



**Türk Telekom Q3 2020 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 Gelly, your Chorus Call operator.

Welcome and thank you for joining the Turk Telekom conference call for the Third Quarter 2020 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.

Mr. Önal, you may now proceed.

ÖNAL U: Hello, everyone. Welcome to our Third Quarter Results Conference Call. Thank you all for joining us today. Before I start going through the results, I would like to note that, I am very pleased with our operational and financial performance in such challenging times.

Despite the continued uncertainties that the pandemic has posed globally, and the hurdles in the financial markets, our robust third quarter performance reinforced our leading position in the Turkish telecommunication services market. Once again, we worked very hard to meet our customer's wide range of needs.

Our strong fiber and mobile networks, large subscriber base and rich portfolio covering fixed broadband, mobile, TV and digital products and our know-how are the greatest strength that enable us to stand on solid grounds, even in times of crisis.

We are moving ahead on our roadmap to a bright and affluent future for our company, customers and shareholders. We focus on strong and efficient growth in our core business, new areas of growth complementary to our main services and best-in-class customer experience.

We are constantly working to achieve greater operational efficiency, and to strengthen our balance sheet against risks. We remain committed to our investment plans in line with our strategy to lead fiberization and digitalization of Turkey. We are confident that we will have robust financial metrics and strong liquidity position that will empower us to continue rewarding our shareholders.

Coming to our third quarter performance. Slide #3, net subscriber additions. Our total number of subscribers increased to 49.5 million with 857,000 net additions in the third quarter. The fixed broadband segment continued its solid performance with the support of back-to-school season and working from home.

As a result, we faced strong new demand for fixed broadband in the third quarter and recorded the highest third quarter net subscriber addition of 534,000 since the IPO. Our last 12 months net additions reached 1.4 million.

The record high gross-adds in September in the retail segment was another litmus test on our execution capabilities and operational excellence.

Once again, it has been fulfilling to see our planning and management skills, as well as, our technical competence at top standards.

It is also worth noting, rising demand in the fixed segment, was not limited to new connections. Our total data usage soared 50% in the first nine months of 2020, compared to last year. Despite the additional heavy traffic on Türk Telekom's core network, we have continued to provide seamless connection to our customers from all parts of Turkey.

We monitored international internet gateways, intra and intercity data traffic and capacity 7 days, 24 hours. We reduced the impact of sudden surges in international traffic, and its load on the core network capacity by locating the cache servers of prominent global OTT players in our network.

In the mobile segment, we have observed a normalising social life across the country in the third quarter, with the support of easing COVID-19 measures. This helped the negative trends that dominated the mobile market, reverse gradually. We gained 269,000 net additions in the third quarter. On the fixed voice side, thanks to the increasing fixed broadband access, we added 159,000 new subscribers in Q3'20. That is the highest third quarter net additions since the IPO.

Slide #4, financial performance. I will briefly talk through our financials and then Kaan will comment on them in detail. We

delivered strong financial results in the third quarter. Our consolidated revenues grew 19% year-on-year to 7.4 billion TL driven by the accelerated growth in the fixed broadband segment. Excluding IFRIC revenue growth was 19%.

Consolidated EBITDA reached 3.5 billion TL with a 47% EBITDA margin. Our net income was 432 million TL despite the adverse FX movements during the quarter. CAPEX was 1.8 billion TL reflecting the impact of continuous increase in fiber investments.

Slide #5, fixed broadband performance. Even though we have been normalising since late Q2'20, Turkey decided to start the education season mainly through online schooling. Most universities also started their programs online this year. Traditional face-to-face education will resume gradually in the coming months.

On the business side, working from home still dominates. We believe this situation will mostly stay until year end. The total number of broadband subscribers increased to 12.8 million with contribution from both urban and rural parts of Turkey. Supported by pricing, new subscriber acquisitions and upsell performance, fixed broadband ARPU grew 14% year-on-year, highlighting the momentum in this business.

In the retail segment, more than 40% of our net adds in the third quarter preferred 20 megabits and above speed. The pandemic has surely accelerated the fiber transformation in Turkey, and we kept expanding our footprint. Our 321,000 kilometers long fiber network spreads widely across the

country. We also raised the number of fiber homepass by 4.6 million in the last 12 months to 25 million as of the third quarter.

