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### **MATÁV ANNOUNCES 2001 NINE MONTHS RESULTS**

BUDAPEST – November 13, 2001 - Matáv (NYSE: MTA.N and BSE: MTAV.BU), the leading Hungarian telecommunications service provider, today reported its financial results for the first nine months of 2001.

#### **Highlights:**

Revenues grew by 23.4% (23.6% in euro and 17.8% in dollar terms) to 403.8 billion forints (EUR 1,563.5 million or US\$ 1,400.3 million) compared to 327.3 billion forints in the first nine months of 2000.

- In the fixed line segment the main contributors to this growth were the 23.5% growth of subscription revenues and 19.7% growth of other charges due to increased sale of tariff packages and higher monthly fees, and 27.4% growth in revenues from leased line and data transmission services driven by strong increases in managed leased lines, ISDN channels, Internet and cable television customers.
- Mobile segment revenues grew by 24.3% driven by the 60.8% increase in Westel's subscriber base in the last twelve months. In the third quarter net additions amounted to 133,521 and ARPU slightly increased. EBITDA margin grew to 39.7% for the first nine months of the year.
- MakTel added 44.8 billion forints to Matáv's revenues. The key components of revenue growth in the third quarter were mobile and domestic fixed line revenues.

EBITDA increased by 14.3% (14.5% in euro terms), amounting to 174.4 billion forints (EUR 675.3 million or US\$ 604.8 million) versus 152.6 billion forints a year ago. EBITDA improvement was driven by EBITDA growth of the mobile segment and the contribution of MakTel. EBITDA margin was 43.2% for the nine month period compared to 46.6% a year ago.

Net income was 54.5 billion forints (EUR 210.9 million or US\$ 188.9 million), compared to 62.3 billion forints in the first nine months of 2000. The net income margin was 13.5% for the first nine months of 2001 compared to 19.0% a year ago.

Elek Straub, Chairman and CEO commented: "I am glad to report on the continuing healthy growth of our businesses which makes me confident that we will deliver on our promises and will reach our 22% plus revenue growth and 42% plus EBITDA margin target on group level for the full year."

### Fixed Line: Higher revenues from subscription fees, tariff packages and data

As a result of Matáv's fixed line marketing strategy to increase traffic through the selling of higher value services the number of ISDN channels grew significantly (by 69.4% in the last twelve months) reaching 13.9% of Matáv's total fixed line connections.

Revenues from subscription, connection and other charges increased by 17.7% driven by an increase in subscription charges effective from February 1, 2001, the 1.2% average line increase, the increased sale of tariff packages, partly offset by decrease in connection fee revenues.

Domestic traffic measured in minutes increased by 6.1% year over year, as Internet usage and fixed-to-mobile traffic increased. The growth in volume was offset by lower traffic charges and higher proportion of Internet calls.

Data revenue growth remained strong and amounted to 27.4% year over year driven by the growth of ISDN data, managed leased lines, Internet and cable TV revenues. Managed leased lines grew by 33.0% to 10,914, number of Internet customers has increased by 46.9% to 118,650, number of cable TV connections increased by over 25.3% to 291,844 year over year.

As a result of reducing headcount by 1,700 in the first nine months of the year, lines per employee increased to 306.5 by the end of the reporting period.

### Mobile: Continuing strong growth and margin improvement

Mobile segment revenues increased by a powerful 24.3% and reached 143.4 billion forints. The key driver was the strong 60.8% year over year growth in subscriber base at Westel which growth has somewhat slowed down in the third quarter resulting in higher profitability as acquisition costs decreased. EBITDA margin of the mobile segment increased to 39.7% for the first nine months of the year.

Westel retained its leading position in the market having 2,169,434 subscribers and 51.7% market share in the GSM market at the end of September. By the end of the quarter the proportion of prepaid customers grew to 63% of the total subscriber base compared to 45% a year ago.

Despite strong volume growth mainly in prepaid, MOU and ARPU remained stable throughout the nine month period reflecting the increased usage of existing customers which offset the dilution effect of the new subscribers. Enhanced service revenues increased by 90% and contributed 6.6% of total service revenues in the first nine months.

