Magyar Telekom Telecommunications CO Ltd
Form 6-K
November 09, 2005

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 November 9, 2005

MAGYAR TELEKOM TELECOMMUNICATIONS CO. LTD.

(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 ý 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 ý

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

Magyar Telekom
first nine months results 2005

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Magyar Telekom first nine months results 2005: balanced segmental performance, consolidation impact of Telekom Montenegro

Budapest **November 9, 2005** 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 nine months of 2005, in accordance with International Financial Reporting Standards (IFRS). From the second quarter of 2005, the consolidated income statement includes the results of Telekom Montenegro Group (TCG), while the company s balance sheet has been consolidated in Magyar Telekom s accounts as of March 31, 2005.

Highlights:

Revenues grew by 2.2% to HUF 459.4 bn (EUR 1,861.3 m) in the first nine months of 2005 compared to the same period in 2004. The higher mobile and data transmission revenues were offset by a combined decline in revenues from outgoing domestic and international traffic. However, the consolidation of TCG s revenues since Q2 2005 had a positive effect of HUF 14.4 bn.

EBITDA increased by 4.7% to HUF 191.4 bn, with an EBITDA margin of 41.7%.

Gross additions to tangible and intangible assets were HUF 54.9 bn. The portion relating to the fixed line segment reached HUF 25.3 bn with mobile at HUF 29.6 bn. Within this, HUF 4.6 bn was spent on UMTS-related investments.

Following the change to IFRS rules, amortization of goodwill has been discontinued from January 1, 2005, and impairment testing is now carried out on an annual basis. In 2004, depreciation and amortization expenses of Magyar Telekom Group included HUF 13.9 bn of goodwill amortization. In addition, in Q1 2004, the Westel brand name impairment charge relating to the rebranding of Westel to T-Mobile Hungary amounted to HUF 4.4 bn. **As a result, in the first nine months of 2005, depreciation and amortization fell to HUF 84.7 bn from HUF 100.7 bn a year earlier.**

Fixed line segment: external revenues (after elimination of inter-segment revenues) fell by 3.1% to HUF 244.7 bn as increased data transmission (mainly ADSL) revenues only partially offset the decline, primarily in traffic revenues. EBITDA amounted to HUF 93.6 bn and the **EBITDA margin on external revenues was 38.2%**

Mobile segment: external revenues grew by 8.8% to HUF 214.7 bn driven by voice revenues and enhanced services revenues. EBITDA amounted to HUF 97.9 bn with the **EBITDA margin on external revenues reaching a strong 45.6%.**

Group operating profit grew 29.8% to HUF 106.7 bn, mainly driven by a decline in depreciation and amortization as well as a reduction in the cost of equipment sales and employee-related expenses. **Net income increased from HUF 41.1 bn (EUR 162.1 m) to HUF 65.0 bn (EUR 263.3 m).**

Net cash from operating activities was stable at HUF 144.6 bn due to the combined impact of the growth in EBITDA, an increase in working capital requirements (driven mainly by a change in trade receivables) and severance payments made in the first nine months of 2005. Net cash utilized in investing activities increased to HUF 98.6 bn, mainly driven by the acquisition of the majority stake in TCG. Net cash used in financing activities was HUF 44.9 bn, primarily due to increased borrowing as a result of the TCG transaction and the dividend payment, the majority of which was paid in June 2005.

Net debt grew by HUF 39.1 bn compared to the end of December 2004, driven by the impact of the dividend payment and the TCG transaction. The **net debt ratio** (net debt to net debt plus equity plus minority interests) increased to **35.8%** at the end of September this year (33.1% at the end of September 2004).

Elek Straub, Chairman and CEO commented: The improvement in our third quarter results of 2005 was supported by the contribution of Telekom Crne Gore, whose impressive EBITDA margin of over 45% clearly demonstrates the success of the acquisition. At the Hungarian fixed line business, a reduction in revenues, mainly attributable to a fall in traffic, did not deter the overall positive margin development due to a proportionately higher reduction in total operating expenses. In addition, the continuous increase in the line per employee ratio demonstrates the positive trend in productivity, in line with our strategic target. At T-Mobile Hungary, we were able to improve the profitability in the third quarter and maintain clear market leadership over the second largest competitor despite a small loss of market share. At our international fixed operations, third quarter results improvement reflect the consolidation impact of TCG this year and the severance provision created at MakTel last year. Overall, we have seen impressive profit contribution from our international mobile operations. Finally, in line with our medium-term strategy, the Board has made a proposal for the merger of Magyar Telekom and T-Mobile Hungary with the aim of capitalising on synergies between the two businesses.

