



## 9M 2020 Financial Results

10 November 2020 - JSC Silknet (“Silknet” or the “Company”), a leading Georgian telecommunications operator, announced the unaudited consolidated results for the nine months ending 30 September 2020 and Q3 20. The consolidated results include the financial statements of JSC Silknet and its subsidiaries (the “Group”).

Results presentation will follow later in November 2020, once the comparative market data becomes available.

For illustration purposes only, the table below demonstrates year-over-year comparison of consolidated revenue, adjusted EBITDA (including the impact of IFRS 16, unless otherwise stated) and capex:

<i>GEL '000</i>	<i>Y/Y change</i>									<i>Y/Y change</i>
	<i>9M 19</i>	<i>9M 20</i>	<i>9M</i>	<i>Q1 19</i>	<i>Q2 19</i>	<i>Q3 19</i>	<i>Q1 20</i>	<i>Q2 20</i>	<i>Q3 20</i>	<i>Q3</i>
Commercial revenue	255,529	258,176	1%	80,615	83,477	91,438	87,201	81,421	89,554	-2%
Carrier services	31,192	24,732	-21%	9,269	10,676	11,246	8,507	7,778	8,447	-25%
<b>Total revenue</b>	<b>286,721</b>	<b>282,908</b>	<b>-1%</b>	<b>89,884</b>	<b>94,153</b>	<b>102,684</b>	<b>95,708</b>	<b>89,199</b>	<b>98,001</b>	<b>-5%</b>
<b>Adjusted EBITDA</b>	<b>159,901</b>	<b>156,856</b>	<b>-2%</b>	<b>48,297</b>	<b>52,127</b>	<b>59,477</b>	<b>52,378</b>	<b>49,635</b>	<b>54,843</b>	<b>-8%</b>
<i>Adjusted EBITDA margin</i>	<i>56%</i>	<i>55%</i>		<i>54%</i>	<i>55%</i>	<i>58%</i>	<i>55%</i>	<i>56%</i>	<i>56%</i>	
<b>CAPEX<sup>1</sup></b>	<b>70,619</b>	<b>73,403</b>		<b>12,444</b>	<b>27,545</b>	<b>30,630</b>	<b>31,595</b>	<b>18,604</b>	<b>23,204</b>	
<i>% of revenue</i>	<i>25%</i>	<i>26%</i>		<i>14%</i>	<i>29%</i>	<i>30%</i>	<i>33%</i>	<i>21%</i>	<i>24%</i>	

<i>GEL '000</i>	<i>w/o IFRS 16</i>	<i>w/o IFRS 16</i>	<i>Y/Y change</i>	<i>Note</i>
	<i>9M 19</i>	<i>9M 20</i>	<i>9M</i>	
Commercial revenue	255,529	258,176	1%	1
Carrier services	31,192	24,732	-21%	1
<b>Total revenue</b>	<b>286,721</b>	<b>282,908</b>	<b>-1%</b>	
<b>Adjusted EBITDA</b>	<b>150,548</b>	<b>146,697</b>	<b>-3%</b>	<b>2</b>
<i>Adjusted EBITDA margin</i>	<i>53%</i>	<i>52%</i>		

### Key takeaways

COVID-19 affected the Company’s performance, leading to 8% and 2% y/y decline in adjusted EBITDA in Q3 20 and 9M 20, respectively.

Telecommunications stays one of the most resilient sectors. However, the lockdown has significantly impacted other sectors, resulting in slight decline in demand for some of our services. The top-line decreased by 5% in both Q2 20 and Q3 20, partly offset by the 6% increase in Q1 20 (refer to note 1).

GEL 3m growth of commercial revenue in 9M 20 is mainly attributable to Q1 20, which outweighed a 2% y/y decrease in both Q2 20 and Q3 20.

<sup>1</sup> 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 6m and GEL 1m in 9M 19 and 9M 20, respectively; 2) Euronews operating license of GEL 5m in 9M 20; 3) Acquisition of subscriber contracts and a brand name from the local operator in amount of GEL 4m in 9M 20.

The Company managed to achieve cost optimization through temporary closure of shops, offices and adaption of other administrative processes. However, as c. 28% of operating expenses are denominated in hard currency, the optimization impact was offset by >9% depreciation of GEL against USD (based on average exchange rates). Operating expenses<sup>1</sup> stayed flat in Q3 20 and decreased by 1% in 9M 20 y/y.

Capital expenditures for 9M 20 comprised approximately GEL 73m, or circa 26% of revenue. Development capex for 9M 20, representing about half of total capex, mainly consisted of continued 4G roll-out, fiber network deployment and IP network upgrade.

