



Türk Telekom 2025 Q1 Financial & Operational Results Conference Call

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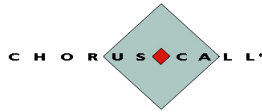
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Mr. Ümit Önal – Chief Executive Officer

Mr. Ömer Karademir – Chief Financial Officer

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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 2025 Q1 Financial & Operational Results. We are here with the management team and today's speakers are CEO, Ümit Önal and CFO, Ömer Karademir. 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 2025 first quarter results conference call. Thank you for joining us today.

Before I start my speech, I would like to kindly inform you that I will have to leave a bit early due to a last-minute change in my schedule. I will try to take a few questions if time allows. However, my colleagues will be here and ready to address your questions.

An escalating tariff war has raised significant concerns around the world trade order, sending shockwaves to financial markets globally. At home, the CBRT has swiftly introduced a series of measures to contain the recent volatility in financial markets driven by the local developments and global tariff conflicts. The Bank paused its easing cycle in its April meeting and opted for an unexpected 350 basis points hike in policy rate to re-emphasise priority on bringing inflation down and to maintain lira suitability.

While the CBRT left its year-end inflation forecast range of 19% to 29% unchanged, year-end inflation expectation moved to 30% from 28% in the April market expectations survey, which was conducted before the CBRT's recent rate decision. Finally, inflation fell below 38% according to the recently announced April data in an ongoing, albeit slower disinflation trend as the monthly CPI picked up to 3% from 2.5% in March. We have been closely watching the recent developments and market volatility in order to assess their potential impact on the subscriber behaviour and our businesses, which seemingly has been absent so far. As such, we stand confident about the 2025 guidance we shared earlier, but remain alert on both the local and global news flow ahead.

We made a spectacular start to the year, primarily driven by the maintained strength in fixed internet and mobile performances. In fixed internet, even to date, very few ISPs followed our retail tariff price revision introduced around mid-March. Competition in the mobile sector somewhat eased from its peak in December, but remained high in general, with intense promotional activity in the aftermath of January price adjustments. Data consumption once again confirmed solid demand from subscribers.

Now, starting with financial and operational overview on slide number 3. Consolidated revenues increased by 18% to TRY 46 billion. Excluding the IFRIC-12 accounting impact, revenue growth was also 18%. Once again, surpassing the top-line growth, consolidated EBITDA rose by 27% annually to TRY 18 billion, along with a strong 260 basis points margin expansion YoY to 39%.

Net profit for the period came in at TRY 5 billion. Capex stood at TRY 8 billion. Unlevered free cash flow was TRY 8 billion compared to TRY 3 billion in first quarter of last year. Net leverage improved to 0.7x.

Slide number 4, net subscriber additions. We closed the quarter with 53.6 million subscribers in total, up 447K QoQ. Excluding the 155K lost in the fixed voice segment, quarterly net additions were 602K despite a relatively low seasonality in Q1.

Mobile remained the largest contributor, but fixed internet also surpassed our expectations for the period. In fixed internet, subscriber dynamics were shaped by seasonality, Ramadan, and largely unchanged competitive and pricing environments over the first quarter.

Fixed broadband base was flat around 15.4 million. Led by the retail segment, we recorded 53K net additions. It would be reasonable to expect the impact of the latest pricing action in the retail market to become more visible in the second quarter.

Overall churn rate dropped both QoQ and YoY. On the mobile front, subscriber acquisition remained a high priority for all operators in Q1, but it would be fair to say competition rolled back a bit from a tense December. Delivering a better-than-expected performance, the mobile segment added 511K subscribers on net basis with another stunning quarterly performance, pushing up the total base to 27.9 million.

While the postpaid segment added 593K subscribers in a repetitive strength for quarters, prepaid segment posted an 82K net loss; both performing better than we expected. Fuelled by the

postpaid segment, the number of new acquisitions recorded the highest first quarter performance since 2014. Prepaid acquisitions also compared higher to the same period of last year. Blended churn rate dropped YoY and compared favourably to our expectation.

