



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:** February 2018

**Subject:** Explanation on the operation of Makedonski Telekom AD - Skopje for the period from 01.01.2017 until 31.12.2017

The following analysis refers to the unaudited financial statements of Makedonski Telekom for the period 01.01.2017 - 31.12.2017, prepared in accordance with the International Financial Reporting Standards (IFRSs).

## I Revenues

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The sales revenues in 2017 amounted to MKD 10,221,094 thousand, which represents decrease of 2.5% compared to the previous year.

### Voice services

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#### Fixed line voice services

Makedonski Telekom has managed to maintain the **leading position on the fixed voice market with 59.6%** (internal estimation) or 210.9 thousand customers at the end of 2017.

**The voice revenues** in 2017 in the fixed segment services have decreased by 12.2% compared to the previous year due to lower subscription as well as the decreased number of fixed line customers by 2.7% and the decreased outgoing traffic by 13.9%.



#### 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 2017 amounts to 1,203 thousand subscribers and it is decreased by 4.3% compared to the previous year.

At the end of 2017, the **mobile voice revenues** have decreased by 5.5% compared to the previous year. The decline is mainly coming from the decrease of price for national incoming mobile terminating traffic combined with the increased volume of traffic and decreased volume in international incoming mobile terminating traffic compensated with the increase in revenues from post-paid. The blended ARPU (Average Revenue Per User) has increased by 2.1% compared to the previous year amounting to MKD 337 mostly driven by the increase of post-paid subscribers' portion in the total subscribers' base.

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## Internet, TV and other non-voice services

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### Fixed Internet and TV

At the end of 2017, the number of total BB accesses is stable with 194.0 thousand compared to 194.2 thousand at the end of the previous year, while the **broadband Internet market share** at the end of 2017 amounts to **46.0%** (internal estimation).

Regarding the **TV market**, Makedonski Telekom has a **market share of 28.2%** (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 (including Magenta1, 3 Play and other TV services) by 9.1% compared to the previous year, which has resulted in a customer base of 117.5 thousand customers at the end of 2017.

The **revenues from retail Internet and digital television via Internet protocol ("IPTV")** at the end of 2017 have increased by 1.8% compared to the previous year.



### Mobile non-voice services

The **non-voice revenues** in 2017 have increased by 20.8% compared to 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.

## Other revenues

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### Other revenues in the fixed and mobile segment

The **revenues from the sale of equipment** at the end of 2017 have increased by 4.7% compared to 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.

**System integration and IT revenues** at the end of 2017 have decreased by 50.3% compared to the previous year. The higher revenues in 2016 were result of the larger number of customised ICT projects.

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## II Expenses

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### Operating expenses

On the cost side, at the end of 2017, the operating expenses are decreased by 6.4% compared to the previous year.

Namely, the employee related expenses have decreased by 23.7% at the end of 2017 compared to the previous year. The decrease is coming from the significant severance expenses in 2016 as well as the lower cost for salaries at the end of 2017 compared to the previous year.

The cost of trading goods sold decreased by 3.4% at the end of 2017 compared to the previous year

The cost for depreciation and amortization at the end of 2017 has declined by 4.2% compared to the previous year.



### Capital expenditures

The total Capital expenditures (CAPEX), at the end of 2017 is MKD 2,494,128 thousand.

## III Net profit

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The above-stated movements on the revenues and costs resulted in an increase of the net profit for 2017 by 33.3% compared to the previous year, resulting in a net profit of MKD 1,380,848 thousand.

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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.*



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*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