



**Türk Telekom Q3 2022 Financial & Operational Results
Conference Call**

Wednesday, 9th November 2022, 15:00 TR Time

Conductors:

Ümit Önal, CEO

&

Kaan Aktan, CFO

Conference Call Conducted by Chorus Call Hellas



CHORUS CALL HELLAS

PROVIDER OF TELECONFERENCING SERVICES

TEL: +30 210 94 27 300

FAX: + 30 210 94 27 330

Web: www.choruscall.com

OPERATOR: Ladies and Gentlemen, thank you for standing by. I am Konstantinos, your Chorus Call operator.

Welcome and thank you for joining the Türk Telekom conference call and live webcast to present and discuss the Third Quarter 2022 Financial and Operational Results. We are here with the management team and today's speakers are CEO, Ümit Önal and CFO, Kaan Aktan.

Before starting, I kindly remind you to review the disclaimer on the earnings presentation.

Now, I would like to turn the conference over to Mr. Ümit Önal CEO.

Sir, you may now proceed.

ÖNAL Ü: Hello, everyone. Welcome to our Third Quarter Results Conference Call. Thank you for joining us today. The heavy-weight issues on the global agenda remained mostly unchanged from the second quarter. While the inflation, tightening and recession debates went on, a deepened energy crisis ahead has become a bigger fear factor. On the bright side, the spread of COVID-19 has been least talked about since the breakout of the pandemic back in 2019.

Continued tightening by large central banks pushed global interest rates higher while the CBT pursued further rate cuts. An 8% average increase in FX rates QoQ added to cost pressures.

Consumer sentiment helped by the broad-based salary increases in July, as well as the holiday spirit that prevailed throughout Q3, was better than the second quarter in certain

aspects. However, inflationary pressures continued weighing on the consumer as the CPI exceeded 83% as of September.

On our side, a vibrant summer and tourism season benefited the mobile segment, while fixed broadband enjoyed the back-to-school period. Broadly speaking, operators' discipline on inflationary pricing in mobile remained unchanged, with the third round of price revisions in the year introduced around mid-September.

On the fixed internet side, third quarter was more a period of rebalancing of prices in the aftermath of the wholesale tariffs revision introduced on 1st of June. Data usage picked-up QoQ in fixed broadband and stayed well above the pre-pandemic levels. Mobile data consumption recorded a significant 13% growth QoQ to 13 GB.

Once again, we managed to deliver a balanced financial performance amid macroeconomic difficulties. The upward momentum in ARPU and revenue growth confirm the accuracy and timeliness of our actions so far, on both the pricing and base management fronts.

Starting with Slide #3 on our presentation, net subscriber additions.

Total number of Türk Telekom subscribers reached 52.8 million with more than 600K net subscriber increase in Q3 on healthy additions from both fixed broadband and mobile, in which the latter has been a bigger contributor. Net subscriber additions were 1.4 million during the last 12 months.

Fixed broadband subscribers rose to 14.8 million with 214K of quarterly net additions following the slower performance in the first half, which was dominated by the post-pandemic normalisation and pricing differences. Fibre subscribers reached 11.2 million. The share of fibre subscribers in our fixed broadband base surpassed 75% compared to 62% a year ago.

Mobile portfolio expanded to 25.3 million by adding 682K subscribers on net basis with the best performance in 15 quarters. Postpaid and prepaid segments grew by 322K and 360K respectively. Number of fixed voice subscribers declined by 274K during the quarter in line with the strategy focusing on naked-DSL sales in new acquisitions.

Slide #4, financial and operational overview.

The quarterly upward trend in revenue growth continued over the third quarter with the accumulating impact of price revisions and the ongoing re-contracting of the existing customer base. We expect a robust revenue trend in the remainder of the year considering the pricing actions in effect in the third and fourth quarters.

Consolidated revenue grew by 45% YoY in Q3, while operational revenues recorded 43% increase. Subscriber growth, in addition to pricing supported the 35% annual increase in fixed broadband revenue. Mobile revenue growth, on the other hand, touched a new high of 49%, thanks to similar drivers fuelled by stronger than expected seasonal factors.

