

Magyar Telekom Plc.
Form 6-K
February 13, 2007

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 February 13, 2007

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 ☒ Form 40-F ☐

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 ☐ No ☒

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

Magyar Telekom

Contacts:

Szabolcs Czenthe, Magyar Telekom IR
+36-1-458-0437
Krisztina Förhécz, Magyar Telekom IR
+36-1-457-6029
Rita Walfisch, Magyar Telekom IR
+36-1-457-6036
investor.relations@telekom.hu

2006 full year results: solid performance, public targets met

Budapest **February 13, 2007** 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 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 (formerly known as Telekom Montenegro Group), while the company's balance sheet has been consolidated in Magyar Telekom's accounts since March 31, 2005. As of September 15, 2006, the financial statements include the results of KFKI (Hungarian IT & system integration company).

Highlights:

- **Revenues grew by 9.1% to HUF 671.2 bn (EUR 2,539.8 m) in 2006** compared to 2005. The higher mobile, internet, and system integration & IT-related revenues compensated for lower outgoing fixed-line traffic revenues. The EDR (unified digital radio network) revenues of Pro-M and the consolidation impact of the acquired companies also boosted top line growth during the period under review.
- **EBITDA** grew slightly by 0.9% to HUF 258.6 bn, with an **EBITDA margin** of 38.5%. Group EBITDA excluding investigation-related costs (HUF 4.1 bn) was HUF 262.7 bn with an EBITDA margin of 39.1%.
- Since the majority of the **EDR investments** of the Hungarian mobile business is accounted for as sale of network elements under finance lease, EDR investments of **HUF 18.0 bn** were reported as sale and cost of network elements constructed for sale in 2006. In the income statement, **other mobile revenues and cost of telecom equipment sold include this amount**. In addition, HUF 2.2bn of service revenues and HUF 0.5 bn interest income related to the EDR service were accounted for in 2006.
- Magyar Telekom has reassessed the accounting of **value added services** and changed to a net disclosure in case of certain mediated services. This had a negative impact on Hungarian fixed and mobile value added and other service revenues, as well as on other operating expenses and payments to other network operators. The total **reduction in revenues and expenses was HUF 5.6 bn and HUF 6.1 bn in 2005 and 2006**, respectively, while the change had no impact on EBITDA.
- Magyar Telekom has voluntarily changed its accounting policy with regard to the classification of the **local business tax** considering the decision of the European Court of October 3, 2006 in the case of the Italian local tax, as well as in light of the IFRIC rejection wording issued in March 2006. Accordingly, this **tax charge has been reclassified to the income tax line of the profit and loss statement instead of other operating expenses**. This results in lower other operating expenses and higher income tax compared to previous reports. There is no impact on net income. Local tax amounted to HUF 8.4 bn in 2005 and HUF 8.5 bn in 2006.

- **Gross additions to tangible and intangible assets** were HUF 90.9 bn. The portion relating to the fixed line segment reached HUF 49.7 bn with mobile at HUF 41.2 bn. Within the mobile segment, HUF 9.4 bn was spent on UMTS-related investments.

- **Fixed line segment:** external revenues (after elimination of inter-segment revenues) increased by 4.5% to HUF 343.9 bn. An increase in internet and system integration & IT-related revenues offset the decline in outgoing traffic revenues. EBITDA amounted to HUF 118.7 bn and the **EBITDA margin on external revenues was 34.5%**.
- **Mobile segment:** external revenues increased by 14.5% to HUF 327.3 bn, driven by voice revenues and the EDR project. EBITDA amounted to HUF 139.9 bn with the **EBITDA margin on external revenues reaching 42.8%**.
- Profit attributable to equity holders of the company (**net income**) fell by **2.2%**, from **HUF 78.4 bn** (EUR 316.1 m) to **HUF 76.7 bn** (EUR 290.1 m). Despite the slight EBITDA growth, net income declined, primarily due to higher depreciation and amortization expenses.
- **Net cash from operating activities fell to HUF 186.0 bn.** The slight growth in EBITDA was offset by the increased working capital requirement, which is due to the EDR project, and by the higher income tax paid, driven by the decrease in corporate tax receivable. Net cash utilized in investing activities decreased to HUF 119.4 bn. This was driven by lower capital expenditure on tangible and intangible assets and higher proceeds from real estate disposals, as well as the sale of financial assets. Cash spent on the purchase of subsidiaries remained broadly stable (with the Montenegrin acquisition in 2005 and the acquisitions of MakTel treasury shares, KFKI, Dataplex and Orbitel in 2006). Net cash flows from financing activities reflect the absence of a dividend payment in 2006.
- **Net debt decreased by HUF 68.7 bn** to HUF 227.9 bn compared to the end of 2005. The **net debt ratio** (net debt to net debt plus total equity) fell to **27.7%** at end-December 2006 (33.2% at end-December 2005). This is due to the fact that the Company has not paid dividends for 2005 earnings in 2006, although shareholders' equity reflects the dividend decision of the EGM held on December 21, 2006.

