Magyar Telekom Plc.
Form 6-K
May 08, 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 May 8, 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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Q1 2008 results: strong performance with efficiency improvements showing visible benefits

Budapest **May 8, 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 three months of 2008, in accordance with International Financial Reporting Standards (IFRS).

Highlights:

- **Revenues grew by 0.9% to HUF 162.6 bn (EUR 627.2 m) in Q1 2008** over the same period in 2007. Growth in mobile and SI/IT revenues compensated for the lower fixed line revenues in Hungary.

- **EBITDA** was up by 9.4% to HUF 68.9 bn, with an **EBITDA margin** of 42.4%. Group EBITDA excluding investigation-related costs (HUF 1.5 bn in Q1 2008 and HUF 0.9 bn in Q1 2007) as well as severance payments and accruals (HUF 4.0 bn in Q1 2007 including headcount reduction-related and a portion attributable to contractual termination expense of key managers) increased by 3.9% quarter-on-quarter and EBITDA margin was 43.4%. The savings generated from the headcount reduction are already visible in the profitability, which was also helped by a HUF 2 bn increase in gains on real estate sales in Hungary and Macedonia (sale of Montmak).

- Profit attributable to equity holders of the company **(net income) increased by 39.5%,** from HUF 15.9 bn (EUR 63.0 m) to **HUF 22.2 bn** (EUR 85.5 m). Besides higher EBITDA, the increase was also driven by a decrease in deferred taxes in Q1 2008.

- **Net cash generated from operating activities decreased from HUF 57.3 bn to HUF 49.1 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. **Net cash used in investing activities** decreased from HUF 7.4 bn to HUF 6.1 bn, as higher gross additions to tangible and intangible assets (capex) was offset by higher proceeds from other financial assets and proceeds from real estate sales. **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 need.

- **Additions to tangible and intangible assets** were HUF 12.6 bn. Of this, HUF 6.1 bn related to the T-Com segment, HUF 6.1 bn to T-Mobile (within this, HUF 2.3 bn was spent on mobile broadband investment in Hungary), HUF 0.2 bn to T-Systems and HUF 0.2 bn to Group Headquarters and Shared Services.

- **Net debt decreased from HUF 274.5 bn to HUF 238.7 bn** by the end of Q1 2008, reflecting the strong cash flow generation while no major acquisitions were executed in the last 12 months. The **net debt ratio** (net debt to net debt plus total equity) was down accordingly from 31.0% at the end of Q1 2007 to **28.1%** at end-March 2008.

Christopher Mattheisen, Chairman and CEO commented: *I am happy to announce strong first quarter results for 2008, with an underlying EBITDA growth (EBITDA excluding investigation- and headcount-reduction related expenses) of 3.9% and an underlying EBITDA margin of 43.4%. Although the results were helped by real estate sales in Hungary and Macedonia, the benefits of the restructuring and the savings from the headcount reduction have clearly had a positive influence on our profitability. We are proceeding with the headcount reduction program according to plan: between 1st of July 2007 and the end of March 2008, the Group level headcount decreased by 11%, which is over 70% of the headcount reduction targeted for the end of this year.*

Regarding segment performance, the T-Com segment in Hungary is faced with a continuous decline in voice traffic and a slowdown in broadband growth, although in Macedonia and Montenegro, strong growth in internet revenues was able to offset the declining traffic revenues. Within the T-Mobile segment, growth is driven mainly from the international operations, although the entrance of a third operator put significant pressure on the Montenegrin margins. The T-Systems segment showed strong growth through the realization of several SI/IT contracts, with segment margins also improving.

T-Com

Revenues before elimination fell by 3.4% to HUF 72.7 bn in Q1 2008 compared to the same period last year, while EBITDA margin was 45.6%.

- **T-Com Hungary** reported a revenue decline of 5.2% to HUF 57.6 bn in Q1 2008. This 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 up by just 2.3% to HUF 12.9 bn, reflecting the slowdown in ADSL customer numbers and the decline in average broadband price levels. The total number of broadband connections was close to 735,000 at end-March 2008, while the aforementioned competition resulted in an accelerated decline in the total number of fixed lines (down 7.1% at end-March 2008 compared to a year ago). Thanks to the headcount reduction and cost discipline, EBITDA was up by 2.1% to HUF 25.4 bn and EBITDA margin was 44.1%.

- In **Macedonia,** revenues increased by 1.0% to HUF 10.3 bn, as higher internet, data and equipment revenues offset the lower voice traffic. Both retail and wholesale voice revenues were down due to increasing mobile substitution and competition from alternative operators. EBITDA increased by 18.2% to HUF 6.1 bn, driven mainly by the sale of Montmak (company owning a Montenegrin property) in February with a net profit of HUF 1.3 bn. EBITDA margin was 59.1% in Q1 2008.

- Revenues of **T-Com Crna Gora** increased by 9.3% to HUF 4.8 bn in Q1 2008. The decline in retail voice traffic was offset by a strong increase in internet, data and wholesale traffic revenues. Thanks to the rapidly increasing broadband market, the ADSL customer base almost tripled, while demand for IPTV services also drove broadband revenues. Wholesale revenue growth was driven by the reclassification of incoming Serbian calls from domestic to international since May 2007. EBITDA tripled due to provisions created last year for employees leaving the company and reached HUF 1.7 bn in the first quarter. EBITDA margin was 35.7% in Q1 2008.

