Magyar Telekom Plc.
Form 6-K
August 07, 2008

FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16
of the Securities Exchange Act of 1934

Report on Form 6-K dated August 7, 2008

Magyar Telekom Plc.

(Translation of registrant s name into English)

Budapest, 1013, Krisztina krt. 55, Hungary

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F x Form 40-F o

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes o No x

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-

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H1 2008 results: strong margin reflects efficiency improvements

Budapest August 7, 2008 Magyar Telekom (Reuters: NYSE: MTA.N, BSE: MTEL.BU and Bloomberg: NYSE: MTA US, BSE: MTELEKOM HB), the leading Hungarian telecommunications service provider, today reported its consolidated financial results for the first six months of 2008, in accordance with International Financial Reporting Standards (IFRS).

Highlights:

- Revenues grew by 2.2% to HUF 335.8 bn (EUR 1323.4 m) in H1 2008 over the same period in 2007. Growth in mobile and SI/IT revenues, helped by the reversal of provisions related to fixed to mobile traffic revenues in the amount of HUF 8.5bn, compensated for the lower fixed line revenues in Hungary.

- EBITDA was up by 12.1% to HUF 144.3 bn, with an EBITDA margin of 43.0%. Group EBITDA excluding investigation-related costs (HUF 3.4 bn in H1 2008 and HUF 1.9 bn in H1 2007) as well as severance payments and accruals (HUF 2.1 bn in H1 2008 and HUF 7.2 bn in H1 2007, including headcount reduction-related and a portion attributable to contractual termination expense of key managers) increased by 8.7% year-on-year. EBITDA margin without these special influences was 44.6%. The savings generated from the headcount reduction are reflected in the profitability, which was also helped by the reversal of provisions related to fixed to mobile traffic revenues in the amount of HUF 8.5 bn in the second quarter and by real estate sales in the first quarter of 2008.

- Profit attributable to equity holders of the company (net income) increased by 57.1%, from HUF 34.2 bn (EUR 136.4 m) to HUF 53.7 bn (EUR 211.5 m). Besides higher EBITDA, the increase was also due to lower net financial expenses driven by FX gains in the first half of 2008.

- Net cash generated from operating activities decreased from HUF 121.7 bn to HUF 102.6 bn. The higher EBITDA was offset by the increased working capital requirements, mainly driven by the use of provisions related to the headcount reduction program and the reversal of provisions related to fixed to mobile traffic revenues. Net cash used in investing activities increased from HUF 21.5 bn to HUF 43.3 bn due to higher gross additions to tangible and intangible assets (capex) and lower proceeds from other financial assets. Net cash used in financing activities decreased significantly, as Q1 2007 figures include the dividends paid to shareholders in January 2007 for 2005 financials and the related financing requirement.

- Additions to tangible and intangible assets increased from HUF 28.3 bn to HUF 38.6 bn. Of this, HUF 20.2 bn is related to the T-Com segment, HUF 16.5 bn to T-Mobile (within this, HUF 6.5 bn was spent on mobile broadband investment in Hungary), HUF 0.7 bn to T-Systems and HUF 1.2 bn to Group Headquarters and Shared Services.

- Net debt decreased from HUF 301.4 bn to HUF 289.5 bn by the end of June 2008, reflecting the strong cash flow generation. The net debt ratio (net debt to net debt plus total equity) was slightly down from 35.1% at the end of H1 2007 to 34.6% at end-June 2008.

Christopher Mattheisen, Chairman and CEO commented: *Our solid performance in the first half of 2008 shows the results of our strong commitment to increasing efficiency across the Group through a new management structure and reduced headcount. Following a 13.9% reduction in overall headcount against our 15% target for 2008, the headcount reduction program is already over 90% completed.*

While in Macedonia and Montenegro it is the voice market, which remains the main source of competition, in Hungary our competitors emphasis is more on TV and broadband service offerings. While at T-Mobile Hungary mobile broadband has become the key growth driver fuelling value added service revenue growth, in the fixed line segment growth in internet revenues slowed down significantly and fixed line churn increased further. In response to this industry dynamic, the T-Home rebranding starting this autumn will align our product portfolio with the integrated corporate structure, allowing us to leverage our full range of services. Our ultimate aim, through an increased focus on double and triple play services, is to reposition Magyar Telekom as a fully integrated service provider with improved service quality.

Q2 2008 results analysis

Group:

- Revenues grew by 3.5% to HUF 173.1 bn in the second quarter of 2008 over the same period in 2007. This was driven by the reversal of provisions related to fixed to mobile traffic revenues in the amount of HUF 8.5 bn accounted within domestic outgoing revenues. This reversal relates to a recent NRA resolution regarding fixed to mobile termination rates. Excluding this item, revenues were down by 1.6% as growth in mobile and internet revenues could not offset the decline in fixed voice revenues.

