



## 1H 2020 Financial Results

20 August 2020 - JSC Silknet (“Silknet” or the “Company”), a leading Georgian telecommunications operator, announced the consolidated reviewed results for the first half of 2020. 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 2020, available on our web site at [silknet.com](http://silknet.com).

Results presentation will follow in early September 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>1H 19</i>	<i>1H 20</i>	<i>Y/Y change</i>	<i>Q1 19</i>	<i>Q2 19</i>	<i>Q1 20</i>	<i>Q2 20</i>	<i>Note</i>
Commercial Revenue	164,091	168,622	3%	80,615	83,477	87,201	81,421	1
Carrier Services	19,946	16,285	-18%	9,269	10,676	8,507	7,778	1
<b>Total revenue</b>	<b>184,037</b>	<b>184,907</b>	<b>0%</b>	<b>89,884</b>	<b>94,153</b>	<b>95,708</b>	<b>89,199</b>	
<b>Adjusted EBITDA</b>	<b>100,424</b>	<b>102,013</b>	<b>2%</b>	<b>48,297</b>	<b>52,127</b>	<b>52,378</b>	<b>49,635</b>	<b>2</b>
<i>EBITDA margin</i>	<i>55%</i>	<i>55%</i>		<i>54%</i>	<i>55%</i>	<i>55%</i>	<i>56%</i>	
<b>CAPEX *</b>	<b>39,989</b>	<b>50,199</b>		<b>12,444</b>	<b>27,545</b>	<b>31,595</b>	<b>18,604</b>	
<i>% of Revenues</i>	<i>22%</i>	<i>27%</i>		<i>14%</i>	<i>29%</i>	<i>33%</i>	<i>21%</i>	

Without the IFRS 16 impact, the results are as follows:

<i>GEL '000</i>	<i>1H 19</i>	<i>1H 20</i>	<i>Y/Y change</i>
Commercial Revenue	164,091	168,622	3%
Carrier Services	19,946	16,285	-18%
<b>Total revenue</b>	<b>184,037</b>	<b>184,907</b>	<b>0%</b>
<b>Adjusted EBITDA</b>	<b>94,249</b>	<b>95,223</b>	<b>1%</b>
<i>Adj. EBITDA margin</i>	<i>51%</i>	<i>51%</i>	

Increase in the Adjusted EBITDA in 1H 20 is mainly attributable to the Company’s performance in Q1 20. COVID-19 affected the top-line in Q2 (refer to note 1), resulting in a year-over-year decline. >10% GEL depreciation in Q2 also affected the results.

Capital expenditures for H1 20 comprised approximately GEL 50 mln, or circa 27% of revenue.

\* Capex in this document represents recurring Capex and is 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 H1 19 and H1 20, respectively 2) Euronews operating license of GEL 5m in H1 20 3) Acquisition of subscriber contracts and a brand name from the local operator in amount of GEL 4m in H1 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/Stable by Moody's and B+/Stable by Fitch Ratings.

Silknet has a broad subscriber base in Georgia:

- c. 1.64 million mobile customers
- c. 243,000 fixed line customers
- c. 291,000 fixed broadband customers
- c. 228,000 pay TV customers

(As at 31/05/2020; 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.

