



Makedonski telekom AD Skopje

Explanation on the operation for the period

January – June 2024



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Chief Executive Officer's Statement

"We are continuing further with strong growth trend as well at the end of the first half of 2024. Our strategy of constant network development, new technologies and commitment towards superior customers' experience resulted in strong financial results and customers' base growth in all segments.

With the new investments in the infrastructure we enforce the status of best network, with widest optic coverage and most widespread 5G network. Apart from all challenges that today influence the businesses global wide, we invest in the latest technologies and lead the way to the digital transformation of the society.

The excellent results are even bigger motive to continue with committed work and stay number one in the industry and keep the status – Number one for our customers" – stated Nikola Ljushev, Chief Executive Officer of Makedonski Telekom.

Highlights of the results from operations

Makedonski Telekom in the first half 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 pioniring in the implementation of the latest technologies, aiming towards best customers' experience.

Sales revenues growth by 2.5%. The sales revenues at the end of the first six months of 2024 marked an increase by 2.5% compared to the same period of the previous year and amounted to MKD 5,965 millions.

In the scope of the revenues from core business there is a growth by 4.2% in the mobile services, while in the fix segment there is a slight decline by 0.1%, compared to the to the same period of the previous year.

Slight decline od EBITDA by 0.4%. The Earnings before interest, taxation, depreciation and amortization (EBITDA) in the first six months of 2024 amounts MKD 2,521 millions. It is decreased by 0.4% compared to the same period of the previous year mostly due to the higher employee related expenses.

The EBITDA margin for the first six months of 2024 has decreased and amounts 42% compared to 42.9% at the end of the same period of the previous year.

Net income growth by 7.4%. 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 six months of 2024 has increased by 7.4% compared to the same period of the previous year and amounts MKD 1,082 millions. The increase of the net income is due to the higher financial revenues as a result of the increased fair value of the financial assets (shares in the other Macedonian companies) stated through profit and loss.



In MKD millions	2023 Jan - Jun	2024 Jan - Jun	Change YoY
(1) Total Operating revenues	5.901	6.006	1,8%
(2) Sales revenues	5.818	5.965	2,5%
(3) Total Operating expenses	4.751	4.884	2,8%
(4) Electricity cost	272	165	-39,4%
(5) Depreciation and amortization	1.380	1.399	1,3%
(6) = (3) - (5) Operating expenses excluding Depreciation and amortization	3.371	3.485	3,4%
(7) = (1) - (6) Earning before interest, taxation, depreciation and amortization (EBITDA)	2.530	2.521	-0,4%
(7a) = (7) / (1) EBITDA margin in %	42,9%	42,0%	-2,1%
(8) = (1) - (3) Operating Profit (Earning before interest and taxation - EBIT)	1.150	1.122	-2,5%
(9) Financial incomes	24	148	517,9%
(10) Financial expenses	32	40	23,6%
(11) income tax	134	148	10,4%
(12) = (8) - (9) - (10) - (11) Net Profit	1.007	1.082	7,4%

Operation analysis by segments

The overall analysis refers to the Unaudited Financial Statements of Makedonski Telekom (MKT) for the period 01.01.2024 - 30.06.2024, 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 47.9%** (internal estimation, compared to 48.4% at the end of the same period of the previous year). The subscribers' base at the end of the first six months of 2024 amounts to 1,272 thousand subscribers and it is slightly increased by 0.2% compared to the same period of the previous year.

At the end of the first six months of 2024, the revenues from **mobile retail voice and mobile non-voice services** marked an increase by 3.2% 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-voce 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 six months of 2024 are stable compared to the same period of the previous year. On one side there is an increase due to higher volume of traffic from M2M supported by effect in the revenues as a result of the Western Balkan regulation, compensated by the decline of the international incoming traffic.

Sales of equipment

The revenues from the **sale of equipment** at the end of the first six months of 2024 have increased by 10.1% 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 2.6% compared to the same period of the previous year amounting to MKD 389.

Fixed services

Fixed voice and non-voice services

MKT has managed to maintain the **leading position on the fixed voice market with 62.1%** (internal estimation compared to 61.5% at the end of the same period of the previous year) or 230 thousand customers at the end of the first six months of 2024.

The voice retail revenues in the first six months of 2024 in the fixed segment services are slightly decreased by 1% compared to the same period of the previous year. At the end of the first six months of 2024 the number of customers in the fix voice (including the customers using the convergent services) marked an increase by 1.7% compared to the same period of the previous year.

