



Contact: Szabolcs Czente, Matáv IR  
+36-1-458-0437  
Tamás Dancsecs, Matáv IR  
+36-1-457-6084  
Zsolt Kerti, Matáv IR  
+36-1-458-0403  
investor.relations@ln.matav.hu

Belinda Bishop, Taylor Rafferty  
+44-(0)207-936-0400

### **BALANCED SEGMENT PERFORMANCES LEAD HEALTHY 2002 FIRST HALF RESULTS**

BUDAPEST – August 14, 2002 - Matáv (NYSE: MTA.N and BSE: MTAV.BU), the leading Hungarian telecommunications service provider, today reported its consolidated financial results for the first half 2002 according to International Accounting Standards (IAS).

#### **Highlights:**

- **Total revenues grew by 9.2% (17.3% in EUR terms) to HUF 287.5 bn (EUR 1,181 mn) in 1H 2002 compared to 1H 2001** primarily due to the revenue growth of mobile and international segments but partially offset by lower fixed line traffic revenues.
- **EBITDA grew to HUF 121.7 bn (9.1% growth) and EBITDA margin reached an impressive 42.3%.**
- **Fixed line segment EBITDA margin** grew slightly to 39.1% mainly due to leased line and data transmission revenue growth and lower payments to other network operators, offset by a decline in domestic and international traffic revenues.
- **Mobile segment revenue went up by 19.0%** mainly driven by a strong increase in the customer base. EBITDA margin slightly reduced to 36.4% in 1H 2002 from 37.0% a year ago. **Westel had nearly 3 million customers at the end of June, 2002.** Westel successfully kept its leading position with a 50.7% market share.
- **International segment (mainly MakTel) revenue grew by 18.9% and EBITDA margin was 49.5%** due to strong growth in fixed line and mobile subscriber base as well as higher domestic prices partly offset by lower mobile MOU and lower international traffic revenue.
- **Net income reached HUF 37.7 bn (EUR 155 mn), a decline of 14.5%** as net interest charges (due to higher loan balance, sharp decline in net FX gain and increase in swap related expenses), as well as minority interest (MakTel) and income tax expense (Westel) grew significantly over 1H 2001.
- **Net debt** at period-end sharply rose to HUF 415.1 bn against HUF 254.5 bn in 1H 2001 due to the Westel acquisition. However net debt showed a decrease of HUF 27.8 bn compared to the end of 2001, resulting in a reduced **net debt to total capital** (net debt plus equity plus minority interest) ratio of 43.4% compared to 46.6% at year-end 2001.

**Elek Straub, Chairman and CEO commented:** “*Strong cash generation characterized the fixed line segment, as a combined result of strict capital expenditure and cost control. In a still expanding mobile market, Westel managed to keep both net additions and market share above 50% in the first half of the year. This achievement was coupled with continued delivery of mobile segment profit growth. The churn rate in the prepaid and contract segments reduced quarter on quarter in 2002. Overall, I am pleased to see a balanced performance from the fixed, mobile and international segments. The Group’s first half results reflect that we are on the right track not only delivering healthy financial results, but executing our strategy. I would also like to re-confirm our public guidance set for the full year 2002.*”



#### Fixed line: Impressive cash generator, focus on innovative solutions, growth in data transmission

The segment revenues grew by 1.9% to HUF 168.0 bn and EBITDA margin also improved to reach 39.1%. Domestic and international traffic revenues combined, decreased by 5.8%, chiefly reflecting lower volumes compared with the first half of 2001. Leased line and data revenues grew by 15.0% driven by the volume growth in managed leased lines, ADSL and Internet subscribers. Fixed line penetration and the total number of lines remained stable. However, the number of ISDN channels increased to above 492,000, representing a 27.8% growth against 1H 2001. By end-June 2002, 16.8% of Matáv's total fixed lines were ISDN. We successfully managed to increase the number of ADSL lines resulting in 18,781 lines installed by end of June 2002. Matáv's Internet subsidiary, Axelero maintained its leading position among ISPs in the dial-up market. The Company had 141,630 Internet subscribers (up by 28.3%). The leading Hungarian portal [origo] had over 600,000 visitors per day in the first half of 2002, an increase from around 270,000 in 1H 2001. Internet usage had a proportionally greater stake in the total call volume.

#### Mobile: Strong results and actively maintained leading position

Mobile segment revenues increased by 19.0% to reach HUF 110.0 bn in 1H 2002 and EBITDA grew by 17.1% to HUF 40.0 bn. Depreciation and amortization reduced by 13.9% to HUF 17.1 bn as a result of lower intangible asset amortization in 1H 2002. Operating profit grew strongly to HUF 23.0 bn from HUF 14.4 bn and operating margin grew from 15.5% to reach 20.9% in 1H 2002. Net income went up by 26.6% to HUF 17.3 bn.

