Magyar Telekom Plc.
Form 6-K
November 09, 2006

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, 2006

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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First nine months 2006 results:
solid underlying segmental performance; accounting impact of EDR

Budapest **November 9, 2006** 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 2006, in accordance with International Financial Reporting Standards (IFRS). As of the second quarter of 2005, the consolidated income statement includes the results of Crnogorski Telekom (former Telekom Montenegro Group), while the company s balance sheet has been consolidated in Magyar Telekom s accounts as of March 31, 2005.

Highlights:

- **Revenues grew by 7.6% to HUF 494.5 bn (EUR 1,862.3 m) in the first nine months of 2006** compared with the same period last year. The higher mobile, internet, and system integration & IT-related revenues compensated for lower outgoing traffic revenues. In addition, the change of the initial accounting treatment of the EDR project (unified digital radio network) also boosted top line growth.

- **EBITDA** grew slightly by 0.6% to HUF 192.6 bn, with an **EBITDA margin** of 39.0%. Group EBITDA excluding investigation-related costs was HUF 195.8 bn with an EBITDA margin of 39.6%.

- Since a significant part of the **EDR investments** of the Hungarian mobile business now qualifies as sale of network elements under finance lease according to IFRIC 4, introduced in 2006, its initial **accounting treatment** has been **reassessed.** EDR investments made up to September 30, 2006 amounting to **HUF 9.8 bn** are now reported as sale and cost of network elements constructed for sale. In the income statement, **other mobile revenues** and **cost of telecom equipment sold** include this amount. Furthermore, as these investments are no longer considered fixed assets, there **is no depreciation and amortization of these assets.** HUF 0.2 bn interest income was also accounted for in the first nine months of 2006 on the EDR service and finance lease receivables from the State. These changes have been made in the third quarter 2006 retrospectively from the start of the EDR operations.

- **Gross additions to tangible and intangible assets** were HUF 57.9 bn. The portion relating to the fixed line segment reached HUF 29.9 bn with mobile at HUF 28.0 bn. Within the mobile segment, HUF 8.9 bn was spent on UMTS-related investments.

- **Fixed line segment:** external revenues (after elimination of inter-segment revenues) increased by 3.5% to HUF 253.4 bn. Increased internet broadband and system integration & IT-related revenues offset the decline in outgoing traffic revenues. EBITDA amounted to HUF 90.5 bn and the **EBITDA margin on external revenues was 35.7%.**

- **Mobile segment:** external revenues increased by 12.3% to HUF 241.2 bn, driven by voice revenues, enhanced services revenues and the change of the accounting treatment of the EDR project. EBITDA amounted to HUF 102.1 bn with the **EBITDA margin on external revenues reaching a strong 42.4%.**

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- Profit attributable to equity holders of the company **(net income) fell by 7.2%,** from **HUF 65.0 bn** (EUR 263.3 m) to **HUF 60.3 bn** (EUR 227.1 m). Despite the slight EBITDA growth, net income declined, primarily due to higher depreciation and amortization.

- **Net cash from operating activities grew to HUF 145.6 bn** due to the combined impact of broadly stable EBITDA and increased income tax paid, offset by a lower working capital requirement (mainly due to a decrease in receivables) and lower interest paid. Net cash utilized in investing activities remained stable and was HUF 98.3 bn, with the Montenegrin acquisition in Q1 2005 and the purchase of MakTel treasury shares and the acquisitions of KFKI and Dataplex in the current period. Net cash flows from financing activities reflect the absence of a dividend payment in the first nine months of 2006.

- **Net debt decreased by HUF 81.1 bn** compared to the end of September 2005, driven by the loan repayment during the period. The **net debt ratio** (net debt to net debt plus equity plus minority interests) fell to **26.4%** at end-September 2006 (35.8% at end-September 2005) since the company has not yet paid a dividend for 2005 earnings.

