



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: October 2023

Subject: Explanation on the operation of Makedonski Telekom AD - Skopje for the period from 01.01.2023 until 30.09.2023

The following analysis refers to the Unaudited Income Statement of Makedonski Telekom (MKT) for the period 01.01.2023 - 30.09.2023, prepared in accordance with the International Financial Reporting Standards (IFRSs).

I Revenues

The sales revenues at the end of the first nine months of 2023 marked a slight increase by 1% compared to the same period of the previous year and amounted to MKD 8,923,377 thousand. In the scope of the revenues from core business there is a growth by 5.3% in the mobile services, while in the fix segment there is a growth by 4.3%, compared to the same period of the previous year.

Mobile services



Mobile voice and non-voice services

On the mobile market, MKT has a **market share of 48.3%** (internal estimation, compared to 49.1% at the end of the same period of the previous year). The subscribers' base at the end of the first nine months of 2023 amounts to 1,330 thousand subscribers and it is increased by 2.8% compared to the same period of the previous year.

At the end of the first nine months of 2023, the revenues from **mobile retail voice and mobile non-voice services** marked an increase by 4.4% 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, 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 supported by increase in content revenue.

The revenues from wholesale voice services at the end of the first nine months of 2023 marked a decrease by 0.9% compared to the same period of the previous year.



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The blended ARPU (Average Revenue Per User) for voice and nonvoice services marked an increase by 2.1% compared to the same period of the previous year amounting to MKD 385.

Fixed services



Fixed voice and non-voice services

MKT has managed to maintain the **leading position on the fixed voice market with 61.8%** (internal estimation compared to 62.3% at the end of the same period of the previous year) or 227 thousand customers at the end of the first nine months of 2023.

The **voice retail revenues** in the first nine months of 2023 in the fixed segment services have slightly increased by 0.2% compared to the same period of the previous year. At the end of the first nine months of 2023 the number of customers in the fix voice (including the customers using the convergent services) marked a slight increase by 0.4% compared to the same period of the previous year.

At the end of the first nine months of 2023, **the number of total BB accesses** (including the customers using the convergent services) is increased by 2.7% and amounts 232.2 thousand compared to 226 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 nine months of 2023 has increased by 2.8% and amounts 208.7 thousand compared to 202.9 thousand at the end of the same period of the previous year. The **broadband Internet market share** at the end of the first nine months of 2023 **amounts to 49.3%** (internal estimation, compared to 49.4% 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 nine months of 2023 Makedonski Telekom has enabled more than 303 thousand accesses to the optic network which is an increase by 13% 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% 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 nine months of 2023 achieved an increase of the number of IPTV customers (including Magenta1, 3 Play and other TV services) by 1.1% compared to the same period of the previous year, which has resulted in a customer base of 149.3 thousand customers at the end of the first nine months of 2023.

The **revenues from retail Internet** at the end of the first nine months of 2023 have increased by 15.8% compared to the same period of the previous year.

The **revenues from digital television via Internet protocol ("IPTV")** at the end of the first nine months of 2023 have decreased by 7.2% compared to the same period of the previous year.



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Other revenues



Other revenues in the fixed and mobile segment

System integration and IT revenues at the end of the first nine months of 2023 have decreased by 60% compared to the same period of the previous year, mostly as a result of the increased revenues in 2022 from the Project for Smart Lighting and Platform for digital city.

The revenues from the sale of equipment at the end of the first nine months of 2023 have increased by 3.3% 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 of sold handsets supported by effect in revenues from IFRS 15 allocation.

II Expenses



Operating expenses

On the cost side, at the end of the first nine months of 2023, the operating expenses marked a decrease by 3.9% compared to the same period of the previous year, mostly as a result of the decline of the cost of trading goods sold as well as the cost of consumed materials and other supplies.

The cost of trading goods sold is decreased by 13.5% in line with the declined revenues from System integration and IT services, while the cost of consumed materials and other supplies including the electricity cost are decreased by 22% at the end of the first nine months of 2023 compared to the same period of the previous year, dominantly due to decrease of the electrical energy price as a result of the global movements of the electrical energy price.

The cost for services is slightly decreased by 0.8% at the end of the first nine months of 2023 compared to the same period of the previous year.

The employee related expenses at the end of the first nine months of 2023 are increased by 3.9% due to higher number of employees and implicitly higher payment toward employees related to salaries and other payments, partly compensated with deceased expenses for severance payments compared to the same period of the previous year.

The cost for depreciation and amortization at the end of the first nine months of 2023 marked a mild increase by 0.2% compared to the same period of the previous year.



Capital expenditures

The amount of total Capital expenditures (CAPEX), at the end of the first nine months of 2023 is MKD 1.401,618 thousand.



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 nine months of 2023 by 11.6% compared to the same period of the previous year. The EBITDA margin for the first nine months of 2023 has increased and amounts 43.9% compared to 39.9% at the end of the same period of the previous year.

Operating profit (Earnings before interest and taxation - EBIT) for the first nine months of 2023 is increased by 27.7% 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 nine months of 2023 has increased by 29.7% compared to the same period of the previous year and amounts MKD 1,653,104 thousand.

<i>In MKD thousands</i>	<i>2022 Jan - Sep</i>	<i>2023 Jan - Sep</i>	<i>Change YoY</i>
(1) Total Operating revenues	8.918.367	9.035.353	1,3%
(2) Sales revenues	8.835.932	8.923.377	1,0%
(3) Total Operating expenses	7.440.905	7.148.773	-3,9%
(4) Electricity cost	493.767	384.758	-22,1%
(5) Depreciation and amortization	2.079.139	2.082.564	0,2%
(6) = (3) - (5) Operating expenses excluding Depreciation and amortization	5.361.766	5.066.209	-5,5%
(7) = (1) - (6) Earning before interest, taxation, depreciation and amortization (EBITDA)	3.556.601	3.969.144	11,6%
(7a) = (7) / (1) EBITDA margin in %	39,9%	43,9%	10,2%
(8) = (1) - (3) Operating Profit (Earning before interest and taxation - EBIT)	1.477.462	1.886.580	27,7%
(9) Financial incomes	7.414	36.312	389,8%
(10) Financial expenses	36.771	49.332	34,2%
(11) income tax	173.445	220.456	27,1%
(12) = (8) - (9) - (10) - (11) Net Profit	1.274.659	1.653.104	29,7%



IV Ukraine conflict and economic crises impact on the business and on the financial statements

The annual inflation rate is slowing down and in August 2023 amounts to 8.3% (8.4% in July 2023). The which is above the estimations in the April cycle of forecast, as a result of the variation in the food prices. Lowering of the annual inflation rate is due to lower growth of the prices. The revision of the expected movements of the external input assumptions of the inflation projections are mostly in the downwards direction. At the same time, the uncertainty of the world prices movement of the basic products on the markets still remains next to the uncertain economic effects from the war in Ukraine¹ which is not coming to an end.

The ongoing military conflict in Ukraine and the related sanctions targeted against the Russian Federation as well as the other ongoing military conflicts 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 and other ongoing military conflicts 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.

¹Source: NBRSM "Recent Macroeconomic Indicators" Review of the Current Situation September 2023



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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 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.