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MATÁV ANNOUNCES 2001 FIRST HALF RESULTS

BUDAPEST - August 14, 2001 - Matáv (NYSE: MTA.N and BSE: MTAV.BU), the leading Hungarian telecommunications service provider, today reported its financial results for the first half of 2001.

Highlights:

Revenues grew by 23.1% (21.3% in euro and 13.6% in dollar terms) to 263.3 billion forints (EUR 1,006.7 million or US\$ 904.9 million) compared to 213.8 billion forints in the first half of 2000.

- Mobile segment revenues amounted to 92.5 billion forints in the first half of 2001 compared to 73.8 billion forints in the same period of last year, an increase of 25.4%. The main contributor to revenue growth in the mobile business were increased traffic due to the 71% increase in net subscribers.
- MakTel added 27.1 billion forints to Matáv's revenues. The key components of revenues were domestic traffic revenues, mobile and international traffic revenues.
- Fixed line segment revenues grew by 4.2% to 164.9 billion forints, as higher subscription fees and ISDN, leased lines and data revenue growth offset lower traffic revenues.

EBITDA increased by 11.2% (9.5% in euro terms), amounting to 111.5 billion forints (EUR 426.3 million or US\$ 383.2 million) versus 100.3 billion forints a year ago. The EBITDA margin was 42.3% for the first six months of 2001.

Net interest and other charges recorded 181 million forints in the first half of the year versus 11.3 billion forints in the same period of last year. This was a joint effect of foreign exchange gains on the euro denominated debt portfolio mainly of Matáv Rt. and Westel resulting from the strengthening of the forint against the euro in the second quarter, and the losses on mainly MakTel's dollar denominated loans as dollar strengthened against the euro.

Net income increased by 1.3% (0.2% decrease in euro terms) to 42.1 billion forints (EUR 161.0 million or US\$ 144.8 million), compared to 41.6 billion forints in the first six months of 2000. The net income margin was 16.0% for the first half of 2001.

Elek Straub, Chairman and CEO commented: "This set of results reflects the progress we have made in our businesses in the first half of the year and underscores Matáv's success in implementing its strategy for growth by focusing its resources on mobile, data, Internet and international acquisitions. Westel has improved its financial performance by continuing mobile subscriber growth and increasing traffic. MakTel, our first international acquisition, is increasing revenues in line with our expectations.

In the fixed line segment growth was driven by data services, increased Internet usage and fixed to mobile traffic revenues. We have also been successful in increasing our ISDN sales doubling connections in the last twelve months. In addition, we have completed a major restructuring of our fixed line business announced at



the end of last year to counteract the slowdown and rising competition in this segment. As a result, by the end of June headcount reduced to 9,790 at Matáv Rt. a 13.8% decline compared to a year ago.”

Mobile: Continuing strong growth

Mobile segment revenues experienced strong growth to 92.5 billion forints, an increase of 25.4% over the first half of 2000. Enhanced services show the highest increase with over 100% growth year over year.

Gross GSM additions totaled 569,000, and net subscriber growth was 71% year-on-year. The proportion of prepaid customers grew to 61% of the total subscriber base compared to 39% a year ago.

EBITDA was 34.2 billion forints in the first half of the year versus 26.5 billion forints in the same period of last year. The EBITDA margin improved to 37.0% compared to 36.0% a year ago. The increase in EBITDA and a HUF 2.4 billion foreign exchange gain contributed to an improvement in Westel's first half net income to HUF 11.6 billion, a 54.9% increase compared to the same period of last year.

Westel retained its leading position in the Hungarian GSM market with a market share of 52.7% at the end of June, capturing 50.5% of total GSM net additions in the first six months of the year. Hungary's mobile penetration rate reached 39.1% at the end of June.

Monthly average minutes-of-use per subscriber reached 150 minutes in the first half of the year, a drop of 19.8% compared to last year. Westel's average revenue per unit was 7,006 forints in the first half of the year, a decline of 26.7% compared to the same period of last year. Churn rate was 14.4%.