Slide number five, fixed broadband performance. In accordance with our focus on ARPU growth, we took the first pricing action of the year and revised fixed broadband tariffs in the retail segment on March 17. We have seen very few competitors follow suit so far. We have extended the contract structure to 18 months from 15 months in new sales as disinflation continued. Finally, we have submitted our application for a price revision in the wholesale segment to the regulator.

Re-contracting performance beat our expectation, whereas upselling remained quite strong. Volumes in both exceeded the levels seen in the same period of last year. We aim to take benefit of the higher volume of contract renewals due in 2025 in order to support ARPU growth through re-contracting and upselling.

Robust demand for high speed prevailed in the first quarter. 50 Mbps+ packages made 72% of new sales and 54% of re-contracting. Average package speed of our subscriber base increased by 48% YoY to 74 Mbps. 51% of our subscribers now use 50 Mbps+ packages compared to 38% a year ago. The share of fibre subscribers in our total fixed broadband base increased to 90% from 86% a year ago.

Surpassing prior quarter's performance, Q1 ARPU increased by a remarkable 19% YoY. That, combined with a 1% growth in

average subscriber base produced a solid 21% rise in FBB revenues.

Moving on to mobile performance, slide number six. Sticking to dynamic pricing, all operators took their first pricing action in January but tried to balance subscriber dynamics with promotional campaigns over February and March. Once again, the activity mostly shaped around the postpaid segment but we have seen some momentum in the prepaid segment also.

In some cases, campaigns were very attractive in pricing and stayed open for quite extended periods of time. The MNP market also contracted from the last quarter after hitting its record high volume in December but kept advancing on annual basis.

We recorded the highest net port volume of the past 11 years in January, which was a relatively milder period in competitive pressures. Following this spectacular performance, we stayed on top of the MNP market as the most preferred mobile operator on a consistent basis.

Postpaid net adds in the last 12 months totalled 2.1 million, reaching a historic high and growing the postpaid base by an overwhelming 11% YoY. The ratio of postpaid subscribers in total portfolio climbed to 76% as of Q1, compared to 72% a year ago.

In a strong trend, mobile blended ARPU showed no signs of dilution despite quarters of strong net subscriber additions, proving that we keep expanding our subscriber base in a fine balance. The 19% YoY increase in blended ARPU was a combination of 24% growth in postpaid ARPU and 10% contraction in prepaid ARPU. That, together with a 5% growth in

average subscriber base, produced an impressive 24% rise in mobile revenues.

On slide number 7, let's take a look at how Q1 figures compare to our full-year guidance. We are highly satisfied with the first quarter performance, which put us on track with our annual targets. The ongoing disinflation process has nicely supported the operational performance, along with a strong revenue generation versus a relatively mild opex evolution in Q1'25, despite the regular employee salary adjustment we implemented at the beginning of the year.

18% operating revenue growth and 39% EBITDA margin bode well with our full-year guidance, pointing to respective ranges of 8%-9% and 38%-40%. 18% capex intensity in the reporting period is yet distant to our 28%-29% guidance range, but this is due to the typical seasonality in our capex spending, implying a slower pace in early months and an acceleration later in the year.

Although Q1 results seem to pose upside risk to our full-year guidance, particularly at the margin front, we prefer to observe the next quarter performance, as well as the domestic and global macro environment, before we consider any revisions.

Before I conclude my presentation, I am pleased to confirm that we are now working on the final steps of renewing Türk Telekom's fixed line concession agreement together with the related parties. As Mr. Şimşek, the Minister of Treasury and Finance, which holds 25% stake in our company, has recently stated the concession period will be extended, leaving no doubt around the direction and nature of the progress in this matter critical for Türkiye's

digitalisation agenda. We are confident that the outcome of this healthy process will prioritise public benefit, sector requirements, and Türk Telekom's mission to create value for its stakeholders on a consistent and sustainable basis.

