



1H 2021 Financial Results

18 August 2021 - JSC Silknet (“Silknet” or the “Company”), a leading Georgian telecommunications operator, announced the consolidated reviewed results for the first half of 2021. The consolidated results include the financial statements of JSC Silknet and its subsidiaries (the “Group”).

This document highlights and should be read in conjunction with the Condensed Consolidated Interim Financial Statements for the six months ended 30 June 2021, available on our web site at silknet.com.

Results presentation will follow in early September 2021, once the comparative market data becomes available.

For illustration purposes only, the table below demonstrates year-over-year comparison of consolidated revenue, adjusted EBITDA and capex:

<i>GEL '000</i>	<i>1H 20</i>	<i>1H 21</i>	<i>Y/Y change</i>	<i>Q1 20</i>	<i>Q1 21</i>	<i>Q2 20</i>	<i>Q2 21</i>
Commercial revenue	168,622	177,428	5%	87,201	86,688	81,421	90,741
Carrier services	16,285	20,329	25%	8,507	9,173	7,778	11,156
Total revenue	184,907	197,758	7%	95,708	95,861	89,199	101,897
Adjusted EBITDA	102,013	106,651	5%	52,001	50,202	50,012	56,448
<i>Adjusted EBITDA margin</i>	<i>55%</i>	<i>54%</i>		<i>54%</i>	<i>52%</i>	<i>56%</i>	<i>55%</i>
CAPEX¹	50,199	40,469		31,599	24,705	18,600	15,764
<i>% of revenue</i>	<i>27%</i>	<i>20%</i>		<i>33%</i>	<i>26%</i>	<i>21%</i>	<i>15%</i>

Key takeaways

Silknet’s total revenue increased by 7% y/y and commercial revenue increased by 5% y/y in 1H 21, on the back of strong Q2 performance, with a 14% growth y/y in total revenue and a 11% growth y/y in commercial revenue.

We started 2021 with numerous restrictions related to COVID-19, which were gradually lifted, starting from February. Hence, our revenues in Q1 declined slightly y/y. The opening up of the economy resulted in the heightened economic activity in Q2, which translated into increased demand for the telecommunications services, especially mobile, despite only partial recovery of tourism.

The 25% growth y/y in carrier service was primarily driven by the bulk SMS revenue, thanks to the regulation introduced in August 2020, as well as higher channel rent volume.

Adjusted EBITDA increased by 5%, due to an increase in some operating expenses, mainly driven by the GEL depreciation – either directly or through the increased utility expenses.

Silknet’s capex rate has decreased to 20% of revenues in 1H 21, from 27% in 1H 20, as the company has not initiated any substantial new capital expenditures year-to-date.

¹ Capex in this document represents recurring capex and is the sum of property and equipment and intangible asset additions. Capex does not include non-recurring projects: 1) IT transformation of GEL 1.0m and GEL 20.5m in 1H 20 and 1H 21, respectively; 2) Euronews operating license of GEL 4.6m and GEL 0.3m in 1H 20 and 1H 21, respectively; and 3) acquisition of subscriber contracts from local operator in the amount of GEL 4.4m in 1H 20.

About Silknet

Silknet is the country's largest fixed network provider offering households and businesses the full range of telecommunication services, such as mobile services, fixed broadband, pay TV and fixed telephony.

Silknet is rated B1/Negative by Moody's and B/Stable by Fitch Ratings.

Silknet has a broad subscriber base in Georgia:

- c. 1.67 million mobile customers
- c. 205,000 fixed line customers
- c. 300,000 fixed broadband customers
- c. 225,000 pay TV customers

(As at 31/05/2021; source: Georgian National Communications Commission; Pay TV does not include mobile streaming application subscribers)

Silknet is part of Silk Road Group, one of the Caucasus's leading investment groups.