Hungarian fixed line operations: ADSL program and headcount efficiency in line with targets

Revenues before elimination of turnover from other operations declined by 6.5% to HUF 213.4 bn with an EBITDA margin of 36.6% in the first nine months of 2005. Domestic and international traffic revenues combined declined by 24.9%, mainly due to traffic loss to fixed line competitors and mobile substitution, which resulted in lower volumes. The lower mobile termination rates and discounts provided in our packages contributed to the revenue decline. However, leased line and data revenues continued to grow, recording a 21.0% rise as the number of installed ADSL lines increased. The increased mobile substitution and number portability, both in the business and residential segments accelerated the decline in the total number of fixed lines (down 3.8% at end-September compared to the same period in 2004). The strong focus on improving efficiency is reflected in the lines per employee ratio, which reached 461 at parent company level. Customised tariff packages at the parent company represented 64% of the total number of lines, with over 1.7 million lines at the end of the third quarter of 2005. Magyar Telekom s Internet subsidiary, T-Online Hungary, reported HUF 19.6 bn in revenues in the first nine months of 2005 against HUF 14.1 bn in the same period of 2004.

International fixed line operations: despite a decline in revenue at MakTel, profitability was maintained; consolidation impact of Telekom Montenegro

Revenues before elimination of turnover from other operations grew by 19.2% to HUF 40.8 bn in the first nine months of 2005. EBITDA increased to HUF 15.5 bn with an EBITDA margin of 37.9%. MakTel s fixed line business revenues fell as mobile substitution caused a reduction in the revenue-generating customer base. The results were also affected by lower usage and an unfavourable foreign exchange movement. However, due to strict cost controls across the whole company, all expense lines improved, resulting in a strong EBITDA margin of 46.1%. Telekom Montenegro s fixed line operations brought HUF 9.4 bn in revenues since consolidation, whilst EBITDA was HUF 1.5 bn, including a severance expense of HUF 1.2 bn.

Hungarian mobile operations: clear market leadership maintained, strong financials

Revenues before elimination of turnover from other operations grew by 3.2% in the first nine months of 2005 as a result of higher enhanced service revenues and slightly higher traffic revenues. EBITDA was HUF 81.5 bn with an EBITDA margin of 40.4%. In the third quarter, T-Mobile Hungary s impressive profitability was driven by the focus on value-added services, usage growth and cost cutting initiatives as well as the HUF 1.1 bn reversal of the accrual created for payments into the Universal Telecommunication Support Fund following a favourable Court decision in September 2005. At the same time, receivables from the Fund shown in the Hungarian fixed line operations were written off in an amount of HUF 0.8 bn, which had an adverse impact on the Hungarian fixed line operations in the third quarter. Operating profit increased strongly, by 39.3% to HUF 56.1 bn, as the vast majority of the write-off relating to the Westel brand name was accounted for in the first quarter of 2004. Average acquisition cost per customer fell sharply, by 34.5%, reflecting lower subsidies in both prepaid and postpaid segments. When calculating subscriber acquisition cost, we include the connection margin (SIM card cost less the connection fee) and the sales-related equipment subsidy and agent fee. Though the introduction of new packages encouraged an increase in usage as well as growth in value added services, the discounts offered, combined with the impact of regulatory changes and the extensive use of the closed user group offers, resulted in a broadly stable ARPU (monthly average revenue per user). MOU (monthly average minutes of use per subscriber) grew to 124 in the first nine months of 2005 reflecting the improved price elasticity.

International mobile operations: impressive profit contributions from both Mobimak and Monet

Revenues before elimination of turnover from other operations grew strongly by 25.0% to HUF 31.3 bn in the first nine months of 2005. EBITDA was HUF 16.4 bn with an EBITDA margin of 52.4%. MakTel s mobile business reported slight revenue growth in a growing market characterised by strong tariff competition. In addition, the currency movements had a negative impact (-2.2%) on the results. EBITDA grew to HUF 13.5 bn and Mobimak produced an impressive EBITDA margin of 53.6%. The results of the international mobile operations also contained those of Monet, the mobile subsidiary of Telekom Montenegro, which posted revenues of HUF 6.2 bn and EBITDA of HUF 2.9 bn during the Q2-Q3 period (EBITDA margin: 47.4%). The mobile penetration, driven by the tourist season, stood at 99% at the end-Q3 2005 in Montenegro.

