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MATÁV ANNOUNCES 2000 FIRST HALF RESULTS

BUDAPEST -- August 14, 2000 -- MATÁV (NYSE: MTA.N and BSE: MTAV.BU), the leading Hungarian telecommunications service provider, today reported its first half 2000 financial results.

Highlights:

- Revenues grew by 17.6% (14.7% in EUR terms) to 213.8 billion forints (830.2 million EUR) compared to 181.7 billion forints in the first half of 1999. This growth was achieved due to:
 - the outstanding performance of our mobile business, which delivered traffic revenue growth of 34.7%,
 - the impact of significantly higher monthly fees, a result of tariff rebalancing ahead of full liberalization, and
 - the above average growth of 31.6% of leased lines and data transmission revenues, which counterbalanced the flat domestic and declining international traffic revenues.
- EBITDA increased 15.7% (12.8% in EUR terms) to 100.3 billion forints (389.4 million EUR) compared to 86.7 billion forints in the first half of 1999.
- Net income increased by 14.6% (11.7% in EUR terms) to 41.6 billion forints (161.4 million EUR) versus 36.3 billion forints in the same period of last year.
- EBITDA and net income margins decreased slightly in the first half of 2000 relative to the same period in 1999, due to the increasing weight of the mobile segment, and pressure on prices due to the growing competitiveness of the Hungarian telecommunications marketplace.

Elek Straub, MATÁV Chairman and CEO, commented: "For the first time since our IPO, MATÁV's source of growth lies outside of our traditional core businesses. MATÁV's fixed

voice services are reaching a more mature and cash generative stage, but we've only just begun to witness the potential of our new growth businesses underpinned by exciting mobile, data and IP trends. Our most powerful driver in the near term remains the mobile segment. Nevertheless, we expect second half 2000 bottom line growth for the group to be slightly below the first half growth rate. We consider the coming period to be important in the transition of our business, to secure our mobile leadership and to lay the foundation for MATÁV's success in the new economy."

Mobile revenues increased 34.7% to 49.8 billion forints. Westel continued its strong track record of net additions in the first half of 2000. The number of GSM subscribers increased 69.9% year-on-year to nearly 1.2 million. This corresponds to a 41.4% year-to-date increase, spurred by the growth of prepaid customers.

Despite the entrance of a third mobile operator in December of 1999, Westel retained its leadership of the GSM market with a market share of approximately 56%. GSM mobile penetration in Hungary was 21.2% at the end of June 2000 and we expect it to grow to approximately 27% by the end of the year. The average monthly usage per Westel subscriber remained high at 187 minutes in the first half of 2000, slightly lower than in the same period of 1999 due to the growing proportion of mass market, prepaid customers. The relatively stable level of usage per subscriber combined with lower prices resulted in the average monthly revenue per Westel customer of 9,562 forints, versus 11,265 forints in the same period of 1999.

We saw modest growth in the fixed line business during the first half of 2000. Although income from subscription fees produced a significant improvement of 48.8% due to the nearly 50% increase in monthly charges effective February 1, connection revenues were down significantly relative to the same period last year, due to a lower number of new connections as well as price decreases. The total number of analog lines decreased by more than 50,000 in the first half of 2000, but this was offset by a strong increase in the number of ISDN channels, which drove an increase in penetration to 38.8%. Higher monthly fees, as well as the substitution effect of mobile solutions, caused demand for analog lines to decrease, and MATÁV also adopted a stricter policy with regard to bad debt. In the first half of this year MATÁV made great progress in developing ISDN as a mass-market product, connecting around 67,000 new lines, a 58.5% year-to-date increase.

Domestic traffic revenues remained flat year-on-year at 65.2 billion forints. While fixed-to-mobile revenues increased during the first six months of 2000 as a result of rapidly expanding mobile penetration, local and long distance revenues decreased in the same period. Effective from February 1, MATÁV reduced local charges by approximately 11% and domestic long distance fees by nearly 13% in nominal terms. Furthermore, between May 1 and August 31, we are running a marketing campaign: our customers can make off-peak domestic long distance calls within our service area for approximately 60% lower prices, on average. The 12.6% year-on-year increase of total domestic minutes could just offset the effect of the lower tariffs.

International traffic revenues decreased by 2.4% to 20.4 billion forints mainly due to the 12% decrease in international tariffs as of February 1, as well as the 4.5% decline in international outgoing minutes.

Data revenues showed above average growth of 31.6%, data transmission is a key driver of our success, powered by our continuously upgraded IP capacity. MATÁVNet, our market-leading internet subsidiary, achieved a 97.7% year-over-year increase in dial-up internet subscribers to over 70,904, representing a market share of 47%.

