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MATÁV ANNOUNCES 2001 FIRST QUARTER RESULTS

BUDAPEST - May 15, 2001 - Matáv (NYSE: MTA.N and BSE: MTAV.BU), the leading Hungarian telecommunications service provider, today reported its financial results for the first quarter of 2001.

Highlights:

Revenues grew by 22.3% (17.8% in euro terms) to 128.5 billion forints (483.8 million euros) compared to 105.1 billion forints in the first quarter of 2000. Besides the start of the full consolidation of MakTel from the second half of January, the main contributors to this growth were Matáv's mobile, leased line and data businesses, and an increase in subscription revenues:

- The mobile business continued to powerfully drive Matáv's revenue growth. Revenues in the first quarter of 30.2 billion forints compare to 23.0 billion forints in the same period of last year, which is an increase of 31.6%.
- Revenues from leased lines and data transmission services delivered the fastest growth rate again, with an increase of 33.2% from 6.0 billion forints to 8.0 billion forints on a yearly basis.
- Subscriptions, connections and other charges grew by 23.4% year-on-year to 23.4 billion forints, mainly as a result of the higher monthly subscription fees effective since February 1, 2001 and also supported by the migration towards ISDN lines with higher monthly fee.
- In its first quarter of consolidation, MakTel added 11.9 billion forints to Matáv's revenues. Without MakTel, revenue growth would have been 10.9%. Matáv started to fully consolidate MakTel as of January 15.

EBITDA increased by 8.6% (4.7% in euro terms), amounting to 53.6 billion forints (201.6 million euros) versus 49.3 billion forints a year ago. The EBITDA margin was 41.7% for the first three months of 2001.

Net income decreased by 24.9% (27.6% in euro terms) in the first three months to 15.1 billion forints (56.8 million euro), compared to 20.1 billion forints (78.5 million euro) in the first three months of 2000. The net income margin was 11.7% for the first three months of 2001.

Elek Straub, Chairman and CEO commented: „This was the first quarter that we welcomed MakTel into the Matáv group, a promising international investment contributing to our overall growth. For the remainder part of our business, mobile and data continued to be the key growth



drivers of revenues. Despite increasing weight of competitive services in our product portfolio and most importantly the continued strong growth of the mobile market in the first quarter, EBITDA margin remained on a healthy level of over 40%.”

The mobile segment delivered outstanding growth again

Westels produced before intersegment elimination a 24.9% revenue growth from 35.4 billion forints in the first quarter of 2000 to 44.2 billion forints this year, due to a strong increase in the subscriber base. EBITDA grew by 18.6% to 14.1 billion forints and the 25% net income growth means an increase from 3.0 billion forints to 3.8 billion forints related to the same period of last year. Operating margin decreased as a result of increased customer acquisition costs due to 45% more gross additions in the first quarter of 2001 compared to the first quarter of 2000 and increased depreciation due to network development.

Dynamic growth of the mobile market continued in the first quarter of the year with mobile penetration reaching nearly 35% in Hungary. Westel retained its leading position and accounted for 54% market share on the GSM market. Westel’s customer base surged 80.2% to 1.8 million of which 57% is prepaid.

As subscriber base grew significantly average usage per customer declined. Westel’s ARPU (average revenue per user) dropped year-on-year by 28% to HUF 7,000 per month and MOU (average minutes of use per subscriber) fell by 19% to 148 per month in the first quarter of 2001. Churn rate remained at a relatively low 15% level.

Data business is leading the growth rate of the fixed line segment

Revenues from leased lines and data transmission increased by 33.2% year-on-year. Despite fierce competition, Matáv’s data line was able to exploit favorable trends in demand for data transmission solutions in Hungary. Matáv’s key product remained managed leased lines, reaching a significant volume of 9,530 pieces. This is an increase of 28% related to the end of the first quarter 2000. In the internet business Matáv’s internet subsidiary, Axelero remained the leading dial-up ISP with a subscriber number of nearly 104,000. This means that Matáv could increase its customer base by 70% year-over-year. Cable TV subscriber base was 72% higher than a year ago and totalled to 280,000 at the end of March, 2001.

Solid revenues generated by the traditional fixed business

Revenues from domestic telecommunication services increased by 4.6% year-on-year. Subscriptions, connections and other charges showed a substantial increase of 23.4% mainly due to Matáv’s continued rebalancing efforts which meant Matáv could increase its basic monthly subscription fee by 27% effective from the first of February.