The lockdown was lifted in early June and most of the businesses have reopened. Recently the number of infected cases have accelerated again. For now, the government is trying to avoid repeat blanket lock-down and intends to impose targeted restrictions only. We continue to watch the epidemiologic and economic situation. While we are encouraged by the September economic estimates – real GDP only - 0.7% y/y and VAT turnover +3.2% y/y, – Silknet’s operating environment is likely to remain challenging in the coming months.

## **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/Stable by Moody’s and B+/Stable by Fitch Ratings.

Silknet has a broad subscriber base in Georgia:

- c. 1.66 million mobile customers
- c. 223,000 fixed line customers
- c. 290,000 fixed broadband customers
- c. 229,000 pay TV customers

(As at 31/08/2020; 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.

<sup>1</sup> Operating expenses without depreciation and amortisation charges and specific items.

**Consolidated Statement of Profit or Loss and Other Comprehensive Income for the nine months ended 30 September 2020 and 2019**

<i>GEL '000</i>	<i>Y/Y change</i>									<i>Y/Y change</i>
	<i>9M 19</i>	<i>9M 20</i>	<i>9M</i>	<i>Q1 19</i>	<i>Q2 19</i>	<i>Q3 19</i>	<i>Q1 20</i>	<i>Q2 20</i>	<i>Q3 20</i>	<i>Q3</i>
<b>Revenues:</b>	<b>286,721</b>	<b>282,908</b>	-1%	<b>89,884</b>	<b>94,153</b>	<b>102,684</b>	<b>95,708</b>	<b>89,199</b>	<b>98,001</b>	-5%
Commercial revenue	255,529	258,176	1%	80,615	83,477	91,438	87,201	81,421	89,554	-2%
Carrier services	31,192	24,732	-21%	9,269	10,676	11,246	8,507	7,778	8,447	-25%
<b>Costs and expenses:</b>										
Interconnect fees and roaming expense	(12,991)	(11,514)	-11%	(4,580)	(4,428)	(3,982)	(4,417)	(3,050)	(4,047)	2%
Pay TV content cost	(8,164)	(9,444)	16%	(2,421)	(2,890)	(2,853)	(3,179)	(3,172)	(3,094)	8%
Costs of SIM cards, scratch cards and other cost of sales	(1,935)	(613)	-68%	(551)	(463)	(920)	(331)	(97)	(186)	-80%
Advertising and marketing <sup>1</sup>	(6,193)	(4,545)	-27%	(2,019)	(2,593)	(1,582)	(1,867)	(896)	(1,781)	13%
Depreciation and amortisation charges	(83,757)	(87,753)	5%	(32,520)	(23,871)	(27,366)	(29,652)	(28,720)	(29,380)	7%
Salaries and benefits	(41,168)	(42,420)	3%	(13,753)	(13,652)	(13,764)	(14,508)	(13,824)	(14,088)	2%
Purchased services <sup>1</sup>	(23,207)	(28,204)	22%	(9,190)	(6,148)	(7,869)	(8,653)	(9,505)	(10,046)	28%
Network management and maintenance costs <sup>1</sup>	(10,171)	(12,158)	20%	(3,736)	(3,206)	(3,229)	(4,144)	(3,972)	(4,042)	25%
Infrastructure capacity rentals, IRU and lease expenses	(7,216)	(5,468)	-24%	(2,464)	(2,401)	(2,351)	(2,074)	(1,529)	(1,865)	-21%
Other expenses <sup>1</sup>	(23,571)	(15,974)	-32%	(7,069)	(8,351)	(8,151)	(6,847)	(5,174)	(3,953)	-52%
<b>Profit from operating activities</b>	<b>68,348</b>	<b>64,814</b>	<b>-5%</b>	<b>11,581</b>	<b>26,151</b>	<b>30,616</b>	<b>20,035</b>	<b>19,259</b>	<b>25,519</b>	<b>-17%</b>
Finance income	3,327	3,565	7%	663	1,206	1,458	1,157	945	1,463	0%
Finance expense	(79,885)	(65,818)	-18%	(17,380)	(40,981)	(21,525)	(22,984)	(20,944)	(21,889)	2%
Other financial instrument at FVTPL – net change in fair value	2,640	8,556		-	1,542	1,098	12,724	(10,324)	6,156	
Net Foreign exchange gain /(loss)	(54,369)	(93,048)		(2,926)	(34,819)	(16,624)	(94,976)	54,635	(52,707)	
<b>Profit/(loss) before income tax</b>	<b>(59,939)</b>	<b>(81,931)</b>		<b>(8,061)</b>	<b>(46,902)</b>	<b>(4,976)</b>	<b>(84,044)</b>	<b>43,571</b>	<b>(41,458)</b>	
Income tax expense	(1,158)	648		(929)	(142)	(87)	(312)	1,146	(187)	
<b>Total profit/(Loss) for the period</b>	<b>(61,097)</b>	<b>(81,282)</b>		<b>(8,989)</b>	<b>(47,044)</b>	<b>(5,063)</b>	<b>(84,356)</b>	<b>44,717</b>	<b>(41,644)</b>	

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.