In Q3, our fiber subscribers increased by 432,000 and reached 5.2 million. Our fiber subscribers account for 41% of the total fixed broadband base now. Connecting more customers through fiber serves our duty to provide seamless and fast communication to our people and ensures sustainable ARPU and revenue growth for the next quarters.

Slide #6, mobile performance; as of Sep'20 our mobile subscribers reached 23.1 million with 269,000 net additions. As you know, Turkey has been easing COVID-19 measures since early June. Accordingly, we have been observing a normalising social life across the country. This helped the negative trends that dominated the mobile markets since early Q2'20, reverse gradually. As a result, the MNP and acquisition markets made a partial comeback. Besides, a more rational competitive environment also supported our subscriber trends.

The average monthly data usage per LTE user increased to 9.1 gigabyte in Q3'20. Thanks to increased mobility and stronger push through our online channels. We recorded almost 800,000 net additions on the mobile postpaid base since the beginning of the year. Our postpaid subscribers accounted for 63% of the total mobile base, up 3 percentage points compared to end 2019.

On the prepaid side, we recorded 93,000 net loss in this quarter, as the impact of the pandemic continued. In the

fourth quarter, we expect the downward trend in our prepaid base to continue, because we will delete some subscribers as per the regulation.

Our prepaid ARPU grew by 13% year-on-year, thanks to price adjustments in line with the market and upsells. In Q3'20, our blended ARPU grew by 7% year-on-year versus 5% in the last quarter. We focus on growing our subscriber base, while we increase the value of our overall portfolio.

On the competition front recently, downward pricing started to take the center stage again in the acquisition market. Therefore, we remain cautious about Q4'20 outlook, as it seems early to say the pressure on the mobile market is over for the year.

We are pleased to see our mobile performance improved, after the most intense period of COVID-19. We will continue our investments and commercial activities to increase our customer satisfaction rates. We believe in our network quality and powerful brand and remain committed to our medium and long-term targets in mobile business.

Moving on to Slide #7, TV business; we are #2 player in Turkey's underpenetrated Pay TV market with 3.2 million subscribers. Using the advantage of being an early player in this market, we aim to take a new approach to traditional TV broadcasting by following the changing habits and customer engagement trends closely.

Going forward, our focus will be to create the leading digital TV/OTT platform of Turkey. The rising interest from global content providers proves the appeal of Turkey's Pay TV market and confirms our strategic decision. We expand our horizon about content, while we renew our technical infrastructure. We will be focusing on increasing growth and profit margin of our TV business through a substantial renovation.

We are now on Slide #8, our subsidiaries. I will briefly discuss our subsidiaries' performance. Our subsidiaries are an integral part of our business. The rapidly growing synergies that the Group enjoys through our subsidiaries are of great importance to us. While they reduce our third party dependency, they also help us save sizable costs and provide us sustainability in certain products and services.

Argela, Innova, Sebit, AssisTT and TTI each generate third party revenues to diversify their growth profiles and reduce their dependency to the Group. Third-party revenues of these subsidiaries grew more than 60% year-on-year and made 9% of our consolidated revenues in Q3'20 compared to 6.5% in Q3'19. These revenues led 22% of annual growth in the Group's Q3'20 consolidated revenues.

Once completing the important milestones in the R&D phase, Argela, our next generation telco technologies subsidiary, has now moved to the productisation stage of the SEBA project, which enables virtualisation of fiber access networks. SEBA is now used on Türk Telekom's live network and we aim to complete the full integration in the coming periods. In addition,



we reached an important stage regarding the sale of SEBA products to domestic and foreign telco operators.

Argela continues to develop intellectual property with its vRAN project, which provides many operational benefits such as performance increase and efficiency. We are proud to have crowned the success of this project with the license and cooperation agreement we signed with Juniper Networks, recently.

