



Q1 2021 Financial Results

13 May 2021 - JSC Silknet (“Silknet” or the “Company”), a leading Georgian telecommunications operator, announced the unaudited consolidated results for the three months ending 31 March 2021. The consolidated results include the financial statements of JSC Silknet and its subsidiaries (the “Group”).

Results presentation will follow later in May 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>Q1 20</i>	<i>Q1 21</i>	<i>Y/Y change</i>
Commercial revenue	87,201	86,688	-1%
Carrier services	8,507	9,173	8%
Total revenue	95,708	95,861	0%
Adjusted EBITDA	52,001	50,202	-3%
<i>Adjusted EBITDA margin</i>	<i>54%</i>	<i>52%</i>	
CAPEX	31,599	24,705	
<i>% of revenue</i>	<i>33%</i>	<i>26%</i>	

Key takeaways

Continued COVID-19 pandemic affected the Company’s performance, especially when comparing Q1 21 to Q1 20, which was a record quarter in Silknet’s history. Given the fact that many restrictions were in place in Q1 21, the company’s performance is a testament to the resilience of the telecoms sector in general and our ability to adapt to the changing needs of our subscribers. Our total revenue stayed flat y/y and, while the adjusted EBITDA decreased by 3% y/y in Q1 21.

The Adjusted EBITDA and the margin decline was primarily driven by the approximately 13% average GEL depreciation against US Dollar y/y in Q1 21 and by the increased electricity tariffs from January 2021.

Approximately 80% of the capital expenditures in Q1 21 was related to network development, mostly the final stages of the projects initiated in 2020 and accounted for as PP&E additions in 2021. As the company has not initiated new capital expenditure programs in 2021, we expect the capex rate to decline in the course of 2021.

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 in Q1 20 and 2) Euronews operating license of GEL 4.6m and GEL 0.3m in Q1 20 and Q1 21, respectively.

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. 1.65 million mobile customers
- c. 213,000 fixed line customers
- c. 298,000 fixed broadband customers
- c. 224,000 pay TV customers

(As at 28/02/2021; 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 three months ended 31 March 2020 and 2021

<i>GEL '000</i>	<i>Q1 20</i>	<i>Q1 21</i>	<i>Y/Y change</i>
Revenues:	95,708	95,861	0%
Commercial revenue	87,201	86,688	-1%
Carrier services	8,507	9,173	8%
Costs and expenses:			
Interconnect fees and roaming expense	(4,417)	(4,337)	-2%
Pay TV content cost	(3,179)	(3,061)	-4%
Costs of SIM cards, scratch cards and other cost of sales	(331)	(223)	-33%
Advertising and marketing	(1,608)	(1,759)	9%
Depreciation and amortisation charges	(29,275)	(29,502)	1%
Salaries and benefits	(14,508)	(15,820)	9%
Purchased services	(8,912)	(10,835)	22%
Network management and maintenance costs	(4,144)	(3,955)	-5%
Infrastructure capacity rentals, IRU and lease expenses	(2,074)	(1,494)	-28%
Other expenses	(7,224)	(5,098)	-29%
Profit from operating activities	20,035	19,777	-1%
Finance income	1,157	1,182	2%
Finance expense	(22,984)	(23,519)	2%
Other financial instrument at FVTPL – net change in fair value	12,724	2,552	
Net Foreign exchange gain /(loss)	(94,976)	(26,604)	
Profit/(loss) before income tax	(84,044)	(26,611)	
Income tax expense	(312)	(73)	
Total profit/(Loss) for the period	(84,356)	(26,684)	

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

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

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Consolidated Statement of Cash Flows for the three months ended 31 march 2020 and 2021

