Magyar Telekom Plc.
Form 6-K
August 06, 2009

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 6, 2009

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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Half-year financial report - First half 2009 results

Continued focus on cost cutting and customer retention, revised 2009 guidance

Budapest August 6, 2009 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 half of 2009, in accordance with International Financial Reporting Standards (IFRS).

Highlights:

- Revenues were down by 4.5% to HUF 320.5 bn (EUR 1,104.2 m) in the first six months of 2009 over the same period in 2008. The revenue decline mainly reflects the reversal of provisions related to fixed to mobile traffic revenues booked in the amount of HUF 8.5bn in the second quarter of 2008. Excluding the provision reversal, revenues were down by 2.1% driven by lower voice and fixed line internet revenues in Hungary. These declines were partly offset by the revenue growth at the international subsidiaries driven by the translation impact of the weakening forint , as well as by growth in mobile internet, SI/IT, data and TV revenues.

- EBITDA declined by 9.2% to HUF 131.1 bn, with an EBITDA margin of 40.9% in the first half of 2009. Underlying EBITDA, which is EBITDA excluding investigation-related costs (HUF 3.6 bn in H1 2009 against HUF 3.4 bn in H1 2008), as well as severance payments and accruals (HUF 1.0 bn in H1 2009 against HUF 2.1 bn in H1 2008) decreased by 9.5% to HUF 135.7 bn with an underlying EBITDA margin of 42.3%. Again, excluding the reversal of provisions in the amount of HUF 8.5 bn related to fixed to mobile traffic revenues booked in 2008, EBITDA was down by 4.0% in H1 2009 compared to the same period in 2008. EBITDA was helped by a one-time gain of HUF 1.4 bn realized on the IKO-Telekom Media Holding transaction closed in the second quarter this year.

- Profit attributable to equity holders of the company (net income) decreased by 16.8%, from HUF 53.7 bn (EUR 211.5 m) to HUF 44.7 bn (EUR 153.9 m). In addition to lower EBITDA, the decline was also due to higher net financial expenses partly offset by lower depreciation and amortization expenses as well as lower income tax in the first six months of 2009. Net financial expenses increased due to the higher interest rates on our loan portfolio, although the foreign exchange losses in the first quarter this year were offset by a similar amount of gain in the second quarter. Depreciation expenses decreased due to the extension of the useful life of a number of assets during 2008. Income taxes were down as a result of the new Macedonian tax regime, under which no current and deferred taxes can be accounted until the dividend has been paid out of net income.

- Net cash generated from operating activities decreased from HUF 102.6 bn to HUF 89.0 bn. The lower EBITDA, higher interest charges and increased working capital requirements were partly offset by the lower level of income tax paid.

- Investments in tangible and intangible assets (CAPEX) increased by HUF 10.5 bn to HUF 49.2 bn in H1 2009 mainly driven by the increase in satellite TV subscriptions and the fibre network rollout. Of the total CAPEX, HUF 15.0 bn is related to the Consumer Services Business Unit, HUF 1.6 bn to the Business Services Business Unit, HUF 0.7 bn to Group Headquarters, HUF 25.3 bn to the Technology

Business Unit, while in Macedonia and Montenegro the CAPEX spending was HUF 5.0 bn and HUF 1.4 bn, respectively.

- Net debt increased from HUF 289.5 bn to HUF 311.9 bn by the end of June 2009 compared to the end of June 2008 level. The net debt ratio (net debt to net debt plus total equity) was 35.4% at the end of June 2009.

Christopher Mattheisen, Chairman and CEO commented: *During the second quarter of this year we saw an increase of the impact of the worsening economic environment on all business units of Magyar Telekom. Customers rationalized their telecom spending through more conscious usage of our services which resulted in lower than expected minutes of use and increased churn levels. To offset these trends, we have launched several additional measures to reduce costs in all business areas by renegotiating supplier contracts and reducing operating costs and are increasingly focusing on our initiatives to improve customer retention and to increase revenues from new services.*

These strategic initiatives have already shown encouraging signs in the first half of this year with the number of TV subscriptions and xPlay customers growing well above expectations. Also the SI/IT revenues show a growing trend despite the slow-down in the IT industry. While these results underline that our strategy shows the right direction, it can not fully compensate for the significant deterioration in the economic environment.