About Magyar Telekom

Magyar Telekom is the principal provider of telecom services in Hungary. Magyar Telekom provides a broad range of services including telephony, data transmission, value-added services, and through its subsidiary T-Mobile Hungary is Hungary s largest mobile telecom provider. Magyar Telekom also holds a 100% stake in Stonebridge Communications AD, which controls MakTel, the sole fixed line operator and its subsidiary Mobimak, the leading mobile operator in Macedonia. Magyar Telekom has a majority stake in Telekom Montenegro (TCG). TCG Group provides fixed, mobile and Internet services in Montenegro. Key shareholders of Magyar Telekom as of September 30, 2005 include MagyarCom Holding GmbH (59.21%), owned by Deutsche Telekom AG. The remainder, 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, 2004 filed with the U.S. Securities and Exchange Commission.

For detailed information on Magyar Telekom s first nine months of 2005 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)

	Sep 30, 2004 (Unaudited)	Sep 30, 2005 (Unaudited)	% change
ASSETS			
Current assets			
Cash and cash equivalents	**33 356**	**38 546**	**15.6%**
Other financial assets held for trading	**2 417**	**801**	**(66.9)%**
Trade and other receivables	**98 643**	**103 601**	**5.0%**
Inventories	**10 171**	**9 811**	**(3.5)%**
Assets held for disposal	**3 200**	**2 829**	**(11.6)%**
Total current assets	**147 787**	**155 588**	**5.3%**
Non current assets			
Property, plant and equipment - net	**582 311**	**574 308**	**(1.4)%**
Intangible assets - net	**277 316**	**311 942**	**12.5%**
Associates	**7 307**	**3 931**	**(46.2)%**
Deferred taxes	**4 542**	**15 546**	**242.3%**
Other non current assets	**6 473**	**7 737**	**19.5%**
Total non current assets	**877 949**	**913 464**	**4.0%**
Total assets	**1 025 736**	**1 069 052**	**4.2%**
LIABILITIES AND SHAREHOLDERS EQUITY			
Current liabilities			
Loans from related parties	**60 000**	**75 935**	**26.6%**
Loans and other borrowings - third party	**35 538**	**54 102**	**52.2%**
Trade and other payables	**99 632**	**113 706**	**14.1%**
Deferred revenue	**1 683**	**914**	**(45.7)%**
Provision for liabilities and charges	**8 070**	**6 806**	**(15.7)%**
Short term derivatives	**37**	**0**	**(100.0)%**
Total current liabilities	**204 960**	**251 463**	**22.7%**
Non current liabilities			
Loans from related parties	**177 675**	**212 000**	**19.3%**
Loans and other borrowings - third party	**52 724**	**19 565**	**(62.9)%**
Deferred revenue	**1 509**	**613**	**(59.4)%**
Deferred taxes	**2 993**	**3 189**	**6.5%**
Other non current liabilities	**47**	**158**	**236.2%**
Provisions for liabilities and charges	**0**	**3 175**	**n.a.**
Total non current liabilities	**234 948**	**238 700**	**1.6%**
Minority interests	**62 649**	**67 398**	**7.6%**
Shareholders equity			
Common stock	**104 281**	**104 281**	**0.0%**
Additional paid in capital	**27 382**	**27 382**	**0.0%**
Treasury stock	**(3 842)**	**(1 984)**	**(48.4)%**
Cumulative translation adjustment	**(2 868)**	**(1 970)**	**(31.3)%**
Retained earnings	**398 226**	**383 782**	**(3.6)%**
Total shareholders equity	**523 179**	**511 491**	**(2.2)%**

Total liabilities and shareholders equity	**1 025 736**	**1 069 052**	**4.2%**

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MAGYAR TELEKOM

Consolidated Income Statements - IFRS

(HUF million)