At the end of the first six months of 2024, **the number of total BB accesses** (including the customers using the convergent services) is increased by 3.3% and amounts 237.2 thousand compared to 229.6 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 six months of 2024 has increased by 3.3% and amounts 213 thousand compared to 206.2 thousand at the end of the same period of the previous year. The **broadband Internet market share** at the end of the first six months of 2024 **amounts to 49.4%** (internal estimation, compared to 49% 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 six months of 2024 Makedonski Telekom has enabled more than 330 thousand accesses to the optic network which is an increase by 13.9% compared to the same period of the previous year.

Regarding the **TV market**, MKT has a leading position with **market share of 35%** 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 six months of 2024 achieved an increase of the number of IPTV customers (including Magenta1, 3 Play and other TV services) by 3% compared to the same period of the previous year, which has resulted in a customer base of 153.2 thousand customers at the end of the first six months of 2024.

The **revenues from retail Internet** at the end of the first six months of 2024 have increased by 7% compared to the same period of the previous year.

TV revenues (digital television via Internet protocol "IPTV") at the end of the first six months of 2024 have decreased by 5.8% 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 six months of 2024 are declined by 6.8% 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 six months of 2024 have decreased by 16.5% 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 six months of 2024, the operating expenses marked an increase by 2.8% compared to the same period of the previous year, mostly due to increase of the cost of trading goods sold and employee related expenses.

In MKD milions	2023 Jan - Jun	2024 Jan - Jun	Change YoY
Amortization and depreciation	1380,4	1399,0	1,3%
Cost of trading goods sold	1030,8	1098,2	6,5%
Services	1077,0	993,1	-7,8%
Employee related expenses	495,0	608,6	23,0%
Other expenditures	377,1	382,1	1,3%
Cost of consumed materials and other supp	293,7	203,1	-30,9%
Impairment losses of current assets	87,6	114,6	30,7%
Provisions	8,9	73,2	723,4%
Other operating expenses	0,4	12,3	2652,2%
Total operating expenses	4.751	4.884	2,8%

The **cost for depreciation and amortization** at the end of the first six months of 2024 is increased by 1.3% compared to the same period of the previous year.

The cost of trading goods sold is increased by 6.5% in line with the increased revenues, while **the cost of consumed materials and other supplies** including the electricity cost are decreased by 30.9% at the end of the first six 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 7.8% at the end of first six 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 six months of 2024 are increased by 23% 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 higher 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 six months of 2024 is MKD 721 millions compared to MKD 929 millions at the end of the same period of the previous year.



Paid dividends and share capital indicators

The Shareholders' Assembly of MKT, at its meeting, held on 29 May 2024 adopted a Resolution for the dividend payment for the year 2023 and determination of the dividend calendar. In accordance with this Resolution the dividend for 2023 is in a total gross amount of MKD 2,212,067 thousand.

The gross amount of dividend per share for 2023 is MKD 25.65 which is increase by 33% compared to the dividend for 2022 (MKD 19.34). The dividend shall be paid within the legally defined deadline, 30 September 2024.

Additionally, the dividend yield of the Makedonski Telekom's shares is increased by 26% compared to the previous year and amounts 6.7%. The price per share from the beginning of 2024 until the end of the first six months of 2024 is increased by 6.9%. This is a confirmation that our strategy and technological visionary, aims towards right direction and it is recognized by the customers.

Share Capital indicators	31.12.2022	31.12.2023	01.01.2024	30.06.2024
Earning per share (EPS) in MKD	19,34	25,65	-	-
<i>Growth in %</i>	-	32,6%	-	-
Dividend per share (DPS) in MKD	19,34 [▲]	25,65	-	-
<i>Growth in %</i>	-	32,6%	-	-
Dividend yield (DY) in %	5,3% [▲]	6,7%	6,5%	6,1%
<i>Growth in %</i>	-	26,1%	23,2%	15,2%
Average share price on a date in MKD	365,0	383,8	393,0	420,2
<i>Growth in %</i>	-	5,2%	2,4%	6,9%
MBI - 10 (Macedonian Stock Exchange index)	5.652	6.116	6.154	7.705
	-	8,2%	0,6%	25,2%

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 continuous optimization and increase based on inflation it is expected to result 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, utilization of the ICT possibilities for further value increase.



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

The annual inflation rate is slowing down mostly in the part of food and basic component and at the end of June 2024 it is on a level of 3.2%, but it is still above historical average, while the inflation spread compared to the Eurozone marks significant decrease. In accordance to the latest IMF country reports the average inflation rate for 2024 is estimated at around 4%. The inflation expectations are still favourable, considering the European commission surveys in June, in which the expectations for prices decline in the next period prevail. Considering the prices of the basic products prices on the exchanges they are still volatile as well as the predictions for their movement in the forthcoming period, and instability in the geopolitical context is still generating uncertainty and risks.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.

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



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.