<sup>1</sup> There have been some minor changes in classification of expenses resulting in transfer of GEL 1.3m from other expenses to network management and maintenance costs in 9m 19 and transfer of GEL 0.8m expense from advertising and marketing to purchased services. Neither adjusted EBITDA nor any other parameter has been amended.

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

<i>GEL '000</i>	<i>31 Dec 19</i>	<i>31 Mar 20</i>	<i>30 Jun 20</i>	<i>30 Sep 20</i>
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property and equipment	377,686	377,713	374,814	378,458
Intangible assets and contract costs	199,716	208,115	206,863	198,218
Other non-current assets	41,713	46,036	48,347	43,873
Other financial instrument at FVTPL – net change in fair value	-	12,557	5,725	11,882
Investment property	29,582	58,260	61,104	61,364
Right-of-use assets	52,872	50,926	50,063	48,565
Prepayments related to IRU contracts	10,321	10,206	10,087	9,970
<b>Total non-current assets</b>	<b>711,890</b>	<b>763,812</b>	<b>757,003</b>	<b>752,331</b>
<b>Current assets</b>				
Inventories	10,980	11,589	11,422	11,367
Prepayments related to IRU contracts	2,173	2,173	2,173	2,173
Trade and other receivables, net	37,481	35,995	33,118	31,282
Cash and cash equivalents	74,862	116,005	63,126	95,384
<b>Total current assets</b>	<b>125,496</b>	<b>165,761</b>	<b>109,839</b>	<b>140,207</b>
<b>TOTAL ASSETS</b>	<b>837,386</b>	<b>929,574</b>	<b>866,842</b>	<b>892,537</b>
<b>EQUITY</b>				
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)	(148,533)	(103,917)	(145,468)
<b>Equity attributable to owners of the Company</b>	<b>27,794</b>	<b>(56,451)</b>	<b>(11,834)</b>	<b>(53,386)</b>
Non-controlling interest	54	(53)	47	(46)
<b>TOTAL EQUITY</b>	<b>27,848</b>	<b>(56,504)</b>	<b>(11,788)</b>	<b>(53,432)</b>
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Loans and borrowings	617,798	702,458	625,239	670,251
Trade and other payables	13,144	24,058	23,090	24,347
Advances received from IRU contracts and subscribers	14,662	14,250	14,076	14,133
Lease liability	45,438	45,288	43,335	43,071
<b>Total non-current liabilities</b>	<b>691,042</b>	<b>786,054</b>	<b>705,739</b>	<b>751,802</b>
<b>Current liabilities</b>				
Loans and borrowings (current)	16,989	37,916	49,465	71,955
Trade and other payables	67,379	94,751	89,887	87,343
Payable for investment property	-	32,714	-	-
Advances received from IRU contracts and subscribers	21,949	22,151	21,128	22,102
Lease liability	12,179	12,492	12,411	12,768
<b>Total current liabilities</b>	<b>118,497</b>	<b>200,024</b>	<b>172,890</b>	<b>194,167</b>
<b>TOTAL LIABILITIES</b>	<b>809,538</b>	<b>986,078</b>	<b>878,629</b>	<b>945,969</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>837,386</b>	<b>929,574</b>	<b>866,842</b>	<b>892,537</b>

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 nine months ended 30 September 2020 and 2019**