Fixed Line: Higher subscription fees and ISDN and data revenue growth make up for lower traffic revenues

Fixed line segment revenues grew by 4.2% year on year to 164.9 billion forints thanks mainly to the higher volume of ISDN subscribers and higher monthly subscription charges and wider use of value added services. The penetration rate in Matáv's service areas has stabilized at 39%, underscoring the saturation of the fixed line service segment. The nearly 30% increase in monthly subscription fees this February has resulted in decreased demand for Matáv's basic package at the lower end of the residential market. Matáv has successfully retained customers in this segment with its low-user calling plan, which had 315,000 subscribers at the end of the second quarter. At the high end of the market, the number of ISDN channels continued to increase significantly, resulting in growth of over 100% year on year. By the end of June 13% of Matáv's total fixed lines were ISDN channels.

Domestic traffic measured in minutes increased by 8.7% year over year, mainly due to increases in Internet usage and fixed-to-mobile traffic. The growth in local traffic was partially offset by lower per-minute charges introduced in February and the shift towards lower-cost Internet and off-peak rates calls. The dynamic development of the mobile market has resulted in the growth of fixed-to-mobile traffic, though growth has somewhat abated as more and more traffic stays within the mobile networks. Despite significant reductions in long distance and international tariffs in February, traffic here continued to decline as residential customers did not take advantage of the lower rates and Matáv competitors targeted business customers with alternative service offers.

Data revenue growth of 30% was driven by the growth of ISDN data, managed leased lines, Internet and cable TV revenues. Managed leased lines grew by 34%, driven by the growth in demand for broadband connectivity. The number of Internet customers has increased by 56% to 110,384 compared to 70,904 a year ago. Number of cable TV connections increased by over 50% year over year.

EBITDA margins in the fixed line segment decreased to 38.5% from 46.6% a year ago. The main drivers of operating expense growth were the 12.5% wage increase at Matáv Rt. in April, the higher outpayments due to



higher traffic between Matáv Rt. and the mobile service providers and higher outsourcing and subcontractor fees for customer support which relates to the expanded product offering the company.

As a result of reducing headcount by 1,437 in the first half of the year, lines per employee efficiency ratio increased to 300 by the end of the reporting period.

International segment contributed 10.3% to group revenues

The most dynamically growing revenue lines were MakTel's increased mobile and international call revenues in the second quarter. MakTel had 532,780 fixed line subscriber, 153,364 mobile customers and 15,178 Internet subscriber at the end of June. EBITDA margin in the first half of the year was 50.9% at our international segment. MakTel's contribution to group EBITDA was negatively effected by the strengthening of the forint against the euro and thus the Macedonian denar.

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 June 30, 2001 include the Hungarian State (holder of the Golden Share), MagyarCom, owned by Deutsche Telekom AG (59.49%), while 40.51% is publicly traded.

For detailed information on Matáv's 1H 2001 results visit our website: (<http://www.matav.hu/english/world/investors>) or the website of the Budapest Stock Exchange (www.bse.hu Listed Securities/ Issuer's news).



MATÁV Consolidated Balance Sheets - IAS (HUF million)	Dec 31, 2000 (Audited)	Jun 30, 2000 (Unaudited)	Jun 30, 2001 (Unaudited)	Jun 30, 2000 - Jun 30, 2001 % change
ASSETS				
Current assets				
Cash and cash equivalents	13 296	4 333	9 385	116,6%
Financial investments	6 045	2 506	1 082	(56,8%)
Receivables	71 951	71 948	85 005	18,1%
Inventories	10 587	10 883	11 302	3,9%
Total current assets	101 879	89 670	106 774	19,1%
Property, plant and equipment				
Property, plant and equipment	561 702	541 331	643 056	18,8%
Intangible assets	51 964	33 962	92 324	171,8%
Associates and other long term investments	14 062	14 171	14 610	3,1%
Total fixed assets	627 728	589 464	749 990	27,2%
Other non current assets	15 902	6 461	20 160	212,0%
Total assets	745 509	685 595	876 924	27,9%
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Loans and other borrowings	78 725	25 073	77 371	208,6%
Trade and other payables	96 068	84 610	87 094	2,9%
Deferred revenue	3 690	4 188	3 492	(16,6%)
Provisions for liabilities and charges	11 624	3 038	6 499	113,9%
Total current liabilities	190 107	116 909	174 456	49,2%
Non current liabilities				
Loans and other borrowings	110 641	165 067	187 558	13,6%
Deferred revenue	9 949	11 772	8 300	(29,5%)
Provisions for liabilities and charges	30	1 799	0	(100,0%)
Deferred tax liability	0	0	2 796	
Other non current liabilities	7 067	0	7 252	n.a.
Total non current liabilities	127 687	178 638	205 906	15,3%
Minority interests	40 731	30 239	81 259	168,7%
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	233 247	288 772	23,8%
Total shareholders' equity	386 984	359 809	415 303	15,4%
Total liabilities and shareholders' equity	745 509	685 595	876 924	27,9%