Monthly average minutes-of-use per subscriber was 149 and average revenue per unit was 7,031 forints in the first nine months of the year compared to 185 and 9,431 forints a year ago. Annualized churn rate was 14.1%.

As reported earlier, Matáv, currently the 51% owner of Westel and Westel 0660, sent a notification to Deutsche Telekom in September announcing its intention to exercise its option to acquire the remaining 49% stakes in these companies currently held by Deutsche Telekom. It is planned that the closing of the transaction will take place by the end of 2001.

### International segment contribution increased, margin improvement continued

The most dynamically growing revenue lines in the international segment were MakTel's mobile revenues as the subscriber base increased and its domestic fixed line revenues as a result of tariff rebalancing in the third quarter. EBITDA margin of the international segment was 53.3% for the first nine months. MakTel had 541,743 fixed line subscribers, 184,641 mobile customers and 18,527 Internet subscribers at the end of September.

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 mobile operator in Macedonia. Key shareholders of Matáv as of September 30, 2001 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, 2000 filed with the U.S. Securities and Exchange Commission.

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

<b>MATÁV Consolidated</b>	<b>Dec 31, 2000</b>	<b>Sep 30, 2000</b>	<b>Sep 30, 2001</b>	<b>Sep 30, 2000 - Sep 30, 2001 % change</b>
<b>Balance Sheets - IAS (HUF million)</b>	<b>(Audited)</b>	<b>(Unaudited)</b>	<b>(Unaudited)</b>	
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents	13 296	10 059	13 004	29,3%
Financial investments	6 045	6 992	473	(93,2%)
Receivables	71 951	72 989	86 160	18,0%
Inventories	10 587	10 376	10 373	(0,0%)
<b>Total current assets</b>	<b>101 879</b>	<b>100 416</b>	<b>110 010</b>	<b>9,6%</b>
<b>Property, plant and equipment</b>				
Property, plant and equipment	561 702	555 635	653 304	17,6%
Intangible assets	51 964	38 819	102 038	162,9%
Associates and other long term investments	14 062	14 390	11 703	(18,7%)
<b>Total fixed assets</b>	<b>627 728</b>	<b>608 844</b>	<b>767 045</b>	<b>26,0%</b>
<b>Other non current assets</b>	<b>15 902</b>	<b>6 212</b>	<b>21 049</b>	<b>238,8%</b>
<b>Total assets</b>	<b>745 509</b>	<b>715 472</b>	<b>898 104</b>	<b>25,5%</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>Current liabilities</b>				
Loans and other borrowings	78 725	23 180	59 170	155,3%
Trade and other payables	96 068	87 413	88 713	1,5%
Deferred revenue	3 690	3 938	3 438	(12,7%)
Provisions for liabilities and charges	11 624	2 481	6 066	144,5%
<b>Total current liabilities</b>	<b>190 107</b>	<b>117 012</b>	<b>157 387</b>	<b>34,5%</b>
<b>Non current liabilities</b>				
Loans and other borrowings	110 641	170 005	198 778	16,9%
Deferred revenue	9 949	10 858	7 816	(28,0%)
Provisions for liabilities and charges	30	899	0	n.a.
Deferred tax liability	0	0	2 968	n.a.
Other non current liabilities	7 067	220	6 980	3 072,7%
<b>Total non current liabilities</b>	<b>127 687</b>	<b>181 982</b>	<b>216 542</b>	<b>19,0%</b>
<b>Minority interests</b>	<b>40 731</b>	<b>35 848</b>	<b>94 039</b>	<b>162,3%</b>
<b>Shareholders' equity</b>				
Common stock	103 736	103 736	103 736	0,0%
Additional paid in capital	22 955	22 949	22 955	0,0%
Treasury stock	(127)	(18)	(163)	805,6%
Retained earnings	260 420	253 963	303 608	19,5%
<b>Total shareholders' equity</b>	<b>386 984</b>	<b>380 630</b>	<b>430 136</b>	<b>13,0%</b>
<b>Total liabilities and shareholders' equity</b>	<b>745 509</b>	<b>715 472</b>	<b>898 104</b>	<b>25,5%</b>