Both domestic and international traffic revenues declined due to reduction of call charges; local calls became cheaper by 6.4%, domestic long distance by 14.1% and international by 15.0% from February. Also, Internet usage had proportionally greater stakes in the total call volume, where prices are lower, and there was a slowdown of growth in fixed to mobile calls.





Competitive business lines growing strongly, EBITDA margin remains healthy

The increased revenue contribution of competitive business lines is reflected in the profit margins due to stronger marketing and higher customer acquisition costs. EBITDA margin was negatively affected also by the increased pay-out for other network operators - mainly due to the development of the mobile market -, and increased average wages. As a result, EBITDA margin decreased but stayed on a healthy 41.7% level. Other main drivers of operating expenses were increased depreciation due to increased capital expenditure in the previous years, needed for network buildout, increased amortisation due to MakTel acquisition in January.

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. Matáv also holds a majority stake in Stonebridge Communications AD controlling MakTel, the sole fixed line and mobile operator in Macedonia. Key shareholders of Matáv as of December March 31, 2001 include the Hungarian State (holder of the Golden Share), MagyarCom, owned by Deutsche Telekom AG (59.49%), while 40.51% is publicly traded.

MATÁV	3 months ended March 31, 2000 (Unaudited)	3 months ended March 31, 2001 (Unaudited)	% change
Consolidated Income Statements - IAS (HUF million)			
Revenues			
Subscriptions, connections and other charges	18 983	23 433	23,4%
Domestic traffic revenue	33 206	31 242	(5,9%)
Other usage	4 423	4 560	3,1%
Domestic telecommunications services	56 612	59 235	4,6%
International traffic revenues	10 477	9 266	(11,6%)
Mobile telecommunications services	22 975	30 235	31,6%
Revenues from international activities	0	11 916	n.a.
Leased lines and data transmission	5 972	7 956	33,2%
Other services	9 107	9 941	9,2%
Total revenues	105 143	128 549	22,3%
Employee related expenses	(13 306)	(17 405)	30,8%
Depreciation and amortization	(17 850)	(23 971)	34,3%
Payments to other network operators	(12 594)	(16 685)	32,5%
Cost of telecommunications equipment sales	(8 450)	(11 927)	41,1%
Other operating expenses	(21 458)	(28 951)	34,9%
Total operating expenses	(73 658)	(98 939)	34,3%
Operating profit	31 485	29 610	(6,0%)
Net interest and other charges	(6 505)	(6 690)	2,8%
Share of associates' results before income tax	312	456	46,2%
Profit before income tax	25 292	23 376	(7,6%)
Income tax expense	(2 241)	(2 796)	24,8%
Profit after income tax	23 051	20 580	(10,7%)
Minority interest	(2 955)	(5 492)	85,9%
Net income	20 096	15 088	(24,9%)



MATÁV Consolidated	Dec 31, 2000 (Audited)	Mar 31, 2000 (Unaudited)	Mar 31, 2001 (Unaudited)	Mar 31, 2000 - Mar 31, 2001 % change
Balance Sheets - IAS (HUF million)				
ASSETS				
Current assets				
Cash and cash equivalents	13 296	5 774	13 441	132,8%
Financial investments	6 045	875	5 698	551,2%
Receivables	71 951	73 186	84 061	14,9%
Inventories	10 587	12 307	12 164	(1,2%)
Total current assets	101 879	92 142	115 364	25,2%
Property, plant and equipment				
Property, plant and equipment	561 702	523 063	648 489	24,0%
Intangible assets	51 964	33 561	92 327	175,1%
Associates and other long term investments	14 062	13 463	14 245	5,8%
Total fixed assets	627 728	570 087	755 061	32,4%
Other non current assets	15 902	6 178	18 510	199,6%
Total assets	745 509	668 407	888 935	33,0%
LIABILITIES AND SHAREHOLDERS' EQUITY				
Loans and other borrowings				
Loans and other borrowings	78 725	26 602	87 215	227,9%
Trade and other payables	96 068	79 680	90 187	13,2%
Deferred revenue	3 690	4 436	3 636	(18,0%)
Provisions for liabilities and charges	11 624	4 154	7 433	78,9%
Total current liabilities	190 107	114 872	188 471	64,1%
Loans and other borrowings				
Loans and other borrowings	110 641	164 795	206 466	25,3%
Deferred revenue	9 949	12 684	9 082	(28,4%)
Provisions for liabilities and charges	30	2 699	30	(98,9%)
Other non current liabilities	7 067	0	7 611	n.a.
Total non current liabilities	127 687	180 178	223 189	23,9%
Minority interests	40 731	25 700	74 490	189,8%
Shareholders' equity				
Common stock	103 736	103 728	103 736	0,0%
Additional paid in capital	22 955	22 834	22 955	0,5%
Treasury stock	(127)	0	(160)	n.a.
Retained earnings	260 420	221 095	276 254	24,9%
Total shareholders' equity	386 984	347 657	402 785	15,9%
Total liabilities and shareholders' equity	745 509	668 407	888 935	33,0%