MATÁV	6 months ended	6 months ended	
Consolidated	June 30,	June 30,	%
Income Statements – IAS (HUF million)	2000	2001	change
	(Unaudited)	(Unaudited)	
Revenues			
Subscriptions, connections and other charges	39 962	47 451	18,7%
Domestic traffic revenue	65 238	61 827	(5,2%)
Other usage	9 153	8 717	(4,8%)
Domestic telecommunications services	<u>114 353</u>	<u>117 995</u>	3,2%
International traffic revenues	20 449	17 537	(14,2%)
Mobile telecommunications services	49 759	64 475	29,6%
Revenues from international activities	0	27 116	n.a.
Leased lines and data transmission	12 329	16 029	30,0%
Other services	16 928	20 163	19,1%
Total revenues	213 818	263 315	23,1%
Employee related expenses	(27 058)	(35 812)	32,4%
Depreciation and amortization	(36 483)	(48 108)	31,9%
Payments to other network operators	(26 018)	(34 279)	31,8%
Cost of telecommunications equipment sales	(15 922)	(20 720)	30,1%
Other operating expenses	(44 501)	(60 998)	37,1%
Total operating expenses	(149 982)	(199 917)	33,3%
Operating profit	63 836	63 398	(0,7%)
Net interest and other charges	(11 306)	(181)	(98,4%)
Share of associates' results before income tax	<u>1 000</u>	<u>1 328</u>	32,8%
Profit before income tax	53 530	64 545	20,6%
Income tax expense	(4 651)	(7 165)	54,1%
Profit after income tax	48 879	57 380	17,4%
Minority interest	(7 296)	(15 259)	109,1%
Net income	41 583	42 121	1,3%



MATÁV	6 months ended
Consolidated	June 30,
Cash Flow Statement – IAS (HUF million)	2001
	(Unaudited)
Cash flow from operating activities	
Cash generated from operations	104 845
Interest paid	(9 250)
Commissions and bank charges	(1 194)
Net income tax paid	(5 077)
Net cash from operating activities	89 324
Cash flow from investing activities	
Capital expenditure on tangible and intangible assets	(74 896)
Purchase of investments	(84 298)
Cash acquired	5 488
Interest received	1 071
Dividends received	779
Movement in other financial assets	5 662
Proceeds from disposal of fixed assets	5 887
Net cash flow utilized in investing activities	<u>(140 307)</u>
Cash flow from financing activities	
Dividends paid to shareholders and minority interest	(18 771)
Net change in the loan portfolio	66 017
Net cash used for treasury stock transactions	(33)
Other	267
Net cash flow utilized in financing activities	<u>47 480</u>
Translation differences on cash and cash equivalents	(408)
Change in cash and cash equivalents	(3 911)
Cash and cash equivalents at beginning of year	13 296
Cash and cash equivalents at end of year	<u>9 385</u>
Change in cash and cash equivalents	(3 911)



Summary of key operating statistics

	30 June 00	30 June 01	Jun 00 - Jun 01 % change
EBITDA margin	46,9%	42,3%	(9,8%)
Operating margin	29,9%	24,1%	(19,4%)
Net income margin	19,4%	16,0%	(17,5%)
ROA	12,5%	10,4%	(16,8%)
Net debt to total capital	32,0%	33,9%	5,9%

Number of closing lines			
Residential	2 335 103	2 208 508	(5,4%)
Business	361 492	303 546	(16,0%)
Payphone	36 481	37 157	1,9%
ISDN channels	181 416	385 734	112,6%
Total lines	2 914 492	2 934 945	0,7%
Digitalization of exchanges with ISDN	81,2%	85,2%	4,9%
Penetration	38,8%	39,1%	0,8%