Consolidated EBITDA grew by 17% YoY to 5 billion lira with an EBITDA margin around 40% lower both QoQ and YoY. Margin drivers were very similar to the second quarter with continued

pressure on costs. On the other hand, although lower QoQ the tax income partly offset the increase in net financial costs. Still, net income contracted by 43% from last year's high base. Net Debt/EBITDA remained flat QoQ at 1.54x despite further FX volatility in the quarter.

Slide #5, fixed broadband performance.

Pricing parities continued balancing out through Q3 in the fixed internet market following our leading pricing actions both in the wholesale and retail segments starting from 1st of June. The impact of low seasonality and new price levels were visible on consumer behaviour in July and August, but as usual, fixed internet sales gained momentum in September with back-to-school season. As such, churn ratio followed a stable trend in the retail business but picked-up slightly in wholesale in quarterly comparison.

Demand for higher speed packages remained robust both in new acquisitions and re-contracting. 24 Mbps and above packages made as much as 63% of new acquisitions. As a result, Q3 ARPA was 15% higher QoQ. Upsell performance was also strong in a heavy re-contracting period driven largely by the significantly high net subscriber additions of Q3'20. Hence, annual ARPU growth moved up to 29% from 19% in the second quarter.

An important post-Q3 development to share is another round of retail price revision we introduced on 1st of October as part of our dynamic pricing strategy. This has been the third time we adjusted our retail tariffs since December 2021. In addition, we launched the 12+12 month contract structure for the first time in our fixed internet business. It is still a 24-

month binding contract, but it introduces a pre-agreed raise starting from the second 12-month period.

We now offer this contract to all our new and existing customers, since 1st of October. In other words, we remove the 24-month flat fee offerings from our portfolio. The impact of our new strategy, both on the consumer and other ISPs' behaviour is yet to be seen. We build on our strength by continuously growing our fibre network. 57% of our subscribers are now on 24 Mbps and above packages, compared to 53% a quarter ago and 40% a year ago.

Contribution from speed upsells will continue to be a robust and long-term driver of growth for our fixed internet business we believe. We are highly motivated by bringing together our customers with quality connection, whilst we take pleasure in seeing our leading investments in this field pay back.

Moving on to mobile performance, slide #6.

Mobile market maintained its discipline on inflationary pricing, but the real focus was on seasonality. Operators raced to grab a bigger share from a growing market thanks to increased mobility and a robust tourism season in Turkey. Following the revisions in mid-June, both prepaid and postpaid prices were readjusted around mid-September, whilst periodic promotional activities have remained part of the game.

MNP market continued contracting YoY, but remained almost flat QoQ as the ongoing widespread price revisions made it less meaningful for the consumers to move around. We maintained our top rank in net subscriber acquisitions in the MNP market for the fourth quarter in a row, with the highest net ports in the same period. Churn rate inched down both YoY

and QoQ and once again hovered around historically low levels.

Net additions in postpaid and prepaid both surpassed our forecast, contributing similarly to overall base expansion. While postpaid made 66% of total mobile subscribers, our Prime base reached 5.6 million subscribers, with some slight increase QoQ. 34% and 52% respective annual growth in postpaid and prepaid ARPU fuelled the 40% surge in blended ARPU. Successful ARPU management, alongside robust net additions of 1.4 million over the last 12 months has driven annual revenue growth to 49% in mobile ahead of our forecast.

Now let's take a look at the full year outlook on slide #7.

The 9 months top-line and EBITDA performance urges another revision to our 2022 guidance. We now expect operating revenues to grow 37% YoY, EBITDA to be 19 billion lira and CAPEX to be 14 billion lira. While the change in top-line and EBITDA outlook can largely be attributable to pricing and better operational KPIs, the increment to CAPEX reflects the impact of continued weakness in lira and our decision to accelerate Q4 investments in sync with a vigorous subscriber and usage growth.

Our ongoing actions have started bearing fruits and pleasingly resulted in visible improvement in third quarter growth figures. It is early to say the challenges are behind us, but we progress in the right direction. We keep aiming for balanced growth with careful management of risks. Our trusting customers, high quality human capital and superior technology are by far the richest resources we own to succeed in our goals.