Consolidated Statement of Profit or Loss and Other Comprehensive Income for the first halves of 2020 and 2021

<i>GEL '000</i>	<i>IH 20</i>	<i>IH 21</i>	<i>Y/Y change</i>	<i>Q1 20</i>	<i>Q1 21</i>	<i>Q2 20</i>	<i>Q2 21</i>
Revenues:	184,907	197,758	7%	95,708	95,861	89,199	101,897
Commercial revenue	168,622	177,428	5%	87,201	86,688	81,421	90,741
Carrier services	16,285	20,329	25%	8,507	9,173	7,778	11,156
Costs and expenses:							
Interconnect fees and roaming expense	(7,467)	(8,928)	20%	(4,417)	(4,337)	(3,050)	(4,590)
Pay TV content cost	(6,351)	(6,032)	-5%	(3,179)	(3,061)	(3,172)	(2,971)
Costs of SIM cards, scratch cards and other cost of sales	(428)	(374)	-13%	(331)	(223)	(97)	(150)
Advertising and marketing	(2,764)	(3,217)	16%	(1,608)	(1,759)	(1,155)	(1,458)
Depreciation and amortisation charges	(58,372)	(58,035)	-1%	(29,275)	(29,502)	(29,097)	(28,533)
Salaries and benefits	(28,332)	(30,981)	9%	(14,508)	(15,820)	(13,824)	(15,161)
Purchased services	(18,158)	(21,038)	16%	(8,912)	(10,835)	(9,246)	(10,203)
Network management and maintenance costs	(8,116)	(8,155)	0%	(4,144)	(3,955)	(3,972)	(4,200)
Infrastructure capacity rentals, IRU and lease expenses	(3,603)	(2,949)	-18%	(2,074)	(1,494)	(1,529)	(1,455)
Other expenses	(12,021)	(10,913)	-9%	(7,224)	(5,098)	(4,798)	(5,815)
Profit from operating activities	39,294	47,136	20%	20,035	19,777	19,259	27,359
Finance income	2,102	2,353	12%	1,157	1,182	945	1,170
Finance expense	(43,928)	(45,838)	4%	(22,984)	(23,519)	(20,944)	(22,319)
Other financial instrument at FVTPL – net change in fair value	2,400	(8,850)		12,724	2,552	(10,324)	(11,402)
Net Foreign exchange gain /(loss)	(40,341)	23,156		(94,976)	(26,604)	54,635	49,759
Profit/(loss) before income tax	(40,473)	17,956		(84,044)	(26,611)	43,571	44,567
Income tax expense	835	(161)		(312)	(73)	1,146	(88)
Total profit/(Loss) for the period	(39,638)	17,796		(84,356)	(26,684)	44,717	44,479

Note: Certain figures included in this document have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as total in certain tables may not be an arithmetic aggregation of the figures that precede them.

Consolidated Statement of Financial Position as at 31 December 2019, 31 December 2020, 31 March 2021 and 30 June 2021

<i>GEL '000</i>	<i>31-Dec-19</i>	<i>31-Dec-20</i>	<i>31-Mar-21</i>	<i>30-Jun-21</i>
ASSETS				
Non-current assets				
Property and equipment	377,686	393,887	392,907	388,796
Intangible assets and contract costs	199,716	196,229	193,390	206,393
Other non-current assets	41,713	39,611	39,603	33,520
Other financial instrument at FVTPL – net change in fair value	-	13,425	15,977	9,043
Investment property	29,582	63,055	65,678	60,839
Right-of-use assets	52,872	44,783	42,531	40,667
Prepayments related to IRU contracts	10,321	9,849	9,715	9,582
Total non-current assets	711,890	760,840	759,801	748,841
Current assets				
Inventories	10,980	10,645	10,461	10,850
Prepayments related to IRU contracts	2,173	2,173	2,173	2,173
Trade and other receivables, net	37,481	30,349	30,639	30,797
Cash and cash equivalents	74,862	77,791	68,538	46,074
Total current assets	125,496	120,959	111,810	89,895
TOTAL ASSETS	837,386	881,799	871,611	838,735
EQUITY				
Share capital	84,056	84,056	84,056	84,056
Additional paid-in capital	8,026	8,026	8,026	8,026
Accumulated losses	(64,288)	(151,321)	(178,090)	(133,801)
Equity attributable to owners of the Company	27,794	(59,239)	(86,008)	(41,719)
Non-controlling interest	54	(74)	12	201
TOTAL EQUITY	27,848	(59,313)	(85,997)	(41,518)
LIABILITIES				
Non-current liabilities				
Loans and borrowings	617,798	668,084	694,248	645,578
Trade and other payables	13,144	32,968	26,899	40,570
Advances received from IRU contracts and subscribers	14,662	13,913	13,744	13,483
Lease liability	45,438	39,847	38,221	35,706
Total non-current liabilities	691,042	754,812	773,112	735,337
Loans and borrowings (Current)	16,989	54,399	41,573	21,743
Trade and other payables	67,379	96,446	107,557	87,215
Advances received from IRU contracts and subscribers	21,949	23,041	22,959	23,448
Lease liability	12,179	12,414	12,407	12,510
Total current liabilities	118,497	186,300	184,496	144,916
TOTAL LIABILITIES	809,538	941,112	957,607	880,253
TOTAL LIABILITIES AND EQUITY	837,386	881,799	871,611	838,735