Elek Straub, Chairman and CEO commented: *I am pleased to announce that the Group has achieved a solid underlying financial and operational performance for the first nine months of this year. Both revenue growth and EBITDA in forint terms are comfortably in line with our targets for the full year 2006. In the Hungarian fixed line business, we saw top line growth as access, IT and internet related revenue increased, offsetting the continued erosion of traffic revenues. In the first nine months of 2006, the first impacts from the fixed-mobile integration in terms of sales and customer retention began to be seen. These were, however, offset by related costs. The EBITDA impact for Q1-3 2006 period is therefore not significant, and investment needs were financed within the full year budget. The next three years are expected to see a significant positive impact, with net present value of these benefits currently estimated to be around HUF 60 bn in the period of 2007-2009. Despite the positive contribution of the integration, there is no change to our EBITDA guidance for 2007 (growth in HUF terms over 2005 performance) because of the following reasons. In 2007, the cash savings from utilization of tax benefits will play an important role whilst EBITDA impact of the integration will accumulate gradually year after year. The Hungarian austerity package negatively affects our profitability through the increased tax payments and through the pressure on the telecommunication spending of households. Furthermore, the change of the accounting treatment of the EDR project results in lower EBITDA. As a result of this reassessment we are modifying our 2006-2007 revenue growth target from above 3% per annum to at least 3% compounded average growth rate over these two years. In the Hungarian mobile market, we maintained our clear market leadership over the second largest market player despite a small loss of market share. Finally, international operations in Macedonia and Montenegro showed excellent performance, providing a strong contribution to Group revenue and EBITDA.*

Hungarian fixed line operations: broadly stable underlying financial performance

Revenues before elimination grew to HUF 71.1 bn in Q3 2006, up 2.2% compared to the same period last year. EBITDA margin for the quarter was 32.1%. Excluding the HUF 1.3 bn cost of the investigation (accounted for within the Headquarter costs), EBITDA was HUF 24.2 bn, with EBITDA margin at 34.0%. The segment EBITDA in Q3 2005 was negatively influenced by a HUF 0.8 bn impairment of receivables relating to reimbursements from the Universal Telecommunications Support Fund. Domestic and international traffic revenues combined declined by 13.9%, mainly due to mobile substitution and traffic loss to fixed line competitors. Fixed-to-mobile minutes fell although local traffic and domestic long distance traffic both increased. Nevertheless, discounts and bundled minutes provided in our packages contributed to the revenue decline. At the same time, system integration & IT revenues grew from HUF 2.4 bn to HUF 4.0 bn. Internet revenues also increased as a result of a significant increase in the number of installed ADSL lines.

The total number of broadband connections (mainly ADSL and cable) exceeded 498,000 at end-September 2006. Strong mobile substitution and number portability resulted in a continuous decline in the total number of fixed lines (down 4.0% at end-September 2006 compared to a year ago). Customised tariff packages at the parent company represented nearly 82% of the total number of lines, with 1.9 million lines at the end of the third quarter of 2006.

International fixed line operations: strong results at both major subsidiaries

Revenues before elimination grew by 18.1% to HUF 19.3 bn in Q3 2006, reflecting the exchange rate impact and the strong contribution of T-Com Crna Gora in Montenegro. EBITDA increased to HUF 8.0 bn with an EBITDA margin of 41.6%. Despite lower traffic revenues, MakTel s fixed line revenues grew by 10.4%, reflecting a favourable foreign exchange movement (11.7%), and growing subscription, international wholesale and internet-related revenues. EBITDA increased by 14.9% to HUF 5.8 bn, supported by the strong focus on cost cutting initiatives. EBITDA margin was strong at 49.1%. T-Com Crna Gora contributed HUF 6.1 bn to Group revenues in the third quarter of 2006 (HUF 5.1 bn in Q3 2005). The growth was fuelled by favourable FX movements and higher interconnection and internet revenues. EBITDA contribution increased to HUF 2.3 bn (against HUF 1.8 bn in Q3 2005).

Hungarian mobile operations: clear market leadership maintained, EDR-related accounting change, stable ARPU, growing usage

Revenues before elimination grew by 18.5% to HUF 83.1 bn in Q3 2006 as a result of higher enhanced service revenues and increased traffic and access revenues. Strong growth in other revenues was driven by the change in accounting treatment of the EDR project. EBITDA was HUF 27.9 bn, down by 5.9% over Q3 2005. Other operating expenses grew; primarily driven by the one time costs of a key fixed-mobile merger project in the third quarter, namely the unification of the retail shop network. In addition, a major driver of the lower other operating expenses in Q3 2005 was 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. Average acquisition cost per customer continued to fall, reflecting reduced 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. Although the introduction of new packages generated higher usage and growth in value added services, the discounts and bundled free minutes offered, combined with the impact of regulatory changes and the extensive use of closed user group offers resulted in a stable ARPU (monthly average revenue per user). MOU (monthly average minutes of use per subscriber) grew to 146 in the third quarter of 2006, indicating strong price elasticity.