Under intense competition, Westel preserved its leading position in the GSM market. Westel outperformed its competitors in terms of net customer additions. Westel's subscriber base reached nearly 3 million at the end of June 2002. The Company had a GSM market share of 50.7% also due to the efficient customer retention program. Westel captured 52% of the total market net additions in the second quarter of 2002. Prepaid customers at the end of the period, represented 72.5% of the total customer base. Average acquisition cost per customer fell to HUF 15,139 in the first half of 2002 from HUF 21,777 a year ago. When calculating subscriber acquisition cost, we include connection margin, which is the connection fee minus the SIM card cost, and the sales related equipment subsidy and agent fee.

Both ARPU (monthly average revenue per user) and MOU (monthly average minutes of use per subscriber) declined due to the continuous dilution in the customer base, providing an ARPU of HUF 5,820 and a MOU of 121 in 1H 2002. However, MOU stabilized within the two quarters of 2002. Enhanced services (mainly SMS) within ARPU reached HUF 488 (8.4% share) showing an impressive development compared with HUF 394 (5.6% share) in the first half of 2001. Annualized churn rate was relatively low at 15.1% in 1H 2002. The churn rate in the postpaid segment reduced to 15.9% in 1H 2002 from 18.1% in the same period last year.

#### International: Back on track

International segment revenues increased to HUF 32.3 bn (up by 18.9%) in 1H 2002. EBITDA margin reached 49.5% in the first half of 2002 representing lower margin compared with 50.9% in 1H 2001 but also showing a recovery on the weaker 2002 first quarter performance. Domestic traffic revenues (mainly driven by price increases) grew. International traffic revenues declined due to a reduction in outgoing and incoming prices and, to a lesser extent, lower usage. Employee related expenses rose to HUF 3.7 bn due to wage increases. Depreciation and amortization increased by 25.2% (to HUF 5.8 bn) due to higher asset base. By end of June, fixed line penetration in Macedonia was 27%, and mobile penetration rose to 14%. The subscriber base has continued to grow in each business areas. Fixed line customers reached 573,926 up 7.7% from a year earlier. Within this, analog subscribers grew moderately, by 6.7% to 554,582 but ISDN channels



impressively increased by 50.2% to 19,344. The mobile customer base more than doubled to 291,213. The number of Internet subscribers reached 26,944 at the end of June 2002.

Matáv is the principal provider of telecom services in Hungary. 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 the leading mobile operator in Macedonia. Key shareholders of Matáv as of June 30, 2002 include MagyarCom, owned by Deutsche Telekom AG (59.49%), while 40.51% is publicly traded.

This press-release contains forward-looking statements. Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements. These statements are based on current plans, estimates and projections, and therefore you should not place undue reliance on them. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update publicly any of them in light of new information or future events.

Forward-looking statements involve inherent risks and uncertainties. We caution you that a number of important factors could cause actual results to differ materially from those contained in any forward-looking statement. Such factors are described in, among other things, our Annual Report on Form 20-F for the year ended December 31, 2001 filed with the U.S. Securities and Exchange Commission.

For detailed information on Matáv's 1H 2002 results please visit our website:

([http://www.matav.hu/english/investor\\_relations](http://www.matav.hu/english/investor_relations)) or the website of the Budapest Stock Exchange ([www.bse.hu](http://www.bse.hu) Listed Securities/ Issuer's news).



