász, A. Vernon Weaver.

The members of MATÁV's Supervisory Board:

Dr. Csaba Csapodi, David A. Dohnalek, Paul B. Grosse, Dr. Horst D. Laubscher, Dr. László Pap, Joe Rosen, József Szabó, György Varjú, Péter Vermes.

### **Senior Management Changes**

On February 1, 1999 Péter Tölösi, the Chief Logistics Officer of MATÁV passed away.

On March 16, 1999 László Bodnár was appointed as the new Chief Logistics Officer of MATÁV.

John Brady was named as replacement to Ronald Reising effective June 1, 1999 to the position of Chief Financial Officer of MATÁV.

### **Other developments**

On February 10, 1999 Iván Szandtner resigned his position on the Board of Directors.



MÁTÁV Consolidated Financial Summary - IAS (HUF million)	3 months ended March 31,		
	1998 (Unaudited)	1999 (Unaudited)	% change
<b>Revenues</b>			
Subscriptions, connections and other charges	13 495	15 268	13,1%
Domestic traffic revenue	25 502	31 929	25,2%
Other usage	4 587	4 231	(7,8%)
<b>Domestic telecommunications services</b>	<b>43 584</b>	<b>51 428</b>	<b>18,0%</b>
International traffic revenues	9 141	10 423	14,0%
Mobile telecommunications services	13 527	17 389	28,6%
Leased lines and data transmission	4 039	5 652	39,9%
Other services	3 336	3 338	0,1%
<b>Total revenues</b>	<b>73 627</b>	<b>88 230</b>	<b>19,8%</b>
Employee related expenses	(11 638)	(13 138)	12,9%
Depreciation and amortization	(11 556)	(14 956)	29,4%
Payments to other network operators	(8 180)	(9 799)	19,8%
Cost of telecommunications equipment sales	(4 375)	(5 851)	33,7%
Other operating expenses	(15 511)	(16 807)	8,4%
<b>Total operating expenses</b>	<b>(51 260)</b>	<b>(60 551)</b>	<b>18,1%</b>
<b>Operating profit</b>	<b>22 367</b>	<b>27 679</b>	<b>23,7%</b>
Net interest and other charges	(6 727)	(7 286)	8,3%
Share of associates' results before income tax	(360)	73	n.m.
<b>Profit before income tax</b>	<b>15 280</b>	<b>20 466</b>	<b>33,9%</b>
Income tax payable	(100)	(1 571)	n.m.
<b>Profit after income tax</b>	<b>15 180</b>	<b>18 895</b>	<b>24,5%</b>
Minority interest	(2 008)	(1 838)	(8,5%)
<b>Net income</b>	<b>13 172</b>	<b>17 057</b>	<b>29,5%</b>

MATÁV	Dec 31, 1998	Mar 31, 1998	Mar 31, 1999	%
Consolidated Financial Summary - IAS (HUF million)	(Audited)	(Unaudited)	(Unaudited)	change
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents	3 613	6 667	6 003	(10,0%)
Financial investments	1 274	13 130	2 723	(79,3%)
Receivables	51 662	46 294	56 768	22,6%
Inventories	8 117	8 725	10 282	17,8%
<b>Total current assets</b>	<b>64 666</b>	<b>74 816</b>	<b>75 776</b>	<b>1,3%</b>
<b>Total fixed assets</b>	<b>479 474</b>	<b>412 429</b>	<b>479 779</b>	<b>16,3%</b>
<b>Other non current assets</b>	<b>5 400</b>	<b>3 828</b>	<b>5 330</b>	<b>39,2%</b>
<b>Total assets</b>	<b>549 540</b>	<b>491 073</b>	<b>560 885</b>	<b>14,2%</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
Loans and other borrowings	19 311	28 892	16 359	(43,4%)
Trade and other payables	74 956	50 815	61 104	20,2%
Deferred revenue	5 638	5 832	5 335	(8,5%)
Provisions for liabilities and charges	4 322	3 407	4 574	34,3%
<b>Total current liabilities</b>	<b>104 227</b>	<b>88 946</b>	<b>87 372</b>	<b>(1,8%)</b>
Loans and other borrowings	153 160	140 341	164 311	17,1%
Deferred revenue	18 260	22 468	17 176	(23,6%)
Provisions for liabilities and charges	4 513	4 038	3 802	(5,8%)
<b>Total non current liabilities</b>	<b>175 933</b>	<b>166 847</b>	<b>185 289</b>	<b>11,1%</b>
<b>Minority interests</b>	<b>12 135</b>	<b>15 938</b>	<b>13 922</b>	<b>(12,6%)</b>
<b>Shareholders' equity</b>				
Common stock	103 728	103 728	103 728	0,0%
Paid in capital	22 834	22 834	22 834	0,0%
Retained earnings	130 683	92 780	147 740	59,2%
<b>Total shareholders' equity</b>	<b>257 245</b>	<b>219 342</b>	<b>274 302</b>	<b>25,1%</b>
<b>Total liabilities and shareholders' equity</b>	<b>549 540</b>	<b>491 073</b>	<b>560 885</b>	<b>14,2%</b>

Summary of key operating statistics

	31-Dec-98	Adjustment	1-Jan-99 *	31-Mar-98	31-Mar-99	Mar 99 - Dec 98 * % change	Mar 99 - Mar 98 % change
EBITDA margin	47.1%			46.1%	48.3%	2.5%	4.8%
Operating margin	30.2%			30.4%	31.4%	4.0%	3.3%
Net income margin	18.3%			17.9%	19.3%	5.5%	7.8%
ROA	11.3%			10.8%	12.3%	8.8%	13.9%
Net debt to total capital	38.4%			38.8%	37.4%	(2.6%)	(3.6%)

Number of closing lines							
Residential	2,201,366	(17,264)	2,184,102	2,031,560	2,217,051	1.5%	9.1%
Business	362,828	(663)	362,165	352,869	364,884	0.8%	3.4%
Payphone	36,954	(1,215)	35,739	35,861	35,861	0.3%	0.0%
ISDN channels	70,642	(7,494)	63,148	44,152	75,868	20.1%	71.8%
Total lines	2,671,790	(26,636)	2,645,154	2,464,442	2,693,664	1.8%	9.3%
Digitalization of exchanges with ISDN	75.7%			71.7%	76.7%	1.3%	7.0%
Penetration	35.4%			32.5%	35.7%	0.8%	9.8%
Westel 450 RPCs (Revenue Producing Customers)	93,596			82,762	94,320	0.8%	14.0%
Westel 900 RPCs (Revenue Producing Customers)	546,554			410,745	635,975	16.4%	54.8%
Total cellular RPCs	640,150			493,507	730,295	14.1%	48.0%

Fixed line employees (closing full equivalent)	13,287			14,595	13,178	(0.8%)	(9.7%)
Total no of employees (closing full equivalent)	16,595			18,042	16,542	(0.3%)	(8.3%)
Lines per fixed line employees	201			169	204	1.5%	20.7%