Fixed line employees (closing full equivalent)	11 352	9 790	(13,8%)
Total no of employees (closing full equivalent)	14 469	16 669	15,2%
Lines per fixed line employees	257	300	16,7%

Traffic in minutes (thousands)			
Domestic	4 740 903	5 154 102	8,7%
International outgoing	90 878	84 185	(7,4%)

Westel 0660 RPCs (Revenue Producing Customers)	87 482	60 054	(31,4%)
Westel RPCs (Revenue Producing Customers)	1 190 747	2 035 913	71,0%
Total cellular RPCs	1 278 229	2 095 967	64,0%
Westel's MOU	187	150	(19,8%)
Westel's ARPU (Average Traffic Rev./RPC/Month)	9 562	7 006	(26,7%)
Westel's overall churn	12,4%	14,4%	16,1%

Managed leased lines (FLEX-Com connections)	7 649	10 270	34,3%
Internet subscribers	70 904	110 384	55,7%
Cable television customers	186 462	285 596	53,2%



Analysis of the Financial Statements for the six months ended June 30, 2001

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.

Analysis of group income statements

Sales

Revenues from domestic telecommunications services for the first six months 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, which are reflected in the mixed growth figures below.

Revenues from subscriptions, connections and other charges for the six months ended June 30, 2001 amounted to HUF 47,451 million, compared to HUF 39,962 million for the same period in 2000 (an 18.7% increase). Growth resulted mainly from subscription fee increases. The average number of lines increased 1.7% to 2,953,888 in the first six months of 2001 from 2,903,543 in the first six months of 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 first six months of 2001 amounted to HUF 61,827 million, compared to HUF 65,238 million for the same period in 2000. The 8.7% 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 first six months of 2001 amounted to HUF 8,717 million, compared to HUF 9,153 million for the same period in 2000 (a 4.8% 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 17,537 million for the six months ended June 30, 2001, compared to HUF 20,449 million for the same period in 2000 (a 14.2% 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 64,475 million for the first six months of 2001, compared to HUF 49,759 million for the six months ended June 30, 2000 (a 29.6% increase). The growth resulted from the increased number of subscribers, partly offset by lower tariffs. The average number of Westel customers increased by 80.2%, while the average number of Westel 0660 customers decreased by 26.8%. Within the Westel customers, the prepaid group shows a significant, 169.3% increase. Prepaid customers accounted for approximately 80.8% of gross additions in the first half of 2001 and represent 60.7% of total Westel customers at June 30, 2001.

Westel's ARPU (average revenue per user) decreased by 26.7%, from HUF 9,562 in the first half of 2000 to HUF 7,006 in the first half 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 over 100% growth year over year. Enhanced services now represent 6% of revenues from mobile telecommunications services. This revenue includes primarily SMS (short message service). Increases in mobile traffic were partly offset by decreased usage per subscriber and decreasing tariffs. Westel's usage measured in MOU (minutes of use) decreased from 187 minutes per customer per month in the first half of 2000 to 150 minutes per customer per month for the same period in 2001. The decreasing MOU is due to the increasing proportion of the prepaid segment, which has much lower minutes of usage than regular subscribers. Per minute tariff charges decreased by 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 27,116 million for the six months ended June 30, 2001.

Revenues from leased lines and data transmission amounted to HUF 16,029 million for the first half of 2001, compared to HUF 12,329 million for the same period in 2000 (a 30.0% 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 10,270 at June 30, 2001 compared to 7,649 at June 30, 2000. The number of ISDN channels more than doubled over the period, from 181,416 at June 30, 2000 to 385,734 at June 30, 2001. Residential customers now account for 20% of the ISDN connections compared to 6% a year ago. The number of Internet connections grew by 56%, while the number of cable television customers increased by 53% year over year.

Revenues from other services amounted to HUF 20,163 million for the first six months of 2001, compared to HUF 16,928 million for the same period in 2000 (a 19.1% 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 22.3% decrease as of June 30, 2001, compared to June 30, 2000.

