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MATÁV ANNOUNCES 1999 FIRST HALF RESULTS

BUDAPEST, August 10, 1999 -- MATÁV (NYSE: MTA and BSE: MTAV.BU), the leading Hungarian telecommunications service provider, today announced its 1999 first half results.

- Revenues grew 19.9% to 181.7 billion forints, compared to 151.6 billion forints in the first half of 1998.
- Net income increased 29.6% (18.2% in USD terms), to 36.3 billion forints versus 28.0 billion forints last year. This has been achieved even as MATÁV began paying corporate tax at a rate of 7.2%, following the expiration of a five year tax holiday. Net income margin increased to 20.0%, compared to 18.5% for the first half of 1998.
- Basic earnings per share grew by 29.6% to 35.0 forints as compared to the first half 1998.
- EBITDA increased 21.8% compared to first half 1998 to 86.7 billion forints, and the EBITDA margin reached 47.7%, versus 47.0% for the first half of 1998.

“The continuing strong financial performance is a direct result of robust demand for our services, stimulated by a broader product range, targeted marketing campaigns and improved customer care,” commented Elek Straub, Chairman and Chief Executive Officer. “Our aim is to meet the needs of our customers for the full range of telecommunications services. We expect the positive growth trends in Hungary to continue, providing excellent support for MATÁV to deliver strong results for the full year.”

MATÁV’s superior financial performance in the first half of 1999 reflected strong customer and volume increases throughout the company’s core operations:

- Domestic telecommunications revenues grew by 19.2% relative to first half 1998, reflecting continued rebalancing of tariffs, and account for approximately 58% of total revenue. Total fixed lines increased by 10.2% in the 12 months ended June 30, 1999 to 2,775,409 lines, including ISDN channels. As a result, penetration reached 37.0% by the end of June 1999.

- During the course of the second quarter we connected 70,000 new lines, thanks mainly to demand generated by the targeted campaigns initiated in the first quarter. We currently have over 59,000 additional requests for new lines soon to be completed.
- Mobile service revenues increased 29.2% to 36.9 billion forints relative to the first half 1998. This increase mainly reflects the strong growth in the number of GSM subscribers, up by 154,000 in the first six months of 1999 to a total of over 700,000.
- Growth in data communications remained strong, supported by global trends favoring high bandwidth services. Revenues from leased lines and data communications increased by 35.2% relative to the first six months of 1998 to 11.3 billion forints. In total, data communications grew to 6.2% of total MATÁV revenues as compared to 5.5% in first half 1998.
- Lines per telephone employee continued to grow, reaching 219, as we achieved a 22% increase in productivity.

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 June 30, 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 (59.53%), while 40.47% is publicly traded.

Analysis of the income statement
for the six months ended June 30, 1999

Sales

Revenues from subscriptions, connections and other charges for the six months ended June 30, 1999 amounted to HUF 31,666 million, compared to HUF 27,037 for the same period in 1998 (a 17.1% increase). Growth resulted primarily from an increase in the number of subscribers and tariff increases. The average number of lines increased 9.9% to 2,706,038 in 1999 from 2,462,451 for the first six months in 1998. New line growth in 1999 amounted to 130,255.

Domestic traffic revenue for the first six months in 1999 totalled HUF 65,208 million, compared to HUF 52,245 million for the same period in 1998 (a 24.8% increase). Revenue growth was driven primarily by increases in the number of subscribers and tariff increases.

Revenues from other usage for the first six months in 1999 amounted to HUF 8,844 million, compared to HUF 9,419 million for the same period in 1998 (a 6.1% decrease). This decrease is attributable to lower fees paid to MATÁV by other domestic operators.

International traffic revenues amounted to HUF 20,958 million for the six months ended June 30, 1999, compared to HUF 18,616 million for the same period in 1998 (a 12.6% increase).

Revenues from mobile telecommunications services totalled HUF 36,928 million for the first six months in 1999, compared to HUF 28,580 million for the six months ended June 30, 1998 (a 29.2% increase). The growth in revenues resulted primarily from the increased number of mobile subscribers. The number of Westel 900 subscribers increased to 700,793 in 1999 from 448,437 on June 30, 1998. The number of Westel 450 subscribers increased to 98,519 in 1999 from 90,754 on June 30, 1998. Westel 900 digital service accounted for 87.7% of our total mobile customers on June 30, 1999, while our Westel 450 analog service represented 12.3% of our total mobile customers.