MATÁV Consolidated Balance Sheets - IAS (HUF million)	Dec 31, 2001 (Audited)	June 30, 2001 (Unaudited) Restated	June 30, 2002 (Unaudited)	June 30, 2001 - June 30, 2002 % change
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents	10 117	9 385	16 391	74,7%
Financial investments	327	1 082	404	(62,7%)
Receivables	88 079	84 305	94 299	11,9%
Inventories	13 297	11 302	12 499	10,6%
Assets held for disposal	0	0	2 100	n.a.
<b>Total current assets</b>	<b>111 820</b>	<b>106 074</b>	<b>125 693</b>	<b>18,5%</b>
<b>Property, plant and equipment</b>				
Property, plant and equipment	654 298	643 056	642 110	(0,1%)
Intangible assets	306 029	293 415	299 657	2,1%
Associates and other long term investments	13 199	14 610	8 795	(39,8%)
<b>Total fixed assets</b>	<b>973 526</b>	<b>951 081</b>	<b>950 562</b>	<b>(0,1%)</b>
<b>Other non current assets</b>	<b>18 850</b>	<b>19 175</b>	<b>13 730</b>	<b>(28,4%)</b>
<b>Total assets</b>	<b>1 104 196</b>	<b>1 076 330</b>	<b>1 089 985</b>	<b>1,3%</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Loans and other borrowings	33 607	77 371	45 866	(40,7%)
Trade and other payables	122 126	84 902	97 337	14,6%
Deferred revenue	3 430	3 492	2 967	(15,0%)
Provisions for liabilities and charges	3 320	6 499	3 717	(42,8%)
<b>Total current liabilities</b>	<b>162 483</b>	<b>172 264</b>	<b>149 887</b>	<b>(13,0%)</b>
<b>Non current liabilities</b>				
Loans and other borrowings	419 763	187 558	386 041	105,8%
Deferred revenue	7 101	8 300	6 001	(27,7%)
Provisions for liabilities and charges	0	0	0	n.a.
Deferred tax liability	1 763	2 796	3 264	16,7%
Other non current liabilities	4 617	7 252	3 915	(46,0%)
<b>Total non current liabilities</b>	<b>433 244</b>	<b>205 906</b>	<b>399 221</b>	<b>93,9%</b>
<b>Minority interests</b>	<b>48 169</b>	<b>38 946</b>	<b>54 011</b>	<b>38,7%</b>
<b>Shareholders' equity</b>				
Common stock	103 736	103 736	103 736	0,0%
Additional paid in capital	22 955	22 955	22 955	0,0%
Treasury stock	(163)	(160)	(163)	1,9%
Retained earnings	333 772	532 683	360 338	(32,4%)
<b>Total shareholders' equity</b>	<b>460 300</b>	<b>659 214</b>	<b>486 866</b>	<b>(26,1%)</b>
<b>Total liabilities and shareholders' equity</b>	<b>1 104 196</b>	<b>1 076 330</b>	<b>1 089 985</b>	<b>1,3%</b>



MATÁV Consolidated Income Statements - IAS (HUF million)	2001 (Unaudited) Restated	6 months ended June 30, 2002 (Unaudited)	% change
<b>Revenues</b>			
Subscriptions, connections and other charges	47 841	49 881	4,3%
Domestic traffic revenue	61 827	59 862	(3,2%)
Other usage	8 717	7 729	(11,3%)
<b>Domestic telecommunications services</b>	<b>118 385</b>	<b>117 472</b>	<b>(0,8%)</b>
<b>International traffic revenues</b>	<b>16 203</b>	<b>13 593</b>	<b>(16,1%)</b>
<b>Mobile telecommunications services</b>	<b>64 475</b>	<b>83 228</b>	<b>29,1%</b>
<b>Revenues from international activities</b>	<b>27 116</b>	<b>32 238</b>	<b>18,9%</b>
<b>Leased lines and data transmission</b>	<b>14 827</b>	<b>16 457</b>	<b>11,0%</b>
<b>Other services</b>	<b>22 309</b>	<b>24 501</b>	<b>9,8%</b>
<b>Total revenues</b>	<b>263 315</b>	<b>287 489</b>	<b>9,2%</b>
<b>Employee related expenses</b>	<b>(35 812)</b>	<b>(39 529)</b>	<b>10,4%</b>
<b>Depreciation and amortization</b>	<b>(57 469)</b>	<b>(57 933)</b>	<b>0,8%</b>
<b>Payments to other network operators</b>	<b>(34 279)</b>	<b>(39 631)</b>	<b>15,6%</b>
<b>Cost of telecommunications equipment sales</b>	<b>(20 720)</b>	<b>(20 207)</b>	<b>(2,5%)</b>
<b>Other operating expenses</b>	<b>(60 998)</b>	<b>(66 439)</b>	<b>8,9%</b>
<b>Total operating expenses</b>	<b>(209 278)</b>	<b>(223 739)</b>	<b>6,9%</b>
<b>Operating profit</b>	<b>54 037</b>	<b>63 750</b>	<b>18,0%</b>
<b>Net interest and other charges</b>	<b>(181)</b>	<b>(11 737)</b>	<b>6 384,5%</b>
<b>Share of associates' results before income tax</b>	<b>1 328</b>	<b>589</b>	<b>(55,6%)</b>
<b>Profit before income tax</b>	<b>55 184</b>	<b>52 602</b>	<b>(4,7%)</b>
<b>Income tax expense</b>	<b>(7 000)</b>	<b>(9 109)</b>	<b>30,1%</b>
<b>Profit after income tax</b>	<b>48 184</b>	<b>43 493</b>	<b>(9,7%)</b>
<b>Minority interest</b>	<b>(4 038)</b>	<b>(5 752)</b>	<b>42,4%</b>
<b>Net income</b>	<b>44 146</b>	<b>37 741</b>	<b>(14,5%)</b>