MATÁV

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

**3 months ended
March 31,
2001
(Unaudited)**

Cash flow from operating activities

Cash generated from operations	22 039
Interest paid	(4 630)
Commissions and bank charges	(576)
Net income tax paid	(2 374)

Net cash from operating activities 14 459

Cash flow from investing activities

Capital expenditure on tangible and intangible assets	(24 053)
Purchase of investments	(81 910)
Cash acquired	5 488
Interest received	547
Dividends received	0
Movement in other financial assets	1 046
Proceeds from disposal of fixed assets	3 818

Net cash flow utilized in investing activities (95 064)

Cash flow from financing activities

Dividends paid to shareholders and minority interest	(6)
Net change in the loan portfolio	80 766
Net cash used for treasury stock transactions	(33)
Other	23

Net cash flow utilized in financing activities 80 750

Change in cash and cash equivalents 145

Cash and cash equivalents at beginning of year 13 296

Cash and cash equivalents at end of year 13 441

Change in cash and cash equivalents 145

Summary of key operating statistics

	31-Mar-00	31-Mar-01	Mar 00 - Mar 01 % change
EBITDA margin	46,9%	41,7%	(11,1%)
Operating margin	29,9%	23,0%	(23,1%)
Net income margin	19,1%	11,7%	(38,7%)
ROA	12,2%	7,4%	(39,3%)
Net debt to total capital	33,1%	36,5%	10,3%

Number of closing lines			
Residential	2 349 092	2 247 316	(4,3%)
Business	373 643	313 239	(16,2%)
Payphone	36 295	36 857	1,5%
ISDN channels	143 696	356 706	148,2%
Total lines	2 902 726	2 954 118	1,8%
Digitalization of exchanges with ISDN	80,4%	85,1%	5,8%
Penetration	38,7%	39,4%	1,8%

Fixed line employees (closing full equivalent)	11 811	9 940	(15,8%)
Total no of employees (closing full equivalent)	15 113	16 841	11,4%
Lines per fixed line employees	246	297	20,7%

Traffic in minutes (thousands)			
Domestic	2 366 454	2 618 373	10,6%
International outgoing	45 055	41 613	(7,6%)

Westel 0660 RPCs (Revenue Producing Customers)	92 430	67 757	(26,7%)
Westel RPCs (Revenue Producing Customers)	1 022 100	1 842 130	80,2%
Total cellular RPCs	1 114 530	1 909 887	71,4%
Westel's MOU	183	148	(19,1%)
Westel's ARPU (Average Traffic Rev./RPC/Month)	9 677	7 000	(27,7%)
Westel's overall churn	13,7%	14,9%	8,8%

Managed leased lines (FLEX-Com connections)	7 439	9 530	28,1%
Internet subscribers	61 293	104 412	70,3%
Cable television customers	163 102	279 947	71,6%



Analysis of the Financial Statements for the three months ended March 31, 2001

Acquisition of Macedonian Telecom (MakTel)

In December 2000, Matáv ("the Company"), on behalf of a consortium, reached 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.

Analysis of group income statements

Sales

Revenues from domestic telecommunications services for the first quarter of 2001 reflect significant rebalancing of tariffs that took place effective February 1, 2001. The new tariffs indicate significant progress to set prices to the underlying costs. Subscription fees increased nearly 30%, while domestic and international usage tariffs decreased, reflecting the mixed growth figures below.

Revenues from subscriptions, connections and other charges for the 3 months ended March 31, 2001 amounted to HUF 23,433 million, compared to HUF 18,983 million for the same period in 2000 (a 23.4% increase). Growth resulted from an increase in the number of subscribers and subscription fee increases. The average number of lines increased 2.2% to 2,960,644 in the first quarter of 2001 from 2,896,527 in the first quarter of 2000. Increase in subscription revenues was partially offset by decline of revenues from connection fees, resulting 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 new tariff packages, such as Mindenkinék.

