Türk Telekom 3Q 2023 Financial & Operational Results Conference Call

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Conductors:

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Conference Call Conducted by Chorus Call Hellas

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OPERATOR: Ladies and Gentlemen, thank you for standing by. I am Maria, 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 2023 Financial & 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 2023 third quarter results conference call. Thank you for joining us today. Large central banks paused their rate hikes but signaled higher for longer interest rates amid declining but sticky inflation outlook. Bond markets took their fair share. Projections of slow global growth roiled equity markets. Oil price oscillated between supply cuts and soft demand outlook. At home, after touching its lowest point in June, with an 8-month slide down the peak, inflation resumed a swift run-up to 61.5% at the end of the quarter. In the meantime, CBRT surprised the markets with an accelerated rate hike cycle, moving the bank's policy rate to 30%.

Inflation continued to weigh on consumer preferences in general, but the wage hikes introduced in July and the summer spirit limited the potential pressure we think. As such, subscriber growth remained robust despite continued price revisions both in mobile and fixed internet within the quarter. Data consumption, re-contracting and upselling, the KPIs through which we gauge subscriber demand and resilience of our businesses, have all performed strongly.

Mobile and fixed internet data usages grew by 22% and 7% respectively on annual basis. In quarterly trends tuned by seasonality, mobile data usage has risen while fixed internet data usage has fallen due to holidays and more time spent outdoor in summer months.

Starting with slide number three in our presentation, net subscriber additions. Total number of subscribers rose to 52.9 million with almost half a million net additions during the quarter, thanks to strong contributions from mobile and fixed internet. While fixed voice stayed on a contracting trend, TV moved back to expansion. Fixed broadband base increased to 15.1 million with 166 thousand net additions thanks to a strong July performance, a well-contained churn in the aftermath of sizable price revisions, as well as a revival in new sales activity in the back-to-school period.

Fibre base expanded to 12.6 million subscribers with 355 thousand quarterly net additions. The share of fibre subscribers in our total fixed broadband base exceeded 83%, coming from 76% a year ago. With the highest performance over the last four reporting periods, mobile segment added 537 thousand net subscribers in the quarter, reaching 26.1 million. Postpaid base continued expanding nicely with significant 473 thousand additions, highest since Q2’19.

Prepaid reversed course to growth with 64 thousand net additions after three quarters of contraction.

Postpaidisation was also stronger compared to previous quarter. With that, the ratio of postpaid customers in our mobile portfolio peaked to 69%, its highest ever. Lastly, postpaid segment has secured 1.4 million net subscribers over the last 12 months. Fixed voice base continued its decline with another 237 thousand subscriber loss, along with the strategy focusing on naked-DSL sales.

Slide number four, financial and operational overview. Rising by 78% YoY, consolidated revenues surpassed TL 22 billion. Excluding the IFRIC 12 accounting impact, revenue growth came in at 79% YoY, taking the 9-month growth close to 70% compared to our guidance range of 67% to 70% for the full year. Consolidated EBITDA grew by 58% YoY to TL 8 billion on 36% margin. The quarterly pick-up in pace of growth was owing to further acceleration in revenue generation and a 210-basis points improvement in margin.

Operational performance nicely fed into TL 4.5 billion of net income, which has nearly quadrupled YoY. A relatively stable currency and TL 2.5 billion of tax income, driven by the revaluation of assets, as well as the incentives on R&D and investment spending, also supported the bottom line. Net debt/EBITDA dropped to 1.56x QoQ, thanks to an improved operating performance and relatively stable currency environment.

Higher top-line growth rate in every following quarter remained an unbroken trend for the last six reporting periods. An eye-catching EBITDA performance, together with the recorded tax income, supported the strong bottom-line expansion both annually and quarterly. We maintained our 2023 full year guidance which we had revised last quarter with increased confidence in our ability to deliver.

Slide number five, fixed broadband performance. Fixed internet subscriber dynamics varied on a monthly basis over Q3. July net add performance was stronger than we expected, August in-line but weak, and September again stronger. Overall for the quarter, net additions came in higher than we budgeted for, both in the wholesale and retail segments. This was despite the fact that some demand was pulled forward into Q2, ahead of our pricing actions.

