



Makedonski telekom AD Skopje

Explanation on the operation for the period

January – March 2024



Content

Chief Executive Officer's Statement.....	3
Highlights of the results from operations.....	3
Operation analysis by segments.....	4
Mobile services.....	4
Fixed services	4
System integration and IT	5
Expenses	6
Operating expenses	6
Capital expenditures	6
Ukraine conflict and economic crises impact on the business and on the financial statements.....	6
Investigation into certain consultancy contracts	7



Chief Executive Officer's Statement

"We are continuing further with excellent results in 2024 as well, motivated by our customers and committed towards building the best network. We are committed to the goal to enable the superior service and customers' experience, expanding the infrastructure as a base to deliver the best to our customers.

Apart from all challenges that today influence the businesses global wide, we invest in the latest technologies with a goal to connect everybody, everywhere, to enable equal access to the digital world. We lead the way to the digital transformation of the businesses and the society. We work committed and as a team in order to be more than just a service provider, to offer to the customers real values and to contribute towards sustainable future for all." - stated Nikola Ljushev, Chief Executive Officer of Makedonski Telekom.

Highlights of the results from operations

Makedonski Telekom in the first quarter of 2024 continued with the positive results. This is an outcome of the successful operations, focus on the modernization and expanding of the network infrastructure and pioneering in the implementation of the latest technologies, aiming towards best customers' experience.

Sales revenues growth by 3%. The sales revenues at the end of the first three months of 2024 marked an increase by 3% compared to the same period of the previous year and amounted to MKD 2,967 millions.

In the scope of the revenues from core business there is a growth by 5.5% in the mobile services, while in the fix segment there is a slight decline by 1.3%, compared to the same period of the previous year.

EBITDA growth by 4.4%. The Earnings before interest, taxation, depreciation and amortization (EBITDA) in the first three months of 2024 amounts MKD 1,261 millions. It is increased by 4.4% compared to the same period of the previous year.

The EBITDA margin for the first three months of 2024 has increased and amounts 42.2% compared to 41.4% at the end of the same period of the previous year.

Net income growth by 15.2%. As a result of the movements of the revenues and costs as well as the financial incomes and expenses the Net profit for the first three months of 2024 has increased by 15.2% compared to the same period of the previous year and amounts MKD 551 millions.

In MKD millions	2023 Jan - Mar	2024 Jan - Mar	Change YoY
(1) Total Operating revenues	2.918	2.989	2,4%
(2) Sales revenues	2.882	2.967	3,0%
(3) Total Operating expenses	2.372	2.414	1,8%
(4) Electricity cost	138	89	-35,8%
(5) Depreciation and amortization	662	686	3,6%
(6) = (3) - (5) Operating expenses excluding Depreciation and amortization	1.710	1.728	1,1%
(7) = (1) - (6) Earning before interest, taxation, depreciation and amortization (EBITDA)	1.208	1.261	4,4%
(7a) = (7) / (1) EBITDA margin in %	41,4%	42,2%	1,9%
(8) = (1) - (3) Operating Profit (Earning before interest and taxation - EBIT)	546	575	5,3%
(9) Financial incomes	24	69	192,2%
(10) Financial expenses	28	25	-9,9%
(11) income tax	64	68	7,0%
(12) = (8) - (9) - (10) - (11) Net Profit	478	551	15,2%



Operation analysis by segments

The overall analysis refers to the Unaudited Income Statement of Makedonski Telekom (MKT) for the period 01.01.2024 - 31.03.2024, prepared in accordance with the International Financial Reporting Standards (IFRSs).

Mobile services

Mobile voice and non-voice services

On the mobile market, MKT has a **market share of 48%** (internal estimation, compared to 48.7% at the end of the same period of the previous year). The subscribers' base at the end of the first three months of 2024 amounts to 1,266 thousand subscribers and it is increased by 1% compared to the same period of the previous year.

At the end of the first three months of 2024, the revenues from **mobile retail voice and mobile non-voice services** marked an increase by 2.5% 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.

Wholesale voice services

The revenues from **wholesale voice services** at the end of the first three months of 2024 marked an increase by 4.8% compared to the same period of the previous year. The increase is due to the increased volume of traffic from M2M supported by effect in the revenues as a result of the Western Balkan regulation.

Sales of equipment

The revenues from the **sale of equipment** at the end of the first three months of 2024 have increased by 13.7% 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 per device.

The blended ARPU (Average Revenue Per User)

The blended ARPU for voice and nonvoice services marked an increase by 2.4% compared to the same period of the previous year amounting to MKD 380.

Fixed services

Fixed voice and non-voice services

MKT has managed to maintain the **leading position on the fixed voice market with 62%** (internal estimation compared to 61.2% at the end of the same period of the previous year) or 229 thousand customers at the end of the first three months of 2024.

