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 2022

Subject: Explanation on the operation of Makedonski Telekom AD - Skopje for the period from 01.01.2021 until 31.12.2021

The following analysis refers to the Unaudited Financial statements of Makedonski Telekom (MKT) for the period 01.01.2021 - 31.12.2021, prepared in accordance with the International Financial Reporting Standards (IFRSs).

I Revenues

The sales revenues in 2021 amounted to MKD 11,216,512 thousand, which represents increase of 1.2% compared to the previous year.

Mobile services

Mobile voice and non-voice services

On the mobile market, MKT has a **market share of 48.7%** (internal estimation, compared to the 47.8% at the end of the previous year). The subscribers' base at the end of 2021 amounts to 1,215 thousand subscribers and it is increased by 10% compared to the previous year.

At the end of 2021, the revenues from **mobile retail voice and mobile non-voice services** marked an increase by 4.9% compared to the previous year.

The increase is mainly due to the higher number of post-paid subscribers as well as the increase of **ARPU (Average Revenue Per User)** mostly in residential customers and increase of the roaming revenues due to reduction of the restrictions related to COVID – 19 pandemic, and on the other hand there is decline of the revenues from pre-paid due to pre to post migration. 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-voce services as well as the increased GPRS traffic in roaming.

The revenues from wholesale voice services at the end of 2021 marked an increase by 6.8% compared to the previous year mostly due to increased mobile traffic supported by higher volume in international incoming mobile terminating traffic.

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E-Mail: kontakt@telekom.mk | Internet: www.telekom.mk
Company Reg. No. 5168660 | Principal capital MKD 9.583.887.733,00

The blended ARPU (Average Revenue Per User) for voice and nonvoice services marked an increase by 7.2% compared to the previous year amounting to MKD 387 mostly driven by the increase of post-paid subscribers' portion in the total subscribers' base.

Fixed services

Fixed voice and non-voice services

MKT has managed to maintain the **leading position on the fixed voice market with 62.5%** (internal estimation, and it is on a same level of 62.5% at the end of the previous year) or 224 thousand customers at the end of 2021.

The voice retail revenues in 2021 in the fixed segment services have decreased by 2.9% compared to the previous year due to decreased outgoing traffic by 11.1% as well as the decreased international incoming traffic. At the end of 2021 the number of customers in the fixed voice (including the customers using the convergent services) marked an increase by 1.3% compared to the previous year.

At the end of 2021, **the number of total BB accesses** (including the customers using the convergent services) is increased by 3% and amounts 220.1 thousand compared to 213.8 thousand at the end of the previous year. **The number of BB subscribers (excluding wholesale)** at the end of 2021 has increased by 3.2% and amounts 197.3 thousand compared to 191.1 thousand at the end of the previous year. The **broadband Internet market share** at the end of 2021 **amounts to 49.8%** (internal estimation, compared to 49.4% at the end 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 2021 Makedonski Telekom has enabled more than 246 thousand accesses to the optic network which is an increase by 12% compared to the previous year.

Regarding the **TV market**, MKT has a leading position with **market share of 34.5%** (internal estimation, compared to 33.8% at the end of the previous year) 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 2021 achieved an increase of the number of IPTV customers (including Magenta1, 3 Play and other TV services) by 2.4% compared to the previous year, which has resulted in a customer base of 145.9 thousand customers at the end of 2021.

The **revenues from retail Internet** at the end of 2021 have increased by 2.2% compared to the previous year.

The **revenues from digital television via Internet protocol ("IPTV")** at the end of 2021 have increased by 3.5% compared to the previous year.

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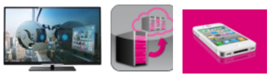
Other revenues



Other revenues in the fixed and mobile segment

System integration and IT revenues at the end of 2021 have decreased by 36.5% compared to the previous year as a result of lower revenues from ICT projects.

