

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 2017

Subject: Explanation on the operation of Makedonski Telekom AD - Skopje for the period from 01.01.2017 until 31.03.2017

The following analysis refers to the unaudited financial statements of Makedonski Telekom for the period 01.01.2017 - 31.03.2017, prepared in accordance with the International Financial Reporting Standards (IFRSs).

I Revenues

The sales revenues in the first three months of 2017 amounted to MKD 2,451,613 thousand, which represents decrease of 1.2% 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 59.1%** (internal estimation) or 213.9 thousand customers at the end of the first three months of 2017.

The voice revenues in the first three months of 2017 in the fixed segment services have decreased by 13.9% compared to the same period of the previous year due to the decreased number of fixed line customers by 3.3% and the decreased outgoing traffic by 16.8%, 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 49.4%** (internal estimation). The subscriber base at the end of the first three months of 2017 amounts to 1,233 thousand subscribers and it is increased by 1.2% compared to the same period of the previous year.

At the end of the first three months of 2017, the **mobile voice revenues** have decreased by 4.3% compared to the same period of the previous year. The decline is mainly due to decreased revenues from the international incoming mobile terminating traffic, and also decrease in the national incoming mobile terminating volume of traffic supported by the price decrease. ARPU (Average Revenue Per User) has increased by 2.2% compared to the same period of the previous year amounting to MKD 318.

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

Internet, TV and other non-voice services



Fixed Internet and TV

At the end of the first three months of 2017, the DSL customer base marked a slight increase by 0.2% compared to the same period of the previous year and amounts to 189 thousand, while the **broadband Internet market share for the same period amounts to 47.2%** (internal estimation).

Regarding the **TV market**, Makedonski Telekom has a **market share of 26.5%** (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 the same period of the previous year, which has resulted in a customer base of 110.8 thousand customers at the end of the first three months of 2017.

The **revenues from retail Internet and digital television via Internet protocol ("IPTV")** at the end of the first three months of 2017 have increased by 2.4% compared to the same period of the previous year.



Mobile non-voice services

The **non-voice revenues** in the first three months of 2017 have increased by 29.7% 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.

Other revenues



Other revenues in the fixed and mobile segment

The **revenues from the sale of equipment** at the end of the first three months of 2017 have increased by 3.2% 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 three months of 2017 have decreased by 17.4% compared to the same period of the previous year. The higher revenues in the first three months of 2016 were result of the larger number of customised ICT projects.

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

II Expenses



Operating expenses

On the cost side, at the end of the first three months of 2017, the operating expenses are decreased by 3.5% compared to the same period of the previous year.

Namely, the employee related expenses have decreased by 13.1% at the end of the first three months of 2017 compared to the same period of the previous year. The decrease is due to the lower cost for salaries related to decrease in the number of employees.

The cost of trading goods sold decreased by 6.4% at the end of the first three months of 2017 compared to the same period of the previous year

The cost for depreciation and amortization at the end of the first three months of 2017 has declined by 12.0% compared to the same period of the previous year.



Capital expenditures

The total Capital expenditures (CAPEX), at the end of the first three months of 2017 is MKD 163,964 thousand.

III Net profit

The above-stated movements on the revenues and costs resulted in an increase of the net profit for the first three months of 2017 by 31.7% compared to the same period of the previous year, resulting in a net profit of MKD 329,931 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



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

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 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

Zarko Lukovski
Chief Operating Officer

Slavko Projkoski
Chief Financial Officer

Proofreading by Lingva Ekspert