



MAKEDONSKI TELEKOM AD - SKOPJE  
Kej 13 Noemvri No. 6, 1000 Skopje, R. North Makedonija

**To:** Macedonian Stock Exchange AD Skopje  
Orce Nikolov 75, 1000 Skopje

**Date:** May 2023

**Subject:** Explanation on the operation of Makedonski Telekom AD - Skopje for the period from 01.01.2023 until 31.03.2023

The following analysis refers to the Unaudited Income Statement of Makedonski Telekom (MKT) for the period 01.01.2023 - 31.03.2023, prepared in accordance with the International Financial Reporting Standards (IFRSs).

## I Revenues

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The sales revenues at the end of the first three months of 2023 amounted to MKD 2,881,658 thousand, which represents increase by 3.7% compared to the same period of the previous year.

## Mobile services

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### Mobile voice and non-voice services

On the mobile market, MKT has a **market share of 48.7%** (internal estimation, compared to 48.5% at the end of the same period of the previous year). The subscribers' base at the end of the first three months of 2023 amounts to 1,253 thousand subscribers and it is increased by 3.3% compared to the same period of the previous year.

At the end of the first three months of 2023, the revenues from **mobile retail voice and mobile non-voice services** marked an increase by 5.8% compared to the same period of the previous year.

The increase is mainly due to the higher number of post-paid subscribers, as well as increase of the roaming revenues due to reduction of the restrictions related to COVID – 19 pandemics, and on the other hand there is decline of the revenues from pre-paid mostly due to pre to post migration as well as the lower spending of voice services in the pre-paid segment. There is increase of the revenues from non-voice services mostly as a result of the increased revenues from mobile internet due to higher usage of bundled tariff models with non-voice services as well as the increased GPRS traffic in roaming.

**The revenues from wholesale voice services** at the end of the first three months of 2023 marked a decrease by 4.6% compared to the same period of the previous year.

**The blended ARPU (Average Revenue Per User)** for voice and nonvoice services marked an increase by 1.9% compared to the same period of the previous year amounting to MKD 371.



## Fixed services

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### Fixed voice and non-voice services

MKT has managed to maintain the **leading position on the fixed voice market with 61.2%** (internal estimation compared to 62.1% at the end of the same period of the previous year) or 224 thousand customers at the end of the first three months of 2023.

**The voice retail revenues** in the first three months of 2023 in the fixed segment services have decreased by 0.5% compared to the same period of the previous year due to decreased outgoing traffic by 22.3%. At the end of the first three months of 2023 the number of customers in the fix voice (including the customers using the convergent services) marked a small increase by 0.2% compared to the same period of the previous year.

At the end of the first three months of 2023, **the number of total BB accesses** (including the customers using the convergent services) is increased by 2.8% and amounts 227.3 thousand compared to 221.1 thousand at the end of the same period of the previous year. **The number of BB subscribers (excluding wholesale)** at the end of the first three months of 2023 has increased by 2.8% and amounts 203.9 thousand compared to 198.4 thousand at the end of the same period of the previous year. The **broadband Internet market share** at the end of the first three months of 2023 **amounts to 49.8%** (internal estimation, compared to 49.3% at the end of the same period of the previous year). The investments in the optic network have resulted in a continuous increase of the number of accesses to the optic network in the country. At the end of the first three months of 2023 Makedonski Telekom has enabled more than 281 thousand accesses to the optic network which is an increase by 11% compared to the same period of the previous year.

Regarding the **TV market**, MKT has a leading position with **market share of 33.6%** of the total TV market (internal estimation, compared to 34.3% at the end of the same period of the previous year). The IPTV service (digital television via Internet protocol), with its high quality, interactivity and the unique TV experience, is excellently accepted on the market and MKT at the end of the first three months of 2023 achieved an increase of the number of IPTV customers (including Magenta1, 3 Play and other TV services) by 1.2% compared to the same period of the previous year, which has resulted in a customer base of 148 thousand customers at the end of the first three months of 2023.

The **revenues from retail Internet** at the end of the first three months of 2023 have increased by 14.9% compared to the same period of the previous year.

The **revenues from digital television via Internet protocol ("IPTV")** at the end of the first three months of 2023 have decreased by 6.6% compared to the same period of the previous year.



## Other revenues



### Other revenues in the fixed and mobile segment

**System integration and IT revenues** at the end of the first three months of 2023 have decreased by 40.2% compared to the same period of the previous year, mostly as a result of the realization dynamics of the ICT projects.

**The revenues from the sale of equipment** at the end of the first three months of 2023 have increased by 5.8% compared to the same period of the previous year as a result of the increase of revenues from sale of handsets on instalments due to higher average sale price as well as the higher number of sold handsets.

## II Expenses



### Operating expenses

On the cost side, at the end of the first three months of 2023, the operating expenses marked a decrease by 1% compared to the same period of the previous year, mostly as a result of the decline of the cost of trading goods sold and cost for depreciation and amortization.

The employee related expenses are on the same level at the end of the first three months of 2023 compared to the same period of the previous year.