International mobile operations: strong top line growth and margins at both companies

Revenues before elimination grew by 24.2% to HUF 15.8 bn in Q3 2006, driven by the exchange rate effect and the strong performance of T-Mobile Crna Gora. EBITDA was HUF 9.2 bn with a high EBITDA margin of 58.1%. T-Mobile Macedonia reported 25.2% revenue growth in a still expanding, competitive market. EBITDA at T-Mobile Macedonia was HUF 6.6 bn with an EBITDA margin of 58.5%. T-Mobile Crna Gora also contributed to the very strong results, with revenues of HUF 4.6 bn (up 21.5%) and an EBITDA of HUF 2.6 bn in Q3 2006 (against HUF 1.9 bn in Q3 2005).

As previously disclosed, the Company is still investigating certain contracts to determine whether they were entered into in violation of Company policy or applicable law or regulation. This inquiry, which is being conducted by an independent law firm and supervised by the Audit Committee, is still ongoing and it is at this point still too early to determine its final outcome. As a result of the investigation, two additional contracts have been called into question. The total amount of the four contracts under investigation is around HUF 2 billion. Concerns have also arisen regarding destruction by certain employees of electronic documents obstructing the investigation. The Company

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expects the Board of Directors to consider what further action should be taken, including with respect to the conduct of members of management. The Company has also announced that due to the delay to the respective Annual General Meetings, the Company and some of its subsidiaries have failed and may fail to meet certain deadlines prescribed by the Hungarian and other applicable laws and regulations for preparing and filing audited annual results. The Company has notified the Hungarian Financial Supervisory Authority, the U.S. Securities and Exchange Commission and the U.S. Department of Justice of the investigation and is in contact with these authorities regarding the investigation. The Company is committed to complying fully with the requirements and requests of these and other authorities with jurisdiction over it. In its Resolution No J-III-B/86.332/2006, the Hungarian Financial Supervisory Authority ordered Magyar Telekom to prepare its annual report and to take all possible and necessary legal measures in order to comply with the statutory obligations. The Board of Directors has not yet approved the 2005 financial statements. No assurance can be given that, as a result of the investigation, the audited financial statements for 2005 and financial statements for any other period will not vary from those published prior to the completion of the investigation and the completion of the respective audits.

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 and value-added services. Magyar Telekom owns the majority of the shares of MakTel, the sole 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 September 30, 2006 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 Q1-3 2006 results please visit our website: (www.magyartelekom.hu/english/investorrelations/main.vm) or the website of the Budapest Stock Exchange (www.bse.hu).

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MAGYAR TELEKOM
Consolidated
Balance Sheets IFRS
(HUF million)

	Sep 30, 2005 (Unaudited)	Sep 30, 2006 (Unaudited)	% change	
ASSETS				
Current assets				
Cash and cash equivalents	38,546	70,487	82.9	%
Other financial assets held for trading	801	4,015	401.2	%
Trade and other receivables	101,794	102,881	1.1	%
Current income tax receivable	1,807	4,515	149.9	%
Inventories	9,811	11,113	13.3	%
Assets held for disposal	2,829	3,379	19.4	%
Total current assets	155,588	196,390	26.2	%
Non current assets				
Property, plant and equipment - net	574,308	561,093	(2.3	)%
Intangible assets - net	311,942	333,460	6.9	%
Associates	3,931	5,184	31.9	%
Deferred taxes	15,546	10,493	(32.5	)%
Other non current assets	7,737	14,547	88.0	%
Total non current assets	913,464	924,777	1.2	%
Total assets	1,069,052	1,121,167	4.9	%
LIABILITIES				
Current liabilities				
Loans from related parties	75,935	54,000	(28.9	)%
Loans and other borrowings - third party	54,102	34,054	(37.1	)%
Trade and other payables	113,306	112,876	(0.4	)%
Current income tax payable	400	1,466	266.5	%
Deferred revenue	914	412	(54.9	)%
Provisions for liabilities and charges	6,806	5,322	(21.8	)%
Short term derivatives	0	0	n.a.	
Total current liabilities	251,463	208,130	(17.2	)%
Non current liabilities				
Loans from related parties	212,000	205,432	(3.1	)%
Loans and other borrowings - third party	19,565	22,150	13.2	%
Deferred revenue	613	103	(83.2	)%
Deferred taxes	3,189	3,874	21.5	%
Provisions for liabilities and charges	3,175	2,554	(19.6	)%
Other non current liabilities	158	7,811	4,843.7	%
Total non current liabilities	238,700	241,924	1.4	%
Total liabilities	490,163	450,054	(8.2	)%
EQUITY				
Shareholders equity				
Common stock	104,281	104,277	(0.0	)%
Additional paid in capital	27,382	27,380	(0.0	)%
Treasury stock	(1,984)	(1,926)		