With this agreement, Argela will be moving forward in its ability to sell its products and create financial value. Juniper Networks operates in more than 150 countries with a rich portfolio of network equipment and solutions. In this regard, we believe that Argela's know-how and productisation capacity will grow significantly when combined with Juniper's customer network and geographic reach.

Slide #9, our revised 2020 guidance. The pandemic has kept its influence on industry trends, but Turkey and our businesses have also started enjoying a gradual normalisation. We believe the worst is left behind in Q2'20 and remain both cautious and opportunistic about the long-term effects of the outbreak.

We observed a very strong performance in the fixed segment in the first nine months of this year with the rising demand for internet. We have also seen gradually improving trends in our mobile business since June. As a result, the outstanding financial performance during the first nine months of 2020 and the Q4'20 outlook justified an upward revision to our 2020

guidance. We now foresee 16% year-on-year revenue growth, 13 billion TL EBITDA and 6.6 billion TL CAPEX in 2020.

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

AKTAN K:

Thank you very much. Good morning and good afternoon, everyone. We are now on Slide 11 with financial performance. In the third quarter, our consolidated revenue growth was at 18.6% year-over-year, when we exclude IFRIC 12 top-line growth continued to be strong at 19.4%. Fixed broadband segment was once again our growth engine with 26% year-over-year revenue increase, the highest annual growth since 2010 in the fixed broadband segment.

The demand for fixed line connectivity continued to be strong due to remote working and homeschooling as a result of the pandemic. Our fixed broadband ARPU growth was 14% year-over-year in this quarter, which is supported by pricing activities new subscriber acquisition and upsell performance.

Mobile revenues increased by 9% year-over-year in the third quarter as the segment has been gradually recovering from the pandemic and intense competition. Data service revenues increased by 12% year-over-year supported by the demand for our corporate solutions like IP VPN and Metro Ethernet. Fixed voice revenues maintained its trend with 2% year-over-year growth.

I would like to go through some numbers to highlight our subsidiaries' strong performance during the quarter. Third

party revenues of our subsidiaries grew more than 60% year-over-year and made 9% of our consolidated revenues in this quarter, which we can compare to 6.5% in the same quarter of last year. As a result, 22% of the consolidated revenue growth in this quarter is originated from our subsidiaries' revenues.

Our EBITDA reached on a consolidated basis 3.5 billion lira with 47.2% margin, which is reflecting strong revenue growth and disciplined operational cost management. Excluding IFRIC 12 impact our EBITDA margin was 49.3%. Please recall that IFRIC 12 is an accounting item that impacts our revenues and costs simultaneously, and this has a dilutive impact on our margin.

Operating expenses increased by 21% year-on-year. Looking at the highlights in the OPEX items, interconnection costs increased by 30.5% year-over-year, mainly due to increase in Türk Telekom International traffic volume and FX rates. Cost of equipment and technology sales increased by 168% year-over-year, which is the result of continued strong broadband net addition and surge in project-based equipment and license sales.

Network and technology expenses grew to 30.7% year-over-year, which is mainly due to increase energy costs and technology repair and maintenance costs. And I should also remind this is more sensitive to FX rates. Personnel expense increased 16.6% year-over-year, on a low base of last year. 14.3% year-over-year increase in tax expense was led by high frequency and treasury fees attached to mobile revenues.

CAPEX rose to 1.8 billion lira which is reflecting the impact of continued fiber investments and weaker lira. In the third quarter net financial expenses was 1.6 billion, mainly due to around 16% depreciation of lira against dollar and euro in the quarter. In the third quarter, tax expense was 123 million which implies a 22% effective tax rate. We reported 432 million lira net income in the quarter despite the unfavorable FX moments.

Let us please go back to Slide 9 to our guidance and guidance revision. As our CEO mentioned, we revised our 2020 guidance upwards. He has already given you the headline numbers, and I will take you through some of the details. Better than expected fixed side performance and discipline cost management including pandemic related one-off cost savings are the main drivers of the higher revenue and EBITDA projections.

It is worth noting that we have seen some OPEX savings during the pandemic; in a situation where everything returns back to normal, this effect which we expect to be around 50 basis points on full year EBITDA margin may not be carried fully into 2021. We increased our full year CAPEX guidance to 6.6 billion lira, the revision largely reflects the impact of the weaker lira and our perseverance to execute on the planned investment.