Now, I will hand over the call to Kaan to discuss our financial performance in detail. Thank you.

AKTAN K:

Thank you very much. Good afternoon. We are now on slide 9 with financial performance.

Our consolidated revenue growth in this quarter is 45%, which is visibly higher than the 31% recorded in the second quarter. In line with our expectation, growth trend in ARPU continued both for fixed broadband and mobile, which is through dynamic pricing and upsell focus. The superior net subscriber performance QoQ also helped fuel an accelerated top-line growth.

Fixed broadband revenue growth is now 35% compared to 26% in the last quarter. With almost half of the gains driven by the retail side, the split of net adds amongst wholesale and retail segment was much more balanced compared to any quarter since the third quarter of last year, owing to the elimination of price differences in the market as the other ISPs sooner or later followed our leading pricing.

Obviously back-to-school sales and consumers' gradual adaptation to higher pricing levels also helped. The newly introduced 12+12 months contract structure should accelerate the repricing of the existing subscriber base in an inflationary environment and support ARPU growth in the coming quarters. We also see similar tools now being used by other ISPs in the form of 6+6 or 12+12 or even 3+21 type of structures.

Enjoying a lively demand, mobile delivered its best quarterly performance so far with 49% revenue increase. Strong prepaid additions were largely driven by visiting foreign tourists and Turks, who live abroad, but postpaid additions have also

supported subscriber growth with similarly robust contribution. Number of additional data package sales reached a historic high and overbundle revenues contributed significantly, both owing to high demand driven by seasonal factors and widespread mobility.

Once again, the upcoming inflation data will continue shaping operators' pricing and subscriber base management strategies in the remainder of the year. It's typical for the mobile sector to intensify competition on subscriber acquisitions in the last quarter of each year, but it's yet to be seen how this trend will play out in a high inflation environment. Fixed voice revenue recorded 15% growth. With a stable subscriber base QoQ, TV revenues expanded 23% along with a 27% growth in Home TV ARPU.

Growth profiles of corporate data and other revenues were similar to the second quarter with respective 25% and 86% increase. Equipment sales, ICT project and call centre revenues remained as the primary drivers of other revenues. Finally, international revenue growth reached 68% with traffic growth and currency impact.

We are now moving onto our operational performance. Consolidated EBITDA is 5 billion lira with an EBITDA margin of 40% down both annually and quarterly. While high base cost inflation and composition of revenue growth with higher contribution from relatively lower margin businesses led the annual change, a broad-base salary increase effective from 1st of July and continued upward trend in network costs, largely explained the quarterly evolution.

Excluding IFRIC 12 impact, EBITDA margin was 42%. In third quarter, operating expenses increased by 73% YoY, 7,5 billion lira. Annual increase was 42% in the first quarter and 52% in the second quarter. The drivers of annual or quarterly changes in most OPEX items were very similar to those we have seen in the second quarter. Excluding IFRIC 12 cost, growth in OPEX was 72% YoY. Interconnection cost increased by 40% QoQ, along with the quarterly pick-up in TTI's traffic and currency impact. Tax expense increased by 44% YoY in tandem with fixed broadband and mobile revenue growth. Provision of doubtful receivables increased by 30% QoQ in line with our expectation for a pick-up in third quarter following a slower litigation activity in the second quarter. Increase in cost of equipment and technology sales slowed to 58% YoY from 111% a quarter ago, which is along with the normalisation in base effect, as well as, some normalisation in quarterly project revenues generated by Türk Telekom and its subsidiary Innova.

Other direct costs increased by 72% YoY and 24% QoQ, with very similar drivers to the second quarter in which we had seen a pick-up in commissions paid on prepaid loading, shared revenues, and value-added services revenues.

Commercial costs increased by 70% YoY and 21% QoQ, along with inflated customer care and marketing expense. Network and technology expenses rose 98% YoY and 12% QoQ, together with higher energy prices and costs of maintenance works in addition to the weaker lira.

Personal expense increased by 27% QoQ, largely owing to the broad-base salary increase undertaken starting from July. The impact of fresh hirings in second quarter for a newly acquired

third party project by our subsidiary AssisTT has also contributed to staff cost growth inorganically.