For the second half of 2009 we expect competition to remain intense and the external environment will continue to be very challenging. The austerity package introduced by the government in July 2009 puts further pressure on households purchasing power in Hungary. Thus we expect further erosion of traditional voice revenues through lower usage and high churn levels. This will put significant pressure on our EBITDA, which our growing non-traditional businesses and several waves of cost cutting measures can only partially offset in the short term. Although exchange rates positively influenced EBITDA in the first quarter, the stronger than planned forint since May might limit the EBITDA contribution of our international subsidiaries in the second half of the year.

Based on the first half results and taking into account the unfavorable economic environment foreseen for the second half of the year, Magyar Telekom now expects a revenue decline of approximately 2% and an underlying EBITDA decline of up to 5% for the full year compared to a 2008 level which excludes the reversal of the provision related to fixed-to-mobile interconnection fees. Regarding our CAPEX plan, we decided to somewhat reduce our fiber investments this year to compensate for the increased sales of satellite TV equipments, which are exceeding our expectations. Thus our full year CAPEX guidance, which is a flat nominal amount compared to the 2008 level, remains unchanged (1).

Q2 2009 results analyis

Group

- Revenues declined by 6.9% in Q2 2009 compared to the same quarter in 2008. The decline was mostly driven by the reversal of provisions related to fixed to mobile traffic revenues booked in the amount of HUF 8.5bn last year. Excluding this amount, revenues were down by 2.1% quarter-on-quarter. The economic downturn and the tough competition, especially in the wireline segment, caused voice and fixed line internet revenues to decline, which the increasing TV, mobile broadband and SI/IT services could not offset.

- EBITDA was down by 11.8%, while excluding the special influences and the reversal of provisions, the decline was 2.4% in the second quarter of this year. The EBITDA decline was a direct result of the lower revenues and the increased costs related to the new services, partly counterbalanced by our cost cutting measures. EBITDA was also helped by a HUF 1.4 bn gain on the IKO-Telekom Media Holding transaction closed in the second quarter this year and accounted at the ABCD Business Unit.

Consumer Services Business Unit (CBU)

Revenues before intersegment elimination fell by 7.6% to HUF 80.6 bn and EBITDA declined by 14.2% to HUF 45.6 bn in Q2 2009 compared to the same period last year. Excluding the HUF 3.1 bn reversal of

(1) The comparable figures for 2008 are: HUF 664.5 bn revenues, HUF 273.7 bn EBITDA and HUF 103.6 bn CAPEX.

provisions related to fixed to mobile traffic revenues booked last year, revenues were down by 4.2%, EBITDA declined by 8.8% and EBITDA margin declined from 59.4% to 56.6% in the second quarter of 2009. The margin decline was mainly driven by the changing revenue mix, increased mobile acquisition costs and the fixed cost related to the satellite TV service. CAPEX increased significantly to HUF 7.1 bn in the second quarter due to the high number of satellite TV and IPTV sales.

- Fixed line revenues declined by 13.8% in Q2 2009. In addition to provision reversal, the decline was driven by decreasing voice revenues with increasing mobile substitution causing a continuous reduction in our customer base, traffic volume and average tariff levels. Internet revenues also decreased, reflecting the declining prices and the increasing migration towards more favourably priced packages, although the number of broadband customers increased, and ADSL sales in particular showed a new impetus. Demand for our TV products remained strong. The number of total TV customers was close to 546,000 by the end of June with growth mostly driven by the newly launched satellite TV service, while demand for IPTV also strengthened.

