



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 2016

Subject: Explanation on the operation of Makedonski Telekom AD - Skopje for the period from 01.01.2016 until 31.03.2016

The following analysis refers to the unaudited financial statements of Makedonski Telekom for the period 01.01.2016 - 31.03.2016, prepared in accordance with International Financial Reporting Standards (IFRSs).

According to the previous reportings towards the Macedonian Stock Exchange on 31.10.2013 the Accession Agreement has been concluded with T-Mobile Macedonia as an Accessing company to Makedonski Telekom as an Acquiring Company. The Accession Agreement has been changed with the Annex thereof concluded on April 20, 2015.

In accordance with the Accession Agreement and the Annex thereof, and pursuant to the provisions from the Law on Trade Companies, December 31, 2014 is determined as a date from which all transactions of T-Mobile Macedonia, from the accounting point of view shall be considered as they are effectuated on behalf of Makedonski Telekom. Implicitly, as of January 01, 2015 the bookkeeping for Makedonski Telekom and T-Mobile Macedonia will be kept only by Makedonski Telekom.

In accordance with the Accession Agreement and the Annex thereof, which were adopted and confirmed by the Shareholders Assemblies of Makedonski Telekom and T-Mobile Macedonia on the meetings held on June 17, 2015, the business activities of T-Mobile Macedonia stopped as of June 30, 2015, when this Company has been deleted from the Central Register. With the deletion T - Mobile Macedonia no longer exists as a legal entity without a liquidation procedure to be conducted.

With cessation of T-Mobile Macedonia, the assets and liabilities of T-Mobile Macedonia were transferred to Makedonski Telekom by the way of universal transfer of the entire assets and liabilities.

Implicitly, taking into consideration the approval date of the resolutions related to the accession (June 17, 2015), starting from the second quarter of 2015, the presented set of Standalone financial statements will be comparable with the consolidated financial statements of Makedonski Telekom which were published in the previous periods

I Revenues

The sales revenues in first three months of 2016 amounted to MKD 2,480,823 thousand, which represents a slight increase of 0.3% compared to the same period of the previous year.

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Voice services



Fixed line voice services

Makedonski Telekom has managed to maintain the **leading position on the fixed voice market** with 61.2% (internal estimation) or 221 thousand customers¹ at the end of the first three months of 2016.

The voice revenues in the first three months of 2016 in the fixed segment services have decreased by 8.5% compared to the same period of the previous year due to the decreased number of fixed line customers and decreased outgoing traffic by 20.2% as well as lower international incoming revenues as a result of lower volume of traffic.



Mobile voice services

On the mobile market the Company has **market share of 47.9%** (internal estimation). The subscriber base at the end of the first three months of 2016 amounts 1,218 thousand subscribers and it is increased by 2.4% compared to the 1,189 thousand subscribers at the end of the same period of the previous year.

Mobile voice revenues at the end of the first three months of 2016 have decreased by 4.8% compared to the same period of the previous year as a result of the tariff decrease. The trend of increased usage of mobile services has continued whereby more and more minutes are bundled into the packages for the same price. This has resulted in an increase in the minutes of usage (MOU) partially driven by the continuous tariff decline. Consequently, reflecting the tariff pressure and increased competition ARPU has declined by 3.7% compared to the same period of the previous year amounting to MKD 311. In addition the decrease of mobile voice revenues is also affected by the lower international incoming mobile terminating traffic.

Internet, TV and other non-voice services



Fixed Internet and TV

The DSL customer base at the end of the first three months of 2016 remained stable compared to the same period of the previous year and amounts 189 thousand while the **broadband Internet market share for the same period amounts 48.8%** (internal estimation).

Regarding the **TV market**, Makedonski Telekom has **market share** of 24.6% (internal estimation) of the total TV market. IPTV service with its high quality, interactivity and the unique TV experience, is well accepted on the market and the Company achieved an increase of the number of IPTV customers (3Max,

¹ With the finished PSTN Migration on IMS platform MKT has new reporting methodology of Fix line customers since PSTN and ISDN customer segmentation has been no longer used. The new methodology which is IMS based consist only of IMS customers. Implicitly the current figures are lower than the previously reported since until 2013 YE MKT was reporting the number of ISDN Channels as number of customers. Wholesale Line Rental –WLR are not included

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2 Max and only IPTV customers) by 5.4% compared to the same period of the previous year, which has resulted in the customer base of 104.2 thousand customers at the end of the first three months of 2016 .

The **revenues from retail Internet and digital television via Internet protocol ("IPTV")** at the end of the first three months of 2016 have increased by 2.8% compared to the same period of the previous year.



Mobile non-voice services

Non-voice revenues in the first three months of 2016 have increased by 8.7% compared to the same period of the previous year, as a result of the increased mobile internet revenue due to higher GPRS traffic and increased usage of data tariff plans partly offset by decreased SMS retail revenues as well as the lower GPRS revenue in roaming due to new regulations from the Agency of electronic telecommunications regarding GPRS use in roaming - Balkan roaming (new prices from July 2015) that provides lower prices between countries in the Balkan and introduction of certain service barrings in data roaming.

Other revenues



Other revenues in fixed and mobile segment

The **revenues from sale of equipment** at the end of the first three months of 2016 have increased by 8.1% compared to the same period of the previous year, mainly driven by the higher number of handsets sold partly offset by lower sale of TV sets and other IT equipment in the fixed segment.

System integration and IT revenues at the end of the first three months of 2016 have increased by 22% compared to the same period of the previous year due to the increased revenues from customised ICT projects, Cloud Computing and other integrated solutions for business customers.

II Expenses



Operating expenses

On the cost side, at the end of the first three months of 2016, the operating expenses have slightly increased by 1.5% compared to the same period of the previous year.

The employee related expenses are have decreased by 4.1% at the end of the first three months of 2016 compared to the same period of the previous year.

The cost of trading goods sold have increased by 12.1% at the end of the first three months of 2016 compared to the same period of the previous year due to the increased sale of equipment including the equipment in the System integration segment.

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The cost for depreciation and amortization at the end of the first three months of 2016 have declined by 1.9% compared to the the same period of the previous year.



Capital expenditures

The total Capital expenditures (CAPEX), at the end the first three months of 2016 is MKD 176,614 thousand.

III Net profit

The above-stated movements on the revenues and costs side resulted in a decrease of the net profit for the first three months of 2016 by 17.2% compared to the same period of the previous year, resulting in a net profit of MKD 250,491 thousand.

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 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 for the certain contracts referred in the Financial Statements of the Company for the preceding years, the Basic court Skopje 1 - Skopje has sent an



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invitation for a representative of the Company for presence on the hearing scheduled for 25 February 2016. The court procedure is ongoing.

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 Maierhofer
Chief Executive Officer

Zarko Lukovski
Chief Operating Officer

Slavko Projkoski
Chief Financial Officer

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