Our CAPEX spending exceeded 7 billion lira in the 9 months period with more than 3 billion spent in the third quarter. We upped our investment budget for the year to 14 billion lira from 13 billion lira earlier. We now project completing larger number of FTTH transformation projects, as well as, a higher number of overall homepass addition within the last quarter when we compare it to earlier plans. Base station additions in order to meet additional capacity and coverage needs as well as mobile backhaul investments are the other items to move the needle. Finally, the capitalised SAC should also increase slightly together with the larger than expected volume of subscriber addition.

Now, let me come to the bottom-line. Net income was 1.2 billion lira down YoY and QoQ along with another 8% average rise in FX rates. While higher net financial costs led annual decline, a lower tax income largely explained the quarterly change. As implied by the FX sensitivity analysis reported in second quarter financials, we incurred additional FX losses in the third quarter. We continued supporting the hedge portfolio through short-term instruments, as a result of which we reported higher interest expense QoQ. Consequently, net financial expense moved to 2.6 billion lira from 2.3 billion a quarter ago.

We are now moving on slide 10 with debt profile.

Net Debt/ EBITDA remained flat QoQ at 1.54x despite further FX volatility in the quarter. Hard currency debt stayed on its declining trend. Cash and cash equivalents were 5.8 billion lira of which around 70% is FX based. This excludes 5.3 billion lira

of FX protected time deposit, a highly liquid asset that we book under financial investments according to the IFRS reporting rules. The FX exposure included USD equivalent of 2 billion of FX debt, 2.3 billion of total hedge position and more than 200 million of FX cash.

As you can see on the bottom-right-chart, the hedged amount includes 260 million USD equivalents of FX-protected-time-deposits, which is up slightly from USD 240 million in second quarter. Net FX exposure was USD 450 million long position as of third quarter, but when we exclude the ineffective portion of the hedge portfolio, mainly the existing participating cross currency swap contracts, the FX exposure was around USD 520 million short position. The share of local currency borrowings within the total debt portfolio remained flattish around 15%.

We are now on the slide #11.

The dynamics of the FX hedging market were very similar to second quarter with the short-end functioning but long-end remaining rather illiquid. Hence the cost of engaging in long-term hedging transactions was still away from meaningful levels.

As a result, the short-term portion of our hedge portfolio increased while the net FX exposure contracted with the continued decline in hard currency debt. The FX sensitivity analysis we report regularly in our quarterly financials suggests, assuming all as constant, a 10% increase FX rates would have slightly less than 1 billion lira negative impact on our pre-tax income. On the flip side, sensitivity analysis produces around 860 million lira positive impact in case of similar appreciation in lira. Finally, the unlevered free cash

flow continued its quarterly improvement and now reached 2.2 billion lira.

This concludes my presentation. I think we can now open up the Q&A session.

Q&A

OPERATOR: The first question is from the line of Nagi Nora, with Erste Group. Please go ahead.

Nora N: Hi, good afternoon. Thanks for the presentation. I have 2 questions from my side, please. Firstly, on inflation in Turkey, what you have seen again a record high figure for last months. What's your plan about further price increases? Can we expect an acceleration verified for fixed broadband too, not only for mobile? And then secondly, what's your outlook for energy expense in Q4? Thank you.

ÖNAL Ü: Thank you very much, allow me to answer your first question and our CFO will answer your question regarding the energy expense. The annual inflation exceeded 83% in September 2022, and 12-month average inflation reached 60%.

What I need to underline here is that with the dynamic actions we took, we increased the revenue growth from 25% in first quarter to 31% in second quarter and 45% in the third quarter in the face of rapidly increasing inflation. During the last one year period, we have increased our prices 3 times on the fixed broadband side and 4 times on the mobile side.

On 1st of October, we have revised our retail fixed broadband prices and we have also revised our contract structure as 12+12 months. Of course, we need to observe, its effect on our subscribers. And we have revised our mobile prices in mid-September this is the most recent one. We know that the last quarter is the one that intensifies the pricing actions, particularly related to subscriber acquisitions in the mobile market. So, we have to see how it is going to be shaped under the high inflationary environment. Therefore, we are still evaluating if we can also make another price revision.