Robust new additions coupled with low churn resulted in a strong start to the quarter in July. As expected, a seasonally quiet August, on the other hand, proved a weak month following our wholesale and retail price revisions. August new additions were stronger than we had accounted for, but the churn was also higher. The share of wholesale segment in net adds increased in August, as pricing actions by the other ISPs came smaller and later compared to ours.

Overall subscriber activity was invigorated with back-to-school demand in September. Partial and gradual rebalancing of price parities following other ISPs' pricing actions led to a more balanced split in wholesale and retail net add performances in the month.

Re-contracting performance was affected by the price revisions, but the quarterly slowdown was limited. Upselling, on the other hand, was very strong and ahead of our expectation, thanks to solid demand for higher speed packages. 35 Mbps and above packages made 49% of new acquisitions, helping move ARPA 42% higher QoQ, together with the retail segment price revisions enacted around mid-July. Average package speed of our subscriber base was 42 Mbps as of Q3, with 36% increase YoY. Close to 48% of our subscribers are now on 35 Mbps and above packages, compared to 33% a year ago.

As expected, blended ARPU growth has accelerated to 58% from 42% a quarter ago, mainly owing to the wholesale and retail price revisions. We expect the acceleration in FBB ARPU to continue in the final quarter as activations and re-contracting continue at revised prices. We also consider revising retail tariff prices one more time and launching the 9+9 contract structure before year-end to support inflation management and subscriber base optimisation in the coming period.

Moving on to mobile performance, slide number six. Leaving a mixed Q2 behind, mobile sector truly enjoyed summer. The sector dynamics turned more favorable with normalisation after the earthquakes and seasonality. Well-disciplined by inflationary pricing, mobile operators launched their new tariffs in August, sticking to dynamic pricing on a quarterly basis.

No surprise, the summer-themed campaigns spread all over the quarter, but the offers have not been as aggressive as what we had seen in May, thanks to stronger subscriber dynamics across the sector driven by a combination of favorable factors including seasonality, wage hikes, and summer spirit.

In this backdrop, the MNP market continued its growth YoY but stayed near flat QoQ. While a low base is behind the annual variance, a less aggressive competition described earlier explains the quarterly stable look. Q3 has been the eighth consecutive quarter we maintained our top place in net ports, being the most preferred operator in the space on a constant basis.

Seasonal factors and our continued strength in the MNP market supported activations in both segments. Competitive landscape, in addition to seasonality, led to a visible recovery in prepaid churn driving the overall churn rate lower QoQ. Postpaid churn, on the other hand, moved marginally up from last quarter's low base but stayed close to its historic lows.

78% blended ARPU growth YoY once again stood well above inflation thanks to accelerated 70% and 93% respective rise in postpaid and prepaid ARPUs. Stronger subscriber and data consumption dynamics, in addition to pricing, have all fed into the 89% YoY jump in mobile revenue, despite a high base with 49% annual growth in the same period last year. Additional data package and top-up revenues in mobile grew by 107% and 93% YoY respectively. We have recently revised both our postpaid and prepaid tariffs one more time in mid-October. Therefore, we expect strong ARPU evolution to continue in the final quarter of the year.

Before I give the word to Kaan to discuss our financial performance in detail, allow me to share some important developments. Firstly, we are delighted to have recently published our 2022 Sustainability Report themed around 'Sustainable Transformation with Communication'. Our GRI compliant report provides detailed information on our sustainability approach and performance. Therefore, I encourage you to visit our investor relations website for this critical and rich content that we are proud to be sharing with our esteemed stakeholders.

Secondly, needless to say, renewal of the fixed line concession will be topping our 2024 agenda. As you know, we put forward an application with the regulator for the renewal of the fixed line services concession agreement at the beginning of 2023. Subsequently, we were asked by the regulator to draft a document describing the proposed framework of the upcoming agreement.

Accordingly, we have aggregated our opinions, recommendations and requests around the topic, and have submitted our proposed framework to the regulator, just recently. We applied a holistic and inclusive approach in preparing this document, to create a value-enhancing and sustainable operating model for the advancement of Türkiye, the sector and Türk Telekom altogether. We expect to see concrete progress on this priority topic in 2024.

