

HUNGARIAN TELECOMMUNICATIONS CO LTD MATAV

Form 6-K

November 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 November 11, 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

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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STABLE MARKET POSITIONS DESPITE REGULATORY AND COMPETITIVE PRESSURE DURING THE FIRST NINE MONTHS OF 2004

BUDAPEST November 11, 2004 - Matáv (NYSE: MTA.N and BSE: MTAV.BU), the leading Hungarian telecommunications service provider, today reported its consolidated financial results for the first nine months of 2004, according to International Financial Reporting Standards (IFRS).

Highlights:

Revenues fell slightly, by 0.5% to HUF 449.7 bn (EUR 1,773.5 m) in the first nine months of the year over the same period in 2003 as the higher mobile and data transmission revenues and higher equipment sales were offset by a decline in revenues from domestic and international traffic, and lower other usage.

Reported EBITDA declined by 6.2% to HUF 182.9 bn, with a reported EBITDA margin of 40.7%. Excluding restructuring charges, EBITDA was HUF 186.2 bn with the EBITDA margin reaching 41.4%.

Gross additions to tangible and intangible assets amounted to HUF 52.2 bn. Of this, the portion relating to the fixed line segment reached HUF 22.5 bn, with mobile at HUF 24.4 bn and MakTel reporting HUF 5.3 bn.

Fixed line segment: revenues declined by 7.0%; **EBITDA margin was 35.7%.**

Mobile segment: revenues grew by 4.0%, EBITDA margin was 39.7% in the first nine months of 2004. T-Mobile Hungary preserved its leading position with a market share of 47.6% and almost 4 million subscribers at the end of September 2004.

International segment: revenues fell by 0.6% with a reported EBITDA margin of 46.9%. MakTel's third quarter results include a HUF 3.4 bn severance provision; excluding this restructuring charge, EBITDA margin reached a strong 53.5% in the first nine months of 2004.

Group operating profit reduced to HUF 82.2 bn mainly driven by an 11.9% increase in employee related expenses driven by the restructuring (predominantly at MakTel) and a 7.9% increase in depreciation and amortization. **Net income declined to HUF 41.1 bn (EUR 162.1 m).**

Net cash from operating activities decreased to HUF 144.1 bn due to the combined impact of the decline in EBITDA and higher interest paid. Net cash utilized in investing activities increased to HUF 64.4 bn. This was due to higher gross additions to tangible and intangible assets (primarily at the fixed line segment) together with higher investments in subsidiaries and associates (T-Systems Hungary) and partly offset by increased proceeds from real estate sales. Net cash used in financing activities was HUF 66.8 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 13.1 bn since the end of September 2003 and the **net debt ratio** (net debt to net debt plus equity plus minority interest) was 33.1% compared to 32.8% at the end of September 2003.

Elek Straub, Chairman and CEO commented: *Fixed segment performance weakened during the reporting period driven by strengthening competition and regulatory pressure. In the mobile segment, in spite of more intense competition in the third quarter on tariffs and services as well as on entry barriers, T-Mobile Hungary was able again to maintain its leading market position. At MakTel, despite somewhat lower revenues, the company maintained its healthy profitability, achieving an EBITDA margin of above 53% for the first nine months of this year excluding the third quarter severance provision. In terms of the overall outlook for the full year 2004, we believe that our existing public targets and guidance are realistic. I would also like to reassure our shareholders that we are on track in executing our recently announced mid-term value creation program. In order to maintain efficiency, we plan to reduce the parent company headcount by some 2600 by end-2006 including the outsourcing of around 800 people, and in connection with this, we have signed an agreement with the Trade Union. At the end of September, the lines per employee ratio at the parent company reached 354, but we plan to significantly increase this ratio to above 500 by the end of 2006. At MakTel, the headcount will be tangibly reduced as early as this year with the financial impact already visible in the third quarter performance of the company.*