**MATÁV**  
**Consolidated**  
**Income Statements - IAS**  
**(HUF million)**

**9 months ended Sep 30,**  
**2000**                      **2001**  
**(Unaudited)**              **(Unaudited)**              **%**  
**change**

**Revenues**

Subscriptions, connections and other charges	61 252	71 988	17,5%
Domestic traffic revenue	97 260	92 628	(4,8%)
Other usage	14 311	13 079	(8,6%)
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Domestic telecommunications services	172 823	177 695	2,8%
International traffic revenues	31 440	26 650	(15,2%)
Mobile telecommunications services	79 056	102 001	29,0%
Revenues from international activities	0	44 726	n.a.
Leased lines and data transmission	19 217	24 521	27,6%
Other services	24 765	28 158	13,7%
<b>Total revenues</b>	<b>327 301</b>	<b>403 751</b>	<b>23,4%</b>
Employee related expenses	(41 208)	(54 563)	32,4%
Depreciation and amortization	(55 268)	(72 712)	31,6%
Payments to other network operators	(40 998)	(53 510)	30,5%
Cost of telecommunications equipment sales	(22 897)	(27 766)	21,3%
Other operating expenses	(69 634)	(93 529)	34,3%
	<hr/>		
<b>Total operating expenses</b>	<b>(230 005)</b>	<b>(302 080)</b>	<b>31,3%</b>
<b>Operating profit</b>	<b>97 296</b>	<b>101 671</b>	<b>4,5%</b>
Net interest and other charges	(16 985)	(12 409)	(26,9%)
Share of associates' results before income tax	1 456	1 291	(11,3%)
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<b>Profit before income tax</b>	<b>81 767</b>	<b>90 553</b>	<b>10,7%</b>
Income tax expense	(6 823)	(9 694)	42,1%
	<hr/>		
<b>Profit after income tax</b>	<b>74 944</b>	<b>80 859</b>	<b>7,9%</b>
Minority interest	(12 663)	(26 392)	108,4%
	<hr/>		
<b>Net income</b>	<b>62 281</b>	<b>54 467</b>	<b>(12,5%)</b>

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

**9 months ended Sep 30,**  
**2001**  
**(Unaudited)**

**Cash flow from operating activities**

Cash generated from operations	169 480
Interest paid	(14 797)
Commissions and bank charges	(1 791)
Net income tax paid	(8 340)

**Net cash from operating activities** **144 552**

**Cash flow from investing activities**

Capital expenditure on tangible and intangible assets	(98 262)
Purchase of investments	(97 969)
Cash acquired	6 314
Interest received	1 567
Dividends received	779
Net change in financial assets	6 271
Proceeds from disposal of fixed assets	6 576

**Net cash flow utilized in investing activities** **(174 724)**

**Cash flow from financing activities**

Dividends paid to shareholders and minority interest	(18 789)
Net proceeds from borrowings	48 698
Net cash used for treasury stock transactions	(36)
Other	239

**Net cash flow utilized in financing activities** **30 112**

**Translation differences on cash and cash equivalents** **(232)**

**Change in cash and cash equivalents** **(292)**

Cash and cash equivalents at beginning of year **13 296**

Cash and cash equivalents at end of year **13 004**

**Change in cash and cash equivalents** **(292)**

## Summary of key operating statistics

	30.szept.00	30.szept.01	Sep 00 - Sep 01 % change
<b>EBITDA margin</b>	46,6%	43,2%	(7,3%)
<b>Operating margin</b>	29,7%	25,2%	(15,2%)
<b>Net income margin</b>	19,0%	13,5%	(28,9%)
<b>ROA</b>	12,2%	8,8%	(27,9%)
<b>Net debt to total capital</b>	29,7%	31,8%	7,1%

