

HUNGARIAN TELECOMMUNICATIONS CO LTD MATAV

Form 6-K

August 12, 2004

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 12, 2004

HUNGARIAN 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 Form 40-F

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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-

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2004 INTERIM RESULTS: STABLE FINANCIAL AND OPERATIONAL RESULTS DESPITE REGULATORY AND COMPETITIVE PRESSURE

BUDAPEST August 12, 2004 - Matáv (NYSE: MTA.N and BSE: MTAV.BU), the leading Hungarian telecommunications service provider, today reported its consolidated financial results for the first half of 2004, according to International Financial Reporting Standards (IFRS).

Highlights:

Revenues grew slightly by 0.4% to HUF 297.9 bn (EUR 1,163.4 m) in 1H 2004 compared to 1H 2003 as a result of higher mobile and data transmission revenues, offset by a decline in revenues from domestic and international traffic, and lower other usage.

EBITDA declined by 2.3% to HUF 126.1 bn, with EBITDA margin reaching 42.3%.

Gross additions to tangible and intangible assets amounted to HUF 35.4 bn. Of this, the portion relating to the fixed line segment reached HUF 14.6 bn, with mobile at HUF 17.3 bn and MakTel reporting HUF 3.5 bn.

Fixed line segment: revenues declined by 6.4%; **EBITDA margin was 36.3%.**

Mobile segment: revenues grew by 4.4%, EBITDA margin was 41.6% in 1H 2004. T-Mobile Hungary kept its leading position with a market share of 47.7% at the end of June 2004.

International segment: revenues grew by 4.0% with EBITDA margin reaching a strong 51.7%. EBITDA fell slightly to HUF 17.4 bn from HUF 18.0 bn in the same period last year.

Group operating profit reduced to HUF 57.6 bn mainly driven by a 10.8% growth in depreciation and amortization. **Net income declined to HUF 30.3 bn (EUR 118.3 m).**

Net cash from operating activities increased to HUF 101.3 bn due to the combined impact of a decline in EBITDA and a fall in working capital requirements. Net cash utilized in investing activities reduced to HUF 38.7 bn. This was due to higher gross additions to tangible and intangible assets (primarily at the fixed line segment) together with a lower purchase of subsidiaries and increased proceeds from real estate sales. Net cash used in financing activities was HUF 49.1 bn, mainly explained by the higher dividend paid at the parent company and increased borrowing as a result of this.

Net debt has been reduced by HUF 41.5 bn since the end of June 2003 resulting in a **net debt ratio** (net debt to net debt plus equity plus minority interest) of 34.6% compared to 36.6% at the end of June 2003.

Elek Straub, Chairman and CEO commented: *For the first half of the year we have witnessed a balanced financial and operational performance for the Group. As expected, the fixed line segment reported a decline in revenues and EBITDA due to the strengthening regulatory and competitive pressure. The Regulator published its final resolution on Matáv's new reference interconnection offer in June. This resulted in a further reduction compared to January, with interconnection traffic fees now close to the relevant EU benchmarks. A new player appeared in the Hungarian fixed line market in the second quarter, increasing the competition for customers in this segment. In the broadband business, the ADSL rollout program has continued in line with our aims. The line per employee ratio at the parent company exceeded 353 (compared to 341 at end-June last year). In the mobile segment, the rebranding of Westel into T-Mobile Hungary was very successful, with rapid growth in awareness of the new brand. I am pleased to say that the perception of T-Mobile Hungary is very positive. We have also seen a smooth start to mobile number portability. The segment reported healthy financials driven by a balanced focus on maximising the value of the customer base and optimizing acquisition and retention costs. At MakTel, the pressure on revenues did not prohibit the achievement of a strong EBITDA margin in the first half of this year. Finally, let me mention that at the end of the second quarter, we paid the vast majority of the dividend relating to 2003 earnings, resulting in an increase in net debt ratio to close to 35%, fully in line with the dividend policy announced in March of last year.*

Fixed line: Successful line retention; further growth in customised packages, competitive and regulatory pressure

Fixed line revenues fell by 6.4% to HUF 153.9 bn with EBITDA margin at 36.3%. Domestic and international traffic revenues combined fell by 13.2% mainly due to lower volumes and price discounts. At the same time, leased line and data revenues continued to grow, rising by 23.2%, driven by a volume increase in ADSL and increased Internet subscribers. The total number of lines was down by only 0.5% compared to 1H 2003 and flat compared to 1Q 2004; evidence of Matáv's success in halting line number erosion. By the end of June 2004, 18.6% of Matáv's total fixed lines were ISDN channels. Customised tariff packages represented around 55% of the total number of lines with 1.6 million lines at the end of the second quarter 2004. The successful ADSL program resulted in 142,430 ADSL lines being installed by the end of 1H 2004. Matáv's Internet subsidiary, Axelero, retained its leading position among ISPs in the dial-up market with a market share of around 44% and a total of 233,989 Internet subscribers at the end of June 2004 (up by 35.2% year-on-year).

