



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: November 2016

Subject: Explanation on the operation of Makedonski Telekom AD - Skopje for the period from 01.01.2016 until 30.09.2016

The following analysis refers to the unaudited financial statements of Makedonski Telekom for the period 01.01.2016 - 30.09.2016, prepared in accordance with the International Financial Reporting Standards (IFRSs).

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

In accordance with the Accession Agreement and the Annex thereof, as well as pursuant to the provisions of the Law on Trade Companies, December 31, 2014 was determined as the date as of which all transactions of T-Mobile Macedonia shall be considered, from an accounting point of view, to be 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 was 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 the cessation of T-Mobile Macedonia, the assets and liabilities of T-Mobile Macedonia were transferred to Makedonski Telekom by means of a 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) as of 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 the first nine months of 2016 amounted to MKD 7,828,168 thousand, which represents decrease of 0.3% compared to the same period of the previous year.

Voice services



Fixed line voice services

Makedonski Telekom has managed to maintain the **leading position on the fixed voice market with 60.5%** (internal estimation) or 219.6 thousand customers at the end of the first nine months of 2016.

The **voice revenues** in the first nine months of 2016 in the fixed segment services have decreased by 12.6% compared to the same period of the previous year due to the decreased number of fixed line customers by 3.0% and the decreased outgoing traffic by 19.4%, as well as lower international incoming revenues as a result of lower traffic volume.



Mobile voice services

On the mobile market, the Company has a **market share of 49.6%** (internal estimation). The subscriber base at the end of the first nine months of 2016 amounts to 1,281 thousand subscribers and it is increased by 3.7% compared to the 1,235 thousand subscribers at the end of the same period of the previous year.

At the end of the first nine months of 2016, the **mobile voice revenues** decreased by 6.0% compared to the same period of the previous year. The decline is due to the increased competition and the tariff decrease, on one hand, and the decreased revenues from voice roaming and pre-paid, as well as the lower international incoming mobile terminating traffic, on the other hand. The decrease of voice roaming revenues is mainly due to the changes in the regulation in the part of voice use in roaming - Balkan roaming (changed prices as of July 2015) that provides lower prices between countries in the Balkans and introduction of certain service restrictions in voice roaming. Consequently, ARPU (Average Revenue Per User) has declined by 3.5% compared to the same period of the previous year amounting to MKD 343.

Internet, TV and other non-voice services



Fixed Internet and TV

At the end of the first nine months of 2016, the DSL customer base marked a slight increase by 0.3% compared to the same period of the previous year and amounts to 190 thousand, while the **broadband Internet market share for the same period amounts to 48.2%** (internal estimation).

Regarding the **TV market**, Makedonski Telekom has a **market share of 25.7%** (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 the number of IPTV customers (Magenta 1, 3Max, 2 Max and only IPTV customers) by 6.3% compared to

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the same period of the previous year, which has resulted in a customer base of 106.7 thousand customers at the end of the first nine months of 2016.

The **revenues from retail Internet and digital television via Internet protocol ("IPTV")** at the end of the first nine months of 2016 have increased by 2.2% compared to the same period of the previous year.



Mobile non-voice services

The **non-voice revenues** in the first nine months of 2016 increased by 17.4% 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 partly offset by decreased SMS retail revenues, as well as the lower GPRS revenue in roaming mainly due to the changed prices for the GPRS use in Balkan roaming (as of July 2015) i.e. lower prices between countries in the Balkans and introduction of certain service restrictions in data roaming in accordance with the changes in the regulation.

Other revenues



Other revenues in the fixed and mobile segment

The **revenues from the sale of equipment** at the end of the first nine months of 2016 increased by 10.4% compared to the same period of the previous year, due to the higher average selling price of handsets sold in retention partly offset by the lower sale of TV sets and other IT equipment in the fixed segment.

System integration and IT revenues at the end of the first nine months of 2016 increased by 8.9% 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 nine months of 2016, the operating expenses increased by 2.8% compared to the same period of the previous year.

Namely, the employee related expenses increased by 18.5% at the end of the first nine months of 2016 compared to the same period of the previous year. The increase is due to the severance cost for employees that left the Company after signing the contract for managed services with Ericsson which, as of 01 July 2016, is responsible for the maintenance of the Makedonski Telekom's network infrastructure as it was previously disclosed at the end of June 2016 at the Macedonian Stock Exchange and in the media.

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The cost of trading goods sold increased by 6.0% at the end of the first nine 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.

The cost for depreciation and amortization at the end of the first nine months of 2016 has declined by 1.5% compared to the same period of the previous year.



Capital expenditures

The total Capital expenditures (CAPEX), at the end the first nine months of 2016 is MKD 1,011,114 thousand.

III Net profit

The above-stated movements on the revenues and costs resulted in a decrease of the net profit for the first nine months of 2016 by 26.0% compared to the same period of the previous year, resulting in a net profit of MKD 713,693 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



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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 certain contracts referred to in the Financial Statements of the Company for the preceding years, the Basic Court Skopje 1 - Skopje sent an invitation for a representative of the Company for presence at the hearing scheduled for 25 February 2016. The court procedure is underway.

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
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ISO 9001, ISO 14001 and ISO 27001 Certified Company