<b>Number of closing lines</b>			
<b>Residential</b>	2 317 118	2 177 008	(6,0%)
<b>Business</b>	340 544	299 243	(12,1%)
<b>Payphone</b>	36 560	37 439	2,4%
<b>ISDN channels</b>	240 062	406 758	69,4%
<b>Total lines</b>	2 934 284	2 920 448	(0,5%)
<b>Digitalization of exchanges with ISDN</b>	82,2%	85,3%	3,8%
<b>Penetration</b>	39,1%	38,9%	(0,5%)

<b>Fixed line employees (closing full equivalent)</b>	11 320	9 527	(15,8%)
<b>Total no of employees (closing full equivalent)</b>	14 495	16 790	15,8%
<b>Lines per fixed line employees</b>	259	307	18,5%

<b>Traffic in minutes (thousands)</b>			
<b>Domestic</b>	7 120 102	7 552 271	6,1%
<b>International outgoing</b>	138 128	126 833	(8,2%)

<b>Westel 0660 RPCs (Revenue Producing Customers)</b>	82 778	52 324	(36,8%)
<b>Westel RPCs (Revenue Producing Customers)</b>	1 349 408	2 169 434	60,8%
<b>Total cellular RPCs</b>	1 432 186	2 221 758	55,1%
<b>Westel's MOU</b>	185	149	(19,5%)
<b>Westel's ARPU (Average Traffic Rev./RPC/Month)</b>	9 431	7 031	(25,4%)
<b>Westel's overall churn</b>	13,6%	14,1%	3,7%

<b>Managed leased lines (FLEX-Com connections)</b>	8 204	10 914	33,0%
<b>Internet subscribers</b>	80 777	118 650	46,9%
<b>Cable television customers</b>	232 924	291 844	25,3%

## **Analysis of the Financial Statements** **for the nine months ended September 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 nine 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 nine months ended September 30, 2001 amounted to HUF 71,988 million, compared to HUF 61,252 million for the same period in 2000 (a 17.5% increase). Growth resulted mainly from subscription fee increases. The average number of lines increased 1.2% to 2,944,491 in the first nine months of 2001 from 2,909,245 in the first nine 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 nine months of 2001 amounted to HUF 92,628 million, compared to HUF 97,260 million for the same period in 2000. The 6.1 percent 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 nine months of 2001 amounted to HUF 13,079 million, compared to HUF 14,311 million for the same period in 2000 (a 8.6% 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 26,650 million for the nine months ended September 30, 2001, compared to HUF 31,440 million for the same period in 2000 (a 15.2% 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 102,001 million for the first nine months of 2001, compared to HUF 79,056 million for the nine months ended September 30, 2000 (a 29.0% increase). The growth resulted from the increased number of subscribers, partly offset by lower tariffs. The average number of Westel customers increased by 74.5%, while the average number of Westel 0660 customers decreased by 30.5%. Within the Westel customers, the prepaid group shows a significant, 125.8% increase. Prepaid customers accounted for approximately 81.6% of gross additions in the first nine months of 2001 and represent 63.0% of total Westel customers at September 30, 2001.

Westel's ARPU (average revenue per user) decreased by 25.4%, from HUF 9,431 in the first nine months of 2000 to HUF 7,031 in the same period 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 90.5% growth year over year. Enhanced services now represent 6.6% of revenues from mobile telecommunications services. This revenue includes primarily SMS (short message service). Increases in mobile customer base were partly offset by decreased usage per subscriber and decreasing tariffs. Westel's usage measured in MOU (minutes of use) decreased from 185 minutes per customer per month in the first nine months of 2000 to 149 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 5.5%, 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 44,726 million for the nine months ended September 30, 2001.

Revenues from leased lines and data transmission amounted to HUF 24,521 million for the first nine months of 2001, compared to HUF 19,217 million for the same period in 2000 (a 27.6% 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 10,914 at September 30, 2001 compared to 8,204 at September 30, 2000. The number of ISDN channels almost doubled over the period, from 240,062 at September 30, 2000 to 406,758 at September 30, 2001. Residential customers now account for 20.2% of ISDN connections compared to 12.7% a year ago. The number of Internet connections grew by 46.9%, while the number of cable television customers increased by 25.3% year over year.