It is now time we ready ourselves to a fresh and robust start to next year and seize every opportunity to continue strengthening our valuable assets, including our technology, human resources, market position and brand, on our determined path to a sustainable future. Thank you. Kaan, the floor is yours now.

AKTAN K: Thank you very much. Good afternoon, everyone. We are now on slide eight, financial performance. Top-line growth further accelerated to 78% from last quarter's 67%, thanks to an amplifying impact of subscriber growth, pricing, re-contracting and upselling on our core business revenues as well as continued robust trend in non-core services.

This was generally a strong quarter shaped by holiday, tourism and back-to-school trends. Meanwhile, the performance was further uplifted by the acceleration of the fixed broadband ARPU and a strong performance of mobile ARPU denying a significantly high base from last year.

Annual growth in fixed broadband revenue jumped to 63% from 45% of the prior quarter. Wholesale revenue growth was more significant as we are now able to reflect price increases onto other ISPs immediately after we receive regulatory approval. Repricing retail customers to new price levels will be a continuous exercise through re-contracting. Therefore, we expect blended ARPU to further accelerate in the coming period.

89% mobile revenue growth was strong thanks to robust demand and rational pricing behavior prevailing in the sector. Postpaid trends remain extremely strong with both organic growth and increased preference towards postpaid tariffs by locals, either through switches from prepaid or in new activations.

Fixed voice and TV revenue performances lagged in comparison to fixed broadband and mobile but managed to pace up QoQ. Growth in TV is becoming more visible now, thanks to our renewed platform and strategy. We expect to see a stronger contribution from Tivibu going forward.

82% corporate data revenue growth was also significantly above last quarter's 62%. Growth in other revenues on the other hand maintained second quarter's super strong performance with 138% increase. Equipment, ICT project and call centre revenues all positively contributed. Finally, riding a healthy growth in Euro terms, international revenue increase was 67% along with relatively stable lira.

Another round of price adjustments in mobile and fixed services, as well as moving towards a shorter contract structure in fixed service in fourth quarter, should strongly support next year's ARPU performances. It is important to note that on a relative scale, managing a declining inflation trend is clearly a preferred scenario for us compared to managing a rising trend. Therefore, we see significant potential in our operating performance in the medium term should the fight against inflation prove successful.

Moving onto EBITDA. Consolidated EBITDA increased by 58% YoY to TL 8 billion on an EBITDA margin of 36% up 210 basis points QoQ, thanks mainly to accelerated revenue growth and improved OPEX/Sales ratio. While earthquake-related items continued to weigh on the EBITDA margin, a few other one-off factors supported it. If adjusted for the quake-related and other one-off factors, consolidated EBITDA would be TL 7.8 billion with an accompanying margin of 35%. Excluding the IFRIC 12 accounting impact, EBITDA margin was 37%.

On the OPEX side, although the rise in personnel cost has been significant with the July wage hike, the increase in non-personnel costs slowed from last quarter. Increase in operating expenses was 91% YoY compared to 88% a quarter ago. Excluding the IFRIC 12 cost, growth in operating expenses was 94%. Annual rise in network and personnel expenses accelerated from last quarter due to some rise in unit energy costs and the broad-based wage increase.

Provision for doubtful receivables almost doubled QoQ with the liquidation of receivables under TL 2 thousand in compliance with the new legislation. Finally commercial costs were also higher than last quarter, with inflating spending in customer care and seasonally more intense advertising.

It is worth noting that several employees have now opted for the newly introduced retirement program. Though this will have no material impact on the P&L as we had provisioned for it, we will see the cash outflow in the last quarter. Overall, we expect this initiative to generate meaningful OPEX savings next year.

Coming to the bottom line, USDTRY and EURTRY rates increased 6% and 3% QoQ. Market interest rates moved higher alongside a tighter monetary stance by the Central Bank, but the hedging costs normalised from elevated levels seen in the second quarter. In this backdrop, we incurred lower FX & hedging costs and interest expense compared to the prior period. The composition of our cash debt and hedge portfolio throughout the quarter, as well as the amount of hedge transactions we engage in, played a role in reducing the hedging and interest costs, while lira stability helped the FX cost. As a result, TL 3 billion of net financial expense was significantly lower than last quarter, but slightly ahead of the same quarter of last year.