The cost of trading goods sold is increased by 11.2% in line with the increased sales revenues, while the cost of consumed materials and other supplies including the electricity cost are increased by 22% at the end of the first three months of 2023 compared to the same period of the previous year, dominantly due to increase of the electrical energy price as a result of the global movements of the electrical energy price.

The cost for services is decreased by 9.7% at the end of the first three months of 2023 compared to the same period of the previous year.

The cost for depreciation and amortization at the end of the first three months of 2023 marked a decrease by 10.1% compared to the same period of the previous year due to lower depreciation for mobile communication equipment as a result of modernization, partly compensated with increase in depreciation in software and licenses due to obtained new 5G frequencies.



### Capital expenditures

The amount of total Capital expenditures (CAPEX), at the end of the first three months of 2023 is MKD 523,802 thousand.



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### III Operating and Net profit

The above-stated movements of the revenues and costs resulted in increase of the Earnings before interest, taxation, depreciation and amortization (EBITDA) in the first three months of 2023 by 5.6% compared to the same period of the previous year. The EBITDA margin for the first three months of 2023 has increased and amounts 41.4% compared to 40.8% at the end of the same period of the previous year. If the electricity cost is excluded, EBITDA in the first three months of 2023 would be increased by 7.5% compared to the same period of the previous year, while the EBITDA margin would be 46.1% compared to the same period of the previous year (44.7%).

Operating profit (Earnings before interest and taxation - EBIT) for the first three months of 2023 is increased by 33.9% compared to the same period of the previous year.

As a result of the above-stated movements of the revenues and costs as well as the financial incomes and expenses the Net profit for the first three months of 2023 has increased by 33.2% compared to the same period of the previous year and amounts MKD 478,092 thousand.

| <i>In MKD thousands</i>                                                                                     | <i>2022 Jan - Mar</i> | <i>2023 Jan - Mar</i> | <i>Change YoY</i> |
|-------------------------------------------------------------------------------------------------------------|-----------------------|-----------------------|-------------------|
| Total Operating revenues                                                                                    | 2.803.303             | 2.917.850             | 4,1%              |
| Sales revenues                                                                                              | 2.779.180             | 2.881.658             | 3,7%              |
| Total Operating expenses                                                                                    | 2.395.480             | 2.371.784             | -1,0%             |
| Electricity cost                                                                                            | 108.782               | 138.099               | 27,0%             |
| Depreciation and amortization                                                                               | 735.902               | 661.715               | -10,1%            |
| Operating expenses excluding Depreciation and amortization                                                  | 1.659.578             | 1.710.069             | 3,0%              |
| <b>Earning before interest, taxation, depreciation and amortization (EBITDA)</b>                            | <b>1.143.725</b>      | <b>1.207.781</b>      | <b>5,6%</b>       |
| EBITDA margin in %                                                                                          | 40,8%                 | 41,4%                 | 1,5%              |
| <b>Earning before interest, taxation, depreciation and amortization (EBITDA) excluding electricity cost</b> | <b>1.252.507</b>      | <b>1.345.880</b>      | <b>7,5%</b>       |
| EBITDA margin (excl electricity cost) in %                                                                  | 44,7%                 | 46,1%                 | 3,2%              |
| <b>Operating Profit (Earning before interest and taxation - EBIT)</b>                                       | <b>407.823</b>        | <b>546.066</b>        | <b>33,9%</b>      |
| Financial incomes                                                                                           | 16.009                | 23.648                | 47,7%             |
| Financial expenses                                                                                          | 17.583                | 27.677                | 57,4%             |
| income tax                                                                                                  | 47.227                | 63.945                | 35,4%             |
| <b>Net Profit</b>                                                                                           | <b>359.022</b>        | <b>478.092</b>        | <b>33,2%</b>      |

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Company Reg. No. 5168660 | Principal capital MKD 9.583.887.733,00



## IV Changes in the accounting policies

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Based on "Principal versus Agent: Software Reseller (IFRS 15 Revenue from Contracts with Customers)" agenda decision by IFRS Interpretation Committee, finalized on May 30, 2022, MKT had to reassess the control in relevant software reselling, content services and provided streaming services whether it is in agent or principal position. In cases where MKT is in an intermediary position between a supplier and a customer, an assessment must be made as to whether MKT supplies or provides the relevant product or service requested by the customer as the principal itself or merely as an agent working for the supplier. The result depends on whether MKT reports sales gross (as principal) or net after deducting the costs to the supplier, i.e. can only record the amount of the remaining margin (as an agent). The reassessment was completed in Q3 2022 and concluded that agent accounting should be adopted for the relevant portion of software reselling, content services and provided streaming. This conclusion resulted in the accounting policy change. Compared to the previous accounting, this leads to a decrease in revenue and costs of MKD 23,391 thousand for 2023 and 18,250 thousand for 2022. EBITDA, Net income, Statement of Financial Position and Cash flow are unchanged.

## V COVID – 19, Ukraine conflict and economic crises impact on the business and on the financial statements

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In 2020, the coronavirus spread globally, and its negative impact continues to affect entities across the world. In the course of 2021, some recovery has been already visible which has resulted in local easement of the restrictive measures as well as increased mobility of the people across the borders.