Mobile: Successful rebranding, improving customer base, healthy financials despite strong competition

Mobile revenues rose by 4.4% mainly driven by higher traffic, enhanced service revenues and equipment sales. EBITDA increased to HUF 52.8 bn, while the EBITDA margin reached 41.6%. Operating profit reduced by 5.7% as the vast majority of the write-off relating to the Westel rebranding was accounted for in the first quarter of 2004. T-Mobile Hungary maintained its leading position in a highly competitive market with 47.7% market share, while GSM penetration was 81.2% at end-June. T-Mobile Hungary's customer base exceeded 3.9 million at the end of 1H 2004. In the same period, the proportion of postpaid customers increased to 26.9% of the total customer base, compared with 25.5% at end of 1H 2003. Average acquisition cost per customer fell by 20.7% to HUF 10,284 in 1H 2004 from HUF 12,974 a year earlier. When calculating subscriber acquisition cost, we include the connection margin (connection fee less the SIM card cost) and the sales related equipment subsidy and agent fee. MOU (monthly average minutes of use per subscriber) increased to 111 in 1H 2004 from 110 a year earlier. Blended ARPU (monthly average revenue per user) declined to HUF 4,923; within this postpaid ARPU reached HUF 12,103 and prepaid ARPU was HUF 2,349. Due to new packages, the usage slightly grew but the discounts that some of these provide as well as the regulatory impacts resulted in downward pressure on ARPU. The enhanced services revenue (mainly SMS) grew to HUF 595 (12.1% of total ARPU), from HUF 550 (10.6% of total ARPU) in the same period last year. The churn rate of postpaid customers was successfully kept at the low level of 11.1% in 1H 2004. The churn rates at both prepaid and postpaid segments showed a decline compared to 1H 2003.

International: EBITDA margin maintained at an impressive level despite limited top line growth

International revenues rose by 4.0% to HUF 33.7 bn in 1H 2004 driven mainly by favourable foreign exchange rate movement. Mobile telecommunications services revenues grew, as did domestic traffic revenues. However, these were partially offset by a fall in international traffic revenues. EBITDA reached HUF 17.4 bn with a strong EBITDA margin of 51.7%. The closing number of employees fell by 4.1% to 3,543 at the end of the second quarter this year over the same period last year. Fixed line penetration in Macedonia was around 29%, and mobile penetration grew further to 38% over 21% in 1H 2003. The number of fixed line customers grew to 623,741, up by 1.9% from the previous year's figure. Within this, analog subscribers remained broadly unchanged at 584,429. ISDN channels, at the same time, showed a growth of 46.1% to 39,312. The mobile customer base rose by 51.1% to 623,285, broadly the same as the fixed line customer base. MakTel's mobile market share stood at 80% at end-June 2004. The number of Internet subscribers at the end of the second quarter of 2004 increased to 56,426 (up by 34.4% year-on-year).

About Matáv

Matáv is the principal provider of telecom services in Hungary. Matáv provides a broad range of services including telephony, data transmission, value-added services, and through its subsidiary is Hungary's largest mobile telecom provider. Matáv also holds a majority stake in Stonebridge Communications AD, which controls MakTel, the sole fixed line and the leading mobile operator in Macedonia. Key shareholders of Matáv as of June 30, 2004 include MagyarCom Holding GmbH, owned by Deutsche Telekom AG (59.21%). 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, 2003 filed with the U.S. Securities and Exchange Commission.

For detailed information on Matáv's 1H 2004 results please visit our website:

(www.ir.matav.hu/english) or the website of the Budapest Stock Exchange (www.bse.hu).

MATÁV
Consolidated Balance Sheets - IFRS

(HUF million)	June 30, 2003 (Unaudited)	June 30, 2004 (Unaudited)	June 30, 2003 - June 30, 2004 % change
ASSETS			
Current assets			
Cash and cash equivalents	18 532	34 700	87.2%
Financial instruments held for trading	381	407	6.8%
Trade and other receivables	103 328	103 117	(0.2)%
Inventories	10 965	10 585	(3.5)%
Assets held for disposal	2 201	3 489	58.5%
Total current assets	135 407	152 298	12.5%
Non current assets			
Property, plant and equipment	632 642	595 669	(5.8)%
Intangible assets	289 909	278 086	(4.1)%
Associates	4 389	5 584	27.2%
Deferred taxes	5 905	4 143	(29.8)%
Other non current assets	25 048	7 600	(69.7)%
Total non current assets	957 893	891 082	(7.0)%
Total assets	1 093 300	1 043 380	(4.6)%
LIABILITIES AND SHAREHOLDERS EQUITY			
Current liabilities			
Loans and other borrowings - third party	67 311	42 078	(37.5)%
Loans from related parties	167 769	116 644	(30.5)%
Trade and other payables	107 178	107 479	0.3%
Deferred revenue	2 357	1 805	(23.4)%
Provision for liabilities and charges	7 288	5 292	(27.4)%
Short term derivatives	0	11	n.a.
Total current liabilities	351 903	273 309	(22.3)%
Non current liabilities			
Loans and other borrowings - third party	58 872	49 904	(15.2)%
Loans from related parties	73 675	133 675	81.4%
Deferred revenue	3 451	1 897	(45.0)%
Deferred taxes	1 967	2 492	26.7%
Other non current liabilities	46	103	123.9%
Long term derivatives	234	103	(56.0)%
Total non current liabilities	138 245	188 174	36.1%

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Minority interests	66 392	66 180	(0.3)%
Shareholders equity			
Common stock	104 281	104 281	0.0%
Additional paid in capital	27 382	27 382	0.0%
Treasury stock	(4 488)	(3 842)	(14.4)%
Cumulative translation adjustment	1 699		