TL 2.5 billion of net tax income, driven by the revaluation of assets and R&D and investment incentives was larger compared to last quarter, mainly due to an increase in general corporate tax rate announced in July and a higher rate applied for the revaluation of assets for the period. Putting this all together, we recorded TL 4.5 billion of net income, growing by more than 280% YoY. Finally, capex was TL 5.6 billion in the third quarter, of which TL 240 million was earthquake-related spending.

Moving on to next slide, slide nine, with debt profile. Thanks to the progressive operating performance, in a relatively stable currency environment, Net Debt/EBITDA ratio dropped to 1.56x in third quarter from 1.65x a quarter ago. Cash and cash equivalents add up to TL 12 billion, of which around 43% is FX-based. This excludes the USD 280 million equivalent of FX-protected time deposit that we book under financial investments.

The share of local currency borrowings within the total debt portfolio further declined to 18% from 22%, a quarter ago. The FX exposure included USD equivalents of 2 billion of FX-denominated debt, 2.4 billion of total hedge position, and 190 million of hard currency cash. The hedged amount included USD 280 million equivalent of FX protected time deposit down from USD 320 million in the prior quarter.

We are now on the last slide, slide 10. Our long FX position was USD 570 million by the end of the quarter. Excluding the ineffective portion of the hedge portfolio, namely the PCCS contracts, foreign currency exposure was at USD 240 million short FX position compared to USD 140 million short position a quarter ago. The FX sensitivity analysis we report regularly in our quarterly financials suggests, assuming all else constant, a 10% increase in FX rates would have around TL 840 million negative impact on our pre-tax income. On the flip side, the sensitivity analysis produces around TL 860 million positive impact in case of a similar appreciation in lira.

Unleveraged free cash flow was TL 1.9 billion compared to TL 2.3 billion a quarter ago and TL 2.2 billion in the same quarter of last year. Heavier capex spending in the reporting period largely explains the quarterly and annual variance despite better operating performance in both comparisons.

Well, this will conclude my presentation. We can now open up the Q&A session.

OPERATOR: The first question is from the line of Adamson Ulle with T. Rowe Price. Please go ahead.

ADAMSON U: Yes, hi good afternoon. Thank you very much for this presentation. Just one question regarding your refinancing plans, the upcoming eurobond refinancing, I believe for the next year. What are the plans regarding that and just how do you feel about your capital position overall? Thank you very much.

AKTAN K: Well, thank you very much. As you know we mentioned, we have a repayment of a USD 500 million bond mid-next year. For the time being, or until very recently, I will say, our base case scenario would include the financing of the eurobond payment with the existing cash plus we have around EUR 175 million ECAs committed but unutilised, for which we should be eligible until mid-next year. And beyond that, we are also negotiating for new contracts for additional ECA deals.

We have currently TL 7 billion authorisation from the Capital Market Board for issuing local currency bonds. This is again not utilised. So that will be the base case for addressing the financing of 2024 eurobond. But having seen a better market environment in the bond market and new issues coming almost every week, so we are also considering to have an issue in the form of a regular dollar bond or maybe a sukuk. But the timing is not defined clearly.

Obviously, that should take into account not only 2024 but also 2025 expiry of our second eurobond. So, any time before we have the payment of 2024, if we have that issue, that will also help us to finance the 2024. As I mentioned, under the scenario that we will be able to procure the financing of 2024 even without having this new issue, but we will feel more comfortable for 2025 if we have this in the early months of 2024. Would this answer your question?

ADAMSON U: Yes, thank you. Thank you very much. Maybe just one more question from me on a different topic. Would you be able to reaffirm your 2023 guidance or maybe update the guidance in terms of revenue growth and EBITDA margin? And also, if we're looking forward to 2024, any views on where would you like to see the EBITDA margin profitability going forward? Thank you.

AKTAN K: Well, we confirmed both metrics in our guidance, so we see we have a strong revenue momentum in this quarter, with which we should be able to get to the upper end of the revenue growth guidance. And for the EBITDA, we had every quarter, starting from the first quarter, we had a better performance. So, the revenue growth is definitely supporting the margin improvement.