We stick to our fiber rollout plan, which we accelerated earlier in the year, in anticipation of continued momentum in demand for new connections. We keep focusing on growth, operational efficiency and strong cash flow generation, despite the currency headwinds in order to reward our shareholders. And

we are focusing on long term value creation through our investments.

We are now moving on to Slide 12, with our debt profile. We delivered an outstanding performance in challenging times and we are still faced with volatility in the markets. However, we believe that we are in a decent shape to weather the challenges. Our agile management and effective decision making position us strongly to navigate through this volatility and at the same time, we sustain healthy growth and a strong balance sheet.

As of September, our net debt increased to 17.1 billion lira in dollar terms, on the other hand, we see a decrease of \$153 million. Proving our ability to generate robust EBITDA and cash flow, our leverage increased slightly to 1.35 multiple from 1.31 of a quarter ago, despite around 600 million lira dividend payments and around 16% weakening of the lira against hard currencies in this quarter.

Excluding the dividend payment, our net debt to EBITDA would be 1.3 multiple. As we have shared with you before, we are comfortable with a leverage ratio below 1.5 multiple. Cash and cash equivalents increased to 5.5 billion lira from 5.2 of the second quarter; 71% of our cash is still FX based. Our blended cost of debt continued to decline and came down to 8.4% from 8.6% of the previous quarter.

We are now moving to Slide 13, at the end of quarter the net FX exposure was \$211 million, down from \$376 million a quarter ago thanks largely to increased short term forward

contracts position. On the other hand fast depreciation in Lira decreased the effective protection of some of our existing option embedded hedging structures. In order to mitigate the impact we restructured or early settled \$400 million worth of existing hedge contracts in October, just after the quarter closing.

As you know, we report an FX sensitivity analysis in our quarterly financial; with the additional protection, we took in October, we are now able to reduce our sensitivity by around 25% from that date. We will continue to take additional protection to naturalize our FX position to FX moments completely.

Finally, our unlevered free cash flow generated in the last 12-month period grew to 6.5 billion lira compared to 4.9 billion of the previous year thanks to robust EBITDA performance.

I think we can now open the Q&A session.

## Q&A

OPERATOR: The first question comes from the line of Cabejšek Ondrej with UBS. Please go ahead.

CABEJŠEK O: Hi, thanks for taking my question and congratulations on another great set of results. Two questions from me, please. You are now explicitly targeting a zero FX exposure. Could you give us some clarity on whether one of the means that you

achieve this maybe through limiting dividends in the short term? That's one question.

And second question, on your CAPEX , you mentioned that you will have reached your fiber targets by the end of the year. Can you just extrapolate for us, how much you've spent this year on the accelerated program and what that might mean in terms of CAPEX intensity going forward? Thank you.

AKTAN K:

I think first of all, it's worth mentioning that we came very long way in terms of you know, restructuring and creating a resilient balance sheet against any currency headwinds. There is still an exposure left in the balance sheet, as I mentioned, it came from you know, weakened protection of the options, since we saw a sizable devaluation in the past several quarters. And there is a portion, which is not attached to any of the hedging contracts. I think since we executed a large sum of contracts already, the additional costs that will come from the transactions that we may execute in the future will be limited. But at the end of the day, it will come with an increased financing cost.

But again, we are moving with a strong trend, in terms of improving our operational performance, this is reflected both in EBITDA, in operating income and when you exclude the FX impact to the net income as well. So, if you assume that we will move on a similar trend going forward, I think there will be enough room to absorb the additional costs that may come from the transactions.

As of today, the second part of the question, where we are in terms of fiber rollout plan. Well, the cost of it is already, as we

mentioned reflected into the to the new guidance. As of the end of the third quarter, we completed roughly 70%-75% of the rollout plan, so there will be a remaining 25%-30% for the last quarter.

CABEJŠEK O: Thank you. Can I just follow-up on the first question, please? Can you just clarify, what the timeline is to get to net zero exposure. And if you could provide an answer whether you are thinking potentially or getting there also by restricting sort of dividend payments in the short term, please? Thank you.