Fixed line: Successful broadband program, strong competitive pressure

Fixed line revenues fell by 7.0% to HUF 228.3 bn with the EBITDA margin at 35.7%. Domestic and international traffic revenues combined declined by 13.9% mainly due to lower volumes and price discounts. However, due to strong growth in installed ADSL numbers and increased Internet subscribers, leased line and data revenues continued to grow, rising by 21.7%. The total number of lines was down only by 0.6% compared to a year ago. By the end of September 2004, 18.6% of Matáv's total fixed lines were ISDN channels. Customised tariff packages represented around 56% of the total number of lines with 1.6 million lines at the end of the third quarter 2004. The ADSL program resulted in 162,106 ADSL lines being installed by the end of Q3 2004. Matáv's Internet subsidiary, Axelero, maintained its leading position among ISPs in the dial-up market with a market share of approximately 43% and a total of 244,570 Internet subscribers at the end of September 2004 (up by 32.3% year-on-year).

Mobile: Stable market position and revenue growth despite intense competition

Mobile revenues grew by 4.0% as a result of higher traffic, enhanced service revenues and equipment sales. EBITDA increased to HUF 77.4 bn and the EBITDA margin was 39.7%. Operating profit declined by 7.3% 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 47.6% market share, while GSM penetration was 83.0% at end-September 2004. T-Mobile Hungary's customer base exceeded 3.9 million at the end of Q3 2004. In the same period, the proportion of postpaid customers increased to 27.9% of the total customer base, compared with 25.6% at end of Q3 2003. Average acquisition cost per customer fell by 14.5% to HUF 10,881 in Q1-Q3 2004 from HUF 12,727 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) grew to 114 in Q1-Q3 2004 from 112 a year earlier. Blended ARPU (monthly average revenue per user) declined to HUF 4,937; within this postpaid ARPU reduced to HUF 11,929 and prepaid ARPU was HUF 2,386. As a result of the introduction of new packages, the usage grew slightly but the discounts offered combined with the regulatory impacts resulted in downward pressure on ARPU. The enhanced services revenue (mainly SMS) grew to HUF 598 (12.1% of total ARPU), from HUF 571 (10.8% of total ARPU) in the same period last year. The churn rate of postpaid customers was successfully maintained at the relatively low level of 11.9% in the first three quarters of 2004. However, the churn rate in the prepaid segment over the same period grew to 14.8%. Within this, third quarter churn in 2004 increased to 23.7%, chiefly due to the expiration of the extension of the refill vouchers' availability period.

International: focus on boosting efficiency in a limited top line growth environment

International revenues fell slightly by 0.6% to HUF 51.1 bn in Q1-Q3 2004. Mobile telecommunications services revenues grew but subscription charges as well as international traffic revenues fell. Reported EBITDA was HUF 24.0 bn with an EBITDA margin of 46.9% but these results were hit by the severance provision in the amount of HUF 3.4 bn made in Q3 as part of the headcount rationalisation at the company. EBITDA margin without such restructuring charges reached a strong 53.5%. The closing number of employees fell by 5.0% to 3,524 at the end of the third quarter this year over the same period last year. Fixed line penetration in Macedonia stood at around 29%, and mobile penetration grew further to nearly 44% against 25% at end-Q3 2003. The number of fixed line channels grew to 623,333, up by 1.3% from the previous year's figure. Within this, analog subscribers fell slightly to 582,621. At the same time, ISDN channels grew by 35.4% to 40,712, and the mobile customer base grew by 50.8% to 693,097. MakTel's mobile market share stood at 77% at end-September 2004. MakTel remains the leading Internet service provider; its dial-up subscriber base at the end of the third quarter of 2004 increased to 59,603 (up by 31.5% 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 T-Mobile Hungary 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 September 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 Q1-Q3 2004 results please visit our website:

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

MATAV

Consolidated Balance Sheets - IFRS

(HUF million)