Domestic traffic revenue for the first 3 months of 2001 amounted to HUF 31,242 million, compared to HUF 33,206 million for the same period in 2000. The 10.6% growth in domestic usage was offset by the 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, which result in lower traffic revenues.

Revenues from other usage for the first 3 months of 2001 amounted to HUF 4,560 million, compared to HUF 4,423 million for the same period in 2000 (a 3.1% increase). This increase is attributable to the increased number of minutes, especially to the significantly higher traffic



between the mobile service providers and Matáv. This increase was partially offset by lower fees paid to Matáv by other domestic operators.

International traffic revenues amounted to HUF 9,266 million for the 3 months ended March 31, 2001, compared to HUF 10,477 million for the same period in 2000 (a 11.6% 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 and lower international settlement rates partly offset by higher SDR/HUF exchange rates.

Revenues from mobile telecommunications services amounted to HUF 30,235 million for the first quarter of 2001, compared to HUF 22,975 million for the year ended March 31, 2000 (a 31.6% increase). The growth resulted from the increased number of subscribers, partly offset by lower tariffs. The average number of Westel customers increased by 85.1%, while the average number of Westel 0660 customers decreased by 24.5%. Within the Westel customers, the prepaid group shows a significant, 226% increase. Prepaid customers accounted for approximately 78% of gross additions in the first quarter of 2001 and represent 57% of total Westel customers at March 31, 2001.

Westel's ARPU (average revenue per user) decreased by 28%, from HUF 9,677 in the first quarter of 2000 to HUF 7,000 in the first quarter 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 105% growth year over year. Enhanced services now represent 5% of revenues from mobile telecommunications services. This revenue includes primarily SMS (short message service). Increases in mobile traffic were partly offset by decreased usage and decreasing tariffs. Westel's usage measured in MOU (minutes of use) decreased from 183 minutes per customer per month in the first quarter of 2000 to 148 minutes per customer per month in the same period 2001. The decreasing MOU is due to the increasing proportion of the prepaid segment, which has a much lower minutes of usage than the regular subscribers. Per minute tariff charges decreased by 12.8%, 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 newly acquired subsidiary. Revenues from international activities amounted to HUF 11,916 million for the 3 months ended March 31, 2001.

Revenues from leased lines and data transmission amounted to HUF 7,956 million for the first quarter of 2001, compared to HUF 5,972 million for the same period in 2000 (a 33.2% 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 9,530 at March 31, 2001 compared to 7,439 at March 31, 2000. The number of ISDN channels more than doubled over the period, from 143,696 at March 31, 2000 to 356,706 at March 31, 2001. Residential customers now account for nearly 20% of the ISDN connections compared to 3% a



year ago. The number of Internet connections grew by 70%, while the number of cable television customers increased by 72% year over year.

Up until the first quarter of 2000, reported revenues from audiotex, telex and telegraph were included in the category called leased lines and data transmission. Reported results starting June 2000 have been included under “other services”. The purpose of this change was to present our data products more clearly. Revenue lines for prior periods were restated as well for comparison purposes.

Revenues from other services amounted to HUF 9,941 million for the first 3 months of 2001, compared to HUF 9,107 million for the same period in 2000 (a 9.2% increase). Other services include equipment sales, construction, maintenance, audiotex, telex, telegraph and miscellaneous revenues. The increase in this category is mainly due to Westel. In addition to the significant increase in prepaid gross additions, the equipment sales ratio (the proportion of prepaid customers purchasing a phone set with their subscription) also increased. Also, the average sales price of the mobile phonesets sold by Westel show a 33.6% decrease as of March 31, 2001, compared to March 31, 2000.

Expenses

Employee-related expenses for the 3 months ended March 31, 2001 amounted to HUF 17,405 million, compared to HUF 13,306 million for the same period in 2000 (an increase of 30.8%). The growth results from wage increases effective April 1, 2000, as well as the 11.4% year-on-year increase in group headcount figures to 16,841. While headcount reductions at Matáv continued, growth resulted mainly due to the acquisition of MakTel. MakTel had 3,737 employees at March 31, 2001, therefore without the inclusion of MakTel, group headcount figure would have decreased by 13% year over year. MakTel accounted for HUF 1,329 million from the increase in employee-related expenses in the first quarter of 2001 compared to the first quarter of 2000. 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 employee, 297 at the end of March 2001, compared to 246 a year earlier.