So, we already made several price adjustments, and we also mentioned during the presentation that will also take us to a strong momentum in ARPU growth in both major business lines. So, these are all helping.

At the same time, we still have the inflation expectations for this year about 60% and next year around 40%. Naturally, our OPEX base is being impacted mainly by the periodical adjustments in personnel wages. So, we should also expect another one at the beginning of the year. All in all, I think we should have a better or upward trend in the margin next year, but obviously the exact picture will be more clear once we have the guidance for 2024.

Again, we assume that the macro policy will stay the same, the tightening will still be in place and the inflation trend will be weakened. So, these are the expectations, or these are the parameters of the environment with which I define the margin expectation. But for this year, again repeating myself we are confirming the guidance.

ADAMSON U: Thank you. And maybe just finally, do you have to move to inflation accounting from next year and if you do, what would be the impact on some of the key metrics like leverage ratio? Thank you.

AKTAN K: Well, the discussions are still on. So, inflation accounting, obviously there are two aspects on it. One is the regulatory accounting which impacts our tax base and the other is the reporting side, the numbers that we are disclosing on a quarterly basis. But there is no final decision on either end. So, we also expect to see some clarity because we are already very close to the year end, and we have very limited time to adapt to the rules of the new accounting. And before we have the decisions in place let me have the flexibility to not guide you with any numbers related to the impact of the inflation accounting.

ADAMSON U: Great, thank you very much. Thank you.

OPERATOR: The next question is from the line of Demirak Kayahan with AK Investment. Please go ahead.

DEMIRAK K: Hi, thank you. I have kind of a follow-ups on the first question. The first one is about the guidance. I mean keeping the same guidance. You already seem conservative for the fourth quarter, is there any particular reason like a slower growth or the margin pressure?

AKTAN K: In terms of the revenue growth, obviously, we will start repeating a stronger base coming from the last quarter of last year. That's one factor that's kind of limiting the full year revenue growth. And in terms of the margin performance, I think we see that there should be a positive trend going forward but we should also take into account the seasonality in our margin performance. When you look at the last quarters of each year, in the past you will see that we have a margin erosion in the last quarter, almost every year.

So, some of the spending are mainly accumulated in the last quarter. So, this is creating a margin drop from third quarter and third quarter especially the strong quarter, there is also seasonality for a better performance in the third quarter. I mean the tourism and the impacts of foreigners, and everything is also adding to our margin normally. Then we have a drop in the fourth quarter. And our current guidance takes into account all those factors.

DEMIRAK K: Thank you very much. And the second question, what margin outlook for the next year? Now we have a very significant hike in the wholesale tariff in the fixed broadband in July. When do you expect to see the full impact of those sizable price hikes? And also, your consolidated margins mostly suffer from the erosion in the fixed broadband because of longer contract periods, also the stable wholesale tariffs. I mean, next year should we expect a significant turnaround, especially if we see some disinflationary environment in terms of wage growth and other things?

AKTAN K: Well, wholesale price increase in itself is critical for us, not maybe because of the impact on our consolidated financials, but also the impact it creates on the retail price levels because wholesale is a cost that we share with all ISPs, including our own retail business, meaning an increase in wholesale, which is equal to an increase in our cost as a service provider, also pushes the market at the retail level at a higher price level. So, we immediately see the impact of the wholesale revenue increase starting from the first month we had the price increase because there are no contracts or fixed price commitments at the wholesale level.

But just before that, you should also take into account that we had a significant retail price increase in fixed broadband. So, those two factors are both impacting our revenue performance, which is also reflected to the ARPU performance of the overall fixed broadband business.

Going forward, yes, we had a price adjustment at mid-year, but the price adjustment at wholesale mostly takes its reference from the prior cost increases. So, cost increases that took place before the price adjustments. It's not forward-looking, it's backward-looking. Meaning even from the date, we had the price increase, there were changes in our cost base which will be the case going forward, assuming there will be inflation in place impacting our costs.

So obviously, we will be reporting this trend to the regulator and expect to see further adjustments in a sensible, meaningful time frame without losing much margin on this business because the cost side was impactful in our wholesale margin. Now, we are trying to recover from this lower level and additional cost increases, we believe that should be reflected even in a kind of automatic formulation without expecting a one-off adjustment decision from the regulator.