AKTAN K: Well, second part of your comment or question, I think it will not be valid. So we have no such plans. As I mentioned going down to neutral position will not require such large amount of resources to be allocated to that program. So, we shouldn't need any limitations on the dividend payment.

CABEJŠEK O: Any timeline, please. Is there a timeline?

AKTAN K: Yes, I would definitely like to give you an exact timeline, but it will also depend to the market conditions. So, let me say that we will like to get there as soon as possible. But, if the market doesn't allow us in terms of the liquidity and the you know cost structure, it may take a few quarters.

CABEJŠEK O: Alright, thank you very much.

OPERATOR: The next question comes from the line of Zaczekiewicz Daniel with Barclays Investment Bank. Please go ahead.



ZACZKIEWICZ D: Hi. Thanks for the call and congratulations on the results. So I just want to talk about the hedging, because you know, in recent months we've seen further rapid lira depreciation. And I just wondered if you could comment on the levels currently at which hedges would become ineffective? And whether you know, you would look to reset hedges as we approach those levels? Thank you.

AKTAN K: Well, if you consider, as we included in our earnings release there was a restructuring made, as I mentioned in my part during the presentation; at the beginning of October, which was not reported as part of our quarterly disclosure. When we include the impact or additional protection coming from that, I think it is 75% of the debt is effectively hedged with the current level of FX. But we like to improve, as I again mentioned during the first question, from that number as well.

ZACZKIEWICZ D: And is there a level at which the current hedges become ineffective, I mean, I think you've said somewhere above 10 previously?

AKTAN K: I mean, the last restructuring, I mean, we put you know, the inception points to 12.5. So we are moving you know, the strike points upwards, when we restructure, but there are many, many contracts with different, strike rates; it will be difficult to give you a one single number to express the level of protection. The better criteria would be first to look at what percentage of debt is effectively protected with the current rates, as I mentioned with 75%. And the other meaningful criteria will be, what type of pretax loss we will make if there is 10% depreciation of Turkish lira. The number at the end of

quarter was 950 million lira with 10%, which is roughly reduced by 25% after the restructurings we made.

ZACZKIEWICZ D: Okay. Thank you.

OPERATOR: The next question is from the line of Vengranovich Alexander with Renaissance Capital. Please go ahead.

VENGRANOVICH A: Good afternoon. Two questions from my side. First one, I would again continue on debt issues. Can you please provide us more color on how liquid the debt market in Turkish lira is to you right now, whether it's possible to gradually shift to Turkish lira financing over the longer term and then you consider this scenario on just to avoid hedging and big volatility? That's my first question.

And the second question, for the first nine months of the year, you had like around 19% top-line growth and the guidance it seems like around 16% growth. So I'm just wondering, what sort of reasons you have to hiring back conservative for the full year guidance, you mentioned the potential concerns over the mobile business, I guess, but your fixed line business seems to be robust. So just wanted to understand a bit more color whether you're expecting any further one-off in the fourth quarter, which might impact your top-line growth? Thank you.

AKTAN K: If I understood correctly, the first part of the question was about the availability of real lira based funding. So, if you look at the commercial loan market, I think, end of last year, beginning or the first part of this year, the market was very competitive. So, we became significant downward trend in the

cost of lira financing. And we tried to you know benefit from this trend by increasing the level of lira funding that we acquired. Now, as of end of third quarter, we have around, 11% of total debt in the form of lira loans. These are shorter terms that we are normally used to have, when we get you know, a hard currency loan, we get to maturities three plus years with Eurobonds five to ten years. These are short term, but the rates were very attractive. So, we will definitely continue increasing the percentage of lira loans within lira funding, let me put it that way, within the overall debt portfolio.

Nowadays, the rates are coming up a bit. So, we see a bit less appetite from the financial institutions, but now we have the opportunity to go back to one of our initial plans for raising lira, which is lira bonds for the local market. We already have the application approved at the Capital Market Board. If we see that now the cost that would come from a lira bond is more attractive than commercial loans, we can also consider issuing or start at least a program with a new lira bond. I think there will be a lot of opportunity for raising lira funding, and I totally agree with it's the simplest, easiest you know, and best way to acquire financing when we have so much volatility in the currency market.