The **voice retail revenues** in the first three months of 2024 in the fixed segment services are stable compared to the same period of the previous year. At the end of the first three months of 2024 the number of customers in the fix voice (including the customers using the convergent services) marked an increase by 1.9% compared to the same period of the previous year.

At the end of the first three months of 2024, **the number of total BB accesses** (including the customers using the convergent services) is increased by 3.4% and amounts 235.1 thousand compared to 227.3 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 2024 has increased by 3.7% and amounts 211.4 thousand compared to 203.9 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 2024 **amounts to 49.4%** (internal estimation, compared to 49.8% 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 2024 Makedonski Telekom has enabled more than 324 thousand accesses to the optic network which is an increase by 15.3% compared to the same period of the previous year.

Regarding the **TV market**, MKT has a leading position with **market share of 34.4%** of the total TV market (internal estimation, compared to 33.6% 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 2024 achieved an increase of the number of IPTV customers (including Magenta1, 3 Play and other TV services) by 2.3% compared to the same period of the previous year, which has resulted in a customer base of 151.1 thousand customers at the end of the first three months of 2024.

The **revenues from retail Internet** at the end of the first three months of 2024 have increased by 6.7% compared to the same period of the previous year.

TV revenues (digital television via Internet protocol "IPTV") at the end of the first three months of 2024 have decreased by 5.3% compared to the same period of the previous year due to the decline of ARPU (Average Revenue Per User) from TV services.

Wholesale services

The **wholesale revenues** at the end of the first three months of 2024 are declined by 10.6% compared to the same period of the previous year, mostly due to the decline of the revenue from the international transit to other fix telco operators.

System integration and IT

The **revenues from System integration and IT services** at the end of the first three months of 2024 have decreased by 12.1% compared to the same period of the previous year, mostly as a result of the ICT projects realization dynamics.



Expenses

Operating expenses

On the cost side, at the end of the first three months of 2024, the operating expenses marked a slight increase by 1.8% compared to the same period of the previous year, mostly due to increase of the cost of trading goods sold, employee related expenses and amortization and depreciation.

<i>In MKD millions</i>	<i>2023 Jan - Mar</i>	<i>2024 Jan - Mar</i>	<i>Change YoY</i>
Amortization and depreciation	662	686	3,6%
Cost of trading goods sold	566	618	9,2%
Services	520	491	-5,5%
Employee related expenses	232	270	16,4%
Other expenditures	178	187	5,1%
Cost of consumed materials and other supplies	153	108	-29,2%
Impairment losses of current assets	52	47	-10,9%
Provisions	9	7	-22,1%
Total operating expenses	2.372	2.414	1,8%

The **cost for depreciation and amortization** at the end of the first three months of 2024 is increased by 3.6% compared to the same period of the previous year.

The cost of trading goods sold is increased by 9.2% in line with the increased revenues, while **the cost of consumed materials and other supplies** including the electricity cost are decreased by 29.2% at the end of the first three months of 2024 compared to the same period of the previous year, dominantly due to decline of the electrical energy price as a result of the global movements of the electrical energy price.

The cost for services is decreased by 5.5% at the end of first three months of 2024 compared to the same period of the previous year mostly due to the decline of the costs for maintenance of the telecommunication equipment.

The **employee related expenses** at the end of the first three months of 2024 are increased by 16.4% due to higher number of employees, mostly as a result of in-sourcing of the employees who are performing the activities related to the maintenance of the telecommunication network, which from June 2016 until 2023 were under the competence of an external partner. Additionally, the Company has lower expenses for severance payments compared to the same period of the previous year.

Capital expenditures

The amount of total Capital expenditures (CAPEX), at the end of the first three months of 2024 is MKD 341 millions compared to MKD 524 millions at the end of the same period of the previous year.

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

The annual inflation rate is slowing down and at the end of February 2024 the inflation spread compared to the Eurozone is further on the low level, although in January marks a slight increase, in the circumstances with moderate acceleration of the domestic inflation and certain stabilizing in the Eurozone. In accordance to the latest IMF country reports the average inflation rate for 2024 is estimated at around 4%. The revisions related to the import prices are mostly downwards, but there is still uncertainty related to the termination



of the temporary measures for the domestic food prices, as well as the prices' dynamics of the basic products on the stock exchanges due to geopolitical tensions and climate changes.¹

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.

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, 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. However, based on the proposal from the Higher Public Prosecution Office, with the 2023 Q4 verdict from the Court of Appeal – Skopje all charges against the defendants have been dismissed due to reached statute limitation period, as per the latest changes in the Criminal Code. With this verdict, the criminal case against the defendants is closed, and now the state can only sue the defendants for compensation of damages in a civil court procedure.

¹ NBRSM – Latest macroeconomic indicators Current situation overview – March 2024



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.