<i>GEL '000</i>	<i>Q1 20</i>	<i>Q1 21</i>
Cash flows from operating activities		
Cash received from subscribers	100,616	100,300
Cash received from other telecom operators	4,976	5,581
Salaries and benefits paid to and on behalf of employees	(12,981)	(15,539)
Interconnection fees and roaming expenses paid	(2,393)	(3,318)
Purchase of inventory	(2,735)	(2,132)
Taxes paid other than income	(8,242)	(11,769)
Income tax paid	(104)	(102)
Network repair costs paid	(2,554)	(2,850)
Other operating expenses paid	(16,763)	(19,402)
Net cash provided by operating activities	59,820	50,768
Cash flows from investing activities		
Purchase of property, plant and equipment	(17,174)	(12,128)
Purchase of investment property	-	(234)
Purchase of other intangible assets	(9,266)	(11,242)
Proceeds from disposals of PPE	128	60
Interest received	510	773
Net cash provided by Investing activities	(25,801)	(22,772)
Cash flows from financing activities		
Proceeds from borrowings	-	-
Repayment of borrowings	-	(33,846)
Interest paid	(1,920)	(2,873)
Net payments of other financial instruments at FVTPL	-	-
Lease payments	(3,261)	(2,225)
Dividend payments	-	-
Net cash provided by Financing activities	(5,181)	(38,944)
Effect of exchange rate changes on cash and cash equivalents	12,305	1,694
Net increase in cash and cash equivalents	41,143	(9,254)
Cash and cash equivalents at the beginning of year	74,864	77,793
Cash and cash equivalents at the end of year	116,007	68,538

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Notes to the Consolidated Financial Statements for the three months ended 31 March 2020 and 2021

1. Revenues

<i>GEL '000</i>	<i>Q1 20</i>	<i>Q1 21</i>	<i>Y/Y change</i>
Commercial revenue	87,202	86,688	-1%
Retail mobile	44,797	44,540	-1%
Mobile callout service	25,677	23,981	-7%
Mobile data service	15,497	17,227	11%
Revenue from SMS	2,354	2,153	-9%
Revenue from other mobile services	954	934	-2%
Revenue from phone sales and accessories	314	245	-22%
Retail Fixed	42,405	42,147	-1%
Internet service	25,541	24,984	-2%
Pay TV	11,427	11,920	4%
Fixed telephone service	4,411	3,672	-17%
Facility rental service	537	633	18%
Revenue from other services	489	937	92%
Wireless telephone ("CDMA") service	0	-	-100%
Carrier and other services	8,506	9,173	8%
Interconnect service	5,187	5,903	14%
Roaming Revenue	1,100	428	-61%
Internet Service	657	543	-17%
Facility rental service	1,563	2,300	47%
Total revenue	95,708	95,861	0%

Home confinement translated into lower customer mobility reducing the customer spending in mobile services. Lower tourism had a negative impact on roaming revenue and some of the other core mobile services. As Georgia still lags far behind European peers in terms of demand for digital services, the demand potential on this front is significant, driving substantial increase in mobile data consumption. In Q1 21, our mobile data usage increased by 89% y/y, leading to a 11% increase in mobile data revenue.

The fixed services were affected by the temporary suspension by HoReCa, retail, entertainment and other businesses. Macro environment affected consumer spending patterns as well as the pace of new customer acquisition. These factors resulted in 1% y/y decrease in B2B fixed services, with two main streams, fixed broadband and pay TV decreasing by 2% and increasing by 4%, respectively. Fixed telephone revenue followed the trend of recurring substitution by mobile services.

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>Q1 20</i>	<i>Q1 21</i>
Loss for the year	(84,356)	(26,684)
Depreciation and amortisation	29,275	29,502
Finance costs	22,984	23,519
Finance income	(1,157)	(1,182)
Other financial instrument at FVTPL – net change in fair value	(12,724)	(2,552)
Net foreign exchange loss	94,976	26,604
Income tax expense	312	73
Specific items	2,691	923
Adjusted EBITDA	52,001	50,202
<i>Adjusted EBITDA margin %</i>	<i>54%</i>	<i>52%</i>

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