**Consolidated Statement of Profit or Loss and Other Comprehensive Income for the first halves of 2020 and 2019**

<i>GEL '000</i>	<i>w/o IFRS 16</i>		<i>Y/Y change</i>	<i>w/o IFRS 16</i>			<i>Q1 19</i>	<i>Q2 19</i>	<i>Q1 20</i>	<i>Q2 20</i>
	<i>1H 19</i>	<i>1H 20</i>		<i>1H 19</i>	<i>1H 20</i>	<i>Y/Y change</i>				
<b>Revenues:</b>	<b>184,037</b>	<b>184,907</b>	0%	<b>184,037</b>	<b>184,907</b>	0%	<b>89,884</b>	<b>94,153</b>	<b>95,708</b>	<b>89,199</b>
Commercial Revenue	164,091	168,622	3%	164,091	168,622	3%	80,615	83,477	87,201	81,421
Carrier Services	19,946	16,285	-18%	19,946	16,285	-18%	9,269	10,676	8,507	7,778
<b>Costs and expenses:</b>										
Interconnect fees and Roaming expense	(9,009)	(7,467)	-17%	(9,009)	(7,467)	-17%	(4,580)	(4,428)	(4,417)	(3,050)
Pay TV content cost	(5,311)	(6,351)	20%	(5,311)	(6,351)	20%	(2,421)	(2,890)	(3,179)	(3,172)
Costs of SIM cards, scratch cards and other cost of sales	(1,014)	(428)	-58%	(1,014)	(428)	-58%	(551)	(463)	(331)	(97)
Advertising and marketing	(4,612)	(2,764)	-40%	(4,612)	(2,764)	-40%	(2,019)	(2,593)	(1,867)	(896)
Depreciation and amortisation charges	(52,183)	(53,770)	3%	(56,390)	(58,372)	4%	(32,520)	(23,871)	(29,652)	(28,720)
Salaries and benefits	(27,405)	(28,332)	3%	(27,405)	(28,332)	3%	(13,753)	(13,652)	(14,508)	(13,824)
Purchased services	(15,338)	(18,158)	18%	(15,338)	(18,158)	18%	(9,190)	(6,148)	(8,653)	(9,505)
Network management and maintenance costs	(6,942)	(8,116)	17%	(6,942)	(8,116)	17%	(3,736)	(3,206)	(4,144)	(3,972)
Infrastructure capacity rentals, IRU and lease expenses	(11,026)	(10,324)	-6%	(4,865)	(3,603)	-26%	(2,464)	(2,401)	(2,074)	(1,529)
Other expenses	(15,434)	(12,092)	-22%	(15,419)	(12,021)	-22%	(7,069)	(8,351)	(6,847)	(5,174)
<b>Profit from operating activities</b>	<b>35,764</b>	<b>37,106</b>	4%	<b>37,732</b>	<b>39,294</b>	4%	<b>11,581</b>	<b>26,151</b>	<b>20,035</b>	<b>19,259</b>
Finance income	1,869	2,102	12%	1,869	2,102	12%	663	1,206	1,157	945
Finance expense	(54,895)	(40,707)	-26%	(58,360)	(43,928)	-25%	(17,380)	(40,981)	(22,984)	(20,944)
Other financial instrument at FVTPL – net change in fair value	1,542	2,400	56%	1,542	2,400	56%	-	1,542	12,724	(10,324)
Net Foreign exchange gain /(loss)	(36,930)	(39,467)		(37,745)	(40,341)		(2,926)	(34,819)	(94,976)	54,635
<b>Profit/(loss) before income tax</b>	<b>(52,650)</b>	<b>(38,566)</b>		<b>(54,962)</b>	<b>(40,473)</b>		<b>(8,061)</b>	<b>(46,902)</b>	<b>(84,044)</b>	<b>43,571</b>
Income tax expense	(1,071)	835		(1,071)	835		(929)	(142)	(312)	1,146
<b>Total profit/(Loss) for the period</b>	<b>(53,721)</b>	<b>(37,731)</b>		<b>(56,033)</b>	<b>(39,638)</b>		<b>(8,989)</b>	<b>(47,044)</b>	<b>(84,356)</b>	<b>44,717</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 which precede them.

**Consolidated Statement of Financial Position as at 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>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property and equipment	377,686	377,713	374,814
Intangible assets and contract costs	199,716	208,115	206,863
Other non-current assets	41,713	46,036	48,347
Other financial instrument at FVTPL – net change in fair value*	-	12,557	5,725
Investment property	29,582	58,260	61,104
Right-of-use assets	52,872	50,926	50,063
Prepayments related to IRU contracts	10,321	10,206	10,087
<b>Total non-current assets</b>	<b>711,890</b>	<b>763,812</b>	<b>757,003</b>
<b>Current assets</b>			
Inventories	10,980	11,589	11,422
Prepayments related to IRU contracts	2,173	2,173	2,173
Trade and other receivables, net	37,481	35,995	33,118
Cash and cash equivalents	74,862	116,005	63,126
<b>Total current assets</b>	<b>125,496</b>	<b>165,761</b>	<b>109,839</b>
<b>TOTAL ASSETS</b>	<b>837,386</b>	<b>929,574</b>	<b>866,842</b>
<b>EQUITY</b>			
Share capital	84,056	84,056	84,056
Additional paid-in capital	8,026	8,026	8,026
Accumulated losses	(64,288)	(148,533)	(103,917)
<b>Equity attributable to owners of the Company</b>	<b>27,794</b>	<b>(56,451)</b>	<b>(11,834)</b>
Non-controlling interest	54	(53)	47
<b>TOTAL EQUITY</b>	<b>27,848</b>	<b>(56,504)</b>	<b>(11,788)</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Loans and borrowings	617,798	702,458	625,239
Trade and other payables	13,144	24,058	23,090
Advances received from IRU contracts and subscribers	14,662	14,250	14,076
Lease liability	45,438	45,288	43,335
<b>Total non-current liabilities</b>	<b>691,042</b>	<b>786,054</b>	<b>705,739</b>
Loans and borrowings (Current)	16,989	37,916	49,465
Trade and other payables	67,379	94,751	89,887
Payable for investment property	-	32,714	-
Advances received from IRU contracts and subscribers	21,949	22,151	21,128
Lease liability	12,179	12,492	12,411
<b>Total current liabilities</b>	<b>118,497</b>	<b>200,024</b>	<b>172,890</b>
<b>TOTAL LIABILITIES</b>	<b>809,538</b>	<b>986,078</b>	<b>878,629</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>837,386</b>	<b>929,574</b>	<b>866,842</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 which precede them.