MATÁV	6 months ended June 30, 2002 (Unaudited)
Consolidated	
Cash Flow Statement – IAS (HUF million)	
<b>Cash flow from operating activities</b>	
Operating profit	63 750
Depreciation and amortization of fixed assets	57 933
Change in working capital	(21 198)
Amortization of deferred income	(1 574)
Interest paid	(12 258)
Commissions and bank charges	(1 361)
Net income tax paid	(2 977)
Other items	859
<b>Net cash from operating activities</b>	<b>83 174</b>
<b>Cash flow from investing activities</b>	
Capital expenditure on tangible and intangible assets	(48 658)
Purchase of investments	(1 828)
Purchase of subsidiaries	0
Cash acquired	317
Interest received	770
Dividends received	815
Net change in financial assets	(77)
Proceeds from disposal of fixed assets	750
<b>Net cash flow utilized in investing activities</b>	<b>(47 911)</b>
<b>Cash flow from financing activities</b>	
Dividends paid to shareholders and minority interest	(11 406)
Net repayments of borrowings	(17 526)
Net cash used for treasury stock transactions	0
Other	0
<b>Net cash flow utilized in financing activities</b>	<b>(28 932)</b>
Translation differences on cash and cash equivalents	(57)
Change in cash and cash equivalents	6 274
Cash and cash equivalents at beginning of year	10 117
<b>Cash and cash equivalents at end of year</b>	<b>16 391</b>
Change in cash and cash equivalents	6 274



### Summary of key operating statistics

	1H2001	1H2002	% change
<b>EBITDA margin</b>	42,3%	42,3%	n.a.
<b>Operating margin</b>	20,5%	22,2%	n.a.
<b>Net income margin</b>	16,8%	13,1%	n.a.
<b>ROA</b>	8,7%	6,9%	n.a.
<b>Net debt to total capital</b>	26,7%	43,4%	n.a.

<b>Number of closing lines</b>			
<b>Residential</b>	2 208 508	2 103 995	(4,7%)
<b>Business</b>	303 546	291 084	(4,1%)
<b>Payphone</b>	37 157	37 326	0,5%
<b>ISDN channels</b>	385 734	492 794	27,8%
<b>Total lines</b>	2 934 945	2 925 199	(0,3%)
<b>Digitalization of exchanges with ISDN Penetration</b>	85,2%	86,2%	n.a.
	39,1%	39,0%	n.a.

<b>Fixed line employees (closing full equivalent)</b>	9 790	9 192	(6,1%)
<b>Total no of employees (closing full equivalent)</b>	16 669	16 283	(2,3%)
<b>Lines per fixed line employees</b>	300	318	6,1%

<b>Traffic in minutes (thousands) at Matáv Rt.</b>			
<b>Domestic</b>	5 154 102	4 824 123	(6,4%)
<b>International outgoing</b>	84 185	77 528	(7,9%)

<b>Emitel line numbers incl. ISDN channels</b>		80 483	n.a.
<b>Emitel domestic traffic (thousand minutes)</b>		95 302	n.a.
<b>Emitel international outgoing traffic (thousand minutes)</b>		1 272	n.a.

<b>Westel 0660 RPCs (Revenue Producing Customers)</b>	60 054	33 215	(44,7%)
<b>Westel RPCs (Revenue Producing Customers)</b>	2 035 913	2 967 616	45,8%
<b>Total cellular RPCs</b>	2 095 967	3 000 831	43,2%
<b>Westel's MOU</b>	150	121	(19,3%)
<b>Westel's ARPU (Average Traffic Rev./RPC/Month)</b>	7 006	5 820	(16,9%)
<b>Westel's overall churn</b>	14,4%	15,1%	n.a.

<b>Managed leased lines (FLEX-Com connections)</b>	10 270	12 539	22,1%
<b>Internet subscribers</b>	110 384	141 630	28,3%
<b>Cable television customers</b>	285 596	316 257	10,7%



## **Analysis of the Financial Statements for the six months ended June 30, 2002**

### **Basis of presentation**

On December 21, 2001 Matáv completed the purchase of the remaining 49% of Westels. At the time of exercising the Westel option, 59% of Matáv Rt.'s share capital and 49% of the Westels' share capital were owned by Deutsche Telekom. As the transaction was carried out between entities under common control, Matáv Rt. has restated its financial statements for the years 2000 and 2001, and included the Westels in the consolidated financial statements as if they had been wholly owned by Matáv Rt. from March 2000. The restatements relate to goodwill and brandname taken over from Deutsche Telekom's consolidated accounts at historic values, allocation to customer base and the related amortization and deferred tax. In addition, from this date 100% of the Westels' results have been included in Matáv Group's restated results. The previously published results effectively only included 51% of the Westels' results after the deduction of 49% minority interest.