Note: Certain figures included in this document have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as total in certain tables may not be an arithmetic aggregation of the figures that precede them.

Consolidated Statement of Cash Flows for the first halves of 2020 and 2021

<i>GEL '000</i>	<i>IH 20</i>	<i>IH 21</i>	<i>Q1 20</i>	<i>Q1 21</i>	<i>Q2 20</i>	<i>Q2 21</i>
Cash flows from operating activities						
Cash received from subscribers	195,512	207,465	100,616	100,300	94,896	107,165
Cash received from other telecom operators	10,138	11,088	4,976	5,581	5,162	5,507
Salaries and benefits paid to and on behalf of employees	(26,964)	(30,490)	(12,981)	(15,539)	(13,983)	(14,950)
Interconnection fees and roaming expenses paid	(5,783)	(7,689)	(2,393)	(3,318)	(3,390)	(4,371)
Purchase of inventory	(4,766)	(4,509)	(2,735)	(2,132)	(2,031)	(2,377)
Taxes paid other than income	(22,425)	(27,469)	(8,242)	(11,769)	(14,183)	(15,700)
Income tax paid	(135)	(184)	(104)	(102)	(31)	(82)
Network repair costs paid	(5,457)	(5,860)	(2,554)	(2,850)	(2,903)	(3,010)
Other operating expenses paid	(30,388)	(40,994)	(16,763)	(19,402)	(13,625)	(21,592)
Net cash provided by operating activities	109,732	101,358	59,820	50,768	49,912	50,590
Cash flows from investing activities						
Purchase of property, plant and equipment	(33,581)	(27,392)	(17,174)	(12,128)	(16,408)	(15,264)
Purchase of investment property	(31,065)	(234)	-	(234)	(31,065)	-
Purchase of other intangible assets	(16,476)	(23,428)	(9,266)	(11,242)	(7,211)	(12,186)
Proceeds from disposals of PPE	157	639	128	60	29	579
Interest received	1,249	1,534	510	773	739	761
Net cash provided by Investing activities	(79,717)	(48,882)	(25,801)	(22,772)	(53,916)	(26,110)
Cash flows from financing activities						
Proceeds from borrowings	-	-	-	-	-	-
Repayment of borrowings	-	(33,846)	-	(33,846)	-	-
Interest paid	(42,247)	(42,599)	(1,920)	(2,873)	(40,327)	(39,726)
Net payments of other financial instruments at FVTPL	(3,493)	(4,468)	-	-	(3,493)	(4,468)
Lease payments	(4,448)	(4,298)	(3,261)	(2,225)	(1,187)	(2,073)
Dividend payments	-	-	-	-	-	-
Net cash provided by Financing activities	(50,188)	(85,211)	(5,181)	(38,944)	(45,007)	(46,267)
Effect of exchange rate changes on cash and cash equivalents	8,436	1,018	12,305	1,694	(3,869)	(676)
Net increase in cash and cash equivalents	(11,736)	(31,717)	41,143	(9,254)	(52,879)	(22,463)
Cash and cash equivalents at the beginning of year	74,864	77,791	74,864	77,791	116,007	68,538
Cash and cash equivalents at the end of year	63,128	46,074	116,007	68,538	63,128	46,074

Note: Certain figures included in this document have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as total in certain tables may not be an arithmetic aggregation of the figures that precede them.

