

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: February 2021

Subject: Explanation on the operation of Makedonski Telekom AD - Skopje for the period from 01.01.2020 until 31.12.2020

The following analysis refers to the Unaudited Financial statements of Makedonski Telekom (MKT) for the period 01.01.2020 - 31.12.2020, prepared in accordance with the International Financial Reporting Standards (IFRSs).

I Revenues

The sales revenues in 2020 amounted to MKD 11,085,220 thousand, which represents increase of 2.3% compared to the previous year.

Voice services



Fixed line voice services

MKT has managed to maintain the **leading position on the fixed voice market with 62.5%** (internal estimation) or 221 thousand customers at the end of 2020.

The **voice revenues** in 2020 in the fixed segment services have decreased by 1.5% compared to the previous year due to decreased outgoing traffic by 4.4% as well as the decreased international incoming traffic. At the end of 2020 the number of customers in the fixed voice (including the customers using the convergent services) marked an increase by 2.4% compared to the previous year.



Mobile voice services

On the mobile market, MKT has a **market share of 47.8%** (internal estimation). The subscribers' base at the end of 2020 amounts to 1,104 thousand subscribers and it is decreased by 9.4% compared to the previous year.

At the end of the 2020, the **mobile voice revenues** including voice wholesale revenue - incoming are decreased by 4.4% compared to the previous year. The decrease is due to lower pre-paid traffic revenues, lower volume in international incoming mobile terminating traffic and the decreased roaming revenues due to COVID – 19 Pandemic as well as the additional decline of the prices as of 1st of July 2020 with the Western Balkan countries in accordance with the regulation in the part of voice use in roaming between countries in the Balkans. The blended ARPU (Average Revenue Per User) marked an increase of 1.4% compared to the previous year amounting to MKD 361 mostly driven by the increase of post-paid subscribers' portion in the total subscribers' base.

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Internet, TV and other non-voice services



Fixed Internet and TV

At the end of 2020, the number of total BB accesses (including the customers using the convergent services) is increased by 4.7% and amounts 213.8 thousand compared to 204.2 thousand at the end of the previous year. The number of BB subscribers (excluding wholesale) at the end of 2020 has increased by 6.3% and amounts 191.1 thousand compared to 179.7 thousand at the end of the previous year. The **broadband Internet market share** at the end of 2020 **amounts to 49.4%** (internal estimation). The investments in the optic network have resulted in a continuous increase of the Households passed with access to the optic network. At the end of 2020 Makedonski Telekom has enabled an access to the optic network of 39.2% to the Households in the country, or more than 221 thousands Households have an option to use the benefits of our optic network which is an increase by 12.8% compared to the previous year.

Regarding the **TV market**, MKT has a leading position with **market share of 33.8%** (internal estimation) of the total TV market. The IPTV (digital television via Internet protocol) service, with its high quality, interactivity and the unique TV experience, is excellently accepted on the market and MKT at the end of 2020 achieved an increase of the number of IPTV customers (including Magenta1, 3 Play and other TV services) by 4.5% compared to the previous year, which has resulted in a customer base of 142.5 thousand customers at the end of 2020.

The **revenues from retail Internet** at the end of 2020 have increased by 2.7% compared to the previous year.

The **revenues from digital television via Internet protocol ("IPTV")** at the end of 2020 have increased by 7.0% compared to the previous year.



Mobile non-voice services

The **non-voice revenues** in 2020 have declined by 1.6% compared to the previous year, mostly as a result of the decreased GPRS traffic from roaming and GPRS from pre-paid compensated by higher GPRS traffic from post-paid and increased usage of bundled data tariff plans with included non-voice services.

Other revenues



Other revenues in the fixed and mobile segment

System integration and IT revenues at the end of 2020 have increased by 63.3% compared to the same period of the previous year as a result of the higher number of ICT projects as well as the increased revenues from Cloud Computing services and Internet protection.

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The revenues from the sale of equipment at the end of 2020 have increased by 7.4% compared to the previous year, mostly due to the higher average selling price of handsets as well as the higher number of handsets sold on instalments in retention.

II Expenses



Operating expenses

On the cost side, at the end of 2020, the operating expenses marked an increase by 3.7% compared to the previous year, mostly as a result of the significant increase of the cost of trading goods sold in line with the increase of revenues in this category as well as the cost for depreciation and amortization.

The employee related expenses have decreased by 5.8% at the end of 2020 compared to the previous year.

The cost for services is increased by 6.7% at the end of 2020 compared to the previous year.