During 2001 Matáv has reviewed the classification of its data transmission products and based on this review, the leased lines and data transmission category has been redefined effective January 1, 2002. International incoming revenues relating to data transmission products, reported in international traffic revenues earlier, have been reclassified into data transmission. Cable television revenues, reported in data transmission earlier, have been reclassified into other services. Various ISDN charges, reported in data transmission in prior year reports, have been reclassified into subscriptions, connections and other charges. We have reclassified our prior period revenue lines as well according to these new definitions.

### **Exchange rate information**

The Euro appreciated by 0.4% against the Hungarian Forint year on year (from 243.59 HUF/EUR on June 30, 2001 to 244.67 HUF/EUR on June 30, 2002). From the year-end 2001, the Euro depreciated by 0.7% against the Hungarian Forint (from 246.33 HUF/EUR on December 31, 2001 to 244.67 HUF/EUR on June 30, 2002). The average HUF/EUR rate decreased from 261.55 in 1H2001 to 243.50 in 1H2002.

The U.S. Dollar depreciated by 14.2% against the Hungarian Forint year on year (from 287.39 HUF/USD on June 30, 2001 to 246.72 HUF/USD on June 30, 2002). From the year-end 2001 to June 30, 2002, the U.S. Dollar depreciated by 11.6% against the Hungarian Forint (from 279.03 HUF/USD on December 31, 2001 to 246.72 HUF/USD on June 30, 2002).

### **Analysis of group income statements**

#### **Revenues**

Revenues from subscriptions, connections and other charges increased by 4.3% in the first half of 2002 compared to the same period in 2001. This growth resulted mainly from subscription fee increases from February 1, 2002 for analog lines (4%) and ISDN lines. The average number of lines including ISDN channels decreased by 0.6% in 1H2002 compared to 1H2001. Increase in subscription revenues was partially offset by decline in revenues from connection fees, which resulted from the lower number of gross additions as well as lower connection fees due to marketing campaigns. Other charges increased as a result of wider usage of televoting services.

Domestic traffic revenue in 1H2002 amounted to HUF 59.9 bn, compared to HUF 61.8 bn in 1H2001. This decrease mainly resulted from the 4.6% decline in domestic usage at group level, partly offset by increasing proportion of fixed to mobile network calls with higher per minute prices.



Revenues from other usage for the first half of 2002 decreased by 11.3% compared to the same period in 2001. This decrease was mainly attributable to lower fees paid to Matáv by other domestic operators and, to a lesser extent, to lower traffic between the mobile service providers and Matáv.

A new interconnection agreement on the basis of the provisions of the Act on Communications was concluded between Matáv and Vivendi on December 21, 2001 and between Matáv and Pantel on April 8, 2002. Matáv's Reference Interconnection Offer has been approved by the Communications Arbitration on July 18, 2002. The tariffs applied in the new interconnection agreements will be retrospectively modified according to the approved Reference Interconnection Offer tariffs. Other usage revenue in the first half of 2002 was calculated based on interconnection rates that closely approximate the tariffs that were approved by the regulator.

International traffic revenues decreased to HUF 13.6 bn for the six months ended June 30, 2002, compared to HUF 16.2 bn for the same period in 2001. Both outgoing and incoming international revenue show a decrease mainly because of traffic decreases. Outgoing international traffic measured in minutes decreased by 7.9% at Matáv Rt., while incoming international minutes decreased by 10.8% due to wider use of VOIP and leased line services. In addition, international traffic charges decreased by 15% in nominal terms from February 1, 2001, therefore 1H2001 results include one month of higher traffic charges, which also contributed to the revenue decrease in 1H2002.

Revenues from mobile telecommunications services amounted to HUF 83.2 bn for the first half of 2002, compared to HUF 64.5 bn for the six months ended June 30, 2001 (a 29.1% increase). The growth mainly resulted from the 48.4% higher Westel average customer base. Within the Westel customers, the prepaid group shows a more significant, 73.9% increase. Prepaid customers accounted for approximately 90.3% of gross additions in the first half of 2002 and represent 72.5% of total Westel customers at June 30, 2002.

Increases in the mobile customer base were partly offset by decreased usage per subscriber. Westel's usage per customer per month measured in MOU decreased from 150 minutes in 1H2001 to 121 minutes in 1H2002. The decreasing MOU is due to the increasing proportion of the prepaid customer base, which has lower minutes of usage than regular subscribers.

Westel's average revenue per user ("ARPU") decreased by 16.9%, from HUF 7,006 in 1H2001 to HUF 5,820 in 1H2002 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, which represents 8.4% of the ARPU in 1H2002. This revenue includes primarily short message service ("SMS").