	Sep 30, 2003 (Unaudited)	Sep 30, 2004 (Unaudited)	Sep 30, 2003 - Sep 30, 2004 % change
ASSETS			
Current assets			
Cash and cash equivalents	19 977	33 356	67.0%
Financial instruments held for trading	408	2 417	492.4%
Trade and other receivables	93 113	98 643	5.9%
Inventories	11 174	10 171	(9.0)%
Assets held for disposal	3 563	3 200	(10.2)%
Total current assets	128 235	147 787	15.2%
Non current assets			
Property, plant and equipment	618 172	582 311	(5.8)%
Intangible assets	287 177	277 316	(3.4)%
Associates	4 328	7 307	68.8%
Deferred taxes	5 290	4 542	(14.1)%
Other non current assets	11 381	6 473	(43.1)%
Total non current assets	926 348	877 949	(5.2)%
Total assets	1 054 583	1 025 736	(2.7)%
LIABILITIES AND SHAREHOLDERS EQUITY			
Current liabilities			
Loans and other borrowings - third party	59 887	35 538	(40.7)%
Loans from related parties	126 644	60 000	(52.6)%
Trade and other payables	96 747	99 632	3.0%
Deferred revenue	2 164	1 683	(22.2)%
Provision for liabilities and charges	6 688	8 070	20.7%
Short term derivatives	0	37	n.a.
Total current liabilities	292 130	204 960	(29.8)%
Non current liabilities			
Loans and other borrowings - third party	63 417	52 724	(16.9)%
Loans from related parties	73 675	177 675	141.2%
Deferred revenue	2 964	1 509	(49.1)%
Deferred taxes	1 924	2 993	55.6%
Other non current liabilities	0	47	n.a.
Long term derivatives	415	0	(100.0)%
Total non current liabilities	142 395	234 948	65.0%
Minority interests	67 295	62 649	(6.9)%
Shareholders equity			
Common stock	104 281	104 281	0.0%

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Additional paid in capital	27 382	27 382	0.0%
Treasury stock	(3 842)	(3 842)	0.0%
Cumulative translation adjustment	(832)	(2 868)	244.7%
Retained earnings	425 774	398 226	(6.5)%
Total shareholders equity	552 763	523 179	(5.4)%
Total liabilities and shareholders equity	1 054 583	1 025 736	(2.7)%

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Consolidated Income Statements - IFRS

(HUF million)

	9 months ended Sep 30,		%
	2003 (Unaudited)	2004 (Unaudited)	change
Revenues			
Subscriptions, connections and other charges	73 405	71 975	(1.9)%
Domestic traffic revenue	85 622	74 468	(13.0)%
Other usage	9 152	4 227	(53.8)%
Domestic fixed line telecommunications services	168 179	150 670	(10.4)%
International traffic revenues	17 177	14 101	(17.9)%
Mobile telecommunications services	147 945	160 135	8.2%
Revenue from international activities	51 190	50 869	(0.6)%
Leased lines and data transmission	28 565	35 749	25.1%
Equipment sale	16 415	18 445	12.4%
Other revenues	22 617	19 756	(12.6)%
Total revenues	452 088	449 725	(0.5)%
Employee-related expenses	(63 260)	(70 757)	11.9%
Depreciation and amortization	(93 301)	(100 680)	7.9%
Payments to other network operators	(63 287)	(66 058)	4.4%
Cost of telecommunications equipment sales	(28 236)	(29 652)	5.0%
Other operating expenses	(102 391)	(100 374)	(2.0)%
Total operating expenses	(350 475)	(367 521)	4.9%
Operating profit	101 613	82 204	(19.1)%
Net interest and other charges	(28 548)	(27 070)	(5.2)%
Share of associates results before income tax	354	2 064	483.1%
Profit before income tax	73 419	57 198	(22.1)%
Income tax expense	(11 579)	(9 903)	(14.5)%
Profit after income tax	61 840	47 295	(23.5)%
Minority interest	(10 055)	(6 200)	(38.3)%
Net income	51 785	41 095	(20.6)