

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 2015

Subject: Explanation on the operation of Makedonski Telekom AD - Skopje Group for the period from 01.01.2015 until 31.03.2015

The following analysis refers to the unaudited consolidated financial statements of Makedonski Telekom AD – Skopje Group, which includes Makedonski Telekom AD - Skopje, T-Mobile Macedonia AD Skopje and the e-Makedonija – Skopje Foundation for the period 01.01.2015 - 31.03.2015, prepared in accordance with International Financial Reporting Standards (IFRSs). For comparative purposes, the previous year items are consistent with the current year presentation.

I Revenues

The revenues at Group level in the first quarter of 2015 amounted to MKD 2,472,717 thousand, which represents a decrease of 6.7% compared to the same period of 2014.

Fixed line services



Voice

The **voice revenues** in the fixed segment services have decreased by 18% compared to the same period of 2014 due to the decreased number of fixed line customers as well as the decrease of the outgoing traffic by 27% compared to the same period of 2014.

The number customers¹ in the fixed line services segment at the end of the first quarter of 2015 is 233 thousands and it is decreased by 5.5% compared to the same period of 2014 (246.5 thousands customers), thus remaining the market share of 63% (internal estimation) and leading position on the fixed voice market.



Internet and TV

The **revenues from Internet and digital television via Internet protocol (“IPTV”)** at the end of the first quarter of 2015 have increased by 3.9% compared to the same period of the previous year.

¹With 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

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

DSL customer base at the end of the first quarter of 2015 remained stable compared to the same period of 2014 (0.1% increase) resulting in 188.7 thousand customers and **broadband Internet market share** of 49.9% (internal estimation).

Regarding the **TV market**, the number of IPTV customers (3Max, 2 Max and only IPTV customers) is constantly increasing which resulted in a customer base of 99 thousand customers at the end of the first quarter of 2015 or 9.3% increase compared to the same period of 2014. Thus Makedonski Telekom remained the leading market position encompassing 23.2% (internal estimation) of the total TV market. .



Other revenues

System integration and IT revenues at the end of the first quarter of 2015 have increased by 107.8% compared to the same period of the previous year mainly due to the increased revenues from customised ICT projects, Cloud Computing and other integrated solutions for business customers.

The **revenues from sale of equipment** at the end of the first quarter of 2015 have slightly decreased compared to the same period of the previous year.

Mobile services



Voice

T-Mobile Macedonia has a **leading market position with a market share of 46%** (internal estimation). The subscriber base at the end of the first quarter of 2015 amounts 1,189 thousand subscribers and remained stable compared to the 1,194 thousand subscribers at the same period of the previous year.

Mobile voice revenues at the end of the first quarter of 2015 have decreased by 11.8% compared to the same period of the previous year as a result of the tariff decrease, increased competition and lower termination traffic. The trend of increased usage of mobile services has continued both for voice and data services that are usually bundled into the packages. Consequently, ARPU has declined by 8% compared to the same period of 2014 (MKD 351) amounting to MKD 323.



Non-voice

Non-voice revenues have increased by 8.6% compared to the same period of 2014, as a result of the increased mobile internet revenue due to higher data traffic and increased usage of data tariff plans.

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



Other revenues

The **revenues from sale of equipment** at the end of the first quarter of 2015 have increased by 16.2% compared to the same period of the previous year, mainly driven by higher number of handsets sold both for purpose of customers acquisition and retention.

II Expenses



Operating expenses

On the cost side, at the end of the first quarter of 2015, the operating expenses decreased by 4.2% compared to the same period of the previous year.

The employee related expenses have decreased by 3.1% at the end of the first quarter of 2015 compared to the same period of the previous year mainly due to the lower number of employees.

The cost for depreciation and amortization at the end of the first quarter of 2015 has increased by 1.3% compared to the same period of the previous year. The increase is mainly coming from the amortization of the content rights capitalized in 2014.



Capital expenditures

The total Capital expenditures (CAPEX), at the end of the first quarter of 2015 is MKD 111,589 thousand.

III Net profit

The reported net profit at the end of the first quarter of 2015 amounts MKD 302,552 thousand and it is increased by 470% compared to the same period of the previous year. This is a result of the last year's changes in the profit tax legislation which affected the net profit in the first quarter of 2014.

After eliminating the tax impact, Profit before tax at the end of the first quarter of 2015 amounts MKD 345,132 thousands and it has been decreased by 19.7% compared to the same period of the previous year, reflecting the decrease of revenues partially offset by lower costs.

In MKD thousands

	Q1 2014	Q1 2015	Change in %
Profit before tax	429.554	345.132	-19,7%
Profit tax	511.228	42.580	-91,7%
Net profit after tax	-81.674	302.552	470,4%



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

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, there have been no new developments in the period January 01, 2015 - April 30, 2015 further to the previously disclosed information in the Financial Statements of the Company for the preceding years.

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

Slavko Projkoski
Chief Financial Officer