



MAKEDONSKI TELEKOM AD - SKOPJE
Kej 13 Noemvri No. 6, 1000 Skopje, R. Makedonija

To: Macedonian Stock Exchange AD Skopje
Orce Nikolov 75, 1000 Skopje

Date: May 2018

Subject: Explanation on the operation of Makedonski Telekom AD - Skopje for the period from 01.01.2018 until 31.03.2018

The following analysis refers to the unaudited financial statements of Makedonski Telekom (MKT) for the period 01.01.2018 - 31.03.2018, prepared in accordance with the International Financial Reporting Standards (IFRSs).

The application of the new standard IFRS 15 Revenue from Contracts with Customers is effective for periods beginning on or after 1 January 2018. The adoption of the new standard will result in significant changes in the financial statements of MKT, primarily in respect of the timing of revenue recognition and in respect of capitalization of costs of obtaining a contract with a customer. In the case of multiple-element arrangements (e.g., mobile contract plus handset) with subsidized products delivered in advance, a larger portion of the total remuneration is attributable to the component delivered in advance (mobile handset), requiring earlier recognition of revenue in future. This leads to the recognition of what is known as a contract asset – a receivable arising from the customer contract that has not yet legally come into existence – in the Balance sheet. At the same time, it results in higher revenue from the sale of goods and merchandise and to lower revenue from the provision of services. Under the new standard, expenses for sales commissions (customer acquisition costs) must be capitalized and recognized over the estimated customer retention period. MKT will utilize the option for simplified initial application, i.e., contracts that are not completed by 1 January 2018 will be accounted for as if they had been recognized in accordance with IFRS 15 from the very beginning. The cumulative effect arising from the transition will be recognized as an adjustment to the opening balance of equity in the year of initial application. Prior-year comparatives will not be adjusted; however an explanation of the reasons for the changes in items in the statement of financial position and the income statement for the current period will be provided as a result of applying IFRS 15 for the first time.

I Revenues

The sales revenues in the first three months of 2018 amounted to MKD 2,503,267 thousand, which represents an increase of 2.1% (excluding IFRS 15 impact) compared to the same period of the previous year.

The implementation of IFRS 15 had an overall positive effect of MKD 4,040 thousands on total sales revenues.

Voice services



Fixed line voice services

Makedonski Telekom has managed to maintain the **leading position on the fixed voice market with 57.2%** (internal estimation) or 209.0 thousand customers at the end of the first three months of 2018.

The **voice revenues** in the first three months of 2018 in the fixed segment services have decreased by 12.9% (excluding IFRS 15 impact) compared to the same period of the previous year due to lower subscription as well as the decreased number of fixed line customers by 2.3% and the decreased outgoing traffic by 10.4%.

The implementation of IFRS 15 had an overall negative effect of MKD 4,684 thousands on fix voice revenues.



Mobile voice services

On the mobile market, the Company has a **market share of 48.6%** (internal estimation). The subscribers' base at the end of the first three months of 2018 amounts to 1,174 thousand subscribers and it is decreased by 4.8% compared to the same period of the previous year.

At the end of the first three months of 2018, the **mobile voice revenues** have increased by 1.9% (excluding IFRS 15 impact) compared to the same period of the previous year. The increase is due to higher retail revenues driven by higher usage compensated with lower volume in international incoming mobile terminating traffic. The blended ARPU (Average Revenue Per User) has increased by 7.9% compared to the same period of the previous year amounting to MKD 343 mostly driven by the increase of post-paid subscribers' portion in the total subscribers' base.

The implementation of IFRS 15 had an overall negative effect of MKD 60,404 thousands on mobile voice revenues.

Internet, TV and other non-voice services



Fixed Internet and TV

At the end of the first three months of 2018, the number of total BB accesses is stable with 187.7 thousand compared to 189.0 thousand at the end of the same period of the previous year, while the **broadband Internet market share** at the end of the first three months of 2018 **amounts to 45.1%** (internal estimation).

Regarding the **TV market**, Makedonski Telekom has a **market share of 28.6%** (internal estimation) of the total TV market. The IPTV (digital television via Internet protocol) service, with its high quality, interactivity and the unique TV experience, is well accepted on the market and the Company achieved an increase of

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the number of IPTV customers (including Magenta1, 3 Play and other TV services) by 7.5% compared to the same period of the previous year, which has resulted in a customer base of 119.1 thousand customers at the end of the first three months of 2018.

The **revenues from digital television via Internet protocol ("IPTV")** at the end of the first three months of 2018 have increased by 16.3% (excluding IFRS 15 impact) compared to the same period of the previous year.

The **revenues from retail Internet** at the end of the first three months of 2018 have declined by 5.5% (excluding IFRS 15 impact) compared to the same period of the previous year.

The implementation of IFRS 15 had an overall negative effect of MKD 11,280 thousands on Internet and TV revenue.



