



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: August 2015

Subject: Explanation on the operation of Makedonski Telekom AD - Skopje for the period from 01.01.2015 until 30.06.2015

The following analysis refers to the unaudited financial statements of Makedonski Telekom for the period 01.01.2015 - 30.06.2015, 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 revenues at Group level in the first half of 2015 amounted to MKD 5,034,652 thousand, which represents a decrease of 5.8% compared to the same period of 2014.

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Fixed line services

Voice

Makedonski Telekom has managed to maintain the **leading position on the fixed voice market** with 61.9% (internal estimation) or 229 thousand customers¹ at the end of the first half of 2015.

The **voice revenues** in the fixed segment services have decreased by 17% compared to the same period of 2014 due to the decreased number of fixed line customers and decreased outgoing traffic by 28% as well as lower international incoming revenues as a result of lower volume of traffic.

Internet and TV

The DSL customer base at the end of first half of 2015 remained stable compared to the same period of 2014 and amounts 189.4 thousand while the **broadband Internet market share for the same period amounts 49.8%** (internal estimation).

Regarding the **TV market**, Makedonski Telekom has the **largest market share** encompassing 23.3% (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, 2 Max and only IPTV customers) by 4.6% compared to the same period of 2014, which has resulted in a customer base of 99.6 thousand customers at the end of the first half of 2015.

The **revenues from retail Internet and digital television via Internet protocol ("IPTV")** at the end of the first half of 2015 have increased by 3.4% compared to the same period of the previous year.

Other revenues

The **revenues from sale of equipment** at the end of the first half of 2015 have decreased by 4.5% compared to the same period of the previous year.

System integration and IT revenues at the end of the first half of 2015 have increased by 179% 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.

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

Mobile services



Voice

The Company has a **leading market position with a market share of 46.7%** (internal estimation). The subscriber base at the end of the first half of 2015 amounts 1,180 thousand subscribers and it is increased by 1.2% compared to the 1,166 thousand subscribers at the same period of the previous year.

Mobile voice revenues at the end of the first half of 2015 have decreased by 12.3% 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 8.3% compared to the same period of 2014 amounting to MKD 331. In addition the decrease of mobile voice revenues is also affected by the lower international incoming mobile terminating volume of traffic.



Non-voice

Non-voice revenues have increased by 11.2% compared to the same period of 2014, as a result of the increased mobile internet revenue due to higher GPRS traffic and increased usage of data tariff plans.



Other revenues

The **revenues from sale of equipment** at the end of the first half of 2015 have increased by 18.3% compared to the same period of the previous year, mainly driven by the higher average selling price of handsets.

II Expenses



Operating expenses

On the cost side, at the end of the first half of 2015, the operating expenses decreased by 3.7% compared to the same period of the previous year.

The employee related expenses have increased by 4.2% at the end of the first half of 2015 compared to the same period of the previous year due to the higher redundancy expenses for the employees which have left the Company.

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The cost for depreciation and amortization at the end of the first half of 2015 remained stable compared to the same period of the previous year.



Capital expenditures

The total Capital expenditures (CAPEX), at the end of the first half of 2015 is MKD 366,939 thousand.

III Net profit

The total net profit at the end of the first half of 2015 amounts MKD 548,087 thousand and it is increased by 200% compared to the same period of the previous year. This is a result of the changes in the profit tax legislation applicable as of January 2014 whereby the profit tax is payable at the moment of dividend distribution regardless of the ownership structure. Consequently², the income tax arising from the payment of dividends was accounted for as a liability and expense in the period in which dividends were declared, regardless of the actual payment date or the period for which the dividends were paid.

As of 1 August 2014, new profit tax law came into force being applicable from 1 January 2015 for the net income for 2014. According to the provisions of the new law, the tax base is the profit generated during the fiscal year increased for non-deductible expenses and reduced for deductible revenue (i.e. dividends already taxed at the payer) and the income tax rate is 10%. In line with these changes there was reintroduction of deferred tax.

The comparison of the Profit before tax excludes the tax impact. Profit before tax at the end of the first half of 2015 amounts MKD 631,164 thousands and it has been decreased by 10.4% compared to the same period of the previous year, reflecting the decrease of revenues partially offset by lower costs.

In MKD thousands

	30.06.2014	30.06.2015	Change in %
Profit before tax	704.425	631.164	-10,4%
Profit tax	521.837	83.077	-84,1%
Net profit after tax	182.588	548.087	200,2%

² as per International Accounting Standard - IAS 12



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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 - June 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

Zarko Lukovski
Chief Operating Officer

Slavko Projkoski
Chief Financial Officer

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