Expenses

Employee-related expenses for the six months ended June 30, 2001 amounted to HUF 35,812 million, compared to HUF 27,058 million for the same period in 2000 (an increase of 32.4%). The growth results from wage increases effective April 1, 2001, as well as the 15.2% increase in group headcount figures to 16,669 by June 30, 2001 compared to June 30, 2000. While headcount reductions at Matáv continued, growth resulted mainly due to the acquisition of MakTel. MakTel had 3,683 employees at June 30, 2001, therefore without the inclusion of MakTel, the group headcount figure would have decreased 10% by June 30, 2001 compared to June 30, 2000. MakTel accounted for HUF 2,780 million of the increase in employee-related expenses in the first half of 2001 compared to the first half 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 line employee, 300 at the end of June 2001, compared to 257 a year earlier.

Depreciation and amortization for the six months ended June 30, 2001 amounted to HUF 48,108 million, compared to HUF 36,483 million for the same period in 2000 (an increase of 31.9%). The growth is a result of increased investment in fixed assets. MakTel accounted for HUF 3,766 million of the increase in depreciation expenses in the first half of 2001 compared to the first half 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 six months ended June 30, 2001 amounted to HUF 34,279 million, compared to HUF 26,018 million for the same period in 2000 (an increase of 31.8%). The increase was due to the increased penetration of mobile customers. MakTel's international outpayments accounted for HUF 2,329 million from the increase in payments to other network operators in the first half of 2001 compared to the first half of 2000.

The cost of telecommunications equipment sales for the first half of 2001 was HUF 20,720 million, compared to HUF 15,922 million for the same period in 2000 (an increase of 30.1%). This is mainly due to the increased number of gross additions at Westel during the first six months of 2001 compared to the first six 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 909 million from the increase in cost of telecommunications equipment sales in the first half of 2001 compared to the first half of 2000.

Other operating expenses for the first six months of 2001 amounted to HUF 60,998 million, compared to HUF 44,501 million for the same period in 2000 (an increase of 37.1%). Other operating expenses include materials, maintenance, marketing, service fees, outsourcing expenses, energy and consultancy. MakTel accounted for HUF 6,436 million of the increase in other operating expenses in the first half of 2001 compared to the first half of 2000.

Operating Profit

Operating profit amounted to HUF 63,398 million for the six months ended June 30, 2001, compared to HUF 63,836 million for the same period in 2000. Total revenues for the first six months of 2001 increased 23.1% to HUF 263,315 million, compared to HUF 213,818 million for the first half of 2000. Total operating expenses increased 33.3% to HUF 199,917 million in the first half of 2001 from HUF 149,982 million for the same period in 2000. Operating margin for the six months ended June 30, 2001 was 24.1%, while operating margin for the same period in 2000 was 29.9%.

Net Interest and Other Charges

Net interest and other charges were HUF 181 million for the first half of 2001, compared to HUF 11,306 million for the same period in 2000. Net interest and other charges show a decrease due to the 12 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 2.4 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 190,140 million at June 30, 2000, to HUF 264,929 million at June 30, 2001, mainly because of the loan taken from Deutsche Telekom AG to finance the MakTel acquisition. Net interest and other charges include MakTel's HUF 1,843 million of net interest and other charges in the first half of 2001.

Share of associates' results

Share of associates' results amounted to HUF 1,328 million for the six months ended June 30, 2001, compared to HUF 1,000 million for the same period in 2000, reflecting improved operating results of investments.

**Profit before taxation**

Profit before income tax amounted to HUF 64,545 million for the six months ended June 30, 2001 versus HUF 53,530 million for the same period in 2000.

Income tax

Income tax expense increased from HUF 4,651 million for the six months ended June 30, 2000 to HUF 7,165 million for the same period of 2001, mainly due to higher deferred tax charge.

Minority Interest

Minority interest for the first six months of 2001 was HUF 15,259 million, compared to HUF 7,296 million for the same period in 2000 (an increase of 109.1%). This increase is due to the growth of Westel's profits as well as the inclusion of MakTel. MakTel accounted for HUF 4,068 million increase in minority interest in the first half of 2001 compared to the first half of 2000.

Net Income

Net income for the first half of 2001 was HUF 42,121 million, compared to HUF 41,583 million for the same period in 2000 (an increase of 1.3%).