And the second part, I think it's about the guidance and quarterly revenue increase, whether it aligns with the full-year picture. I think the third quarter was exceptionally strong. And we, also mentioned that there is a significant contribution coming from our subsidiaries. And when we look at the full year picture, so naturally that contribution for that quarter will have a limited impact on the full-year number. And we try to be,

since we have very few months left until the year end, we tried to be very much realistic in terms of not only for revenue, but also for EBITDA, and we guided with really what we believe we will get.

VENGRANOVICH A: Thank you.

OPERATOR: The next question is from the line of Ibragimova Dilya with Citi. Please go ahead.

IBRAGIMOVA D: Hi, thanks very much for the opportunity and congratulations on a strong quarter strong results. I had a few, if I may. First is on your recent changes or maybe extension of the wholesale offers. I think in September, the wholesale range started to include fiber products, including bitstream access. I was just wondering, if you could give color on what your expectations are on take up by ISP demand, whether you have seen anything or maybe it's too early to gauge. And also, if demand was to be strong from ISPs to take the fiber, considering the demand from the consumer is strong, would the impact, would you expect on your growth going forward? So some color there would be really helpful?

Second question is on cash flow, just looking at the purchases of intangible assets. It seems like intangibles have increased to around 2.6 billion in nine months from 1.6 billion in six months, maybe just looking at the nine months investments. How much of that increase is driven by the subscriber acquisition costs, the retention costs, if you have a breakdown there? And also, looking at the working capital receivables, there has been an increase in Q3 specifically, is it temporary

or is it something to do more structural and we shouldn't expect receivables to be kind of higher for the whole of the year, maybe because of the device sales as the fiber product, net adds are strong. So that's my second question?

And the third question is on subsidiaries, considering the contribution that is improving to the group, the top-line. What are, maybe you could rank them by the like what is the biggest contributor there, out of five, maybe first and second. And what is the share of contribution, is it like, let's say, one of them is half of the other revenue. Just to get some color how big the contribution or what are the biggest are? Yeah, I will stop here. Thank you.

ÖNAL U:

Thank you very much. You know it is known that there is increase in demand for fixed broadband in all around the country with the pandemic. And with our sales and operation network spreading all around the country and through our initiatives on fiber transformation we contribute the most to the market growth.

We added 1.1 million net subscribers in two quarters during this challenging period. Moreover, the number of installations increased five times at some specific times.

I'd have to say that at the time when internet turns into an urgent need, it is natural for consumers to prefer Türk Telekom, a brand which makes the most of the investment and also a brand they can rely the most.

Moreover, we also see the subscriber acquisitions of other ISPs accelerate compared to previous quarters as well.

On the retail market, we work under equal conditions with other ISPs, and we don't think we will be faced with a regulation that can affect us negatively.

On the wholesale side, we are subject to audits and also price squeeze test of the regulatory authority.

Also within the scope of market analysis and in line with ICTA obligations, our offers are sent to the relevant authority and opened up for market opinion.

On the newly offered references, the proposals are formed by studying the price levels in a way to reflect the current costs and to prevent unfair competition.

We don't stipulate a pessimistic scenario. Market structure and market dynamics also don't support a destructive regulation by making sudden changes.

We also expect the regulatory authority, I mean, ICTA to regulate the market while allowing growth with healthy investment. So, while accepting that the authority's regulations to try to make the market more competitive, we don't expect it to be squeezed in a short period of time and put Türk Telekom into a negative scenario.

So when we see the spirit of the regulations, we don't expect wholesale model to change at a large scale. For the service

provisions in the wholesale level in fiber it has always given by TT without discrimination anyway. So we are not concerned on this matter. I will give the word to Kaan for your next question.