Revenue from leased lines and data transmission amounted to HUF 11,342 million for the first six months in 1999, compared to HUF 8,387 million for the same period in 1998 (a 35.2% increase). This growth was due to strong growth in managed leased lines, ISDN, internet and audiotex.

Revenues from other services amounted to HUF 6,799 million for the first six months in 1999, compared to HUF 7,321 million for the same period in 1998 (a 7.1% decrease). Other services include equipment sales, construction, maintenance and miscellaneous revenues.

Expenses

Employee-related expenses for the six months ended June 30, 1999 totalled HUF 28,012 million compared to HUF 23,839 million for the same period in 1998 (an increase of 17.5%). This increase results primarily from wage increases effective April 1, 1999 which were partially offset by a decrease in headcount.

Depreciation and amortization for the six months ended June 30, 1999 amounted to HUF 30,638 million compared to HUF 23,889 million for that period in 1998 (an increase of 28.3%). The growth is a result of increased investment in fixed assets.

Payments to other network operators for the six months ended June 30, 1999 totalled HUF 19,853 compared to HUF 16,565 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 six months in 1999 was HUF 11,509 million compared to HUF 8,222 million for the same period in 1998 (an increase of 40.0%). This increase relates to cost of sales for mobile handsets and other phone equipment sold.

Other operating expenses for the first six months in 1999 amounted to HUF 35,640 million compared to HUF 31,765 million for the same period in 1998 (an increase of 12.2%). Other operating expenses include materials and maintenance, marketing, service fees, fees and levies, energy, and consultancy.

Operating Profit

Operating profit totalled HUF 56,093 million for the six months ended June 30, 1999, compared to HUF 47,325 million for the same period in 1998. Total revenues increased 19.9% to HUF 181,745 million for the first six months in 1999 compared to HUF 151,605 million for the first six months in 1998. Total operating expense increased 20.5% to HUF 125,652 million for the first six months in 1999 from HUF 104,280 million for the same period in 1998. Operating margin for the six months ended June 30, 1999 was 30.9%, while operating margin for the same period in 1998 was 31.2%.

Net Interest and Other Charges

Net interest and other charges were HUF 12,067 million for the first six months in 1999 compared to HUF 15,060 million for the same period in 1998. Net interest and other charges show a decrease due to lower foreign exchange loss. Total loans and other borrowings increased from HUF 172,212 million on June 30, 1998, to HUF 185,440 million on June 30, 1999.

Share of associates' results

Share of associates' results before income tax amounted to HUF 557 million for the six months ended June 30, 1999, compared to a loss of HUF 158 million for the same period in 1998, reflecting improved results of EMITEL and M-RTL.

Profit before taxation

Profit before tax amounted to HUF 44,583 million for the six months ended June 30, 1999 versus HUF 32,107 million for the same period in 1998.

Income tax

Income tax increased for the first six months in 1999 due to the fact that MATÁV Rt. and Westel 900 started to pay corporate tax in 1999. Income tax for the first six months of 1999 decreased net income by HUF 3,135 million (expense) compared to increasing income by HUF 541 million (income) for the same period in 1998.

Minority Interest

Minority interest for the first six months in 1999 was HUF 5,159 million compared to HUF 4,645 million for the same period in 1998 (an increase of 11.1%). This increase is due to significantly higher profitability of Westel 900 and Westel 450.

Net Income

Net income for the first six months in 1999 was HUF 36,289 million compared to HUF 28,003 for the same period in 1998 (an increase of 29.6%).

Balance Sheet

Total assets and total shareholders' equity and liabilities for June 30, 1998 were restated to HUF 502,226 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 589,402 million as of June 30, 1999. The increase is attributable to operating results.

Receivables

Receivables for June 30, 1999 of HUF 64,425 million increased 29.5% over June 30, 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 26.7% to HUF 19,580 as of June 30, 1999, the total portfolio of current and non-current loans and other borrowing increased 7.7% from HUF 172,212 million at June 30, 1998 to HUF 185,440 million at June 30, 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.

