



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 2023

Subject: Explanation on the operation of Makedonski Telekom AD - Skopje for the period from 01.01.2023 until 31.12.2023

The following analysis refers to the Unaudited Financial Statements of Makedonski Telekom (MKT) for the period 01.01.2023 - 31.12.2023, prepared in accordance with the International Financial Reporting Standards (IFRSs).

I Revenues

The sales revenues at the end of 2023 are increased compared to the previous year and amounted to MKD 11,912,553 thousand. In the scope of the revenues from core business there is a growth by 4.3% in the mobile services, while in the fix segment there is a growth by 3.5%, compared to the previous year.

Mobile services



Mobile voice and non-voice services

On the mobile market, MKT has a **market share of 48.2%** (internal estimation, compared to 48.6% at the end of the previous year). The subscribers' base at the end of 2023 amounts to 1,281 thousand subscribers and it is increased by 1% compared to the previous year.

At the end of 2023, the revenues from **mobile retail voice and mobile non-voice services** marked an increase by 3.8% compared to 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.

The revenues from wholesale voice services at the end of 2023 marked a decrease by 3.1% compared to the previous year.

The blended ARPU (Average Revenue Per User) for voice and nonvoice services marked an increase by 1.6% compared to the previous year amounting to MKD 378.



Fixed services



Fixed voice and non-voice services

MKT has managed to maintain the **leading position on the fixed voice market with 61.9%** (internal estimation compared to 61.5% at the end of the previous year) or 228 thousand customers at the end of 2023.

The **voice retail revenues** in 2023 in the fixed segment services are stable compared to the previous year. At the end of 2023 the number of customers in the fix voice (including the customers using the convergent services) marked an increase by 1.7% compared to the previous year.

At the end of 2023, **the number of total BB accesses** (including the customers using the convergent services) is increased by 3.2% and amounts 233.8 thousand compared to 226.6 thousand at the end of the previous year. **The number of BB subscribers (excluding wholesale)** at the end of 2023 has increased by 3.5% and amounts 210.5 thousand compared to 203.3 thousand at the end of the previous year. The **broadband Internet market share** at the end of 2023 **amounts to 49.6%** (internal estimation, compared to 49.7% 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 2023 Makedonski Telekom has enabled more than 314 thousand accesses to the optic network which is an increase by 14.6% compared to the previous year.

Regarding the **TV market**, MKT has a leading position with **market share of 34%** of the total TV market (internal estimation, compared to 33.6% at the end 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 2023 achieved an increase of the number of IPTV customers (including Magenta1, 3 Play and other TV services) by 1.8% compared to the previous year, which has resulted in a customer base of 150.4 thousand customers at the end of 2023.

The **revenues from retail Internet** at the end of 2023 have increased by 13.6% compared to the previous year.

The **revenues from digital television via Internet protocol ("IPTV")** at the end of 2023 have decreased by 5.8% compared to the previous year.

Other revenues



Other revenues in the fixed and mobile segment

System integration and IT revenues at the end of 2023 have decreased by 51.3% compared to 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 2023 have increased by 3.6% compared to 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.



II Expenses



Operating expenses

On the cost side, at the end of 2023, the operating expenses marked a decrease by 3.4% compared to the previous year, mostly as a result of the decline of the cost of trading goods sold as well as the cost for consumed materials and other supplies.

The cost of trading goods sold is decreased by 10% 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 19.5% at the end of 2023 compared to 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 0.9% at the end of 2023 compared to the previous year.

The employee related expenses at the end of 2023 are increased by 9.4% 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 previous year.

The cost for depreciation and amortization at the end of 2023 marked a decrease by 1.7% compared to the previous year.



Capital expenditures

The amount of total Capital expenditures (CAPEX), at the end of 2023 is MKD 2,628,214 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 2023 by 10.4% compared to the previous year. The EBITDA margin for 2023 has increased and amounts 42.2% compared to 38.8% at the end of the previous year.

Operating profit (Earnings before interest and taxation - EBIT) for 2023 is increased by 29.1% 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 2023 has increased by 38.7% compared to the previous year and amounts MKD 2,080,351 thousand.

<i>In MKD thousands</i>	<i>2022 Jan - Dec</i>	<i>2023 Jan - Dec</i>	<i>Change YoY</i>
(1) Total Operating revenues	11.880.860	12.060.850	1,5%
(2) Sales revenues	11.769.333	11.912.553	1,2%
(3) Total Operating expenses	10.067.295	9.720.101	-3,4%
(4) Electricity cost	608.113	469.751	-22,8%
(5) Depreciation and amortization	2.793.719	2.745.926	-1,7%
(6) = (3) - (5) Operating expenses excluding Depreciation and amortization	7.273.576	6.974.175	-4,1%
(7) = (1) - (6) Earning before interest, taxation, depreciation and amortization (EBITDA)	4.607.284	5.086.675	10,4%
(7a) = (7) / (1) EBITDA margin in %	38,8%	42,2%	8,8%
(8) = (1) - (3) Operating Profit (Earning before interest and taxation - EBIT)	1.813.565	2.340.749	29,1%
(9) Financial incomes	24.849	72.676	192,5%
(10) Financial expenses	131.155	60.819	-53,6%
(11) income tax	206.980	272.255	31,5%
(12) = (8) - (9) - (10) - (11) Net Profit	1.500.279	2.080.351	38,7%

IV Paid dividends

The Shareholders' Assembly of MKT, at its meeting, held on 30 May 2023 adopted a Resolution for the dividend payment for the year 2022 and determination of the dividend calendar. In accordance with this Resolution the dividend for 2022 is in a total gross amount of MKD 1,667,794 thousand.

The gross amount of dividend per share for 2022 is MKD 19.34 which is a slight decline by 3.2% compared to the dividend for 2021 (MKD 19.96). The dividend was paid in 30 September 2023. Up to the date of issuing of these financial statements, no dividends have been declared for 2023.



V Plan and expectations for the next period

In the forthcoming period it is expected growth trend of the net margin as a result of revenue growth from the core business. The higher net margin along with the effect of the cost decline as a result of the combined effect from the decrease of the electricity price, continuous optimization and increase based on inflation resulted with the increased EBITDA compared to the previous year.

The positive revenues trend is expected to be secured by:

- Market growth and keeping the leader position related to the brand perception and sales margin
- Implementation of the new TV platform with advanced features as a factor for differentiation from the others on the market
- Superior digital customer experience supported by the communication with the customers (Magenta Moments) and further improvement of the processes as well as of the tools/applications
- Keeping the leadership position in FMC and securing generation of the positive value of the convergent households
- Securing the leader position related to the innovations in the mobile network by using and monetizing of 5G and securing the preparation of the 6G environment
- Increase of service revenues and net margin faster than the competition, utilization of the ICT possibilities for further value increase.

VI 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 the 2023 the inflation spread compared to the Eurozone is further decreasing. Albeit, the average inflation rate for 2023 is measured around 10% with the latest IMF country reports and it is still on a relatively high level compared to the historical average. The prices of the basic products, mostly food component, are still marking downward adjustments, but this effect is incorporating very slowly and unsatisfactorily in the domestic prices. Although further decline of the prices is expected, the uncertainty of the future prices on the stock exchanges still persists due to the ongoing military conflicts.

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



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

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.

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.