- EBITDA was up by 14.7% to HUF 75.4 bn and EBITDA margin reached 43.6% in Q2 2008. Lower severance expenses (HUF 2.1 bn in Q2 2008 and HUF 3.2 bn in Q2 2007) and the positive impact of the reversal of provisions related to fixed to mobile traffic revenues in the amount of HUF 8.5bn were partly offset by higher investigation-related costs (HUF 1.9 bn in Q2 2008 and HUF 1.0 bn in Q2 2007). Excluding these items, EBITDA was up by 1.2% and EBITDA margin was 43.0% thanks to the increased efficiency of the integrated organization.

T-Com

Revenues before elimination fell by 2.7% to HUF 75.0 bn in Q2 2008 compared to the same period last year, while EBITDA margin was 41.6%.

- T-Com Hungary reported a revenue decline of 1.5% to HUF 60.8 bn in Q2 2008. The decline was driven by decreasing voice revenues, with increasing competition primarily from mobile and cable operators causing a continuous reduction in traffic and average tariff levels. Internet revenues were also slightly down, reflecting the slowdown in ADSL customer growth and the decline in average broadband price levels. The total number of broadband connections was above 742,000 at end-June 2008, while the aforementioned competition resulted in an accelerated decline in the total number of fixed lines (down 8.0% at end-June 2008 compared to a year ago). On the other hand, the reversal of provisions related to fixed to mobile traffic revenues in the amount of HUF 3.2 bn had a positive impact both on revenues and EBITDA. Driven by this reversal and headcount reduction related severance expenses of HUF 2.7 bn accounted in Q2 2007, EBITDA was up by 23.0% to HUF 27.7 bn and EBITDA margin was 45.6%.

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- In Macedonia**,** revenues decreased by 1.8% to HUF 9.7 bn, as higher internet, data and equipment revenues could not offset the lower voice traffic revenues. Both retail and wholesale voice revenues were down due to increasing mobile substitution and competition from alternative operators. EBITDA was down by 58.9% to HUF 2.0 bn, driven by headcount-reduction related severance expenses created in the second quarter in the amount of HUF 1.7 bn. EBITDA margin excluding this provision was 37.7% in Q2 2008.

- Revenues of T-Com Crna Gora were down by 19.3% to HUF 4.5 bn in Q2 2008. The decline in retail and wholesale traffic revenues was mainly driven by mobile substitution and significantly lower transit traffic from the mobile competitor Promonte. The strong increase in internet and data revenues was a result of the rapidly increasing broadband market. The ADSL customer base almost tripled in the last year, while demand for IPTV services also drove broadband revenues. EBITDA was down by 25.0% to HUF 1.5 bn and EBITDA margin was 33.3% in Q2 2008.

T-Mobile

Revenues before elimination increased by 2.1% to HUF 86.7 bn in the second quarter this year compared to the same period in 2007; EBITDA margin was 46.5%.

- T-Mobile Hungary showed a revenue increase of 1.3% to HUF 69.9 bn in the second quarter, as the growth in the customer base and expansion of value added service revenues were mostly offset by a decline in wholesale voice revenues due to the cut in mobile termination rates in January 2008. T-Mobile Hungary maintained its market leader position with 44% at end-June 2008. Despite the continued rise in value added service revenues and usage, ARPU showed a 9.0% decrease year-on-year due to the declining tariff levels, the cut in mobile termination rates and the higher inactive ratio. Average acquisition cost per new customer decreased by 19.9% due to the higher ratio of prepaid sales in the second quarter. The population-based coverage of our HSDPA network reached 59% by the end of June. Thanks to decreasing asymmetry in the termination rates and lower handset subsidies, EBITDA was up by 7.3% to HUF 31.9 bn and EBITDA margin reached 45.6% in the second quarter of 2008.

- T-Mobile Macedonia reported revenue growth of 9.6% to HUF 11.3 bn thanks to the growing customer base and the national roaming agreement with the third mobile operator. The strong growth in the customer base and the improving customer mix were able to offset the 13.8% decline in ARPU, which resulted from the continuous tariff decreases after the entrance of the third mobile operator. Lower handset subsidies also helped EBITDA, which increased by 16.4% to HUF 6.7 bn and EBITDA margin was 59.1% in Q2 2008.