<i>GEL '000</i>	<i>9M 19</i>	<i>9M 20</i>	<i>Q1 19</i>	<i>Q2 19</i>	<i>Q3 19</i>	<i>Q1 20</i>	<i>Q2 20</i>	<i>Q3 20</i>
<b>Cash flows from operating activities</b>								
Cash received from subscribers	294,655	300,950	91,105	96,728	106,822	100,616	94,896	105,437
Cash received from other telecom operators	23,088	14,976	8,373	7,255	7,460	4,976	5,162	4,838
Salaries and benefits paid to and on behalf of employees	(38,086)	(41,917)	(11,162)	(13,979)	(12,945)	(12,981)	(13,983)	(14,953)
Interconnection fees and roaming expenses paid	(9,530)	(9,536)	(3,120)	(3,403)	(3,007)	(2,393)	(3,390)	(3,753)
Purchase of inventory	(16,025)	(7,407)	(5,530)	(3,377)	(7,118)	(2,735)	(2,031)	(2,641)
Taxes paid other than income	(41,102)	(34,071)	(9,784)	(16,939)	(14,379)	(8,242)	(14,183)	(11,646)
Income tax paid	(757)	(335)	(762)	75	(70)	(104)	(31)	(200)
Network repair costs paid	(8,821)	(8,058)	(3,337)	(1,338)	(4,146)	(2,554)	(2,903)	(2,600)
Other operating expenses paid	(63,552)	(49,661)	(21,933)	(21,563)	(20,056)	(16,763)	(13,625)	(19,273)
<b>Net cash provided by operating activities</b>	<b>139,870</b>	<b>164,942</b>	<b>43,849</b>	<b>43,461</b>	<b>52,560</b>	<b>59,820</b>	<b>49,912</b>	<b>55,209</b>
<b>Cash flows from investing activities</b>								
Purchase of property, plant and equipment	(55,300)	(50,546)	(10,549)	(20,785)	(23,966)	(17,174)	(16,407)	(16,965)
Purchase of investment property	-	(31,423)	-	-	-	-	(31,065)	(358)
Purchase of other intangible assets	(29,115)	(23,447)	(8,958)	(8,570)	(11,588)	(9,266)	(7,210)	(6,970)
Proceeds from disposals of PPE	1,016	1,586	443	395	178	128	29	1,429
Interest received	2,918	1,973	223	677	2,018	510	739	724
<b>Net cash provided by investing activities</b>	<b>(80,481)</b>	<b>(101,857)</b>	<b>(18,840)</b>	<b>(28,284)</b>	<b>(33,357)</b>	<b>(25,801)</b>	<b>(53,916)</b>	<b>(22,140)</b>
<b>Cash flows from financing activities</b>								
Proceeds from borrowings	530,678	-	-	529,490	1,189	-	-	-
Repayment of borrowings	(367,863)	-	(2,383)	(365,480)	-	-	-	-
Penalties paid for early repayment of loans	(7,149)	-	-	(7,149)	-	-	-	-
Repayment of subordinated loan	(30,326)	-	-	(30,326)	-	-	-	-
Repayment of subordinated loan interest	(4,989)	-	-	(4,989)	-	-	-	-
Repayment of promissory note	(43,170)	-	-	(43,170)	-	-	-	-
Interest paid	(15,805)	(40,958)	(10,389)	(3,736)	(1,679)	(1,920)	(37,106)	(1,932)
Net payments of other financial instruments at FVTPL	-	(3,493)	-	-	-	-	(3,493)	-
Lease payments	(8,212)	(10,954)	(2,100)	(3,832)	(2,280)	(3,261)	(4,408)	(3,285)
Dividend payments	(5,441)	-	(2,096)	(3,345)	-	-	-	-
<b>Net cash provided by financing activities</b>	<b>47,724</b>	<b>(55,405)</b>	<b>(16,968)</b>	<b>67,462</b>	<b>(2,771)</b>	<b>(5,181)</b>	<b>(45,007)</b>	<b>(5,217)</b>
Effect of exchange rate changes on cash and cash equivalents	8,547	12,842	(45)	6,051	2,540	12,305	(3,869)	4,406
<b>Net increase in cash and cash equivalents</b>	<b>115,660</b>	<b>20,522</b>	<b>7,996</b>	<b>88,691</b>	<b>18,973</b>	<b>41,143</b>	<b>(52,879)</b>	<b>32,257</b>
Cash and cash equivalents at the beginning of year	9,264	74,864	9,264	17,260	105,951	74,864	116,007	63,128
<b>Cash and cash equivalents at the end of year</b>	<b>124,924</b>	<b>95,385</b>	<b>17,260</b>	<b>105,951</b>	<b>124,924</b>	<b>116,007</b>	<b>63,128</b>	<b>95,385</b>

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.