The liberalization of the fixed line telecommunications market in December 2001 is expected to have an effect on the mobile telecommunications industry as well. It is expected that government regulated fees and interconnection prices will significantly change and these changes will impact the operations of Westel. The extent and timing of this change is not known yet.

Revenues from international activities show revenues of MakTel, our subsidiary acquired in 2001. Note that MakTel has been consolidated in Matáv's financial statements since January 15, 2001, thus its results for 2001 exclude the first two weeks of January. Revenues from international activities reached HUF 32.2 bn for the six months ended June 30, 2002. The 18.9% increase was due to increase



in domestic traffic revenues and revenues from mobile telecommunication services. Fixed line subscribers increased by 7.7%, mobile customers increased by 111.1% year over year.

Revenues from leased lines and data transmission grew to HUF 16.5 bn for 1H2002, compared to HUF 14.8 bn for the same period in 2001. This strong growth was due to the increase in the number of managed leased lines, ADSL and Internet subscribers. The number of managed leased lines increased by 22.1% to 12,539, the number of ADSL subscribers grew to 18,781 (from 1,433 at the end of June, 2001) and the number of ISDN channels grew to 492,794 by June 30, 2002 (increase of 27.8%). The number of Internet connections grew by 28.3% to 141,630 at period-end. These volume increases were partially offset by price discounts.

Revenues from other services amounted to HUF 24.5 bn for the first six months of 2002, compared to HUF 22.3 bn for the same period in 2001. Other services include equipment sales, construction, maintenance, cable television, audiotex, telex, telegraph and miscellaneous revenues. The increase in this category is mainly due to the subsidy receivable from the Universal Service Financing Fund to cover access deficits. These increases were partly offset by a 22.6% decrease in revenues from equipment sales at Westel due to lower average phone prices in 1H2002 compared to a year earlier.

### **Operating Expenses**

Employee-related expenses for the first half of 2002 amounted to HUF 39.5 bn, compared to HUF 35.8 bn for the same period in 2001 (an increase of 10.4%). Employee related expenses increased mostly at Matáv Rt., Westel and MakTel, resulting from wage rate increases. At Matáv Rt. wages increased by 9% on average effective April 1, 2002, which was partly offset by headcount reductions. As a result, group average headcount figures slightly decreased year over year to 16,501 in 1H2002.

Depreciation and amortization remained stable in 1H2002, compared to 1H2001. Investment in fixed assets did not change significantly.

Payments to other network operators for 1H2002 reached HUF 39.6 bn, compared to HUF 34.3 bn for the same period in 2001. The increase was mainly due to the higher mobile traffic, partly offset by lower international traffic.

The cost of telecommunications equipment sales for the first half of 2002 was HUF 20.2 bn, compared to HUF 20.7 bn for the same period in 2001. This decrease is mainly due to the significantly lower average cost of mobile handsets at Westel, partly offset by 19.2% increase in gross additions. Cost of telecommunications equipment sales increased significantly at MakTel due to the 111.1% growth in their mobile customer base.

Other operating expenses increased by 8.9% to HUF 66.4 bn for the six months ended June 30, 2002 compared to the same period in 2001. Other operating expenses include materials, maintenance, marketing, service fees, outsourcing expenses, energy and consultancy. The increase in other operating expenses mainly relate to higher agency fees of Westel, marketing expenses, local taxes as well as contributions payable to the Universal Service Financing Fund. These increases were partly offset by a significant decrease of provision for receivables at Matáv Rt.

### **Operating Profit**

Operating margin for the six months ended June 30, 2002 was 22.2%, while operating margin for the same period in 2001 was 20.5%.



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

Net interest and other charges were HUF 11.7 bn for 1H2002, compared to HUF 0.2 bn for 1H2001. Net interest and other charges increased significantly due to the HUF 5.3 bn decrease in net foreign exchange gain. This change in net foreign exchange gain resulted mainly from the less favorable variance of the HUF in the intervention band. In addition, the net finance expense relating to the fair valuation of the swap positions was a loss of HUF 2.4 bn in 1H2002, as opposed to a net gain of HUF 1.2 bn in 1H2001. Interest expenses denominated in foreign currencies increased as a result of the 95% higher average loan balance. Total loans and other borrowings increased to HUF 431.9 bn at June 30, 2002, mainly because of the loan taken from Deutsche Telekom AG to finance the acquisition of the remaining 49 stake in Westels. Net interest and other charges include HUF 4.0 bn net FX gain, HUF 12.2 bn interest expense, HUF 2.4 bn swap related expenses, HUF 2.0 bn commissions and other charges and HUF 0.9 bn interest and financial income.