\* Other financial instrument at FVTPL represents a foreign currency swap-instrument with TBC Bank JSC measured at fair value at each reporting date. The fair value of the instrument was netted against the loans and borrowings in Q1 2020 unaudited consolidated financial results issued on 12 May 2020, the amount was subsequently reclassified and disclosed as a separate line item in Q2 2020 and in all comparable financial statements.

## Consolidated Statement of Cash Flows for the first halves of 2020 and 2019

<i>GEL '000</i>	<i>1H 19</i>	<i>1H 20</i>	<i>Q1 19</i>	<i>Q2 19</i>	<i>Q1 20</i>	<i>Q2 20</i>
<b>Cash flows from operating activities</b>						
Cash received from subscribers	187,833	195,512	91,105	96,728	100,616	94,896
Cash received from other telecom operators	15,628	10,138	8,373	7,255	4,976	5,162
Salaries and benefits paid to and on behalf of employees	(25,141)	(26,964)	(11,162)	(13,979)	(12,981)	(13,983)
Interconnection fees and roaming expenses paid	(6,523)	(5,783)	(3,120)	(3,403)	(2,393)	(3,390)
Purchase of inventory	(8,907)	(4,766)	(5,530)	(3,377)	(2,735)	(2,031)
Taxes paid other than income	(26,723)	(22,425)	(9,784)	(16,939)	(8,242)	(14,183)
Income tax paid	(687)	(135)	(762)	75	(104)	(31)
Network repair costs paid	(4,675)	(5,457)	(3,337)	(1,338)	(2,554)	(2,903)
Other Operating Expenses paid	(43,496)	(30,388)	(21,933)	(21,563)	(16,763)	(13,625)
<b>Net cash provided by operating activities</b>	<b>87,310</b>	<b>109,732</b>	<b>43,849</b>	<b>43,461</b>	<b>59,820</b>	<b>49,912</b>
<b>Cash flows from investing activities</b>						
Purchase of Property, plant and equipment	(31,334)	(33,581)	(10,549)	(20,785)	(17,174)	(16,407)
Purchase of Investment property	-	(31,065)	-	-	-	(31,065)
Purchase of other intangible assets	(17,528)	(16,476)	(8,958)	(8,570)	(9,266)	(7,210)
Proceeds from disposals of PPE	838	157	443	395	128	29
Interest Received	900	1,249	223	677	510	739
<b>Net cash provided by Investing activities</b>	<b>(47,124)</b>	<b>(79,717)</b>	<b>(18,840)</b>	<b>(28,284)</b>	<b>(25,801)</b>	<b>(53,916)</b>
<b>Cash flows from financing activities</b>						
Proceeds from borrowings	599,395	-	-	599,395	-	-
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	(14,125)	(39,026)	(10,389)	(3,736)	(1,920)	(37,106)
Net payments of other financial instruments at FVTPL	-	(3,493)	-	-	-	(3,493)
Lease payments	(5,932)	(7,669)	(2,100)	(3,832)	(3,261)	(4,408)
Investment in restricted deposits	(69,906)	-	-	(69,906)	-	-
Dividend payments	(5,441)	-	(2,096)	(3,345)	-	-
<b>Net cash provided by Financing activities</b>	<b>50,494</b>	<b>(50,188)</b>	<b>(16,968)</b>	<b>67,462</b>	<b>(5,181)</b>	<b>(45,007)</b>
Effect of exchange rate changes on cash and cash equivalents	6,006	8,436	(45)	6,051	12,305	(3,869)
<b>Net increase in cash and cash equivalents</b>	<b>96,687</b>	<b>(11,736)</b>	<b>7,996</b>	<b>88,691</b>	<b>41,143</b>	<b>(52,879)</b>
Cash and cash equivalents at the beginning of year	9,264	74,864	9,264	17,260	74,864	116,007
<b>Cash and cash equivalents at the end of year</b>	<b>105,951</b>	<b>63,128</b>	<b>17,260</b>	<b>105,951</b>	<b>116,007</b>	<b>63,128</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 which precede them.