- Mobile revenues recorded a decline of 2.8% to HUF 47.5 bn in the second quarter, as both usage and tariff levels showed a negative trend, while year-on-year customer growth slowed significantly. Mobile penetration in Hungary and T-Mobile s customer base decreased further compared to the end-2008 level, mainly due to the increased churn of inactive customers and the cancellation of double and triple SIM cards. However, T-Mobile was able to increase its market share to 44.2% of total SIM cards by end-June 2009. Despite the continued rise in non-voice service revenues, ARPU showed a 5.9% decrease year-on-year due to the declining tariff levels and regulatory impacts. Wholesale voice revenues declined further due to the annual cut in mobile termination rates effective from January 2009, while equipment sales revenues stabilized in the second quarter driven by the increased handset subsidies.

Business Services Business Unit (BBU)

Revenues before intersegment elimination were down by 11.3% to HUF 41.6 bn while EBITDA decreased by 26.8% to HUF 19.8 bn in Q2 2009. Excluding the HUF 5.4 bn reversal of provisions related to fixed to mobile traffic revenues booked last year, revenues were flat, EBITDA declined by 8.6% and the EBITDA margin declined from 52.0% to 47.4% in the second quarter of 2009. The decline in the EBITDA margin was driven by the change in revenue mix with an increasing portion of revenues coming from the lower margin SI/IT services while higher-margin traditional revenues continue to decline.

- Fixed line revenues were down by 34.0% mainly as a result of the reversal of provisions last year. In addition, mobile substitution and the economic recession put pressure on voice revenues. Headcount reduction, rationalization and cost cutting initiatives at our key corporate clients had a direct impact on their telecommunications spending.

- Mobile revenues decreased by 6.0%. The above-mentioned recessionary impacts had a similar impact on the mobile spending of our corporate clients, thus churn and decline of average tariff levels remained high in the second quarter of this year. Although non-voice revenues are rapidly increasing (23.0% of corporate client ARPU) thanks to the increasing usage of mobile broadband, ARPU was still down by 17.4% in the first six months of this year compared to the same period last year.

- SI/IT revenues were up by 20.5% in the second quarter of 2009 driven by higher infrastructure revenues at KFKI.

Macedonia

In Macedonia, revenues were up by 12.5% thanks to the weakening of the Hungarian forint against the Macedonian Denar (the forint weakened on average by 15.6% to the Denar in the second quarter). EBITDA increased by 42.9% mainly driven by the HUF 1.7 bn headcount-reduction related severance expenses created in the second quarter of 2008 and the favourable foreign exchange impact. In local currencies, revenues were down by 2.7%, and EBITDA, also excluding the severance expenses, was up by 3.6%. EBITDA margin in the second quarter of 2009 was 57.7%.

- Fixed line revenues declined by 11.3% in local currency, driven by increasing competition from alternative and mobile operators. The intense competitive pressure coupled with the unfavorable economic environment resulted in an increased annual churn rate and further decline in outgoing traffic.

Growth in internet and IPTV customers partly offset the voice revenue decline, while the introduction of double and triple play packages should help minimise churn going forward.

- Mobile revenues were up by 3.7% in local currencies thanks to strong growth in the customer base and the improving customer mix. These were able to offset the strong decline in ARPU, which resulted from continuous tariff decreases following the entrance of the third mobile operator in 2007. Non-voice revenues are also strongly increasing, which will gain further impetus with the launch of 3G services in June this year.

Montenegro

Revenues of the Montenegrin subsidiary were up by 8.7% in the second quarter with EBITDA up by 2.7%. However, excluding the strong FX impact (the forint weakened by 15.8% to the euro on average in the second quarter of 2009 against the same quarter in 2008), revenues declined by 6.1% and EBITDA was down by 11.4%. EBITDA margin decreased from 35.8% in the second quarter of last year to 33.8% in Q2 2009 mainly driven by higher wages since June 2008 and increased handset subsidies.