Depreciation and amortization for the 3 months ended March 31, 2001 amounted to HUF 23,971 million, compared to HUF 17,850 million for the same period in 2000 (an increase of 34.3%). The growth is a result of increased investment in fixed assets. MakTel accounted for HUF 1,478 million from the increase in depreciation expenses in the first quarter of 2001 compared to the first quarter of 2000. 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 3 months ended March 31, 2001 amounted to HUF 16,685 million, compared to HUF 12,594 million for the same period in 2000 (an increase of 32.5%). The increase was due to the increased penetration of mobiles and fixed lines. MakTel's international outpayments accounted for HUF 1,172 million from the increase in payments to other network operators in the first quarter of 2001 compared to the first quarter of 2000.

The cost of telecommunications equipment sales for the first quarter of 2001 was HUF 11,927 million, compared to HUF 8,450 million for the same period in 2000 (an increase of 41.1%). This is mainly due the increased number of gross additions at Westel during the first 3 months of



2001 compared to the first three months of 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 262 million from the increase in cost of telecommunications equipment sales in the first quarter of 2001 compared to the first quarter of 2000.

Other operating expenses for the first 3 months of 2001 amounted to HUF 28,951–million, compared to HUF 21,458 million for the same period in 2000 (an increase of 34.9%). Other operating expenses include materials, maintenance, marketing, service fees, outsourcing expenses, energy and consultancy. MakTel accounted for HUF 2,372 million from the increase in other operating expenses in the first quarter of 2001 compared to the first quarter of 2000.

Operating Profit

Operating profit amounted to HUF 29,610 million for the 3 months ended March 31, 2001, compared to HUF 31,485 million for the same period in 2000. Total revenues for the first 3 months of 2001 increased 22.3% to HUF 128,549 million, compared to HUF 105,143 million for the first quarter in 2000. Total operating expenses increased 34.3% to HUF 98,939 million in the first quarter of 2001 from HUF 73,658 million for the same period in 2000. Operating margin for the 3 months ended March 31, 2001 was 23.0%, while operating margin for the same period in 2000 was 29.9%.

Net Interest and Other Charges

Net interest and other charges were HUF 6,690 million for the first quarter of 2001, compared to HUF 6,505 million for the same period in 2000. Net interest and other charges show an increase due to the higher average level of loans. Total loans and other borrowings increased from HUF 191,397 million on March 31, 2000, to HUF 293,681 million on March 31, 2001, mainly because of the loan taken from Deutsche Telekom AG to finance the MakTel acquisition. In addition, net interest and other charges include HUF 986 million of net interest and other charges of MakTel in the first quarter of 2001.

Share of associates' results

Share of associates' results amounted to HUF 456 million for the 3 months ended March 31, 2001, compared to HUF 312 million for the same period in 2000, reflecting improved operating results of investments.

Profit before taxation

Profit before income tax amounted to HUF 23,376 million for the 3 months ended March 31, 2001 versus HUF 25,292 million for the same period in 2000.

Income tax

Income tax expense increased from HUF 2,241 million for the 3 months ended March 31, 2000 to HUF 2,796 million for the same period of 2001, mainly due to the inclusion of MakTel's income tax expense.

Minority interest

Minority interest for the first 3 months of 2001 was HUF 5,492 million, compared to HUF 2,955 million for the same period in 2000 (an increase of 85.9%). This increase is due to the growth of Westel's profits as well as the inclusion of MakTel. MakTel accounted for HUF 1,745 million



from the increase in minority interest in the first quarter of 2001 compared to the first quarter of 2000.

Net Income

Net income for the first quarter of 2001 was HUF 15,088 million, compared to HUF 20,096 million for the same period in 2000 (a decrease of 24.9%).

Analysis of segmented income statements

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

Fixed line segment

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

	3 months ended March 31, 2000	3 months ended March 31, 2001	Change in percentage
Revenues	78,591	82,926	5.5%
EBITDA	37,450	33,155	(11.5%)
Operating profit	23,370	16,465	(29.5%)
Profit after income tax	17,043	10,597	(37.8%)
Minority interest	7	12	71.4%
Net income	17,050	10,609	(37.8%)

Revenues from the fixed line segment increased 5.5% year over year. The main contributors to this revenue growth were revenues from leased line and data transmission services, which increased by 33.5% in the first quarter of 2001 compared to the first quarter of 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, 4.1% growth, which was driven by subscription fee increases, partly offset by decreases in local and long distance tariffs. International revenues declined by 11.3%, due to lower outgoing and incoming traffic as well as decreased international tariffs.

Operating profit of the fixed line segment decreased by 29.5% 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, 2000, the increased outpayments due to higher traffic between Matáv Rt. and the mobile service providers, and higher outsourcing, subcontracting expenses as well as higher local taxes.