Details of the Consolidated Financial Statements for the first halves of 2020 and 2021

1. Revenues

<i>GEL '000</i>	<i>1H 20</i>	<i>1H 21</i>	<i>Y/Y change</i>	<i>Q1 20</i>	<i>Q1 21</i>	<i>Q2 20</i>	<i>Q2 21</i>
Commercial revenue	168,622	177,428	5%	87,201	86,688	81,420	90,741
Retail mobile	86,946	93,076	7%	44,796	44,540	42,150	48,536
Mobile callout service	49,608	49,784	0%	25,677	23,981	23,931	25,803
Mobile data service	30,680	36,633	19%	15,497	17,227	15,182	19,407
Revenue from SMS	4,513	4,277	-5%	2,354	2,153	2,159	2,123
Revenue from other mobile services	1,739	1,976	14%	954	934	785	1,042
Revenue from phone sales and accessories	407	405	0%	314	245	93	160
Retail Fixed	81,676	84,352	3%	42,405	42,147	39,271	42,205
Internet service	49,435	50,173	1%	25,541	24,984	23,894	25,189
Pay TV	22,303	23,420	5%	11,427	11,920	10,877	11,500
Fixed telephone service	8,535	7,272	-15%	4,411	3,672	4,124	3,600
Facility rental service	1,094	1,258	15%	537	633	557	625
Revenue from other services ²	308	2,229	624%	489	937	(181)	1,292
Wireless telephone ("CDMA") service	0	-	-100%	0	-	0	-
Carrier and other services	16,285	20,329	25%	8,507	9,173	7,778	11,156
Interconnect service	10,323	12,953	25%	5,187	5,903	5,136	7,050
Roaming Revenue	1,311	1,496	14%	1,100	428	211	1,068
Internet Service	1,103	1,112	1%	657	543	446	570
Facility rental service	3,547	4,769	34%	1,563	2,300	1,985	2,468
Total revenue	184,907	197,758	7%	95,708	95,861	89,199	101,897

² Negative amount for revenue received from other fixed services in Q2 20 is derived from correction related to advertising revenues made in June 2020 in the amount of minus GEL 339 thousand for the first six months of 2020

2. Adjusted EBITDA

Adjusted EBITDA is calculated by adjusting profit from continuing operations to exclude the following items:

- finance costs and finance income;
- corporate income tax and any other taxes related to the distribution of dividends;
- depreciation, amortisation, revaluation, impairment (losses / reversals) of non-current assets;
- net foreign exchange gain/(loss), including gain/(loss) on hedging instruments, currency forward contracts and any other gain/(loss) attributable to changes in foreign currency exchange rates; and
- specific items as explained below:

Specific items are identified by virtue of their size, nature or incidence. Specific items represent a) income or loss related to the sale or write-off of non-current assets and any other non-cash items; b) non-recurring, non-underlying or non-operating income or costs that are either material by nature or size (such as bargaining gain on business acquisition, business acquisition related costs, costs related to fundraising and the listing of the Group's securities, write off of issued loan, one time professional fees, etc.).

Reconciliation of adjusted EBITDA to profit from continuing operations

<i>GEL '000</i>	<i>1H 20</i>	<i>1H 21</i>	<i>Q1 20</i>	<i>Q1 21</i>	<i>Q2 20</i>	<i>Q2 21</i>
Loss for the year	(39,638)	17,796	(84,356)	(26,684)	44,717	44,479
Depreciation and amortisation	58,372	58,035	29,275	29,502	29,097	28,533
Finance costs	43,928	45,838	22,984	23,519	20,944	22,319
Finance income	(2,102)	(2,353)	(1,157)	(1,182)	(945)	(1,170)
Other financial instrument at FVTPL – net change in fair value	(2,400)	8,850	(12,724)	(2,552)	10,324	11,402
Net foreign exchange loss	40,341	(23,156)	94,976	26,604	(54,635)	(49,759)
Income tax expense	(835)	161	312	73	(1,146)	88
Specific items	4,347	1,479	2,691	923	1,656	556
Adjusted EBITDA	102,013	106,651	52,001	50,202	50,012	56,448
<i>Adjusted EBITDA margin %</i>	<i>55%</i>	<i>54%</i>	<i>54%</i>	<i>52%</i>	<i>56%</i>	<i>55%</i>

Note: Adjusted EBITDA for the purposes of this document means EBITDA as per our investor presentation.