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

Share of associates' results amounted to HUF 589 million for the first half of 2002, compared to HUF 1,328 million for the same period in 2001, reflecting decreased financial results of Hunsat. In addition, Emitel has been excluded from associates in 1H2002 resulting from the acquisition of its remaining 50% stake and its subsequent consolidation in Matáv's financial statements starting in July 2001.

### **Income tax**

Income tax expense increased from HUF 7.0 bn for 1H2001 to HUF 9.1 bn for 1H2002, mainly due to Westel, which lost its 60% tax holiday resulting in tax rates of 18% as opposed to 7.2% applicable during 2001. This increase was partly offset by income tax decrease at Rt.

### **Minority Interest**

Minority interest for the first six months of 2002 was HUF 5.8 bn, compared to HUF 4.0 bn for the same period in 2001, reflecting the improved performance of MakTel.



### 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, Telemacedónia, Westel and Westel 0660.

<b>HUF millions</b>	<b>1H2001</b>	<b>1H2002</b>	<b>Change (%)</b>
Revenues	164,920	167,990	1.9
EBITDA	63,486	65,646	3.4
Operating profit	30,510	30,611	0.3
Profit after income tax	28,490	17,191	(39.7)
Minority interest	30	34	13.3
Net income	28,520	17,225	(39.6)

Revenues from the fixed line segment remained stable year over year, but its composition changed. Leased line and data transmission services increased by 15.0% in the first six months of 2002 compared to the same period of 2001. Leased line and data transmission revenue growth was driven by strong volume increases in managed leased lines, ADSL, and Internet customers. Matáv's domestic fixed voice business experienced a moderate, 0.9% decline. International revenues declined by 15.9% due to lower outgoing and incoming traffic as well as decreased international tariffs.

Operating profit of the fixed line segment increased by 0.3%. Within operating expenses employee related expenses and depreciation and amortization increased, but these increases were offset by decreases in payments to other network operators and in cost of equipment sales.

#### **Mobile segment**

Mobile segment includes Westel and Westel 0660 and the goodwill amortization arising from their consolidation.

<b>HUF millions</b>	<b>1H2001</b>	<b>1H2002</b>	<b>Change (%)</b>
Revenues	92,487	110,032	19.0
EBITDA	34,213	40,049	17.1
Operating profit	14,355	22,955	59.9
Profit after income tax	13,629	17,256	26.6
Net income	13,629	17,256	26.6

Revenues in the mobile segment increased by 19.0% in the first six months of 2002 compared to the same period in 2001 due to strong increases in the number of mobile customers. Westel's customer base surged 45.8% to 2,967,616 subscribers, including 2,151,096 prepaid customers by June 30, 2002. Average monthly usage per Westel subscriber decreased by 19.3% from 150 minutes in 1H2001 to 121 minutes in 1H2002. GSM mobile penetration reached 57.6% in Hungary and Westel accounts for 50.7% market share in the very competitive GSM market.



Operating profit shows a 59.9% increase. While revenues grew 19.0%, operating expenses increased at a lower rate, 11.4% year over year. The majority of the increase in operating expenses relates to increased payments to other network operators, agency fees, employee related expenses, marketing expenses, fees and levies and consultancy fees. These increases were partially offset by lower depreciation and amortization expense as well as lower cost of equipment sales.

### International segment

International segment includes the operations of MakTel, Stonebridge, Telemacedónia, and the goodwill amortization arising from the consolidation of MakTel.

HUF millions	1H2001	1H2002	Change (%)
Revenues	27,143	32,285	18.9
EBITDA	13,807	15,988	15.8
Operating profit	9,172	10,184	11.0
Profit after income tax	6,065	9,046	49.2
Minority interest	(4,068)	(5,786)	42.2
Net income	1,997	3,260	63.2

MakTel has been a consolidated company of Matáv beginning January 15, 2001.

Revenues from the international segment increased by 18.9% year over year to HUF 32,285 million.

MakTel's fixed line subscribers increased by 7.7%, reaching 573,926 at June 30, 2002. Mobile subscribers increased by a significant 111.1% to 291,213, and its Internet subscribers reached 26,944 by June 30, 2002 from 15,178 a year earlier.

Total operating expenses increased by 23.0% mainly because of increases in employee related expenses, depreciation and amortization, payments to other network operators and cost of telecommunications equipment sales.

Minority interest increased by 42.2% to HUF 5,786 bn in the first six months of 2002. It mainly represents the share of income accruing to the minority owners of MakTel and 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, 2001 were HUF 1,076.3 bn. Total assets and total shareholders' equity and liabilities amounted to HUF 1,090.0 bn as of June 30, 2002.

### **Loans and other borrowings**

The current portion of loans and other borrowings decreased by 40.7% from June 30, 2001 to HUF 45.9 bn at June 30, 2002. This decrease in current loans and other borrowings reflects repayment of Westel's short term borrowings, as they fell due during the last twelve months.