The cost for depreciation and amortization at the end of 2020 has increased by 3.2% compared to the previous year mainly due to amortization form content rights and software and licenses in line with increased capitalization in these categories.



Capital expenditures

The amount of total Capital expenditures (CAPEX), at the end of 2020 is MKD 2,285,948 thousand.

III Operating and Net profit

The above-stated movements of the revenues and costs resulted in a slight decrease of the Earnings before interest, taxation, depreciation and amortization (EBITDA) in 2020 by 0.6% compared to the previous year. Implicitly the EBITDA margin for 2020 amounts 39.8%.

Operating profit (Earnings before interest and taxation - EBIT) for 2020 is decreased by 6.6% compared to the previous year.

Net profit for 2020 has increased by 6.5% compared to the previous year and amounts MKD 1,603,171 thousand. This rise is mostly result of the increase of financial income, due to increased interest income from release of provision of interest related with one legal case for which Appellation Court made Decision in favour of the Company. The ruling in the legal case is final. However, there is a possibility for extraordinary legal remedies to be taken, but the provision no longer meets the recognition criteria.

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<i>In MKD thousands</i>	<i>2019</i>	<i>2020</i>	<i>Change YoY</i>
Total Operating revenues	10.951.142	11.179.974	2,1%
Sales revenues	10.840.514	11.085.220	2,3%
Total Operating expenses	9.207.730	9.551.647	3,7%
Depreciation and amortization	2.736.200	2.823.591	3,2%
Operating expenses excluding Depreciation and amortization	6.471.530	6.728.056	4,0%
Earning before interest, taxation, depreciation and amortization (EBITDA)	4.479.612	4.451.918	-0,6%
EBITDA margin in %	40,9%	39,8%	-2,7%
Operating Profit (Earning before interest and taxation - EBIT)	1.743.412	1.628.327	-6,6%
Financial incomes	50.584	223.045	340,9%
Financial expenses	75.090	69.923	-6,9%
income tax	213.511	178.278	-16,5%
Net Profit	1.505.395	1.603.171	6,5%

IV Paid dividends

The Shareholders' Assembly of MKT, at its meeting, held on 30 June 2020 adopted a Resolution for the dividend payment for the year 2019 and determination of the dividend calendar. In accordance with this Resolution the dividend for 2019 is in total gross amount of MKD 1,328,387 thousand.

The gross amount of dividend per share for 2019 is MKD 15.40. The dividend has been paid out by the legally determined deadline, 30 September 2020.

On the same meeting held on 30 June 2020 the Shareholders' Assembly of the Company adopted a Resolution by which part of the net profit generated as per the Financial Statements of the Company for the year 2019 in accordance with the adopted international financial reporting standards published in the "Official Gazette of the Republic of North Macedonia" to be transferred in retained earnings for investments in qualified tangible and intangible assets in amount of MKD 332,097 thousand for purpose of tax reliefs utilization in 2020.

V Plan and expectations for the next period

MKT similar as the other companies in the country and globally worldwide is impacted by the COVID-19 situation. The negative impact on the actual results is mostly on prepaid segment and roaming services and it is expected to continue in the next months. However, no significant impact on achieving of the YE targets is expected.

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MKT is facing a challenging period considering the uncertainties associated with the development of the COVID 19 situation, especially the fact that the company was affected in 2020. The negative impact on the actual results is mostly on prepaid segment and roaming services and it is expected to continue in the next period with a slightly better outcome. This negative impact is mitigated with higher ICT revenues and higher revenues in fix and converge services, resulted with overall higher yoy revenues.

MKT's positive performance recorded in 2020 gives the necessary prerequisite for further continuation of the Growth Strategy in the following areas:

- Growing the value of the base – existing customer with value uplift with segment value proposition, simplified and personalized customer journeys;
- Further build of ICT revenues with focus on new segments (Smart City, Cloud etc.);
- Investments in further modernization of mobile network providing best connectivity and user experience;
- 5 G mobile network;
- Closer interaction with customers via digital channels
- Lead society and business digital transformation

VI COVID – 19 Effect

In 2020, the coronavirus spread globally, and its negative impact gained momentum. 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 bad debt rate.

Nikola Ljusev
Chief Executive Officer

Slavko Projkoski
Chief Financial Officer

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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 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 Republic of North Macedonia and further to the previously disclosed information in the Financial Statements of the Company for the preceding years, the criminal procedure against former managers of the company is still ongoing at first instance criminal court.

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 have concluded that the financial statements may be misstated, including from the effects of a possible illegal act.

Proofreading by Lingva Ekspert