T-Mobile

Revenues before elimination increased by 1.9% in the first quarter this year compared to the same period in 2007 to HUF 82.3 bn; EBITDA margin was 43.0%.

- **T-Mobile Hungary** showed a slight revenue increase of 0.2% to HUF 67.0 bn in the first 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 both in February 2007 and January 2008. T-Mobile Hungary maintained its market leader position as its market share based on the active customer base was unchanged at 45% at end-March 2008. Although the increase in value added service revenues and usage continues, ARPU showed an 8.0% decrease due to the declining tariff levels, the cut in mobile termination rates and the higher inactive ratio. Average acquisition cost per new customer increased by 10.2%, reflecting the higher subsidies for postpaid customers and 3G/HSDPA enabled devices. The population-based coverage of our HSDPA network reached 55%. EBITDA was up by 3.4% to HUF 28.9 bn as lower termination rates also decreased revenue-related payments, while decreasing asymmetry in the termination rates helped EBITDA margin to reach 43.1% in the first quarter.

- **T-Mobile Macedonia** reported revenue growth of 10.9% to HUF 10.3 bn in a growing market characterised by strong tariff competition. The strong, 28.3% growth in the customer base and the improving customer mix were able to offset the 14.0% decline in ARPU, which was a result of the continuous tariff decreases driven by the increased competition after the entrance of the third mobile operator. EBITDA increased by 6.4% to HUF 5.4 bn and EBITDA margin was 52.3% in Q1 2008.

- Mobile revenues of **T-Mobile Crna Gora** increased by 15.1% to HUF 3.7 bn in Q1 2008, driven by strong customer growth and increased mobile termination rates. As a result of the entrance of the third mobile operator, mobile termination rates were raised in May 2007 and handset subsidies increased. ARPU was down by 8.0% in the first quarter driven by new offers with lower tariff levels and bundled minutes. EBITDA decreased by 24.6% to HUF 0.7 bn and EBITDA margin was 18.3% in Q1 2008, influenced mainly by higher revenue-related payments and increased acquisition costs.

- Revenues of **Pro-M,** the TETRA service company, decreased by 7.5% to HUF 1.6 bn in the first quarter of 2008 compared to the same period of last year due to lower sale of network elements. EBITDA was down by 19.9% to HUF 0.5 bn, while EBITDA margin was 29.2% in the first quarter.

T-Systems

Revenues before elimination increased by 5.3% to HUF 18.9 bn thanks to strong growth in SI/IT revenues which compensated for the declining fixed line revenues. SI/IT revenues were driven by several major projects realized in the first quarter, mainly data network upgrades and data warehouse developments at leading Hungarian banks. EBITDA was up by 24.7% to HUF 5.2 bn and EBITDA margin was 27.4% in Q1 2008.

Group Headquarters and Shared services

Revenues before elimination were down by 7.8% to HUF 5.3 bn. EBITDA improved by 22.1% to HUF -4.8 bn due to the headcount reduction-related expenses accounted in Q1 2007 (HUF 1.1 bn) and the related cost savings in Q1 2008, partly offset by higher investigation-related expenses this year (HUF 0.9 bn in Q1 2007 compared to HUF 1.5 bn in Q1 2008). Gains on real estate sales led to a further, HUF 0.7 bn increase in EBITDA in the first quarter compared to the same period last year.

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.

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 1.5 bn expenses relating to the investigation in the first quarter 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 March 31, 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, 2006 filed with the U.S. Securities and Exchange Commission.

For detailed information on Magyar Telekom s Q1 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)	Mar 31, 2007 (Unaudited)	Mar 31, 2008 (Unaudited)	% change
ASSETS			
Current assets			
Cash and cash equivalents	83,352	79,088	(5.1)%
Other financial assets	8,680	41,812	381.7%
Trade receivables	87,414	94,325	7.9%
Inventories	10,332	10,882	5.3%
Current recoverable income taxes	7,622	3,430	(55.0)%
Other assets	26,786	16,133	(39.8)%
Total current assets	224,186	245,670	9.6%
Non-current assets			
Intangible assets	330,223	332,968	0.8%
Property, plant and equipment	534,857	526,433	(1.6)%
Investments in associates	4,122	4,948	20.0%
Other financial assets	25,553	25,362	(0.7)%
Deferred tax assets	3,430	708	(79.4)%
Total non-current assets	898,185	890,419	(0.9)%
Total assets	1,122,371	1,136,089	1.2%
LIABILITIES AND EQUITY			
Current liabilities			
Loans from related parties	54,000	29,486	(45.4)%
Other financial liabilities	41,191	32,554	(21.0)%
Accrued interest	6,232	8,402	34.8%
Trade payables	62,099	69,606	12.1%
Other liabilities	49,086	45,903	(6.5)%
Provisions	10,113	17,216	70.2%
Income tax liabilities	1,399	1,675	19.7%