Non-current loans and other borrowing increased by 105.8% from June 30, 2001 to HUF 386.0 bn at June 30, 2002. This increase mainly reflects the loans received from Deutsche Telekom AG to finance the acquisition of the remaining 49 percent stake of Westels.

At June 30, 2002, 23.5% of the loan portfolio was HUF denominated, while 76.5% was foreign currency denominated. At the end of the second quarter of 2002, 88.5% of the loans bore floating interest rates. The gearing ratio defined as net debt divided by net debt plus equity plus minority interest was 43.4% at June 30, 2002.

To decrease the foreign exchange rate risk of the foreign exchange loan portfolio, Matáv swapped the EUR 301.5 million loan, which was taken to finance the acquisition of MakTel, to HUF as of February 4, 2002. The counterparty in the transaction is Deutsche Telekom. The cross currency swap agreement entitles Matáv to receive EUR interest and principal payments and pay HUF interest and principal payments. The EUR loan is subject to floating rate interest based on 6 month EURIBOR plus a margin of 30 basis points, while under the swap Matáv is obliged to pay an interest based on 6 month BUBOR plus a margin of 34 basis points. The HUF principal payment is fixed at a rate of one EUR to 244.36 HUF (HUF 73,675 million). The timing and the amount of the EUR payments to be received under the swap are matched with the underlying payment obligations on the EUR loan.

The EUR 920 million loan, which was taken to finance the remaining 49 percent of Westel, was partially swapped to HUF effective April 18, 2002. The counterparty in the transaction is Deutsche Telekom. The cross currency swap agreement entitles Matáv to receive EUR interest subject to 3 month EURIBOR plus a margin of 50 basis points and EUR 300 million principal amount, while Matáv has the obligation to pay HUF interest subject to 3 month BUBOR plus a margin of 57 basis points and HUF 72,685 million principal amount. The HUF principal payment is fixed at a rate of one EUR to 242.28 HUF. The timing of the EUR payments to be received under the swap are matched with the timing of the EUR payment obligations relating to the EUR loan.

Another EUR 50 million part of the EUR 920 million loan was swapped to HUF effective June 14, 2002. The counterparty in the transaction is Deutsche Telekom. The cross currency swap agreement entitles Matáv to receive EUR interest subject to 3 month EURIBOR plus a margin of 50 basis points and EUR 50 million principal amount, while Matáv has the obligation to pay HUF interest subject to 3 month BUBOR plus a margin of 57 basis points and HUF 12,075 million principal amount. The HUF principal payment is fixed at a rate of one EUR to 241.5 HUF. The timing of the EUR payments to be received under the swap are matched with the timing of the EUR payment obligations relating to the EUR loan.



To increase the fix part of the HUF loan portfolio, the existing loan agreement with a disbursed amount of EUR 301.5 million (swapped to HUF 73,675 million as of February 4, 2002), and with a variable interest rate was partly replaced with a new fixed interest HUF loan, concerning a principal amount of (the HUF equivalent of) EUR 50 million as of July 15, 2002. Meanwhile we decreased the EUR notional amount of EUR 301.5 million swap and EUR 301.5 million loan by EUR 50 million so as the outstanding amount under both to be EUR 251.5 million as from the effective date of July 15, 2002. The counterparty in the transaction is Deutsche Telekom. The new HUF loan amount shall be charged interest at a fixed rate of 9.92% per annum. This EUR 50 million part of the EUR 301.5 million loan has been converted into HUF 12,218 million, by using the fixed EUR/HUF exchange rate of one EUR to 244,36 HUF (which was applied in the EUR/HUF swap).

### **Minority interest**

Minority interest increased by 38.7% from June 30, 2001 to HUF 54.0 bn at June 30, 2002. This increase was mainly due to the improved result of MakTel.

### **Retained earnings**

Retained earnings decreased by 32.4% from June 30, 2001 to HUF 360.3 bn at June 30, 2002. This decrease was mainly due to the equity impacts of accounting applied to the acquisition of Westels as described earlier. According to the relevant rules, the restated numbers as of June 30, 2001 are presented as though the Westels had been 100% owned by Matáv at that date. As no real financing had to be used as of that date for the acquisition of the remaining 49% ownership, book value of the additional share of net assets (including goodwill and other intangibles) on acquisition was presented as an increase in retained earnings of HUF 252.4 bn. This remained part of the retained earnings until December 2001, when the acquisition was finalized and financed from a loan from Deutsche Telekom. At that date, it was transferred from retained earnings to loans and other borrowings in an amount of HUF 238.8 billion. This causes the significant drop in the amount of retained earnings. Dividends of HUF 11.4 bn paid also decreased retained earnings.