MATÁV continued to broaden its product portfolio in the first half of 2000, while promoting usage on existing lines through various marketing campaigns. We introduced several new tariff packages and special prices (Favorite Countries, an off-peak flat rate package, special domestic long-distance fees, ISDN-Net, Office-Net) and also new data products (MATÁVmultiLAN, IP VPN). In addition, we enabled customers to use Caller ID nationwide, and we launched a prepaid international calling card.

Employee-related expenses increased by only 1.9% year-on-year to 28.6 billion forints. The moderate growth results from wage increases effective April 1, 2000 were partially offset by an 8.8% reduction in the average headcount and decreases in welfare costs mainly due to the partial reversal of provision for postretirement benefits. In negotiation with the trade unions, we came to more favorable terms which allowed the recalculation of our liabilities for postretirement benefits. At the end of June, 2000 the number of lines per fixed employee was 257 outperforming our public target of 250 for the end of 2000.

This year brought very important changes in MATÁV's ownership structure. Deutsche Telekom purchased full control of MagyarCom, the joint venture holding company with SBC, which now owns 59.49% of MATÁV's share capital. With the Hungarian telecommunications market expected to be fully liberalized in about one-and-a-half years, MATÁV will rely more heavily upon Deutsche Telekom's know-how, scale and resources.

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, 2000 include the Ministry for Transport, Communications and Water Management (holder of the Golden Share), MagyarCom, owned by Deutsche Telekom AG and SBC (59.49%), while 40.51% is publicly traded.

Analysis of the Financial Statements
for the 6 months ended June 30, 2000

INCOME STATEMENTS

Sales

Revenues from domestic telecommunications services for the first half of 2000 reflect significant rebalancing of tariffs that took place effective February 1, 2000. The new tariffs indicate significant progress to set prices to the underlying costs. Rebalancing remains a key element advancing the full liberalization of the Hungarian telecommunications market. Subscription tariffs increased nearly 50%, while domestic and international usage tariffs decreased, reflecting the mixed growth figures below.

Revenues from subscriptions, connections and other charges for the 6 months ended June 30, 2000 amounted to HUF 39,962 million, compared to HUF 31,666 million for the same period in 1999 (a 26.2% increase). Growth resulted from an increase in the number of subscribers and tariff increases. The average number of lines increased 7.3% to 2,903,543 in the first half of 2000 from 2,706,038 in the first half of 1999.

Domestic traffic revenue for the first 6 months of 2000 totaled HUF 65,238 million, compared to HUF 65,208 million for the same period in 1999. The 12.6% growth in domestic usage was offset by the tariff rebalancing.

Revenues from other usage for the first 6 months of 2000 amounted to HUF 9,153 million, compared to HUF 8,844 million for the same period in 1999 (a 3.5% increase). This increase is attributable to the increased number of minutes partially offset by lower fees paid to MATÁV by other domestic operators.

International traffic revenues amounted to HUF 20,449 million for the 6 months ended June 30, 2000, compared to HUF 20,958 million for the same period in 1999 (a 2.4% decrease) mainly due to lower international tariffs.

Revenues from mobile telecommunications services totaled HUF 49,759 million for the first half of 2000, compared to HUF 36,928 million for the 6 months ended June 30, 1999 (a 34.7% increase). The growth resulted from the increased number of subscribers, partly offset by lower tariffs.

Revenues from leased lines and data transmission amounted to HUF 12,329 million for the first half of 2000, compared to HUF 9,370 million for the same period in 1999 (a 31.6% increase). This strong growth was due to the increase in the number of managed leased lines, ISDN, internet and cable TV subscribers.

In previous reports, revenues from audiotex, telex and telegraph were included in leased lines and data transmission. Starting with this quarter's report, these revenues are included in other

services. This change is made to better present our core data products. Revenue lines for prior periods were restated as well for comparison purposes.

Revenues from other services amounted to HUF 16,928 million for the first 6 months of 2000, compared to HUF 8,771 million for the same period in 1999 (a 93.0% increase). Other services include equipment sales, construction, maintenance and miscellaneous revenues.

Expenses

Employee-related expenses for the 6 months ended June 30, 2000 totaled HUF 28,558 million, compared to HUF 28,012 million for the same period in 1999 (an increase of 1.9%). This moderate growth, resulting from wage increases effective April 1, 2000, was partially offset by headcount reductions. Efficiency improvements continued with a 9.7% year-on-year headcount reduction to 14,500 and an increase in the number of lines per fixed employee to 257 from 219 at the end of June 1999.