We should have the best-case scenario. We should have a formula in place which take into account the major cost items that we incur in our wholesale business and adjust wholesale prices in a predefined time frame. That will give clarity to the market. We know that ISPs sometimes get surprised, although, there is cost inflation everywhere, they may be surprised from seeing the price adjustment in our wholesale business. And if we have this clarity and the formula, I think that will be in the benefit of the whole sector. But as you mentioned, we have the contract issues. The one news from today was that we will have a shorter contract term which will be announced in the coming months. So, we will get to a 9+9 month contract; lower by six months in total. And we already incurred a lot of price increases. So when it comes to repricing our existing customers, there is a significant headroom right now, which we follow very closely, which means there will be automatic price adjustments once the contracts are terminated and repriced, even if you don't have any price change at the retail level, but I think there are already plans for implementing subsequent price adjustments end of this year and next year, so that we have the revenue and ARPU in real term back to where it was before this inflationary trend started.

DEMIRAK K: I understood that. Thank you very much for the very, very detailed answer. And about the indexing of the wholesale prices, I think you mentioned about this in the previous call as well, and it seems perfectly logical to have a pricing system for this wholesale prices as well, otherwise it disrupts margins. Is there any progress on the regulatory front as far as you can see?

AKTAN K: We came up with this idea, we also explained our case and they also shared their similar concerns because having this one-off discussion is not very easy, not only for us but also for them. So, they seem to be willing to get something around this formula, but I think it will take time for them to have a decision. But we already expressed our views, they know what we think and how it may, they may proceed going forward with the formula. At least we started the communication.

DEMIRAK K: Okay, I have one final thing, sorry if it took so long. About the inflation accounting, if you were to apply inflation accounting, is there any chance of reversal of the deferred tax income you recorded in the past 1.5 years, 2 years?

AKTAN K: I mean, again, inflation accounting, impact of it, I think it's a very, very complex case. And there is still no decision around the application of it, whether it's in the tax front or in the reporting front. But you're right, but our balance sheet includes sizable amount of fixed assets and subsidiaries at telecom level when it comes to tax calculation. So, there are other aspects that may have an impact on the end result.

But again, we will be very clear to identify the expectations that will come from it because it's also important for our operating performance. It will be a key component if it is applied. So, until that time, allow us to work on it and then when there is a decision, no later than the guidance announcements of last year, I hope there is a decision because it will be late enough. We will have a clear understanding and also give that outlook to you.

DEMIRAK K: Okay, thank you very much for taking the time.

OPERATOR: The next question is from the line of Ignebekçili, Murat with HSBC. Please go ahead.

IGNEBEKÇILI M: Hello, thank you for the call. I have a couple of questions. Let's go one-by-one. The first one is about the donations regarding the earthquake. Turkcell has announced two tranches of donations, TL 1.75 billion per each, third quarter and first quarter of 2024. What is your plan? Because you already announced that you will make a donation. Any details about the donation timing, amount, whether it's going to be in cash terms or maybe we're going to deduct some of the expenses you made already? Details, please?

AKTAN K: Would you ask the other questions? I think I heard you have a few questions. Is that the only one?

IGNEBEKÇILI M: Okay, then. The second one is about the fixed-line concession agreement. You mentioned also in the press release that 2024 will be the year to resolve this issue. Can we learn about your expectations about this, please? That's the second question.

And third question is about the capex guidance. The capex for the third quarter seems to be a bit higher than usual. You see any upside risk to your capex guidance for the full year? It's already very high for third quarter.

And the final question is about the mobile ARPU levels. How much of the pricing update has been reflected on your subscribers? This is a difficult question to ask, but I mean, compared to, for example, last year, same period, the current tariffs you offer, the contracts you offer, are how much pricier than last year, let me say. So, the ARPU level is 70% higher compared to last year, but I'm trying to just figure out how long this repricing can continue? How much you have in your backlog. You see my point? Thank you.

AKTAN K: Let me start from the first question. So, the donation will be made in installments. So, we don't have the exact plan for the payment date, but it won't take long, but it may be an allocation between this year and early next year. But our estimation is included into our guidance already.