AKTAN K: Yes, I noted two questions, if I missed please let me know. So the first one was intangible. So there are two main drivers here. The more significant one is the increased level of connectivity investments. Because of the IFRIC 12 adjustments, which is a concession agreement, the connectivity investment is recorded as intangible into our balance sheet. So when you see an increase in that specific item in our CAPEX, so we see an increase in tangible. Less significant one is subscriber acquisition cost. As you know, we included a very large number of customers in this quarter, so the acquisition costs are recorded as intangible.

And the other question I noted is contribution from the subsidiaries. A slightly larger part came from our international business, call center and ICT technology businesses contributed very close to that number as well.

IBRAGIMOVA D: And thank you very much.

AKTAN K: Yes, please go ahead.

IBRAGIMOVA D: Thanks very much. I just had a follow-up. The first is on the, I think, I also did ask if you have any color on increasing receivables, part of working capital. And also, I just wanted to follow-up on the wholesale pricing. Maybe to simplify, if I was to look at the...if you were to look at the payback period of fiber line, if you were to go directly to consumer versus payback, if

ISP was to take that of the wholesale offer, how the profile would change between the two? Thanks.

AKTAN K:

Increased level of receivables is partly related to increased business volume. Obviously, we are increasing the revenue significantly. And you should also consider that that part coming from this especially this project base revenues through our subsidiary. These are large projects which are delivered in that quarter either in the form of service or equipment and most of the revenues fall into the receivable in the balance sheet that gave us a jump in the level of receivable.

For the fiber part, it is very early to make any mathematical conclusions based on conditions that are not defined yet. But there is one factor, if you refer to fiber as a service, fiber connectivity as a service, Türk Telekom has been providing that service for many years to all ISPs including our own company within Türk Telekom at similar or equal prices, equal conditions. So that, the regulation after the closing of the fiber, we will now make this a regulated offer. But then you look at the price level of that fiber offer that we are currently providing to all ISPs and compare it to the regulated, you know, prices of broadband services you wouldn't see much significant difference.

So I wouldn't personally expect a downside coming from that part, and even we should see, you know, more appetite from ISPs for using that offer, because if you look at the share of fiber product within our wholesale base, it is almost close to nothing when you compare to how much, fiber service we are pushing within our retail portfolio. One of the reasons for that



was provided was mentioned by the ISPs as well. This is not regulated, so we should have a regulation around it, so that we have more appetite for fiber services. I mean, we like to see that happen because we do it for ourselves, for our retail business, and we do it for all ISPs. And again, for the price levels, at least for the service part of it, the prices are already very close to regulated copper-based broadband service prices.

IBRAGIMOVA D: That's very helpful. Thanks very much.

OPERATOR: The next question is a follow-up question from Cabejsek Ondrej with UBS. Please go ahead.

CABEJSEK O: Hi, thank you. I wanted to ask in more detail about the new TV strategy. So you mentioned that you have signed a new agreement for a bunch of rights starting September. Can you just tell us, you know, what the targets are? Why now? How the cost structure especially is this fixed cost or variable cost. Is it a combination of both, and how, for example, this time when it comes to sports content your strategy may change compared to the previous 2015-2018 period when you had somewhat exclusive rights as well. Thank you.

ÖNAL U: We are the second player in Pay TV market in Turkey and we are one of the two oldest players investing in this market in Turkey. We have been enjoying strong numbers in our core services, and as part of our main strategy, we want to diversify our growth and numbers. One pillar of it is related to our subsidiaries, and other part is related to the digital products and services. And one last pillar of it is, of course, the TV area. We are just actively refreshing our interest here, because it is

you know, an old area for us that they have been working. It is just one of the new pillars of our main strategy.

You know pandemic increased the time people stay at home, and it also increased the need for entertainment for people. We also know that many global players are showing interest in our market in Turkey. So, we are just actually working on it, and what we can do about our product.

Our interest in TV is you know, it's not going to be mainly shaped by huge upfront investments for content. First of all, we will be updating the technical infrastructures, and we will be renewing the platform that we use for our TV product, and then we will be focusing on the content part.

You know we are reaching a big subscriber base through our core services. And I don't think any other effective way other than TV in order to multiply our invoicing in relationship with our customers. So TV part may be a bit under shadow for a long time, but it's a very important instrument for us.