Depreciation and amortization for the 6 months ended June 30, 2000 amounted to HUF 36,483 million, compared to HUF 30,638 million for the same period in 1999 (an increase of 19.1%). The growth is a result of increased investment in fixed assets.

Payments to other network operators for the 6 months ended June 30, 2000 totaled HUF 26,018 million, compared to HUF 19,853 million for the same period in 1999 (an increase of 31.1%). The increase was due to the increased penetration of mobiles and fixed lines.

The cost of telecommunications equipment sales for the first half in 2000 was HUF 15,922 million, compared to HUF 11,509 million for the same period in 1999 (an increase of 38.3%). This is mainly due to the increased number of mobile handsets sold.

Other operating expenses for the first 6 months of 2000 amounted to HUF 43,001 million, compared to HUF 35,640 million for the same period in 1999 (an increase of 20.7%). Other operating expenses include materials, maintenance, marketing, service fees, energy and consultancy.

Operating Profit

Operating profit totaled HUF 63,836 million for the 6 months ended June 30, 2000, compared to HUF 56,093 million for the same period in 1999. Total revenues increased 17.6% to HUF 213,818 million for the first half in 2000, compared to HUF 181,745 million for the first half in 1999. Total operating expenses increased 19.4% to HUF 149,982 million for the first 6 months in 2000 from HUF 125,652 million for the same period in 1999. Operating margin for the 6 months ended June 30, 2000 was 29.9%, while operating margin for the same period in 1999 was 30.9%.

Net Interest and Other Charges

Net interest and other charges were HUF 11,306 million for the first half in 2000, compared to HUF 12,067 million for the same period in 1999. Net interest and other charges show a decrease due to the reduced rate of monthly devaluation and better performance of the HUF within the intervention band. As a result of shifting the loan portfolio to HUF denominated loans MATÁV also benefits from decreasing HUF interest rates. Total loans and other borrowings increased from HUF 185,440 million on June 30, 1999, to HUF 190,140 million on June 30, 2000.

Share of associates' results

Share of associates' results amounted to HUF 1,000 million for the 6 months ended June 30, 2000, compared to HUF 557 million for the same period in 1999, reflecting improved operating results of investments.

Profit before taxation

Profit before income tax amounted to HUF 53,530 million for the 6 months ended June 30, 2000 versus HUF 44,583 million for the same period in 1999.

Income tax

Income tax increased from HUF 3,135 million in the first 6 months of 1999 to HUF 4,651 million in the same period of 2000 due to the higher profits of the group.

Minority Interest

Minority interest for the first 6 months in 2000 was HUF 7,296 million, compared to HUF 5,159 million for the same period in 1999 (an increase of 41.4%). This increase is due to the growth of Westel 900.

Net Income

Net income for the first half in 2000 was HUF 41,583 million, compared to HUF 36,289 million for the same period in 1999 (an increase of 14.6%).

BALANCE SHEET

Total assets and total shareholders' equity and liabilities at June 30, 1999 were HUF 589,402 million. Total assets and total shareholders' equity and liabilities amounted to HUF 685,595 million as of June 30, 2000. The increase is attributable to operating results.

Retained earnings

Retained earnings increased 47.0% from June 30, 1999 to HUF 233,247 million at June 30, 2000. This increase was due to net income, partly offset by a dividend payment of HUF 9,335 million.

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(Tables to follow)

MATÁV Consolidated Income Statements - IAS (HUF million)	- 8 -	6 months ended June 30,		%
		1999 (Unaudited)	2000 (Unaudited)	change
Revenues				
Subscriptions, connections and other charges		31,666	39,962	26.2%
Domestic traffic revenue		65,208	65,238	0.0%
Other usage		8,844	9,153	3.5%
Domestic telecommunications services		105,718	114,353	8.2%
International traffic revenues		20,958	20,449	-2.4%
Mobile telecommunications services		36,928	49,759	34.7%
Leased lines and data transmission		9,370	12,329	31.6%
Other services		8,771	16,928	93.0%
Total revenues		181,745	213,818	17.6%
Employee related expenses		(28,012)	(28,558)	1.9%
Depreciation and amortization		(30,638)	(36,483)	19.1%
Payments to other network operators		(19,853)	(26,018)	31.1%
Cost of telecommunications equipment sales		(11,509)	(15,922)	38.3%
Other operating expenses		(35,640)	(43,001)	20.7%
Total operating expenses		(125,652)	(149,982)	19.4%
Operating profit		56,093	63,836	13.8%
Net interest and other charges		(12,067)	(11,306)	-6.3%
Share of associates' results before income tax		557	1,000	79.5%
Profit before income tax		44,583	53,530	20.1%
Income tax expense		(3,135)	(4,651)	48.4%
Profit after income tax		41,448	48,879	17.9%
Minority interest		(5,159)	(7,296)	41.4%
Net income		36,289	41,583	14.6%