- Revenues of T-Mobile Crna Gora decreased by 4.6% to HUF 4.2 bn in Q2 2008. Due to the market entry of the third mobile operator in Montenegro, tariff levels and international traffic decreased significantly. ARPU was down by 14.7% in the first half of 2008, driven by new offers with lower tariff levels and bundled minutes. EBITDA decreased by 15.9% to HUF 1.3 bn and EBITDA margin was 31.7% in Q2 2008.

- Revenues of Pro-M, the TETRA service company, accounted HUF 1.9 bn in the second quarter of 2008. EBITDA was HUF 0.4 bn and the EBITDA margin reached 23.7% in the second quarter of 2008.

T-Systems

Revenues before elimination increased by 24.8% to HUF 23.6 bn driven by the reversal of provisions related to fixed to mobile traffic revenues in the amount of HUF 5.3 bn. Revenues excluding this one-off item were down by 3.5% due to strong mobile substitution driven by competitive mobile offers. SI/IT revenues were slightly up thanks to the higher number of projects realized in the second quarter. EBITDA more than doubled to HUF 9.5 bn thanks to the reversal of provisions and EBITDA margin was 40.3% in Q2 2008. EBITDA also included HUF 0.3 bn of severance expenses.

Group Headquarters and Shared services

Revenues before elimination were down by 7.1% to HUF 5.6 bn. EBITDA decreased by 11.1% to HUF -5.6 bn due to the higher investigation-related expenses this year (HUF 1.0 bn in Q2 2007 compared to HUF 1.9 bn in Q2 2008), partly offset by lower employee-related expenses thanks to the reduced headcount number.

As previously disclosed, in the course of conducting their audit of Magyar Telekom s 2005 financial statements, PricewaterhouseCoopers Könyvvizsgáló és Gazdasági Tanácsadó Kft. (PwC) identified two contracts the nature and business purposes of which were not readily apparent to them. In February 2006, the Company s Audit Committee retained White & Case, as its independent legal counsel, to conduct an internal investigation into whether the Company had made payments under those, or other contracts, potentially prohibited by U.S. laws or regulations, including the Foreign Corrupt Practices Act (FCPA), or internal Company policy. The Company s Audit Committee also informed the U.S. Department of Justice (DOJ) and the U.S. Securities and Exchange Commission (SEC), and the Hungarian Supervisory Financial Authority of the internal investigation.

PwC initially raised concerns regarding two consultancy contracts entered into in 2005 by our Montenegrin subsidiaries, Crnogorski Telekom and T-Mobile Crna Gora. The initial scope of the internal investigation involved review of these two contracts. Early in the investigation, two additional consultancy contracts entered into by Magyar Telekom in 2005, were also called into question by the investigating law firm. As a result, our Audit Committee expanded the scope of the internal investigation to cover these contracts and related activities.

In December 2006, the investigating law firm delivered an Initial Report of Investigation to the Audit Committee and the Board of Directors. As of the date of the Initial Report, the independent investigators were unable to find sufficient evidence to show that any of the four contracts subject of the internal investigation of the Company s Montenegrin operations resulted in the provision of services to the Company or to our subsidiaries under those contracts of a value commensurate with the payments the Company made under those contracts. As of the date of the Initial Report, the independent investigators were unable to determine definitively the purpose of those contracts, and it is possible that the contracts may have been entered into for an improper purpose, and in particular may have been in violation of the FCPA, other U.S. laws or regulations, and/or internal Company policy. The Audit Committee, through its counsel, has informed the DOJ and the SEC of these initial findings.

The independent investigators also identified several additional contracts entered into by our Macedonian subsidiary that warranted further review. In February 2007, the Company s Board of Directors and Audit Committee determined that those contracts and any related or similarly questionable contracts or payments, should be reviewed, and the Board and Audit Committee expanded the scope of the internal investigation to cover those matters. The internal investigation is continuing. In May 2008, the independent investigators provided us with a Status Report on the Macedonian Phase of the Independent Investigation. In the Status Report, White & Case stated, among other things, that there is affirmative evidence of illegitimacy in the formation and/or performance of six contracts for advisory, marketing, acquisition due-diligence and/or lobbying services in Macedonia, entered into between 2004 and 2006 between us and/or various of our affiliates on the one hand, and a Cyprus-based consulting company and/or its affiliates on the other hand, under which we and/or our affiliates paid a total of over EUR 6.7 million.

The Company and the internal investigating law firm are in regular contact with the Hungarian Financial Supervisory Authority, the Hungarian National Bureau of Investigation, the DOJ and the SEC, regarding the internal investigation. These U.S. and Hungarian authorities have opened their own investigations concerning at least the transactions which are the subject of the Company s internal investigation, to determine whether there have been violations of U.S. and Hungarian law (the Government investigations). During 2007, the DOJ and the SEC expanded the scope of their investigations to include inquiry into the actions taken by the Company in connection with the internal investigation and the Company s public disclosures regarding the internal investigation. The Company is committed to cooperating with these investigations by responding to requests for documents and information from these authorities to the fullest extent allowed under applicable law.