Christopher Mattheisen, Chairman and CEO commented: *Operationally, 2006 saw a number of positive developments for Magyar Telekom. Despite strong competition in all areas, we preserved our leading position in our key businesses. Both revenue growth and EBITDA in forint terms were comfortably in line with our full year targets. The gross additions to tangible and intangible assets to revenues (capex to sales) ratio was 13.5%, in line with our goal of keeping the ratio below 15% in 2006. In the Hungarian fixed line business, we made several acquisitions and successfully integrated these investments into our existing portfolio. We developed a strong position in the growing IT, SI and telco-outsourcing market. The number of broadband connections has increased by 60% during 2006 and we launched IPTV service at the end of the year. We continued to focus on customer retention through our flat rate offers. As a result, access, internet and IT related revenues increased, offsetting the continued erosion of traffic revenues. In 2006 we saw the initial positive impacts of the fixed-mobile merger, whilst also recording some one-off costs related to this complex process. As part of the integration, we fully unified our store network, which now provides complete services to our customers. In the Hungarian mobile market, we maintained our clear market leadership. We were the first in Hungary to fully introduce the super-fast HSDPA service in the market, supporting a successful mobile broadband rollout. The country-wide EDR (unified digital radio) network rollout has also now been completed. Finally, international operations in Macedonia and Montenegro showed an excellent performance, making a considerable contribution to our profitability.*

Looking forward to 2007, we are targeting stable revenue and EBITDA in forint terms over 2006 reported figures. Our target for gross additions to tangible and intangible assets to revenues (capex to sales) ratio is below 14% in 2007. Regarding our strategy going forward, I can confirm that we intend to maintain the direction that the Group is currently following. I would, however, like to underline three areas to which we intend to give stronger impetus: firstly, excellence through a stronger customer focus and significantly improved service quality, secondly, greater efficiency through improvements in operational cost structure,

headcount productivity and leveraging new, integrated revenue opportunities. Last but not least, our goal remains to seek growth in the form of value-creating acquisitions in the future, both in Hungary and in our region.

Hungarian fixed line operations: revenue growth driven by internet and SI/IT services

Revenues before elimination grew to HUF 78.9 bn in Q4 2006, up 6.6% compared to the same period last year. EBITDA margin for the quarter was 27.0%. Excluding the HUF 0.9 bn cost of the investigation and the modifications related to the Universal Telecommunication Support Fund (decreasing other operating expenses in Q4 2005 and increasing in Q4 2006 by HUF 0.7 bn), EBITDA was HUF 22.9 bn, down by 5.6%. EBITDA margin was 29.0% in Q4 2006. Internet revenues showed a 27.1% increase thanks to the significant growth in the number of installed ADSL lines. The total number of broadband connections (mainly ADSL and cable) exceeded 570,000 at end-2006. Mainly driven by acquisitions of KFKI and Dataplex, system integration & IT revenues grew from HUF 2.1 bn to HUF 11.8 bn in the Q4 2006 compared to the same quarter last year. Domestic and international traffic revenues combined declined by 29.4% reflecting mobile substitution and competition driven average price decline. Strong mobile substitution and number portability resulted in a 4% decline in the total number of fixed lines at end-2006 compared to a year ago. Customised tariff packages at the parent company represented over 83% of the total number of lines at the end of 2006.

International fixed line operations: solid EBITDA margin in Macedonia, headcount reduction in Montenegro

Revenues before elimination grew by 5.5% to HUF 16.6 bn in Q4 2006, reflecting the favorable exchange rate impact and the strong revenue increase of the Montenegrin operations. EBITDA fell to HUF 3.3 bn with an EBITDA margin of 19.7%. This was due to the headcount reduction related expenses of HUF 2.5 bn in Montenegro and the increasing role of lower margin international wholesale and alternative operations. MakTel's fixed line revenues decreased by 2.1%, as a decline in outgoing traffic revenues (by 11.9%) was only partially compensated by international wholesale and internet-related revenues. EBITDA increased by 20.0% to HUF 4.1 bn, supported by the impact of the headcount reduction in Q4 2005. EBITDA margin was 38.4% in the fourth quarter. Fixed line operations in Montenegro contributed HUF 4.7 bn to Group revenues in the fourth quarter of 2006 (HUF 4.1 bn in Q4 2005). The growth was fuelled by favorable FX movements and higher wholesale and internet revenues. Due to the headcount reduction related expenses, EBITDA was HUF -0.6 bn (against HUF 0.8 bn in Q4 2005).