Revenues from other services amounted to HUF 28,158 million for the first nine months of 2001, compared to HUF 24,765 million for the same period in 2000 (a 13.7% 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 17.1% decrease as of September 30, 2001, compared to September 30, 2000.

## **Expenses**

Employee-related expenses for the nine months ended September 30, 2001 amounted to HUF 54,563 million, compared to HUF 41,208 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 15.8% increase in group headcount figures to 16,790 by September 30, 2001 compared to 14,495 as of September 30, 2000. While headcount reductions at Matáv continued, growth resulted mainly due to the acquisition of MakTel. MakTel had 3,714 employees at September 30, 2001. Therefore without the inclusion of MakTel, the group headcount figure would have decreased 9.8% by September 30, 2001 compared to September 30, 2000. MakTel accounted for HUF 4,471 million in employee-related expenses in the first nine months of 2001. 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, 307 at the end of September 2001, compared to 259 a year earlier.

Depreciation and amortization for the nine months ended September 30, 2001 amounted to HUF 72,712 million, compared to HUF 55,268 million for the same period in 2000 (an increase of 31.6%). The growth is a result of increased investment in fixed assets. MakTel accounted for HUF 5,935 million in depreciation expenses in the first nine months of 2001. 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 nine months ended September 30, 2001 amounted to HUF 53,510 million, compared to HUF 40,998 million for the same period in 2000 (an increase of 30.5%). The increase was mainly due to the increased penetration of mobile customers. MakTel's international outpayments accounted for HUF 3,750 million in payments to other network operators in the first nine months of 2001.

The cost of telecommunications equipment sales for the first nine months of 2001 was HUF 27,766 million, compared to HUF 22,897 million for the same period in 2000 (an increase of 21.3%). This is mainly due to the increased number of gross additions at Westel during the first nine months of 2001 compared to the first nine 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 1,988 million in cost of telecommunications equipment sales in the first nine months of 2001.

Other operating expenses for the first nine months of 2001 amounted to HUF 93,529 million, compared to HUF 69,634 million for the same period in 2000 (an increase of 34.3%). Other operating expenses include materials, maintenance, marketing, service fees, outsourcing expenses, energy and consultancy. MakTel accounted for HUF 10,511 million in other operating expenses in the first nine months of 2001.

### **Operating Profit**

Operating profit amounted to HUF 101,671 million for the nine months ended September 30, 2001, compared to HUF 97,296 million for the same period in 2000. Total revenues for the first nine months of 2001 increased 23.4% to HUF 403,751 million, compared to HUF 327,301 million for the first nine months of 2000. Total operating expenses increased 31.3% to HUF 302,080 million in the first nine months of 2001 from HUF 230,005 million for the same period in 2000. Operating margin for the nine months ended September 30, 2001 was 25.2%, while operating margin for the same period in 2000 was 29.7%.

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

Net interest and other charges were HUF 12,409 million for the first nine months of 2001, compared to HUF 16,985 million for the same period in 2000. Net interest and other charges show a decrease due to the 7 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 3.3 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 193,185 million at September 30, 2000, to HUF 257,948 million at September 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 1,653 million of net interest and other charges in the first nine months of 2001.

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

Share of associates' results amounted to HUF 1,291 million for the nine months ended September 30, 2001, compared to HUF 1,456 million for the same period in 2000, reflecting decreased financial results of HUNSAT.

### **Profit before taxation**

Profit before income tax amounted to HUF 90,553 million for the nine months ended September 30, 2001 versus HUF 81,767 million for the same period in 2000.

### **Income tax**

Income tax expense increased from HUF 6,823 million for the nine months ended September 30, 2000 to HUF 9,694 million for the same period of 2001, due to higher corporate tax expense of Westel, the inclusion of MakTel and higher deferred tax charges.

### **Minority Interest**

Minority interest for the first nine months of 2001 was HUF 26,392 million, compared to HUF 12,663 million for the same period in 2000 (an increase of 108.4%). This increase is due to the growth of Westel's profits as well as the inclusion of MakTel. MakTel accounted for HUF 8,310 million in minority interest in the first nine months of 2001.