Mobile non-voice services

The **non-voice revenues** in the first three months of 2018 have increased by 12.2% (excluding IFRS 15 impact) compared to the same period of the previous year, as a result of the increased mobile internet revenue due to the higher GPRS traffic and increased usage of data tariff plans.

The implementation of IFRS 15 had an overall negative effect of MKD 27,314 thousands on Mobile non-voice services.

Other revenues



Other revenues in the fixed and mobile segment

The **revenues from the sale of equipment** at the end of the first three months of 2018 have increased by 13.6 % (excluding IFRS 15 impact) compared to the same period of the previous year, due to the higher average selling price of handsets partly offset by the lower sale of TV sets and other IT equipment in the fixed segment.

The implementation of IFRS 15 had an overall positive effect of MKD 107,722 thousands on revenues from sale of equipment.

System integration and IT revenues at the end of the first three months of 2018 have increased by 10.5% (excluding IFRS 15 impact) compared to the same period of the previous year. The higher revenues are result of the larger number of customised ICT projects.

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II Expenses



Operating expenses

On the cost side, at the end of the first three months of 2018, the operating expenses are slightly decreased by 1.1% (excluding the effect from implementation of IFRS 15) compared to the same period of the previous year.

The implementation of IFRS 15 had an overall negative effect in amount of MKD 4,483 thousand on the operating expenses.

Namely, the employee related expenses have decreased by 3.6% (excluding the effect from implementation of IFRS 15) at the end of the first three months of 2018 compared to the same period of the previous year. The implementation of IFRS 15 had an overall positive effect in amount of MKD 6,657 thousand on the employee related expenses.

The cost of trading goods sold have increased by 10.9% at the end of the first three months of 2018 compared to the same period of the previous year

The cost for depreciation and amortization at the end of the first three months of 2018 has increased by 6.5% compared to the same period of the previous year.



Capital expenditures

The amount of total Capital expenditures (CAPEX), at the end of the first three months of 2018 is MKD 224,902 thousand.

III Net profit

The above-stated movements on the revenues and costs resulted in an increase of the net profit for the first three months of 2018 by 16.0% compared to the same period of the previous year, resulting in a net profit of MKD 382,565 thousand. The implementation of IFRS 15 have not impacted significantly the net profit and resulted in the negative net effect of MKD 443 thousands.

On 13 February 2006, Magyar Telekom Plc., the controlling owner of the Company, (via Stonebridge Communications AD - Skopje, majority shareholder of the Company), announced that it was investigating certain contracts entered into by another subsidiary of Magyar Telekom Plc. to determine whether the contracts were entered into in violation of Magyar Telekom Plc. policy or applicable law or regulation. Magyar Telekom's Audit Committee retained White & Case, as its independent legal counsel to conduct the internal investigation. Subsequent to this, on 19 February 2007, the Board of Directors of the Company, based on the recommendation of



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the Audit Committee of the Company and the Audit Committee of Magyar Telekom Plc., adopted a resolution to conduct an independent internal investigation regarding certain contracts in Macedonia.

Based on publicly available information, as well as information obtained from Magyar Telekom and as previously disclosed, Magyar Telekom's Audit Committee conducted an internal investigation regarding certain contracts relating to the activities of Magyar Telekom and/or its affiliates in Montenegro and Macedonia that totalled more than EUR 31 million. In particular, the internal investigation examined whether Magyar Telekom and/or its Montenegrin and Macedonian affiliates had made payments prohibited by U.S. laws or regulations, including the U.S. Foreign Corrupt Practices Act (the "FCPA"). The Company has previously disclosed the results of the internal investigation.

Magyar Telekom's Audit Committee informed the U.S. Department of Justice (the "DOJ") and the U.S. Securities and Exchange Commission (the "SEC") of the internal investigation. The DOJ and the SEC commenced investigations into the activities that were the subject of the internal investigation. On 29 December 2011, Magyar Telekom announced that it had entered into final settlements with the DOJ and the SEC to resolve the DOJ's and the SEC's investigations relating to Magyar Telekom. The settlements concluded the DOJ's and the SEC's investigations. Magyar Telekom disclosed the key terms of the settlements with the DOJ and the SEC on 29 December 2011. In particular, Magyar Telekom disclosed that it had entered into a two-year deferred prosecution agreement (the "DPA") with the DOJ. The DPA expired on 5 January 2014, and further to the DOJ's request filed in accordance with the DPA, the U.S. District Court for the Eastern District of Virginia dismissed the charges against Magyar Telekom on 5 February 2014.

In relation to the local investigation by the state authorities in Macedonia and further to the previously disclosed information in the Financial Statements of the Company for the preceding years, the criminal procedure at the basic court is on-going.

We have not become aware of any information as a result of a request from any regulators or other external parties, other than the previously disclosed, from which we have concluded that the financial statements may be misstated, including from the effects of a possible illegal act.

Andreas Elsner
Chief Executive Officer

Goran Trajanovski
Chief Operating Officer

Slavko Projkoski
Chief Financial Officer

Proofreading by Lingva Ekspert