The Company cannot predict when the internal investigation or the Government investigations will be concluded, what the final outcome of those investigations may be, or the impact, if any, they may have on the Company s financial statements or results of operations. The Hungarian authorities, the DOJ or the SEC could seek criminal or civil sanctions, including monetary penalties, against Magyar Telekom, as well as additional changes to its business practices and compliance programs.

As a consequence of the internal investigation, the Company has suspended a number of employees, including senior officers of the Company and of certain subsidiaries, respectively, whose employment have since been terminated. The Crnogorski Telekom Board of Directors has also been replaced as a result of the internal investigation.

As a result of the investigations the Company and some of our subsidiaries may fail to meet certain deadlines prescribed by U.S., Hungarian and other applicable laws and regulations for preparing and filing audited annual results and holding annual general meetings. To date, the Company has been fined HUF 13 million as a consequence of previous delays related to the investigations. The Company is unable to estimate either the amount of any additional fines or the costs, in general, it could incur in relation to the investigation.

Magyar Telekom incurred HUF 3.4 bn expenses relating to the investigation in the first half of 2008, which are included in other operating expenses in the Group Headquarters and Shared services segment.

About Magyar Telekom

Magyar Telekom is the principal provider of telecom services in Hungary. Magyar Telekom provides a broad range of services including traditional fixed line and mobile telephony, data transmission, value-added, IT and system integration services. Magyar Telekom owns the majority of the shares of Makedonski Telekom, the leading fixed line operator and its subsidiary T-Mobile Macedonia, the leading mobile operator in Macedonia. Magyar Telekom has a majority stake in Crnogorski Telekom. This Group provides fixed, mobile and Internet services in Montenegro. Key shareholders of Magyar Telekom as of June 30, 2008 include MagyarCom Holding GmbH (59.21%), owned by Deutsche Telekom AG. The remaining 40.79% is publicly traded.

This investor news 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 should not have undue reliance placed upon 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, 2007 filed with the U.S. Securities and Exchange Commission.

For detailed information on Magyar Telekom s H1 2008 results please visit our website

(www.magyartelekom.hu/english/investorrelations/main.vm) or the website of the Budapest Stock Exchange (www.bse.hu).

MAGYAR TELEKOM

Consolidated

Balance Sheets - IFRS

(HUF million)

	Jun 30, 2007 (Unaudited)	Jun 30, 2008 (Unaudited)	% change
ASSETS			
Current assets			
Cash and cash equivalents	95,937	62,661	(34.7)%
Other financial assets	5,489	55,773	916.1%
Trade receivables	94,170	92,419	(1.9)%
Inventories	12,177	10,383	(14.7)%
Current recoverable income taxes	116	1,398	1,105.2%
Other assets	14,995	15,830	5.6%
Total current assets	222,884	238,464	7.0%
Non-current assets			
Intangible assets	328,617	329,371	0.2%
Property, plant and equipment	526,993	516,669	(2.0)%
Investments in associates	4,520	3,340	(26.1)%
Other financial assets	25,519	26,155	2.5%
Deferred tax assets	1,313	480	(63.4)%
Total non-current assets	886,962	876,015	(1.2)%
Total assets	1,109,846	1,114,479	0.4%
LIABILITIES AND EQUITY			
Current liabilities			
Loans from related parties	40,000	9,486	(76.3)%
Other financial liabilities	38,486	37,412	(2.8)%
Accrued interest	5,425	10,065	85.5%
Trade payables	68,360	71,918	5.2%
Other liabilities	42,411	41,575	(2.0)%
Provisions	9,751	13,936	42.9%
Income tax liabilities	2,346	3,006	28.1%
Total current liabilities	206,779	187,398	(9.4)%
Non-current liabilities			
Loans from related parties	254,432	320,532	26.0%
Other financial liabilities	69,899	40,486	(42.1)%
Other liabilities	6,776	3,361	(50.4)%
Provisions	10,349	5,888	(43.1)%