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MATÁV				Jun 30, 2000/
Consolidated	Dec 31, 1999	Jun 30, 1999	Jun 30, 2000	Jun 30, 1999
Balance Sheets - IAS	(Audited)	(Unaudited)	(Unaudited)	% change
(HUF million)				
ASSETS				
Current assets				
Cash and cash equivalents	6,584	6,188	4,333	-30.0%
Financial investments	3,732	4,345	2,506	-42.3%
Receivables	66,667	64,425	71,948	11.7%
Inventories	9,539	9,176	10,883	18.6%
Total current assets	86,522	84,134	89,670	6.6%
Total fixed assets	555,099	499,327	589,464	18.1%
Other non current assets	6,249	5,941	6,461	8.8%
Total assets	647,870	589,402	685,595	16.3%
LIABILITIES AND SHAREHOLDERS' EQUITY				
Loans and other borrowings	17,804	19,580	25,073	28.1%
Trade and other payables	87,945	73,034	84,610	15.9%
Deferred revenue	4,685	5,156	4,188	-18.8%
Provisions for liabilities and charges	4,925	4,759	3,038	-36.2%
Total current liabilities	115,359	102,529	116,909	14.0%
Loans and other borrowings	164,715	165,860	165,067	-0.5%
Deferred revenue	13,606	15,948	11,772	-26.2%
Provisions for liabilities and charges	3,599	3,555	1,799	-49.4%
Total non current liabilities	181,920	185,363	178,638	-3.6%
Minority interests	23,012	16,274	30,239	85.8%
Shareholders' equity				
Common stock	103,728	103,728	103,728	0.0%
Paid in capital	22,834	22,834	22,834	0.0%
Retained earnings	201,017	158,674	233,247	47.0%
Total shareholders' equity	327,579	285,236	359,809	26.1%
Total liabilities and shareholders' equity	647,870	589,402	685,595	16.3%

MATÁV	6 months ended
Consolidated	June 30, 2000
Cash Flow Statement - IAS	(Unaudited)
(HUF million)	
Cash flow from operating activities	
Cash generated from operations	77,482
Interest paid	(8,205)
Commissions and bank charges	(1,064)
Net income tax paid	(296)
	67,917
Cash flow from investing activities	
Capital expenditure on tangible and intangible assets	(68,711)
Purchase of investments	(4,136)
Interest received	660
Dividends received	257
Movement in other financial assets	1,226
Proceeds from sale of fixed assets	5,154
	(65,550)
Cash flow from financing activities	
Dividends paid to shareholders and minority interest	(9,382)
Net change in the loan portfolio	4,924
Other	(160)
	(4,618)
Change in cash and cash equivalents	(2,251)
Cash and cash equivalents at beginning of year	6,584
Cash and cash equivalents at end of year	4,333
	(2,251)

Summary of key operating statistics

	30-Jun-99	30-Jun-00	Jun 00 - Jun 99 % change
EBITDA margin	47.7%	46.9%	(1.7%)
Operating margin	30.9%	29.9%	(3.2%)
Net income margin	20.0%	19.4%	(3.0%)
ROA	12.7%	12.5%	(1.6%)
Net debt to total capital	36.7%	32.0%	(12.8%)

Number of closing lines			
Residential	2,278,146	2,335,103	2.5%
Business	373,762	361,492	(3.3%)
Payphone	35,905	36,481	1.6%
ISDN channels	87,596	181,416	107.1%
Total lines	2,775,409	2,914,492	5.0%
Digitalization of exchanges with ISDN Penetration	77.7%	81.2%	4.5%
	37.0%	38.8%	4.9%

Fixed line employees (closing full equivalent)	12,664	11,352	(10.4%)
Total no of employees (closing full equivalent)	16,030	14,469	(9.7%)
Lines per fixed line employees	219	257	17.4%

Traffic in minutes (thousands)			
Domestic	4,211,449	4,740,903	12.6%
International outgoing	95,149	90,878	(4.5%)

Westel 450 RPCs (Revenue Producing Customers)	98,519	87,482	(11.2%)
Westel 900 RPCs (Revenue Producing Customers)	700,793	1,190,747	69.9%
Total cellular RPCs	799,312	1,278,229	59.9%
Westel 900's MOU	196	187	(4.6%)
Westel 900's ARPU	11,265	9,562	(15.1%)
Westel 900's Post-paid churn	24.2%	15.2%	(37.2%)
Westel 900's Overall churn	35.1%	12.6%	(64.1%)

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