

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:** May 2020

**Subject:** Explanation on the operation of Makedonski Telekom AD - Skopje for the period from 01.01.2020 until 31.03.2020

The following analysis refers to the unaudited Income statement of Makedonski Telekom (MKT) for the period 01.01.2020 - 31.03.2020, prepared in accordance with the International Financial Reporting Standards (IFRSs).

## I Revenues

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The sales revenues in the first three months of 2020 amounted to MKD 2,619,421 thousand, which represents an increase of 4.0% compared to the same period of the previous year.

### Voice services

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#### Fixed line voice services

MKT has managed to maintain the **leading position on the fixed voice market with 62.0%** (internal estimation) or 216.2 thousand customers at the end of the first three months of 2020.

**The voice revenues** in the first three months of 2020 in the fixed segment services have decreased by 3.6% compared to the same period of the previous year due to decreased outgoing traffic by 11.8% as well as the decreased international incoming traffic. At the end of the first three months of 2020 the number of customers in the fixed voice (including the customers using the convergent services) marked an increase by 1.9% compared to the same period of the previous year.



#### Mobile voice services

On the mobile market, MKT has a **market share of 47.4%** (internal estimation). The subscribers' base at the end of the first three months of 2020 amounts to 1,196 thousand subscribers and it is increased by 0.6% compared to the same period of the previous year.

At the end of the first three months of 2020, the **mobile voice revenues** including voice wholesale revenue - incoming are decreased by 2.3% compared to the same period of the previous year. The decrease is due to lower pre-paid traffic revenues, lower volume in international incoming mobile terminating traffic as well as the decreased roaming revenues due to additional decline of the prices as of 1<sup>st</sup> of July 2019 with the Western Balkan countries in accordance with the regulation in the part of voice use in roaming between countries in the Balkans. Implicitly, the blended ARPU (Average Revenue Per User) has slightly decreased by 0.2% compared to the same period of the previous year amounting to MKD 343.

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## Internet, TV and other non-voice services



### Fixed Internet and TV

At the end of the first three months of 2020, the number of total BB accesses (including the customers using the convergent services) is increased by 4.0% and amounts 205.5 thousand compared to 197.5 thousand at the end of the same period of the previous year, while the **broadband Internet market share** at the end of the first three months of 2020 **amounts to 48.1%** (internal estimation). The investments in the optic network have resulted in an increase of 13.0% of Households passed with access to the optic network at the end of the first three months of 2020 compared to the same period of the previous year. At the end of the first three months of 2020 the total coverage of the Households with access to the optic network has reached 35.7%, or we are already talking for above 200k households with possibility to use our optic network.

Regarding the **TV market**, MKT has a leading position with **market share of 32.6%** (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 the first three months of 2020 achieved an increase of the number of IPTV customers (including Magenta 1, 3 Play and other TV services) by 5.5% compared to the same period of the previous year, which has resulted in a customer base of 137.4 thousand customers at the end of the first three months of 2020.

The **revenues from retail Internet** at the end of the first three months of 2020 have increased by 2.3% compared to the same period of the previous year.

The **revenues from digital television via Internet protocol ("IPTV")** at the end of the first three months of 2020 have increased by 8.3% compared to the same period of the previous year.



### Mobile non-voice services

The **non-voice revenues** in the first three months of 2020 have increased by 5.7% compared to the same period of the previous year, mostly as a result of the increased mobile internet revenue due to the higher GPRS traffic and increased usage of data tariff plans.

## Other revenues



### Other revenues in the fixed and mobile segment

**System integration and IT revenues** at the end of the first three months of 2020 have nearly doubled (increase by 197.1%) 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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## II Expenses

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### Operating expenses

On the cost side, at the end of the first three months of 2020, the operating expenses marked increase by 8.1% compared to the same period of the previous year, mostly as a result of the significant increase of the employee related expenses as explained below.

The employee related expenses have increased by 21.4% at the end of the first three months of 2020 compared to the same period of the previous year as a result of the severance payments to the employees who have left the Company.

The cost for services is increased by 5.9% at the end of the first three months of 2020 compared to the same period of the previous year.

The cost for depreciation and amortization at the end of the first three months of 2020 has increased by 7.0% 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 2020 is MKD 656,595 thousand.

## III Operating and Net profit

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The above-stated movements of the revenues and costs resulted in a decrease of the Earnings before interest, taxation, depreciation and amortization (EBITDA) for the first three months of 2020 by 2.7% compared to the same period of the previous year. Implicitly the EBITDA margin for the first three months of 2020 amounts 39.6%. If the employee related expenses for severance payments are excluded EBITDA in the first three months of 2020 marked an increase by 1.9% compared to the same period of the previous year. Also, EBITDA margin (with excluded severance payments) in the first three months of 2020 amounts 41.5%.

Operating profit (Earnings before interest and taxation - EBIT) for the first three months of 2020 is decreased by 15.6% compared to the same period of the previous year. If the employee related expenses for severance payments are excluded EBIT in the first three months of 2020 is decreased by 4.9% compared to the same period of the previous year.

Net profit for the first three months of 2020 has decreased by 22.0% compared to the same period of the previous year and amounts MKD 313,241 thousand. If the employee related expenses for severance payments are excluded Net Income in the first three months of 2020 is decreased by 9.7% compared to the same period of the previous year.

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<i>In MKD thousands</i>	<i>2019 Jan - Mar</i>	<i>2020 Jan - Mar</i>	<i>Change YoY</i>
Total Operating revenues	2.546.231	2.642.483	3,8%
Sales revenues	2.519.555	2.619.421	4,0%
Total Operating expenses	2.084.952	2.253.295	8,1%
<i>Depreciation and amortization</i>	<i>614.714</i>	<i>657.595</i>	<i>7,0%</i>
Operating expenses excluding Depreciation and amortization	1.470.238	1.595.700	8,5%
<b>Earning before interest, taxation, depreciation and amortization (EBITDA)</b>	<b>1.075.993</b>	<b>1.046.783</b>	<b>-2,7%</b>
<i>EBITDA margin in %</i>	<i>42,3%</i>	<i>39,6%</i>	<i>-6,3%</i>
<b>Operating Profit (Earning before interest and taxation - EBIT)</b>	<b>461.279</b>	<b>389.188</b>	<b>-15,6%</b>
Financial incomes	15.508	5.409	-65,1%
Financial expenses	21.719	32.413	49,2%
income tax	53.334	48.943	-8,2%
<b>Net Profit</b>	<b>401.734</b>	<b>313.241</b>	<b>-22,0%</b>

## IV COVID - 19 Effect

MKT similar as the other companies in the country and globally worldwide is impacted by the situation and it is currently assessing the short-term impact in 2020 from the coronavirus pandemic. While the precise impact of the current crisis on the MKT's financial performance remains uncertain, we expect sales to be negatively impacted, especially in the prepaid segment, equipment sales and roaming services. Whilst we may have short-term impacts in 2020 and 2021, we currently do not expect a significant impact on our long-term plans.

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*



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*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 at the basic court is on-going.*

*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

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