	9 months ended September 30, 2004 (Unaudited)	2005 (Unaudited)	% change
Revenues			
Subscriptions, connections and other charges	80 019	79 344	(0.8)%
Outgoing domestic traffic revenues	87 519	67 904	(22.4)%
Outgoing international traffic revenues	9 398	8 476	(9.8)%
Total outgoing traffic revenues	96 917	76 380	(21.2)%
Incoming domestic traffic revenues	4 402	6 924	57.3%
Incoming international traffic revenues	12 400	11 952	(3.6)%
Total incoming traffic revenues	16 802	18 876	12.3%
Leased lines and data transmission	37 418	46 822	25.1%
Equipment sales	2 207	2 336	5.8%
Other revenues	19 084	20 964	9.9%
Total fixed line revenues	252 447	244 722	(3.1)%
Network usage and access	154 173	169 124	9.7%
Enhanced services	23 286	28 049	20.5%
Equipment sales	17 951	15 777	(12.1)%
Activation fees	597	584	(2.2)%
Other revenues	1 271	1 148	(9.7)%
Total mobile revenues	197 278	214 682	8.8%
Total revenues	449 725	459 404	2.2%
Employee-related expenses	(71 056)	(67 416)	(5.1)%
Depreciation and amortization	(100 680)	(84 721)	(15.9)%
Payments to other network operators	(66 058)	(68 280)	3.4%
Cost of telecommunications equipment sales	(29 652)	(25 429)	(14.2)%
Other operating expenses - net	(100 075)	(106 843)	6.8%
Total operating expenses	(367 521)	(352 689)	(4.0)%
Operating profit	82 204	106 715	29.8%
Net financial expenses	(27 070)	(23 504)	(13.2)%
Share of associates results before income tax	2 064	18	(99.1)%
Profit before income tax	57 198	83 229	45.5%
Income tax	(9 903)	(9 812)	(0.9)%

Profit after income tax	**47 295**	**73 417**	**55.2%**
Minority interests	**(6 200)**	**(8 436)**	**36.1%**
Net income	**41 095**	**64 981**	**58.1%**

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MAGYAR TELEKOM

Consolidated Cashflow Statement - IFRS

(HUF million)

	9 months ended Sep 30, 2004 (Unaudited)	9 months ended Sep 30, 2005 (Unaudited)	% change
Cashflows from operating activities			
Operating profit	**82 204**	**106 715**	**29.8%**
Depreciation and amortization of fixed assets	**100 680**	**84 721**	**(15.9)%**
Change in working capital	**(1 262)**	**(8 065)**	**539.1%**
Amortization of deferred income	**(1 254)**	**(1 161)**	**(7.4)%**
Interest paid	**(27 401)**	**(24 278)**	**(11.4)%**
Bank and other finance charges paid	**(2 502)**	**(2 065)**	**(17.5)%**
Income tax paid	**(8 205)**	**(5 538)**	**(32.5)%**
Other cashflows from operations	**1 829**	**(5 715)**	**n.m.**
Net cashflows from operating activities	**144 089**	**144 614**	**0,4%**
Cashflows from investing activities			
Purchase of tangible and intangible assets	**(59 936)**	**(67 258)**	**12.2%**
Purchase of subsidiaries and business units	**(8 029)**	**(37 047)**	**361.4%**
Cash acquired through business combinations	**16**	**1 866**	**n.m.**
Interest received	**1 162**	**1 436**	**23.6%**
Dividends received	**1 000**	**1 729**	**72.9%**
Purchase of trading investments - net	**(2 019)**	**(38)**	**(98.1)%**
Proceeds from disposal of non current assets	**3 456**	**673**	**(80.5)%**
Net cashflows from investing activities	**(64 350)**	**(98 639)**	**53,3%**
Cashflows from financing activities			
Dividends paid to shareholders and minority interest	**(78 284)**	**(84 507)**	**7.9%**
Net proceeds of loans and other borrowings	**11 528**	**37 704**	**227.1%**
Purchase of treasury shares	**0**	**1 900**	**n.a.**
Net cashflows from financing activities	**(66 756)**	**(44 903)**	**(32,7)%**
Effect of foreign exchange rate changes on cash and cash equivalents	**(1 759)**	**595**	**n.m.**
Change in cash and cash equivalents	**11 224**	**1 667**	**(85,1)%**
Cash and cash equivalents, beginning of period	**22 132**	**36 879**	**66.6%**
Cash and cash equivalents, end of period	**33 356**	**38 546**	**15.6%**
Change in cash and cash equivalents	**11 224**	**1 667**	**(85.1)%**

Summary of key operating statistics

GROUP	Sep 30, 2004	Sep 30, 2005	% change
EBITDA margin	40.7%	41.7%	n.a.
Operating margin	18.3%	23.2%	n.a.
Net income margin	9.1%	14.1%	n.a.
ROA	5.3%	8.3%	n.a.
Net debt	290 164	322 255	11.1%
Net debt to total capital	33.1%	35.8%	n.a.
Number of employees (closing full equivalent) (1)			