



First Quarter 2019 Unaudited Financial Results

3 June 2019 - JSC Silknet ("Silknet" or the "Company"), a leading Georgian telecommunications operator, announced the unaudited first quarter 2019 results.

This is the inaugural first quarter results announcement by the Company. Moreover, neither the Q1 2018 results have been prepared on a stand-alone basis for Silknet, nor have pro forma consolidated financial statements for the period, combining Silknet and Geocell, been prepared. As the result, the Company cannot provide comprehensive comparable financial statements Q1 2018.

For illustration purposes only, the table below shows year-over-year comparison of unaudited revenue and adjusted EBITDA:

<i>GELm</i>	<i>Q1 2018*</i>	<i>Q1 2019</i>
Commercial revenue	79	81
Carrier services	17	9
Total revenue	96	90
Adjusted EBITDA	39	45
<i>EBITDA margin</i>	41%	50%

* consolidated pro forma amounts

Note: All figures are presented without giving effect to IFRS 16

Commercial revenue y/y growth was primarily driven by the larger larger subscriber base in fixed broadband and pay TV. The decrease in the carrier service revenue was primarily driven by the change in the local fixed and mobile call termination rates, effective from 1 January, 2019.

Quarterly adjusted EBITDA increased primarily due to the operating synergies realised following the Geocell acquisition, even as the decrease in the call termination rates had a net negative effect.

Capital expenditures for Q1 2019 comprised approximately GEL 17m, or circa 18% of revenue.

The Company's capital structure post-Q1 2019 has changed significantly, as the result of the Eurobond issuance and the partial conversion of the shareholder loan into equity and repayment of the remainder thereof. A pro forma statement of financial position shows the Company's balance as if these transactions took place in Q1 2019.

Notes on the financial information

- 2018 pro forma financials prepared by the Company based on audited financials
- 2017 pro forma financials prepared based on audited financials and reviewed by KPMG
- 2016 pro forma financials prepared by the Company based on audited financials
- 2019 and 2018 quarterly information is based on management accounts and is without giving effect to IFRS 16
- Adjusted EBITDA equals profit/ (loss) for the year plus depreciation and amortization plus finance costs less finance income plus income tax expense/(benefit) adjusted for net currency forward (gain)/loss, foreign currency gain/(loss), and net non-recurring, non-operating and other specific items.

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. 1.75 million mobile customers
- c. 287,000 fixed line customers
- c. 281,000 fixed broadband customers
- c. 233,000 pay TV customers

(As at 31/03/2019; source: Georgian National Communications Commission)

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

Statement of profit or loss

GELm	2019 Q1	2018 PF	2017 PF
Revenues:			
Commercial revenue	80.6	332.2	319.2
Carrier services	9.3	67.0	80.1
	89.9	399.2	399.4
Costs and expenses:			
Depreciation and amortisation	(30.4)	(111.7)	(92.0)
Salaries and benefits	(13.8)	(64.1)	(59.7)
Purchased services	(9.2)	(51.9)	(39.6)
Other expenses	(7.1)	(37.3)	(31.3)
Rent expenses under operating leases	(5.5)	(22.9)	(22.5)
Interconnect fees and Roaming expense	(4.6)	(39.0)	(46.9)
Network management and maintenance costs	(3.7)	(18.5)	(21.8)
IPTV Content cost	(2.4)	(10.0)	(9.2)
Advertising and marketing	(2.0)	(4.9)	(7.5)
Costs of SIM cards, scratch cards and other cost of sales	(0.6)	(4.5)	(8.4)
Bargaining gain from acquisition	-	41.8	14.0
Profit from operating activities	10.6	76.3	74.4
Finance income	0.7	2.8	2.6
Finance costs	(15.6)	(54.1)	(51.7)
Net foreign exchange (loss)/gain	(2.8)	(24.5)	6.1
Net finance costs	(17.8)	(75.8)	(43.0)
(Loss)/profit before income tax	(7.2)	0.5	31.3
Income tax expense	(0.9)	(0.9)	(0.6)
Profit and total comprehensive income for the period	(8.1)	(0.4)	30.7

Statement of financial position

GELm	31 March 2019	31 December 2018	Change %
ASSETS			
Non-current assets			
Property and equipment	361.6	370.2	-2%
Intangible assets and contract costs	207.2	212.3	-2%
Other non-current assets	28.9	32.7	-12%
Prepayments related to IRU contracts	10.6	10.7	-1%
Total non-current assets	608.3	626.0	-3%
Current assets			
Inventories	21.8	22.3	-2%
Prepayments related to IRU contracts	2.2	2.2	0%
Trade and other receivables, net	36.8	37.9	-3%
Cash and cash equivalents	17.3	9.3	86%
Total current assets	78.0	71.6	9%
TOTAL ASSETS	686.4	697.6	-2%
EQUITY			
Share capital	68.2	68.2	0%
Additional paid-in capital	24.5	24.5	0%
Accumulated losses	(26.4)	(18.2)	45%
Equity attributable to owners of the Company	66.2	74.4	-11%
Non-controlling interest	0.1	0.1	82%
TOTAL EQUITY	66.4	74.5	-11%
LIABILITIES			
Non-current liabilities			
Loans and borrowings	366.1	375.8	-3%
Subordinated debt	31.7	30.5	4%
Promissory notes	38.3	37.3	3%
Trade and other payables	14.9	18.2	-18%
Contract liabilities from prepayments	14.4	14.5	-1%
Total non-current liabilities	465.5	476.3	-2%
Current liabilities			
Loans and borrowings	46.9	37.1	26%
Trade and other payables	86.1	87.2	-1%
Contract liabilities from prepayments	21.3	22.5	-5%
Current income tax payable	0.2	0.1	157%
Total current liabilities	154.5	146.8	5%
TOTAL LIABILITIES	620.0	623.1	0%
TOTAL LIABILITIES AND EQUITY	686.4	697.6	-2%