Net income decreased by 37.8%, at a much faster rate than operating profit because net interest and other charges show a slight growth, and therefore their proportion to operating profit increased. This increase in interest expense resulted mainly from the interest expense on the loan taken to finance MakTel.



Mobile segment

Mobile segment includes Westel and Westel 0660.

	3 months ended March 31, 2000	3 months ended March 31, 2001	Change in percentage
Revenues	35,415	44,224	24.9%
EBITDA	11,885	14,098	18.6%
Operating profit	8,115	8,975	10.6%
Profit after income tax	6,008	7,502	24.9%
Minority interest	(2,962)	(3,694)	24.7%
Net income	3,046	3,808	25.0%

Revenues in the mobile segment increased by 24.9% year over year due to strong increases in the number of mobile customers. Westel's customer base surged 80.2% to 1,842,130 subscribers, including 1,051,514 prepaid customers by March 31, 2001. Average monthly usage per Westel subscriber decreased by 19.1%, from 183 minutes in the first quarter of 2000 to 148 minutes in the first quarter of 2001. Mobile penetration reached nearly 35% in Hungary and Westel accounts for 54% market share in the very competitive GSM market.

Operating profit shows a 10.6% increase. While revenues grew 24.9%, operating expenses increased at a higher rate, 29.1% 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 quarter of 2000. Because of the 35.9% increase in depreciation expense, the growth in operating profit is below the growth of EBITDA. Net income in the mobile segment increased by 25%, at a much faster rate than operating profit due to a 63.9% decrease in net interest and other charges. Net interest and other charges were high in the first quarter of 2000, because Westel suffered an approximately HUF 1 billion foreign exchange loss on its loans denominated in foreign currencies.

International segment

International segment includes the operations of MakTel, Stonebridge, the goodwill amortization arising from the consolidation of MakTel as well as the minority interest held by other stakeholders in MakTel.

	3 months ended March 31, 2001
Revenues	11,929
EBITDA	6,328
Operating profit	4,170
Profit after income tax	2,481
Minority interest	(1,810)
Net income	671



MakTel is a consolidated company of Matáv beginning January 15, 2001. MakTel had approximately 525,000 fixed line subscribers, 114,000 mobile subscribers and 12,000 Internet subscribers at March 31, 2001.

About 47% of MakTel's revenue is derived from domestic telecommunications services, about 23% from international traffic and about 27% from mobile telecommunications services. The revenues from leased lines, data transmission and other services account for only 3% of total revenues.

MakTel has a strong, 53.0% EBITDA margin and 35.0% operating margin for the three months ended March 31, 2001.

Minority interest of HUF 1,810 million represents the percentage 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.



Analysis of group balance sheets

Total assets and total shareholders' equity and liabilities at March 31, 2000 were HUF 668,407 million. Total assets and total shareholders' equity and liabilities amounted to HUF 888,935 million as of March 31, 2001. The increase is mainly attributable to the acquisition of MakTel.

Property, plant and equipment

Property, plant and equipment increased 24.0% from March 31, 2000 to HUF 648,489 million at March 31, 2001. MakTel accounts for HUF 86,954 million from this increase.

Intangible assets

Intangible assets increased 175.1% from March 31, 2000 to HUF 92,327 million at March 31, 2001. This increase was due to goodwill on acquisition of subsidiaries, including MakTel, and the acquisition of the 1800 concession rights at Westel.

Loans and other borrowings

The current portion of loans and other borrowings increased 227.9% from March 31, 2000 to HUF 87,215 at March 31, 2001. The increase in current loans and other borrowings reflects reclassification of some of the Rt.'s and Westel's long term borrowings to short term borrowings as they fall due the next 12 months. Non-current loans and other borrowing increased 25.3% from March 31, 2000 to HUF 206,466 million at March 31, 2001. This increase mainly reflects the loan received from Deutsche Telekom AG to finance the acquisition of MakTel. In addition, short term loans and long term loans increased due to the inclusion of MakTel's loans in the consolidated balance sheet.

Minority interest

Minority interest increased 189.8% from March 31, 2000 to HUF 74,490 million at March 31, 2001. This increase was due to the acquisition of MakTel and the results of Westel, partly offset by the dividend declared to the minority shareholder of Westel.

Retained earnings

Retained earnings increased 24.9% from March 31, 2000 to HUF 276,254 million at March 31, 2001. This increase was due to net income.