- Fixed line revenues declined by 2.5% in local currency terms in Q2 2009 due to lower voice retail and wholesale revenues, partly offset by increasing internet and TV revenues. The decrease in voice retail revenues was driven by the high mobile substitution, which accelerated following the entrance of the third mobile operator into the Montenegrin mobile market. The decline in wholesale traffic revenues was mainly driven by significantly lower transit traffic from a mobile competitor since it rerouted its Serbian traffic in April 2008 to its own network. Internet revenues, however, showed a steep increase thanks to the growing number of ADSL and IPTV customers.

- Mobile revenues were down by 9.9% in local currency terms in Q2 2009. The strong growth in the customer base could not offset the decline in tariff levels and usage driven by the market entry of the third mobile operator in 2007. In addition, the economic downturn had a negative impact on tourism, putting strong pressure on visitor revenues.

Technology Business Unit (TBU)

Revenues were broadly flat at HUF 2.7 bn and EBITDA increased by 6.3% to HUF -11.3 bn. Technology Business Unit is a cost centre responsible for the operations and development of the mobile and fixed network as well as IT management. Network and IT related investments are also generated by TBU. CAPEX increased by 5.3% to HUF 16.6 bn in Q2 2009, mainly driven by the rollout of the fibre optic network and upgrade of the cable network.

Group Headquarters

Revenues before intersegment elimination were down by 12.3% to HUF 33.3 bn. The revenue decline is mainly driven by lower wholesale revenues, especially within mobile revenues, reflecting the 15% cut in mobile termination rates since the beginning of this year. EBITDA increased to HUF -4.2 bn driven by savings in the employee-related expenses. Investigation-related expenses were flat this quarter (HUF 1.9 bn both in Q2 2009 and in Q2 2008).

As previously disclosed, in the course of conducting their audit of Magyar Telekom s 2005 financial statements, 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 (the independent investigators), 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 FCPA or internal Company policy. The Company s Audit Committee also informed the DOJ and the SEC and the HSFA of the internal investigation.

Based on the documentation and other evidence obtained by it, White & Case preliminarily concluded that there was reason to believe four consulting contracts entered into in 2005 were entered into to serve improper objectives, and further found that during 2006 certain employees had destroyed evidence that was relevant to the investigation. White & Case also identified several contracts at our Macedonian subsidiary that could warrant further review. In February 2007, our Board of Directors determined that those contracts should be reviewed and expanded the scope of the internal investigation to cover these additional contracts and any related or similarly questionable contracts or payments. 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 internal investigation is continuing into these and other contracts and certain related issues identified by the independent investigators.

In 2007, the Supreme State Prosecutor of the Republic of Montenegro informed the Board of Directors of Crnogorski Telekom, our Montenegrin subsidiary, of her conclusion that the contracts subject to the internal investigation in Montenegro included no elements of any type of criminal act for which prosecution would be initiated in Montenegro.

Hungarian authorities also commenced their own investigations into the Company s activities in Montenegro. The Hungarian National Bureau of Investigation (NBI) has informed us that it closed its investigation of the Montenegrin contracts as of May 20, 2008 without identifying any criminal activity.

On March 28, 2009, the NBI informed the Company that, based on a report received by it, it had begun a criminal investigation into alleged misappropriation of funds relating to payments made in connection with the Company s ongoing internal investigation into certain contracts entered into by members of the Magyar Telekom group and related matters. The NBI has requested from the Company materials and information relating to such payments. The Company is cooperating with the ongoing NBI investigation.

United States authorities commenced their own investigations concerning the transactions which are the subject of our internal investigation, to determine whether there have been violations of U.S. law. The Ministry of Interior of the Republic of Macedonia has also issued requests to our Macedonian subsidiaries, requesting information and documents concerning certain of our subsidiaries procurement and dividend payment activities in that country (together with U.S. investigations, and the ongoing NBI investigation, the Government investigations). During 2007, the U.S. authorities expanded the scope of their investigations to include an inquiry into our actions taken in connection with the internal investigation and our public disclosures regarding the internal investigation.