Deferred tax liabilities	**4,125**	**8,817**	**113.7%**
Total non-current liabilities	**345,581**	**379,084**	**9.7%**
Total liabilities	**552,360**	**566,482**	**2.6%**
EQUITY			
Issued capital	**104,277**	**104,275**	**(0.0)%**
Additional paid in capital	**27,380**	**27,379**	**(0.0)%**
Treasury shares	**(1,179)**	**(1,179)**	**0.0%**
Retained earnings	**358,700**	**361,662**	**0.8%**
Cumulative translation adjustment	**(4,701)**	**(11,080)**	**135.7%**
Shareholders equity	**484,477**	**481,057**	**(0.7)%**
Minority interests	**73,009**	**66,940**	**(8.3)%**
Total equity	**557,486**	**547,997**	**(1.7)%**
Total liabilities and equity	**1,109,846**	**1,114,479**	**0.4%**

MAGYAR TELEKOM

Consolidated

Income Statements - IFRS

(HUF million)

	6 months ended June 30, 2007 (Unaudited)	2008 (Unaudited)	% change
Revenues			
Subscriptions	45,774	43,673	(4.6)%
Domestic outgoing traffic	26,812	30,125	12.4%
International outgoing traffic	5,238	4,012	(23.4)%
Value added and other services	3,780	3,337	(11.7)%
Voice - retail revenues	81,604	81,147	(0.6)%
Domestic incoming traffic	4,621	3,697	(20.0)%
International incoming traffic	9,939	7,192	(27.6)%
Voice - wholesale revenues	14,560	10,889	(25.2)%
Internet	28,435	30,345	6.7%
Data	13,568	14,508	6.9%
Multimedia	9,133	9,451	3.5%
Equipment	2,229	2,999	34.5%
Other fixed line revenues	4,849	6,458	33.2%
Fixed line revenues	154,378	155,797	0.9%
Voice - retail	94,985	97,154	2.3%
Voice - wholesale	22,397	22,594	0.9%
Visitor	2,644	2,357	(10.9)%
Non-voice	21,221	24,096	13.5%
Equipment and activation	9,829	9,403	(4.3)%
Other mobile revenues	4,231	4,316	2.0%
Mobile revenues	155,307	159,920	3.0%
System Integration/Information Technology revenues	18,756	20,039	6.8%
Total revenues	328,441	335,756	2.2%
Voice-, data- and Internet-related payments	(40,659)	(38,557)	(5.2)%
Cost of equipment	(18,310)	(18,419)	0.6%
Payments to agents and other subcontractors	(24,028)	(22,444)	(6.6)%
Total expenses directly related to revenues	(82,997)	(79,420)	(4.3)%
Employee-related expenses	(53,503)	(48,531)	(9.3)%
Depreciation and amortization	(57,168)	(55,637)	(2.7)%
Other operating expenses-net	(63,195)	(63,467)	0.4%
Total operating expenses	(256,863)	(247,055)	(3.8)%
Operating profit	71,578	88,701	23.9%

Net financial expenses	**(14,833)**	**(12,461)**	**(16.0)%**
Share of associates profits	**521**	**545**	**4.6%**
Profit before income tax	**57,266**	**76,785**	**34.1%**
Income tax	**(16,831)**	**(16,885)**	**0.3%**
Profit for the period	**40,435**	**59,900**	**48.1%**
Attributable to:			
Equity holders of the Company (Net income)	**34,165**	**53,669**	**57.1%**
Minority interests	**6,270**	**6,231**	**(0.6)%**
	40,435	**59,900**	**48.1%**

MAGYAR TELEKOM

Consolidated

Cashflow Statements - IFRS

(HUF million)

	6 months ended June 30, 2007 (Unaudited)	6 months ended June 30, 2008 (Unaudited)	% change
Cashflows from operating activities			
Profit for the year	40,435	59,900	48.1%
Depreciation and amortization	57,168	55,637	(2.7)%
Income tax expense	16,831	16,885	0.3%
Net financial expenses	14,833	12,461	(16.0)%
Share of associates profits	(521)	(545)	4.6%
Change in working capital	11,505	(15,785)	n.m.
Tax paid	(3,472)	(9,012)	159.6%
Dividend received	72	121	68.1%
Interest paid	(16,782)	(13,754)	(18.0)%
Interest received	2,506	2,846	13.6%
Other cashflows from operations	(829)	(6,128)	639.2%
Net cash generated from operating activities	121,746	102,626	(15.7)%
Cashflows from investing activities			
Additions to tangible and intangible assets	(28,268)	(38,596)	36.5%
Change in payables relating to capital expenditures	(12,467)	(17,195)	37.9%
Purchase of subsidiaries and business units	(662)	0	(100.0)%
Cash acquired through business combinations	485	0	(100.0)%
Net proceeds from / (payments for) other financial assets	16,446	8,497	(48.3)%
Proceeds from disposal of subsidiaries	0	1,270	n.a.
Proceeds from disposal of property, plant and equipment (PPE) and intangible assets	2,917	2,690	(7.8)%