Pro forma statement of financial position

GELm	31 March 2019	Use of Bonds Proceeds ¹	Shareholder loan redemption ²	PF 31 March 2019
ASSETS				
Non-current assets				
Property and equipment	361.6	-	-	361.6
Intangible assets and contract costs	207.2	-	-	207.2
Other non-current assets	28.9	-	-	28.9
Prepayments related to IRU contracts	10.6	-	-	10.6
Total non-current assets	608.3	-	-	608.3
Current assets				
Inventories	21.8	-	-	21.8
Prepayments related to IRU contracts	2.2	-	-	2.2
Trade and other receivables, net	36.8	-	-	36.8
Cash and cash equivalents	17.3	117.1	(34.9)	99.5
Total current assets	78.0	117.1	(34.9)	160.2
TOTAL ASSETS	686.4	117.1	(34.9)	768.6
EQUITY				
Share capital	68.2	-	15.7	83.8
Additional paid-in capital	24.5	-	(18.1)	6.4
Accumulated losses	(26.4)	(19.2) ⁴	(0.8)	(46.4)
Equity attributable to owners of the Company	66.2	(19.2)	(3.2)	43.8
Non-controlling interest	0.1	-	-	0.1
TOTAL EQUITY	66.4	(19.2)	(3.2)	43.9
LIABILITIES				
Non-current liabilities				
Loans and borrowings	366.1	(305.2) ³	-	60.9
Eurobonds	-	526.3	-	526.3
Subordinated debt	31.7	-	(31.7)	-
Promissory note	38.3	(38.3)	-	-
Trade and other payables	14.9	-	-	14.9
Contract liabilities from prepayments	14.4	-	-	14.4
Total non-current liabilities	465.5	182.8	(31.7)	616.5
Current liabilities				
Loans and borrowings	46.9	(46.4)	-	0.4
Trade and other payables	86.1	-	-	86.1
Contract liabilities from prepayments	21.3	-	-	21.3
Current income tax payable	0.2	-	-	0.2
Total current liabilities	154.5	(46.4)	-	108.1
TOTAL LIABILITIES	620.0	136.3	(31.7)	724.6
TOTAL LIABILITIES AND EQUITY	686.4	117.1	(34.9)	768.6

Notes to the pro forma statement of financial position

¹ On 2nd April 2019 company issued US\$200m Eurobonds and refinanced all outstanding bank loans and promissory notes.

² On 16th May 2019 part of the shareholder loan was converted into equity and the remainder repaid. Repayment of shareholder loan counts towards 'restricted payments cap' stipulated under US\$200m Eurobond.

³ Transaction costs of US\$4.5m deferred over a 5-year period, which resulted in the carrying amount of US\$195.5m

⁴ Breakdown of effect of proceeds from bonds on accumulated losses is presented as follows:

- ✓ Early payment penalty as a result of bank loan refinancing GEL7.4m
- ✓ As a result of prepayment, difference between amortised cost and nominal amount of Geocell syndicated loan GEL7m booked as loss per IFRS
- ✓ As a result of prepayment, difference between amortized cost and nominal amount of promissory note GEL4.8m booked as loss per IFRS

Statement of cash flow, GELm

Cash flows from operating activities	Q1 2019
Cash received from subscribers	91.1
Cash received from other telecom operators and for IRU contracts	8.4
Salaries and benefits paid to and on behalf of employees	(11.2)
Interconnection fees and expenses paid	(3.1)
Purchase of inventories	(5.5)
Taxes paid other than on income	(9.8)
Income tax paid	(0.8)
Network management and maintenance costs paid	(3.3)
Other operating expenses paid	(24.0)
Net cash from operating activities	41.7
Cash flows from investing activities	
Acquisition of property and equipment	(10.5)
Acquisition of intangible assets	(9.0)
Proceeds from disposals of property and equipment	0.4
Interest received	0.2
Net cash used in investing activities	(18.8)
Cash flows from financing activities	
Repayment of borrowings	(2.4)
Interest paid	(10.4)
Dividends paid	(2.1)
Net cash from/(used in) financing activities	(14.9)
Effect of exchange rate changes on cash and cash equivalents	(0.0)
Net increase in cash and cash equivalents	8.0
Cash and equivalents at the beginning of the year	9.3
Cash and cash equivalents at the end of the year	17.3