Retained earnings

Retained earnings increased 58.1% from June 30, 1998 to HUF 158,674 million at June 30, 1999. The increase was due to the net income offset by the dividend of HUF 8,298 million. Retained earnings for June 30, 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 17,454 on June 30, 1998 to 16,030 on June 30, 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:

<u>Shareholder</u>	<u>Number of Shares</u>	<u>Percentage of share capital</u>
MagyarCom	617,478,081	59.53
Publicly traded	419,803,519	40.47
	<u>1,037,281,600</u>	<u>100.00</u>
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
Morgan Guaranty Trust - Depository for MATÁV’s ADRs

Shares held by MATÁV in Treasury:

<u>Treasury Shares</u>	<u>June 30, 1998</u>	<u>June 30, 1999</u>
Number	124,200	0
Book Value (HUF million)	19	0
Nominal Value (HUF million)	12	0

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

Senior Management Changes

Effective June 1, 1999, John Brady was appointed as Chief Financial Officer of MATÁV Rt.

Other Developments

In June 1999, the State Privatization and Holdings Company sold its remaining stake (5.75%) in MATÁV through a secondary offering. As a result, the publicly traded shares of MATÁV increased to 40.47%. MagyarCom’s share in MATÁV decreased to 59.53%.

(Tables to follow)

MATAV Consolidated Financial Summary - IAS (HUF million)	6 months ended June 30,		%
	1998	1999	change
	(Unaudited)	(Unaudited)	
Revenues			
Subscriptions, connections and other charges	27,037	31,666	17.1%
Domestic traffic revenue	52,245	65,208	24.8%
Other usage	9,419	8,844	(6.1%)
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Domestic telecommunications services	88,701	105,718	19.2%
International traffic revenues	18,616	20,958	12.6%
Mobile telecommunications services	28,580	36,928	29.2%
Leased lines and data transmission	8,387	11,342	35.2%
Other services	7,321	6,799	(7.1%)
Total revenues	151,605	181,745	19.9%
Employee related expenses	(23,839)	(28,012)	17.5%
Depreciation and amortization	(23,889)	(30,638)	28.3%
Payments to other network operators	(16,565)	(19,853)	19.8%
Cost of telecommunications equipment sales	(8,222)	(11,509)	40.0%
Other operating expenses	(31,765)	(35,640)	12.2%
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Total operating expenses	(104,280)	(125,652)	20.5%
Operating profit	47,325	56,093	18.5%
Net interest and other charges	(15,060)	(12,067)	(19.9%)
Share of associates' results before income tax	(158)	557	n.m.
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Profit before income tax	32,107	44,583	38.9%
Income tax payable	541	(3,135)	n.m.
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Profit after income tax	32,648	41,448	27.0%
Minority interest	(4,645)	(5,159)	11.1%
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Summary of key operating statistics

	30-Jun-98	30-Jun-99	Jun 99 - Jun 98 % change
EBITDA margin	47.0%	47.7%	1.5%
Operating margin	31.2%	30.9%	(1.0%)
Net income margin	18.5%	20.0%	8.1%
ROA	11.4%	12.7%	11.4%
Net debt to total capital	41.4%	36.7%	(11.4%)

Number of closing lines			
Residential	2,075,586	2,278,146	9.8%
Business	355,387	373,762	5.2%
Payphone	36,171	35,905	(0.7%)
ISDN channels	50,498	87,596	73.5%
Total lines	2,517,642	2,775,409	10.2%
Digitalization of exchanges with ISDN Penetration	74.3%	81.6%	9.8%
	33.2%	37.0%	11.4%
Westel 450 RPCs (Revenue Producing Customers)	90,754	98,519	8.6%
Westel 900 RPCs (Revenue Producing Customers)	448,437	700,793	56.3%
Total cellular RPCs	539,191	799,312	48.2%

Fixed line employees (closing full equivalent)	14,055	12,664	(9.9%)
Total no of employees (closing full equivalent)	17,454	16,030	(8.2%)
Lines per fixed line employees	179	219	22.3%

Traffic in minutes (thousands)			
Domestic	3,801,448	4,211,449	10.8%
International outgoing	92,296	95,149	3.1%