

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: August 2019

Subject: Explanation on the operation of Makedonski Telekom AD - Skopje for the period from 01.01.2019 until 30.06.2019

The following analysis refers to the unaudited financial statements of Makedonski Telekom (MKT) for the period 01.01.2019 - 30.06.2019, prepared in accordance with the International Financial Reporting Standards (IFRSs).

In January 2016, the IASB issued IFRS 16 "Leases." The standard is effective for financial years beginning on or after 1 January 2019. From the date of first-time adoption, the new lease standard will have a material effect on the MKT's financial statements, particularly on the results of operations, net cash from operating activities, total assets, and the presentation of the financial position. MKT applied the modified retrospective approach. MKT mainly leases cell sites, rooftops and retail shops, space on masts or towers that will be affected by the new standard. IFRS 16 standard will have a significant effect on the financial statements and introduces a single lease accounting model by taking right-of-use assets and lease liabilities on the balance sheet. As a result of adopting IFRS 16, the 2018 operating lease expenses will be presented as depreciation and interest expense from 1 January 2019. On the lessor side, MKT mainly analyses the revised definition of leases including the head and sublease constructions. Other than that, MKT does not expect a considerable impact on the financial statements of the MKT at this time, as lessor accounting itself is not changing significantly through the introduction of IFRS 16.

The effects from operations for the first six months of 2019 presented below, for the purposes of the comparative analysis with the same period of the previous year are given without the influence from the International Financial Reporting Standard 16 "Leases".

I Revenues

The sales revenues in the first six months of 2019 amounted to MKD 5,143,343 thousand, which represents an increase of 2.5% compared to the same period of the previous year.

Voice services



Fixed line voice services

MKT has managed to maintain the **leading position on the fixed voice market with 55.6%** (internal estimation) or 210.9 thousand customers at the end of the first six months of 2019.

The voice revenues in the first six months of 2019 in the fixed segment services have decreased by 5.0% compared to the same period of the previous year due to decreased outgoing traffic by 11.6% as well as the decreased international and national incoming traffic. At the end of the first six months of 2019 the

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number of customers in the fixed voice marked an increase by 0.7% compared to the same period of the previous year.



Mobile voice services

On the mobile market, MKT has a **market share of 49.4%** (internal estimation). The subscribers' base at the end of the first six months of 2019 amounts to 1,198 thousand subscribers and it is increased by 2.2% compared to same period of the previous year.

At the end of the first six months of 2019, the **mobile voice revenues** including voice wholesale revenue - incoming are decreased by 4.2% compared to the same period of the previous year. The decrease is due to lower pre-paid revenues as well as the lower volume in international incoming mobile terminating traffic. The blended ARPU (Average Revenue Per User) has slightly increased by 0.3% compared to the same period of the previous year amounting to MKD 350 mostly driven by the increase of post-paid subscribers' portion in the total subscribers' base.

Internet, TV and other non-voice services



Fixed Internet and TV

At the end of the first six months of 2019, the number of total BB accesses is increased by 3.2% and amounts 197.1 thousand compared to 191.0 thousand at the end of the same period of the previous year, while the **broadband Internet market share** at the end of the first six months of 2019 **amounts to 43.7%** (internal estimation). The investments in the optic network have resulted in an increase of 9.7% of Households passed with access to the optic network at the end of the first six months of 2019 compared to the same period of the previous year. At the end of the first six months of 2019 the total coverage of the Households with access to the optic network has reached 32.6%.

Regarding the **TV market**, MKT has a **market share of 31.3%** (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 six months of 2019 achieved an increase of the number of IPTV customers (including Magenta1, 3 Play and other TV services) by 8.3% compared to the same period of the previous year, which has resulted in a customer base of 131.9 thousand customers at the end of the first six months of 2019.

The **revenues from digital television via Internet protocol ("IPTV")** at the end of the first six months of 2019 have increased by 14.2% compared to the same period of the previous year.

The **Revenues from retail Internet** at the end of the first six months of 2019 have increased by 2.8% compared to the same period of the previous year.

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Mobile non-voice services

The **non-voice revenues** in the first six months of 2019 have increased by 12.2% 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 six months of 2019 have increased by 36.6% compared to the same period of the previous year as a result of the higher number of ICT projects.

II Expenses



Operating expenses

On the cost side, at the end of the first six months of 2019, the operating expenses are stable (excluding IFRS 16 impact) compared to the same period of the previous year.

The implementation of IFRS 16 has positive effect in amount of MKD 6,771 thousand on the operating expenses.

The employee related expenses have decreased by 11.3% at the end of the first six months of 2019 compared to the same period of the previous year.