## Notes to the Consolidated Financial Statements for the first halves of 2020 and 2019

### 1. Revenues

<i>GEL '000</i>	<i>H1 19</i>	<i>H1 20</i>	<i>Y/Y change</i>	<i>Q1 19</i>	<i>Q2 19</i>	<i>Q1 20</i>	<i>Q2 20</i>
<b>Commercial Revenue</b>	<b>164,091</b>	<b>168,622</b>	<b>3%</b>	<b>80,615</b>	<b>83,476</b>	<b>87,201</b>	<b>81,421</b>
Mobile callout	50,589	49,608	-2%	24,807	25,782	25,677	23,931
Fixed broadband	45,657	49,435	8%	22,241	23,416	25,541	23,894
Mobile data	24,857	30,680	23%	12,155	12,702	15,497	15,183
Pay TV	20,414	22,303	9%	10,024	10,390	11,427	10,876
Fixed telephone	10,024	8,535	-15%	5,066	4,958	4,411	4,124
Revenue from SMS	5,928	4,513	-24%	2,926	3,002	2,354	2,159
Revenue from other services	3,640	2,046	-44%	1,850	1,790	1,442	604
Revenue from phone sales and accessories	982	407	-59%	543	439	314	93
Wireless telephone ("CDMA") service	981	0	-100%	508	473	-	0
Infrastructure capital rental service	1,020	1,094	7%	494	526	537	557
<b>Carrier and Other Services</b>	<b>19,946</b>	<b>16,285</b>	<b>-18%</b>	<b>9,269</b>	<b>10,677</b>	<b>8,507</b>	<b>7,778</b>
Interconnect service	12,036	10,323	-14%	5,623	6,413	5,188	5,135
Infrastructure capital rental service	3,953	3,547	-10%	1,960	1,993	1,563	1,984
Roaming Revenue	2,954	1,311	-56%	1,169	1,785	1,100	211
Internet wholesale	1,003	1,103	10%	516	487	657	446
<b>Total Revenue</b>	<b>184,037</b>	<b>184,907</b>	<b>0%</b>	<b>89,884</b>	<b>94,153</b>	<b>95,708</b>	<b>89,199</b>

Commercial revenue growth in 1H 20 is mainly attributable to Q1 20. A 2% y/y decrease in commercial revenue in Q2 is a result of COVID-19 impact on the economy: lockdown, temporary closure of businesses, significantly lower tourism, etc. Since the lockdown was lifted and most of the businesses have reopened, we see the trends of recovery on the overall market and believe telecommunications is one of the most resilient sectors in the current circumstances.

## 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>w/o IFRS 16</i>		<i>w/o IFRS 16</i>					
	<i>1H 19</i>	<i>1H 20</i>	<i>1H 19</i>	<i>1H 20</i>	<i>Q1 19</i>	<i>Q2 19</i>	<i>Q1 20</i>	<i>Q2 20</i>
<b>Total profit/(Loss) for the period</b>	<b>(53,721)</b>	<b>(37,731)</b>	<b>(56,033)</b>	<b>(39,638)</b>	<b>(8,989)</b>	<b>(47,044)</b>	<b>(84,356)</b>	<b>44,718</b>
Depreciation and amortisation	52,183	53,770	56,390	58,372	32,520	23,870	29,652	28,720
Finance costs	54,895	40,707	58,360	43,928	17,380	40,980	22,984	20,944
Finance income	(1,869)	(2,102)	(1,869)	(2,102)	(663)	(1,206)	(1,157)	(945)
Other financial instrument at FVTPL – net change in fair value	(1,542)	(2,400)	(1,542)	(2,400)	-	(1,542)	(12,724)	10,324
Net foreign exchange loss	36,930	39,467	37,745	40,341	2,926	34,819	94,976	(54,635)
Income tax expense	1,071	(835)	1,071	(835)	929	142	312	(1,147)
Specific items	6,302	4,347	6,302	4,347	4,196	2,106	2,691	1,656
<b>Adjusted EBITDA</b>	<b>94,249</b>	<b>95,223</b>	<b>100,424</b>	<b>102,013</b>	<b>48,297</b>	<b>52,127</b>	<b>52,378</b>	<b>49,635</b>
<i>Adjusted EBITDA margin %</i>	<i>51%</i>	<i>51%</i>	<i>55%</i>	<i>55%</i>	<i>54%</i>	<i>55%</i>	<i>55%</i>	<i>56%</i>

Adjusted EBITDA for the purposes of this document means EBITDA as per our investor presentations and the previous announcements. We changed the term in order to be consistent with the reviewed Consolidated Financial Statements.