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.

Fixed line segment

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

	6 months ended June 30, 2000	6 months ended June 30, 2001	Change in percentage
Revenues	158,279	164,920	4.2%
EBITDA	73,779	63,486	(14.0%)
Operating profit	45,175	30,510	(32.5%)
Profit after income tax	34,122	28,490	(16.5%)
Minority interest	(28)	30	(207.1%)
Net income	34,094	28,520	(16.3%)

Revenues from the fixed line segment increased 4.2% year over year. The main contributors to this revenue growth were revenues from leased line and data transmission services, which increased by 29.9% in the first half of 2001 compared to the first half 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, 3.0% growth, which was driven by subscription fee increases, partly offset by decreases in local and long distance tariffs. International revenues declined by 14.0%, due to lower outgoing and incoming traffic as well as decreased international tariffs.

Operating profit of the fixed line segment decreased by 32.5% 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, 2001, 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 16.3%, at a lower rate than operating profit because of the favorable movement in net interest and other charges. This favorable movement in net interest and other charges is mainly due to the 9 billion HUF foreign exchange gain (excluding foreign exchange gain on derivatives) resulting from the strengthening of the HUF. This favorable increase in foreign exchange gain was partly offset by the 1.6 billion HUF increase in foreign exchange interest expense, mainly due to the loan taken to finance MakTel.

Mobile segment

Mobile segment includes Westel and Westel 0660.

	6 months ended June 30, 2000	6 months ended June 30, 2001	Change in percentage
Revenues	73,761	92,487	25.4%
EBITDA	26,540	34,213	28.9%
Operating profit	18,661	23,716	27.1%
Profit after income tax	14,757	22,825	54.7%
Minority interest	(7,268)	(11,221)	54.4%
Net income	7,489	11,604	54.9%



Revenues in the mobile segment increased by 25.4% in the first six months of 2001 compared to the same period in 2000 due to strong increases in the number of mobile customers. Westel's customer base surged 71.0% to 2,035,913 subscribers, including 1,236,623 prepaid customers by June 30, 2001. Average monthly usage per Westel subscriber decreased by 19.8%, from 187 minutes in the first half of 2000 to 150 minutes in the first half of 2001. Mobile penetration reached 39.1% in Hungary and Westel accounts for 53% market share in the very competitive GSM market.

Operating profit shows a 27.1% increase. While revenues grew 25.4%, operating expenses increased at a lower rate, 24.8% 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 33.2% increase in depreciation expense, the growth in operating profit is below the growth of EBITDA. Net income in the mobile segment increased by 54.9%, at a much faster rate than operating profit, due to a 147.3% decrease in net interest and other charges. This decrease in net interest and other charges was mainly due to the 2.4 billion HUF foreign exchange gain resulting from the strengthening of the HUF.

International segment

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

	6 months ended June 30, 2001
Revenues	27,143
EBITDA	13,807
Operating profit	9,172
Profit after income tax	6,065
Minority interest	(4,068)
Net income	1,997

MakTel has been a consolidated company of Matáv beginning January 15, 2001. MakTel had 532,780 fixed line subscribers, 153,364 mobile subscribers and 15,178 Internet subscribers at June 30, 2001.

About 43% of MakTel's revenue is derived from domestic telecommunications services, about 25% from international traffic and about 26% from mobile telecommunications services. The revenues from leased lines, data transmission and other services account for only 6% of total revenues.

The international segment has a strong, 50.9% EBITDA margin and 33.8% operating margin for the six months ended June 30, 2001.

Minority interest of HUF 4,068 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 June 30, 2000 were HUF 685,595 million. Total assets and total shareholders' equity and liabilities amounted to HUF 876,924 million as of June 30, 2001. The increase is mainly attributable to the acquisition of MakTel.

Intangible assets

Intangible assets increased 171.8% from June 30, 2000 to HUF 92,324 million at June 30, 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 208.6% from June 30, 2000 to HUF 77,371 at June 30, 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 13.6% from June 30, 2000 to HUF 187,558 million at June 30, 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 168.7% from June 30, 2000 to HUF 81,259 million at June 30, 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 23.7% from June 30, 2000 to HUF 288,612 million at June 30, 2001. This increase was due to net income.