The cost for services is increased by 2.7% (excluding IFRS 16 impact) at the end of the first six months of 2019 compared to the same period of the previous year. The implementation of IFRS 16 has positive effect in amount of MKD 74,479 thousand on this category of expenses.

The cost for depreciation and amortization at the end of the first six months of 2019 has decreased by 3.1% (excluding IFRS 16 impact) compared to the same period of the previous year. The implementation of IFRS 16 has increased the costs for depreciation and amortization in amount of MKD 67,708 thousand.



Capital expenditures

The amount of total Capital expenditures (CAPEX), at the end of the first six months of 2019 is MKD 767,415 thousand (excluding IFRS 16 impact).

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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) for the first six months of 2019 by 3.8% (excluding IFRS 16 effect) compared to the same period of the previous year. Implicitly the EBITDA margin for the first six months of 2019 amounts 42.1% (excluding IFRS 16 impact).

Operating profit (Earnings before interest and taxation - EBIT) for the first six months of 2019 is increased by 13.4% (excluding IFRS 16 effect) compared to the same period of the previous year.

Net profit for the first six months of 2019 has increased by 8.3% (excluding IFRS 16 effect) compared to the same period of the previous year, while the net profit (including IFRS 16 effect) has been increased by 8.0% and amounts MKD 880,788 thousand. The implementation of IFRS 16 have impacted the net profit and resulted in the negative net effect of MKD 2,490 thousands.

<i>In MKD thousands</i>	<i>2018 Jan - Jun</i>	<i>2019 Jan - Jun in accordance with IFRS 16</i>	<i>Change YoY</i>	<i>IFRS 16 effect</i>	<i>2019 Jan - Jun w/o IFRS 16 effect</i>	<i>Change YoY</i>
Total Operating revenues	5.063.831	5.200.066	2,7%	0	5.200.066	2,7%
Sales revenues	5.017.377	5.143.343	2,5%	0	5.143.343	2,5%
Total Operating expenses	4.173.200	4.183.149	0,2%	-6.771	4.189.920	0,4%
Depreciation and amortization	1.218.266	1.247.608	2,4%	67.708	1.179.900	-3,1%
Operating expenses excluding Depreciation and amortization	2.954.934	2.935.541	-0,7%	-74.479	3.010.020	1,9%
Earning before interest, taxation, depreciation and amortization (EBITDA)	2.108.897	2.264.525	7,4%	-74.479	2.190.046	3,8%
<i>EBITDA margin in %</i>	<i>41,6%</i>	<i>43,5%</i>	<i>4,6%</i>		<i>42,1%</i>	<i>1,1%</i>
Operating Profit (Earning before interest and taxation - EBIT)	890.631	1.016.917	14,2%	-6.771	1.010.146	13,4%
Financial expenses	31.135	40.389	29,7%	9.557	30.832	-1,0%
income tax	109.161	117.135	7,3%	-296	117.431	7,6%
Net Profit	815.799	880.788	8,0%	2.490	883.278	8,3%

IV Paid dividends

The Shareholders' Assembly of MKT, at its meeting, held on 09 May 2019 adopted a Resolution for the dividend payment for the year 2018 and determination of the dividend calendar. In accordance with this Resolution the dividend for 2018 is in total gross amount of MKD 1,596,062 thousand.

The gross amount of dividend per share for 2018 is MKD 18.50. The dividend will be paid out by 30 September 2019.

V Plan and expectations for the next period

MKT achieved higher actual revenues compared to the planned amounts due to higher revenues in the mobile segment as a result of higher ARPU (Average revenue per user) and higher revenues from visitors, higher interconnection revenues in the fixed network as a result of higher incoming traffic, higher revenues

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from SI/IT services and higher revenues from TV services in the fixed segment. On the other side, there are lower revenues from equipment and other services.

Higher revenues resulted in the higher direct margin. Other operating expenses/income are below the plan due to constant cost optimization of the employee related expenses, maintenance etc. as well as the monthly dynamic influence.

The expectations for the next period can be summarized as follows:

- Continuation of the positive development in market structure – improvement of the postpaid/prepaid ratio, positive ARPU development
- Premium TV content - one of main drivers for positioning on the market
- Improving infrastructure investments, continue with Further fiber rollout
- Aspiration towards Pan- European network and integrated platform
- Smart Cities, ICT & Cloud growth opportunities
- 5 G mobile network

MKT also plans to maintain leading position in FMC & ensure positive value generation from convergent households.

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.



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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.

Nikola Ljusev
Chief Executive Officer

Slavko Projkoski
Chief Financial Officer

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