The management closely monitors the impact of the pandemic on the operations and provides further updates to the stakeholders as the situation evolves. Furthermore, the management is in close communication with the local state institutions and remains compliant with official guidelines.

The Company responded to the COVID-19 situation swiftly. The Company continues to meet the increased demand for connectivity through its network and has not identified any events which could jeopardize the going concern of its operation, furthermore, based on the management's assessment of the future cash flows no underperformance is expected for the long term.

Management paid particular attention to the solvency of customers due to COVID-19 however, based on experiences of last months and expectations considering the future COVID effects, no material effects on the impairment rates.

The annual inflation rate in February 2023 amounts to 16.7% (17.1% in January 2023). The average annual inflation rate in the first two months of 2023 is in line with the estimations for lowering of the inflation rate in the October cycle of forecast.<sup>1</sup> Lowering of the annual inflation rate is due to lower growth of the prices of the energetic and basic component of the inflation, and partial stabilization of the food

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<sup>1</sup> Source: NBRSM "Recent Macroeconomic Indicators" Review of the Current Situation March 2023



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component. The revision of the expected movements of the external input assumptions of the inflation projections are in different directions, whereupon the risks of the projected inflation rate for 2023 are mostly balanced. At the same time, the uncertainty of the world prices movement of the basic products is still highly emphasized in the following period, next to the uncertain economic effects from the war in Ukraine.

The global rise of energy cost resulted in significant increase of the Company's energy costs in 2022 and 2023 which created a pressure on the results achievement. However, the Management put an effort, as much as possible, with a set of optimizing measures as well as better commercial results to compensate these negative trends.

The ongoing military conflict in Ukraine and the related sanctions targeted against the Russian Federation may have a further impact on the European and the global economy, apart from the one it already had on the energy prices as discussed above. The Company does not have any significant direct exposure to Ukraine, Russia or Belarus. However, the impact on the general economic situation may require revisions of certain assumptions and estimates in the future. Impact of the crisis has been experienced by the Company through the increased energy prices. The future long-term impact may also affect the trading volumes, cash flows, and profitability. Nevertheless, except for the increased energy cost, no other effects of the Ukraine conflict have been experienced by the Company as of the date of these financial statements.

Nikola Ljusev  
Chief Executive Officer

Slavko Projkoski  
Chief Financial Officer

### Investigation into certain consultancy contracts

*On 13 February 2006, Magyar Telekom Plc., the controlling owner of the Company, (via Stonebridge Communications AD - Skopje, majority shareholder of the Company), announced that it was investigating certain contracts entered into by another subsidiary of Magyar Telekom Plc. to determine whether the contracts were entered into in violation of Magyar Telekom Plc. policy or applicable law or regulation. Magyar Telekom's Audit Committee retained White & Case, as its independent legal counsel to conduct the internal investigation. Subsequent to this, on 19 February 2007, the Board of Directors of the Company, based on the recommendation of the Audit Committee of the Company and the Audit Committee of Magyar Telekom Plc., adopted a resolution to conduct an independent internal investigation regarding certain contracts in Republic of North Macedonia.*

*Based on publicly available information, as well as information obtained from Magyar Telekom and as previously disclosed, Magyar Telekom's Audit Committee conducted an internal investigation regarding certain contracts relating to the activities of Magyar Telekom and/or its affiliates in Montenegro and Republic of North Macedonia that totalled more than EUR 31 million. In particular, the internal investigation examined whether Magyar Telekom and/or its Montenegrin and Macedonian affiliates had made payments prohibited by U.S. laws or regulations, including the U.S. Foreign Corrupt Practices Act (the "FCPA"). The Company has previously disclosed the results of the internal investigation.*

*Magyar Telekom's Audit Committee informed the U.S. Department of Justice (the "DOJ") and the U.S. Securities and Exchange Commission (the "SEC") of the internal investigation. The DOJ and the SEC commenced investigations into the activities that were the subject of the internal investigation. On 29 December 2011, Magyar Telekom announced that it had entered into final settlements with the DOJ and the SEC to resolve the DOJ's and the SEC's investigations relating to Magyar Telekom. The settlements concluded the DOJ's and the SEC's investigations. Magyar Telekom disclosed the key terms of the settlements with the DOJ and the SEC on 29 December 2011. In particular, Magyar*

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*Telekom disclosed that it had entered into a two-year deferred prosecution agreement (the "DPA") with the DOJ. The DPA expired on 5 January 2014, and further to the DOJ's request filed in accordance with the DPA, the U.S. District Court for the Eastern District of Virginia dismissed the charges against Magyar Telekom on 5 February 2014.*

*In relation to the local investigation by the state authorities in the Republic of North Macedonia and further to the previously disclosed information in the Financial Statements of the Company for the preceding years, in the first quarter of 2023 the First – instance criminal court issued a non-judicial verdict declaring the three accused former managers of the Company guilty and ordering them to jointly compensate for the damage.*

*We have not become aware of any information as a result of a request from any regulators or other external parties, other than the previously disclosed, from which we would have concluded that the financial statements may be misstated, including from the effects of a possible illegal act.*

Proofreading by Lingva Ekspert

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