The revenues from the sale of equipment at the end of 2021 have decreased by 3.9% compared to the same period of the previous year as a result of the decline of revenues from sale of handsets, due to lower average sale price of the handsets.

II Expenses

Operating expenses

On the cost side, at the end of 2021, the operating expenses marked a slight increase by 0.2% compared to the previous year, mostly as a result of the increase of the cost for services and cost for depreciation and amortization.

The employee related expenses have decreased by 2.6% at the end of 2021 compared to the previous year.

The cost for services is increased by 8.4% at the end of 2021 compared to the previous year.

The cost for depreciation and amortization at the end of 2021 marked an increase by 7.6% compared to the previous year.

Capital expenditures

The amount of total Capital expenditures (CAPEX), at the end of 2021 is MKD 2.982,383 thousand.

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III Operating and Net profit

The above-stated movements of the revenues and costs resulted in an increase of the Earnings before interest, taxation, depreciation and amortization (EBITDA) in 2021 by 7.2% compared to the previous year. Implicitly the EBITDA margin for 2021 amounts 42.2%.

Operating profit (Earnings before interest and taxation - EBIT) for 2021 is increased by 6.3% compared to 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 2021 has slightly declined by 0.7% compared to the previous year and amounts MKD 1,591,293 thousand.

In MKD thousands	*2020 Jan - Dec*	*2021 Jan - Dec*	*Change YoY*
Total Operating revenues	11.179.974	11.297.766	1,1%
Sales revenues	11.085.220	11.216.512	1,2%
Total Operating expenses	9.551.647	9.566.618	0,2%
Depreciation and amortization	*2.823.591*	*3.039.322*	*7,6%*
Operating expenses excluding Depreciation and amortization	6.728.056	6.527.296	-3,0%
Earning before interest, taxation, depreciation and amortization (EBITDA)	**4.451.918**	**4.770.470**	**7,2%**
EBITDA margin in %	39,8%	42,2%	6,0%
Operating Profit (Earning before interest and taxation - EBIT)	**1.628.327**	**1.731.148**	**6,3%**
Financial incomes	223.045	90.297	-59,5%
Financial expenses	69.923	57.849	-17,3%
income tax	178.278	172.303	-3,4%
Net Profit	**1.603.171**	**1.591.293**	**-0,7%**

IV Paid dividends

The Shareholders' Assembly of MKT, at its meeting, held on 17 June 2021 adopted a Resolution for the dividend payment for the year 2020 and determination of the dividend calendar. In accordance with this Resolution the dividend for 2020 is in total gross amount of MKD 1,381,898 thousand.

The gross amount of dividend per share for 2020 is MKD 16.02. The dividend has been paid out by the legally determined deadline, 30 September 2021.

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On the same meeting held on 17 June 2021 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 2020 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 345,474 thousand for purpose of tax reliefs utilization in 2021.

V Plan and expectations for the next period

After heavily affected economy by COVID-19 outbreak, recovery already visible in 2021, resulted in open borders and increased mobility during summer season.

The Company responded to the COVID-19 situation swiftly, which is confirmed with the positive results at the end of 2021. This positive result of MKT at the end of 2021 provides the necessary prerequisites for further continuing of the Strategy for overall orientation towards customers and being leader in the digitalization.

Revenue growth mostly is coming from increase on mobile services, as well as wholesale in the TV segment and growth in the interconnection segment. The expectations are that this development will continue with further focus on positive mobile ARPU development and ICT growth.

VI COVID – 19 Effect

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 bad debt rate.

During 2021, the inflation rates has increased globally, resulting in a local inflation rate of 3.2% for 2021 (2020: 1.2%). However, based on the inflation forecasts of the National Bank of North Macedonia for 2022,

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it is expected to slowly decrease to the level of 2.4%. The global rise of energy cost will result in significant increase of the company's energy costs; however, the Management believes that such negative trend may be compensated as much as possible with a set of measures and better commercial results.

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 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 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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