I would like to thank you for your questions. Our interest in TV does not include a big content investment in the short term, I mean, not for today or tomorrow. Thank you.

OPERATOR: We have a follow up question from the line of Vengranovich Alexander with Renaissance Capital. Please go ahead.

VENGRANOVICH A: Yes, thank you again for taking my question. Just a quick follow-up on the TV strategy. Do you consider the partnership with established international or domestic of key platforms or

do you think you're going to stick to the aim in general developed product or the future development of this business segment? Thank you.

ÖNAL U: I mean, for today, we don't have any plans for partnership neither with a global one nor with the local one. Our main priority for TV strategy is, first of all, to update the TV platform infrastructure to make it more competitive in terms of its technical features.

We position ourselves in a way to use our TV base in a balanced and efficient way. You know we have 49.5 million subscribers and we aim an effective use of these number of subscribers.

VENGRANOVICH A: Thank you.

OPERATOR: The next question comes from the line of Demirtas Cemal with ATA Invest. Please go ahead.

CEMAL D: Thank you for the presentation and congratulations for good operating results. My question is again, about net FX exposure. When we look at your presentation in Page 13, we see net FX exposure; and if we base our calculations on that we were supposed to come out with much less FX loss. So, but when we look at your footnotes we see the details, and in reality, your FX exposure is there is much higher, like maybe around 1 billion; when we look at the sensitivity? Could you just give us, what's the reason behind this table, you know, I really had difficulty to justify this picture you know, net FX exposure in the table. What does it really show, for instance, in the third quarter 2020, you have \$211 million net FX position. But when

we look at the sensitivity, you are much more, sensitive to the currency. So I just tried to understand What's the reason behind giving that FX exposure in this presentation? Thank you very much.

AKTAN K:

Well, you're right. The way we look at it is or the way we define it is the part of the hard currency that which is not hedged with any of the structures that we have. As we mentioned, several times in the past and during the call, most of those structures are limited by short position with options, which act as a cheapener. And when we see a large devaluation, in some cases, those contracts stop or seize protecting us against the FX exposure, those contracts still give us the ability to raise hard currency when they come to their maturities. So we are not obligated to, you know go to the market and buy dollars and euros. So when we give the Lira in return, and those contracts are providing us with the required level of hard currency in order to service our debt.

So, in that sense, there is protection, the interest rates are swapped to Lira. So, we don't have any risk coming from the changes in the interest rate or changes in the FX, because those are regular plain vanilla interest rate swaps. But those options are complicating the picture. So when we saw this in the past, we started reporting additionally, that sensitivity number, which is part of the financial disclosure; so that sensitivity number is including everything that is beyond the level of protection, although we have a hedging contract, or the part that is fully open to FX changes, which is not protected at all.

So everything is included there, we define it as a 10% devaluation scenario. And we put the exact number that you see. I think it will be, in order to make a forecast on potential impact, I think the best place to look at will be that sensitivity analysis, which is part of the disclosure.

CEMAL D: Thank you. And as a follow-up, you know, apart from your financial expenses, you know, financial debt, you have some trade payables in U.S. dollar and euro terms. Is there any way to just hedge them through your receivables or anything because it's a huge amount still, you know, as much as, as big as maybe the others, like the short terms or something around maybe \$250 million trade payables. Is there any way to just, close the other side, receivable side through some other operational hedges or do you include all these?

AKTAN K: Specific to this year starting from second quarter, we also started acquiring short term forward and option contracts from local market. So the total amount is now around \$240-245 million equivalent. And we will maintain that level. Those are really short term contracts, which pretty much, you know, replicate the maturities of our trade payables, in that sense we are also trying to create some protection for that part as well. But we cannot really attach to each maturity of every payable a contract, because it's a very long list. The way we look at it is...let's acquire a continuous, you know, level of those short term contracts going forward, so that we have a continuous protection for that part as well. I think that's a fair comment, and we will keep on doing that.

CEMAL D: Thank you. Thank you very much again.

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.

AKTAN K: Well, thank you very much all for attending our conference call for third quarter results. So stay safe, stay healthy, and we hope to see you all in our year round conference calls, probably end of January or early February.