### **Net Income**

Net income for the first nine months of 2001 was HUF 54,467 million, compared to HUF 62,281 million for the same period in 2000 (a decrease of 12.5%).

## 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.

	9 months ended Sep 30, 2000	9 months ended Sep 30, 2001	Change in percentage
Revenues	240,945	248,027	2.9%
EBITDA	108,542	93,648	(13.7%)
Operating profit	65,577	44,409	(32.3%)
Profit after income tax	49,170	31,154	(36.6%)
Minority interest	22	71	222.7%
Net income	49,192	31,225	(36.5%)

Revenues from the fixed line segment increased 2.9% year over year. The main contributors to this revenue growth were revenues from leased line and data transmission services, which increased by 27.4% in the first nine months of 2001 compared to the first nine months 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, 2.6% growth, which was driven by subscription fee increases, partly offset by decreases in local and long distance tariffs. International revenues declined by 14.9%, due to lower outgoing and incoming traffic as well as decreased international tariffs.

Operating profit of the fixed line segment decreased by 32.3% 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.

## Mobile segment

Mobile segment includes Westel and Westel 0660.

	9 months ended Sep 30, 2000	9 months ended Sep 30, 2001	Change in percentage
Revenues	115,409	143,440	24.3%
EBITDA	44,022	56,883	29.2%
Operating profit	31,719	40,683	28.3%
Profit after income tax	25,774	36,934	43.3%
Minority interest	(12,685)	(18,153)	43.1%
Net income	13,089	18,781	43.5%

Revenues in the mobile segment increased by 24.3% in the first nine 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 60.8% to 2,169,434 subscribers, including 1,366,206 prepaid customers by September 30, 2001. Average monthly usage per Westel subscriber decreased by 19.5%, from 185 minutes in the first nine months of 2000 to 149 minutes in the first nine months of 2001. GSM mobile penetration reached 41.1 percent in Hungary and Westel accounts for 52 percent market share in the very competitive GSM market.

Operating profit shows a 28.3% increase. While revenues grew 24.3%, operating expenses increased at a lower rate, 22.8% 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 31.7% increase in depreciation expense, the growth in operating profit is below the growth of EBITDA. Net income in the mobile segment increased by 43.5%, at a much faster rate than operating profit, due to a 76.3% decrease in net interest and other charges. This decrease in net interest and other charges was mainly due to the 2 billion HUF decrease in foreign exchange loss 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.

	9 months ended Sep 30, 2001
Revenues	44,773
EBITDA	23,852
Operating profit	16,579
Profit after income tax	12,771
Minority interest	(8,310)
Net income	4,461

MakTel has been a consolidated company of Matáv beginning January 15, 2001. MakTel had 541,743 fixed line subscribers, 184,641 mobile subscribers and 18,527 Internet subscribers at September 30, 2001.

About 43.5% of MakTel's revenue is derived from domestic telecommunications services, about 24.6% from international traffic and about 27.4% from mobile telecommunications services. The revenues from leased lines, data transmission and other services account for only 4.5% of total revenues.

The international segment has a strong, 53.3% EBITDA margin and 37.0% operating margin for the nine months ended September 30, 2001.

Minority interest of HUF 8,310 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 September 30, 2000 were HUF 715,472 million. Total assets and total shareholders' equity and liabilities amounted to HUF 898,104 million as of September 30, 2001. The increase is mainly attributable to the acquisition of MakTel.

### **Intangible assets**

Intangible assets increased 162.9% from September 30, 2000 to HUF 102,038 million at September 30, 2001. This increase was due to goodwill on acquisition of subsidiaries, mainly MakTel and Emitel, and the acquisition of the 1800 concession rights at Westel.

### **Loans and other borrowings**

The current portion of loans and other borrowings increased 155.3% from September 30, 2000 to HUF 59,170 at September 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 16.9% from September 30, 2000 to HUF 198,778 million at September 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 162.3% from September 30, 2000 to HUF 94,039 million at September 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 19.5% from September 30, 2000 to HUF 303,608 million at September 30, 2001. This increase was due to net income.