Hungarian mobile operations: clear market leadership maintained, EDR revenues

Revenues before elimination grew by 21.9% to HUF 82.6 bn in Q4 2006 as a result of EDR-related revenues (within other revenues), higher enhanced service and equipment sales revenues. EBITDA was HUF 28.8 bn, up by 15.3% over Q4 2005, mainly due to the modifications related to the Universal Telecommunication Support Fund, increasing other operating expenses in Q4 2005 and decreasing by HUF 1.1 bn in Q4 2006. 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, flat-rate packages generated higher usage, the discounts and bundled free minutes offered, as well as the extensive use of closed user group offers, combined with the change in disclosure of enhanced services, resulted in a slight erosion of ARPU (monthly average revenue per user). MOU (monthly average minutes of use per subscriber) grew to 149 in Q4 2006, indicating strong price elasticity.

International mobile operations: strong revenue and EBITDA growth at both companies

Revenues before elimination grew by 15.2% to HUF 13.1 bn in Q4 2006 due to the strong performance of both companies and also helped by the favorable exchange rate effect. EBITDA was HUF 6.4 bn with an EBITDA margin of 49.0%. T-Mobile Macedonia reported 14.8% revenue growth thanks to the increasing customer base and usage, partly offset by the continuously decreasing tariffs. EBITDA was HUF 5.6 bn with an EBITDA margin of 55.3%. T-Mobile Crna Gora contributed revenues of HUF 3.0 bn (up 16.4%) and an EBITDA of HUF 0.8 bn in Q4 2006 (against HUF 0.3 bn in Q4 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. In the course of conducting their audit of our 2005 financial statements, PricewaterhouseCoopers Könyvvizsgáló és Gazdasági Tanácsadó Kft. (PwC) identified certain contracts the nature and business purposes of which were not readily apparent. PwC notified the Audit Committee of the Supervisory Board (the Audit Committee) and advised them to retain independent counsel to conduct an investigation into these contracts. Our Audit Committee retained the law firm of White & Case LLP (White & Case), as its independent legal counsel, to conduct the investigation. Based on the documentation and other evidence obtained by it, the White & Case investigation has preliminarily concluded that it was unable to determine a proper business purpose for four consulting contracts entered into by the Company and two of its subsidiaries in 2005, and further found that certain employees had destroyed evidence that was relevant to the investigation. We have taken and are taking remedial measures to address weaknesses in our control environment that were revealed by the investigation. The investigation delayed the finalization of our 2005 financial statements, and as a result we and some of our subsidiaries have failed and may fail to meet certain deadlines prescribed by applicable laws and regulations for preparing and filing audited annual results and holding annual general meetings. We have to date been fined HUF 13 m as a consequence of these delays and additional fines could be imposed in the future. See our press release dated December 21, 2006 for further details on this investigation. Magyar Telekom (MT) incurred HUF 4.1 bn expenses relating to the investigation in 2006, which are included in other operating expenses net in the Hungarian fixed line operations as part of the Headquarters costs. Although the investigation has not been finalized, based on the independent investigators findings and conclusions to date, the contracts under investigation were entered into without full compliance with internal company procedures regarding the entry of such contracts. Moreover, sufficient evidence could not be obtained that adequate value was received under these contracts. In its preliminary 2005 results announcement Magyar Telekom capitalized HUF 1.1 bn payments made related to two of these contracts. As a result of the findings of the investigation, Magyar Telekom has changed the accounting treatment of these contracts and expensed this amount, as well as the related HUF 0.2 bn potential tax obligation, increasing other operating expenses by HUF 1.3 bn.

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 December 31, 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 2006 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

Income Statements - IFRS

(HUF million)	Year ended December 31,		% change	
	2005 (Unaudited)	2006 (Unaudited)		
Revenues				
Subscriptions	90 550	93 387	3.1	%
Domestic outgoing traffic revenues	87 497	69 724	(20.3))%
International outgoing traffic revenues	11 155	10 267	(8.0))%
Value added, cable voice and other services	8 477	8 902	5.0	%
Voice - retail revenues	197 679	182 280	(7.8))%
Domestic incoming traffic revenues	9 530	9 125	(4.2))%
International incoming traffic revenues	16 049	19 566	21.9	%
Voice - wholesale revenues	25 579	28 691	12.2	%
Voice revenues total	223 258	210 971	(5.5))%
Internet broadband	29 773	42 034	41.2	%
Internet narrowband, content and other	10 010	7 699	(23.1))%
Internet revenues total	39 783	49 733	25.0	%
Data	26 792	27 121	1.2	%
System Integration/Information Technology	9 023	24 679	173.5	%
Multimedia	15 037	17 506	16.4	%
Equipment sales	5 205	4 249	(18.4))%
Other revenues	10 108	9 607	(5.0))%
Total fixed segment revenues	329 206	343 866	4.5	%
Network usage and access	225 003	240 284	6.8	%
Enhanced services	36 539	40 258	10.2	%
Equipment sales and activation fee	23 472	25 280	7.7	%
Other revenues	834	21 507	2 478.8	%
Total mobile segment revenues	285 848	327 329	14.5	%