By letter dated February 27, 2009 addressed to counsel to the Audit Committee, the DOJ requested that the Audit Committee pursue all reasonable avenues of investigation prior to completing and issuing a final report of the internal investigation, including investigation into matters recently identified to counsel for the Audit Committee by the DOJ. The DOJ recognized that a delay in the completion of the report may result from investigation into these matters. The DOJ also requested that the Audit Committee refrain from disseminating any such final report until further notice from the DOJ because of the DOJ s concern that such dissemination could interfere with the DOJ s investigation. The Company, its Board of Directors, and its Audit Committee continue to support the internal investigation and the continuing cooperation with and assistance to the Governmental investigations, as being in the best interests of the Company and its shareholders. In its February 27 letter, the DOJ stated that the internal investigation has been of assistance to the DOJ and that such assistance will be taken into account in determining the appropriate disposition of this matter by the DOJ, if any.

According to an extract of a press conference published on the official web site of the Macedonian Ministry of Interior on December 10, 2008, the Organized Crime Department of the Ministry submitted files to the Basic Public Prosecution Office of Organized Crime and Corruption in Macedonia, with a proposal to bring criminal charges against four individuals, including three former Magyar Telekom Group employees. According to that public information, these individuals are alleged to have committed an act of abuse of office and authorizations in their position in Makedonski Telekom by concluding five consultancy contracts with Chaptex Holdings Ltd in the period 2005-2006 for which there was allegedly no intention nor need for any services in return.

We cannot predict when the internal investigation or the ongoing Government investigations will be concluded, what the final outcome of those investigations may be, or the impact, if any, they may have on our financial statements or results of operations. We cannot predict what impact, if any, these investigations will have on each other. Government authorities could seek criminal or civil sanctions, including monetary penalties, against us or our affiliates, as well as additional changes to our business practices and compliance programs.

Magyar Telekom incurred HUF 1.9 bn expenses relating to the investigation in the second quarter of 2009, which are included in other operating expenses of Group Headquarters.

About Magyar Telekom

Magyar Telekom is the principal provider of telecom services in Hungary. Magyar Telekom provides a full range of telecommunications and ICT services including traditional fixed line and mobile telephony, data transmission, non-voice, SI/IT services. Magyar Telekom is the majority owner of Makedonski Telekom, the leading fixed line operator and its subsidiary T-Mobile Macedonia, the leading mobile operator in Macedonia. Magyar Telekom also 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, 2009 include MagyarCom Holding GmbH (59.21%), owned by Deutsche Telekom AG. Treasury shares amount to 0.14% of issued capital, while the remaining 40.65% 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, 2008 filed with the U.S. Securities and Exchange Commission.

For detailed information on Magyar Telekom s Q2 2009 results please visit our website

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

MAGYAR TELEKOM

Consolidated Balance Sheets - IFRS

(HUF million)

	Dec 31, 2008 (Audited)	Jun 30, 2009 (Unaudited)	% change
ASSETS			
Current assets			
Cash and cash equivalents	**66,680**	**51,684**	**(22.5)%**
Trade and other receivables	**101,895**	**108,541**	**6.5%**
Other current financial assets	**68,498**	**71,585**	**4.5%**
Current income tax receivable	**2,676**	**2,278**	**(14.9)%**
Inventories	**13,291**	**11,785**	**(11.3)%**
Non current assests held for sale	**1,775**	**2,762**	**55.6%**
Total current assets	**254,815**	**248,635**	**(2.4)%**
Non current assets			
Property, plant and equipment - net	**543,689**	**548,866**	**1.0%**
Intangible assets - net	**337,692**	**336,694**	**(0.3)%**
Investments in associates and joint ventures	**4,136**	**154**	**(96.3)%**
Deferred tax assets	**1,590**	**1,480**	**(6.9)%**
Other non current financial assets	**26,094**	**26,790**	**2.7%**
Other non current assets	**840**	**849**	**1.1%**
Total non current assets	**914,041**	**914,833**	**0.1%**
Total assets	**1,168,856**	**1,163,468**	**(0.5)%**
LIABILITIES			
Current liabilities			