Notes to the Consolidated Financial Statements for the nine months ended 30 September 2020 and 2019

1. Revenues

<i>GEL '000</i>	<i>9M 19</i>	<i>9M 20</i>	Y/Y change <i>9M</i>	<i>Q1 19</i>	<i>Q2 19</i>	<i>Q3 19</i>	<i>Q1 20</i>	<i>Q2 20</i>	<i>Q3 20</i>	Y/Y change <i>Q3</i>
<b>Commercial revenue</b>	<b>255,529</b>	<b>258,176</b>	<b>1%</b>	<b>80,615</b>	<b>83,476</b>	<b>91,438</b>	<b>87,201</b>	<b>81,421</b>	<b>89,554</b>	<b>-2%</b>
Mobile callout	76,947	76,906	0%	24,807	25,782	26,358	25,677	23,931	27,298	4%
Fixed broadband	69,754	73,346	5%	22,241	23,416	24,097	25,541	23,894	23,911	-1%
Mobile data	42,269	49,067	16%	12,155	12,702	17,412	15,497	15,183	18,387	6%
Pay TV	31,705	33,572	6%	10,024	10,390	11,291	11,427	10,876	11,269	0%
Fixed telephone	14,887	12,510	-16%	5,066	4,958	4,863	4,411	4,124	3,975	-18%
Revenue from SMS	10,195	6,819	-33%	2,926	3,002	4,267	2,354	2,159	2,306	-46%
Revenue from other services	5,504	3,754	-32%	1,850	1,790	1,864	1,442	604	1,707	-8%
Revenue from phone sales and accessories	1,628	535	-67%	543	439	646	314	93	128	-80%
Wireless telephone ("CDMA") service	1,091	-	-100%	508	473	110	-	-	-	-100%
Infrastructure capacity rental service	1,548	1,667	8%	494	526	528	537	557	573	8%
<b>Carrier and other services</b>	<b>31,192</b>	<b>24,732</b>	<b>-21%</b>	<b>9,269</b>	<b>10,677</b>	<b>11,247</b>	<b>8,507</b>	<b>7,778</b>	<b>8,447</b>	<b>-25%</b>
Interconnect service	18,451	16,011	-13%	5,623	6,413	6,414	5,188	5,135	5,687	-11%
Infrastructure capacity rental service	5,904	5,453	-8%	1,960	1,993	1,951	1,563	1,984	1,906	-2%
Roaming revenue	5,337	1,630	-69%	1,169	1,785	2,383	1,100	211	319	-87%
Internet wholesale	1,500	1,638	9%	516	487	498	657	446	535	7%
<b>Total revenue</b>	<b>286,721</b>	<b>282,908</b>	<b>-1%</b>	<b>89,884</b>	<b>94,153</b>	<b>102,684</b>	<b>95,708</b>	<b>89,199</b>	<b>98,001</b>	<b>-5%</b>

## 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

GEL '000	w/o IFRS 16		w/o IFRS 16		9M 19	9M 20	Q1 19	Q2 19	Q3 19	Q1 20	Q2 20	Q3 20
	9M 19	9M 20	9M 19	9M 20								
<b>Loss for the year</b>	<b>(57,784)</b>	<b>(77,926)</b>	<b>(61,097)</b>	<b>(81,282)</b>	<b>(8,989)</b>	<b>(47,044)</b>	<b>(5,064)</b>	<b>(84,356)</b>	<b>44,718</b>	<b>(41,644)</b>		
Depreciation and amortisation	77,427	80,817	83,757	87,753	32,520	23,870	27,367	29,652	28,720	29,381		
Finance costs	74,709	61,049	79,885	65,818	17,380	40,980	21,525	22,984	20,944	21,890		
Finance income	(3,327)	(3,565)	(3,327)	(3,565)	(663)	(1,206)	(1,458)	(1,157)	(945)	(1,463)		
Other financial instrument at FVTPL – net change in fair value	(2,640)	(8,556)	(2,640)	(8,556)	-	(1,542)	(1,098)	(12,724)	10,324	(6,156)		
Net foreign exchange loss	53,211	91,237	54,369	93,048	2,926	34,819	16,624	94,976	(54,635)	52,707		
Income tax expense	1,158	(648)	1,158	(648)	929	142	87	312	(1,147)	187		
Specific items	7,796	4,289	7,796	4,289	4,196	2,106	1,494	2,691	1,656	(58)		
<b>Adjusted EBITDA</b>	<b>150,548</b>	<b>146,697</b>	<b>159,901</b>	<b>156,856</b>	<b>48,297</b>	<b>52,127</b>	<b>59,477</b>	<b>52,378</b>	<b>49,635</b>	<b>54,843</b>		
<i>Adjusted EBITDA margin %</i>	<i>53%</i>	<i>52%</i>	<i>56%</i>	<i>55%</i>	<i>54%</i>	<i>55%</i>	<i>58%</i>	<i>55%</i>	<i>56%</i>	<i>56%</i>		

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