So, at the same time, donations, cash donations, plus we also incur expenses related to the benefits that we provide to the institutions in the region and also to the people living in the region. So, we also believe that those benefits have to be taken into account when it comes to calculating to TL 2 billion. But again, that's something we are trying to clarify with the related parties.

Again, the whole summary from this, it will be by installment some this year and some early next year. But it's within our guidance. For the capex part, we are still confirming the guidance. But again, if there are changes, especially at the FX, because they are very much affected by the FX levels, so in the remaining few months of the year, so we'll see how it will progress. But overall, we believe that we can maintain the guided level.

ÖNAL Ü: Allow me to elaborate on this ARPU question. ARPU increase is a dynamic process and the full base of our customers is reprice. But, it is not easy to tell that percentage of our subscribers are repriced and the remaining part is not; it's not very correct. And you know that for the last six quarters, seven quarters, our prices and our ARPU has been increasing on an increasing trend, and they have been repriced and they are reflected to the base on an ongoing cycle. So, this is a dynamic process. And lastly, I can tell you that these price increases will continue at a level not below inflation.

Related to the concession, as I mentioned in my speech, we put forward an application to the regulator for the renewal of the fixed-line services concession agreement at the beginning of 2023. And afterwards, we were asked by the regulatory authority to draft a document describing the proposed framework of the upcoming agreement. And accordingly, we have collected our opinions, recommendations and requests around the topic and have submitted our proposed framework to the regulator very recently.

For us, this renewal of the concession is not an issue just related to Türk Telekom. We consider it as an important item for the development of Türkiye, for the sector, and Türk Telekom altogether. Our expectation is to positively conclude this renewal issue within 2024. And you know, we know that 2024 is a long year, starting from January to December. So, our motivation is to conclude this subject item as soon as possible and we are working totally aligned with the regulatory authority on this matter.

IGNEBEKÇILI M: Questions about the FX position. In the press release you mentioned that the long FX position of USD 570 million, but excluding the ineffective portion it is USD 240 million short. Now, assuming you enter 2024 with this sort of balance sheet and say the Turkish lira devaluates in line with the expected inflation which is 35%, 40%. Would your hedges work completely, or will we see some slippage and higher than implied FX losses? Thank you.

AKTAN K: Well, in the current portfolio, almost there is nothing left which will create a gap between the hedge position and effective hedge position. So, if there is further devaluation of the lira, there won't be any significant addition to that difference which creates the gap between the two positions that I mentioned. But that also take into account, the assumption that we will be able to roll all the short-term hedge contracts going forward because we are mainly depending now to forward and VİOP contract from local market in order to hedge ourself.

But other than that, there shouldn't be any surprising changes in the hedging position and related FX cost. And we also give the 10% sensitivity in our regular reporting. I think you can take the reference from that sensitivity analysis.

IGNEBEKÇILI M: Thank you. So, it's basically the balance sheet is much more protected compared to last year? And maybe if you can share one small detail, you disclosed that the FX and hedging losses total 1.75 billion for the third quarter. Can you separately tell us how much of it is hedging loss and how much of it is FX loss?

AKTAN K: I mean, I don't want to give you numbers that were not disclosed in the reporting, but we give the sensitivity analysis and FX losses are basically aligned with that sensitivity. So, you also see that we don't change the net exposure dramatically from one quarter to another. There are some changes but in a limited basis. So, the FX losses very much aligned with the sensitivity analysis.

The difference is coming from the cost of hedging instruments. And from time-to-time, it was the case in the second quarter, the parameters through which we calculate the mark-to-market of these instruments are changing dramatically. That may also create some additional cost or sometimes benefit. It was a benefit in the first quarter. It was a large negative in the second quarter and slight benefit this quarter, but all in all, it comes to the same place. They offset each other, but from quarter-to-quarter you may see volatility coming from the mark-to-market calculation of this large hedging portfolio. But other than that, at least limited FX loss, the remaining part is coming from the cost of hedging.

IGNEBEKÇILI M: Thank you very much.

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

AYAZ G: Well, thank you everyone for joining us today. Have a nice day. Bye.