As far as the nature of our business, we have been following the inflation very closely and we are taking our position accordingly. And I would like to add a couple of words to clarify. We know that the prices are very close on the mobile side and of course like all the other operators, we are trying to avoid to take destructive actions and sometimes from time-to-time even though we are the second operator, we take action in a leading position.

On the fixed broadband side, as well we are the leader operator here and we have been increasing our prices and we expect the competition to follow us closely. We don't see the same pricing appetite on fixed broadband side as it is in mobile.

ÖNAL Ü: Thank you.

AKTAN K: Yes, for the part of the question that is related to energy cost so obviously when we say energy it's mostly electricity for us. There was another price adjustment at the beginning of September which means only one month of price difference went to our third quarter numbers. So, we will see that there

will be some additional cost to come in the fourth quarter. That's one factor which is also important for us what we will face when we enter next year. So, if there are no further price adjustments in the earlier part of the year, we will start repeating fairly higher base in terms of energy cost, and that will continue being the case for each quarter throughout the year. Was that clear?

NORA N: Yes, thank you.

OPERATOR: The next question is from the line of Demirtas Cemal with Ata Investment. Please go ahead.

DEMIRTAS C: Thank you for the presentation, and congratulations for good results. I would like to ask about the financing side, you know, most of the better than expected net income that attributed to deferred tax income, but you also have high financial expense when we combine the FX & hedging gain and interest expense together. How should we think for the remainder of the year, and in 2023 if we assume that the currency devaluation will be limited or any risk on that front, because we are also in a high inflation environment. We see that you are adapting to changing situation, but already although the currency didn't move very rapidly in third quarter, you have high FX expenses, so when do you think we are going to normalise in that sense, and how do you see the trends in the deferred tax income going forward?

AKTAN K: Well, thank you very much for the question. So when we look at the quarterly financial income expense numbers throughout the year, I'm setting aside the impact coming from the FX rates fluctuations, because we have a position and it's more predictable when you look at the loss in value of Turkish lira,

but what has developed throughout the year is we now see a higher financial cost coming from the hedge portfolio, and also from the debt portfolio in the form of interest expense.

Both are related to the increased cost in lira funding. Well lira funding, obviously there are different rates for different companies, for different tools because of the regulations, but for us especially the cost of hedging and use of short-term instruments for hedging our currency position now started creating a higher cost. And the other factor now we are using like 15% of our total debt is coming from lira instrument. We started also issuing lira bonds to local market for creating lira funding, and that's also coming with a bit higher cost compared to prior quarters or compared to the cost of accessing lira in the prior quarters under different instruments like vanilla commercial loan.

Now, I think that part will definitely be related to the future trends in lira interest expenses if we don't assume any changes in that front, I think the third quarter should give a direction for the upcoming periods. We will try to expand the lira bond portfolio, that was something I think totally missing in the local market. I mean the blue-chip companies issuing lira bonds and now that's coming back maybe with reasons that we didn't expect to see, but still I see it as a good progress, and there is demand for such product currently. And obviously the effects as I mentioned would be for the time being dependent on the devaluation of the Turkish lira going forward.

Did I miss anything?

DEMIRTAS C: The deferred tax. I know it's hard to predict, but you know maybe there is a relation between your high financial expenses

and its partial covered by the deferred tax income so I want to understand the relation going forward. I know it's very difficult, but at least any indication on that?

AKTAN K: Yes, actually what is more visible now in our P&L I am referring to the tax benefit, it is mostly coming from the revaluation of the fixed assets and tax incentives like investment incentives. Obviously since its revaluation based, actually the revaluation number or the percentages will be the main driver going forward. So, it's mainly dependent on the inflation rate, as you know, so if we see a higher inflation to stay, I think there will be more tax benefit to come from revaluation of lira of the fixed assets.

DEMIRTAS C: Thank you.

OPERATOR: Ladies and gentlemen, there are no further question at this time. I will now turn the conference over to Türk Telekom management for any closing comments. Thank you.

AYAZ G: Thank you everyone for joining us today. We look forward to being with you the next time. Thank you, have a nice day. Bye-bye.