I would also like to take the opportunity to introduce Ömer Karademir, our recently appointed CFO, who has taken over the role from Kaan Aktan. Ömer has joined us from the Ministry of Treasury and Finance and holds a great deal of experience in asset-liability management, risk management, liquidity management, and capital allocation. I want to thank Kaan for his remarkable contributions to Türk Telekom over his long years of dedicated service. He will remain an advisor to Türk Telekom for some time to ensure a smooth transition of this strategic role. Thank you. Ömer, the floor is yours now.

KARADEMİR Ö:

Thank you. Good morning and good afternoon, everyone. Well, thank you for such a warm welcome. I am truly pleased to be part of this big family and will be working hard with my colleagues to contribute to Türk Telekom's strategic growth.

We are now on slide number nine, financial performance. Consolidated revenues surged to TRY46 billion from TRY39 billion a year ago on a strong growth trend exceeding 18%.

Revenue growth was slightly ahead of our budget, which incorporates a faster pace for the top line in the first half and a moderating one in the second half, given last year's base effect in opposite directions in the same periods. Excluding the IFRIC 12 accounting impact, Q1 revenue was TRY44 billion, ahead of our expectation and up nearly 18% YoY including increases of 21% in

fixed broadband, 24% in mobile, 16% in TV, and 31% in corporate data, as well as contractions of 9% in international, 2% in fixed voice, and 6% in other segments.

Fixed internet and mobile have once again led growth, together making 76% of operating revenue. The two lines of business made the largest contribution to growth, with more than TRY6 billion higher revenues in total YoY. ARPU evolution remained robust, thanks to continued subscriber expansion, pricing actions, and healthy upsell performances. That, combined with respective average subscriber base expansions in excess of 1% and 5% in fixed internet and mobile, has driven the robust revenue performances.

Growth in corporate data and equipment sales can largely be explained by price adjustments, whereas contraction in ICT solutions is mostly attributable to an expectedly milder year in general, driven both by the high base effect and anticipated sector dynamics. Additionally, some revenues shifting into the next quarters amplified the first quarter softness.

In our international business, the change in EURTRY exchange rate remaining well behind the annual inflation rate, pressured the performance in lira terms. Continued erosion in the voice segment also led to overall revenues lower YoY.

Moving on to EBITDA, direct costs rose merely by 6% YoY with interconnection costs and equipment and technology sales costs coming down 6% and 21%, whilst taxes and cost of bad debt going up 22% and 70% respectively. The decline in

interconnection cost was driven by currency and inflation accounting impact.

The drop in equipment and technology sales cost was parallel to contracting revenues from ICT solutions offered by Türk Telekom and its subsidiary Innova in the period. Tax expense rose in parallel with mobile revenue growth. Commercial cost went up by 13% YoY and other costs by 16%.

Annual change in commercial costs were once again primarily driven by higher spending on marketing, advertising, brand and corporate communications. Under other costs, network expense remained flat YoY in the absence of any electricity tariff hikes within the first quarter, whilst personnel cost rose by 15%, largely owing to the regular non-union personnel salary adjustment we take at the beginning of the year.

Semi-annual adjustments to union personnel salaries for the period covering September 2024 - February 2025 has also taken effect starting from March, as per the terms of the agreement we announced back in November.

Consequently, OpEx to sales ratio dropped below 61% from 63% in the first quarter of 2024 and stayed nearly flat QoQ thanks to continuously improving operational leverage. As a result, consolidated EBITDA grew 27% annually to TRY18 billion from TRY14 billion in the same period of last year, along with a strong 260 basis points margin expansion YoY to above 39% mark. Excluding the IFRIC 12 accounting impact, EBITDA margin was slightly ahead of 40%

Recall that we had changed the calculation of amortisation expense in the last quarter. Accordingly, we had amortised the related intangible fixed assets either throughout their remaining useful life or throughout the expected extension period of the fixed-line concession agreement; whichever shorter. The so-called adjustment was applied for the amortisation expense of the related assets starting from 2024 but was recorded as a one-time adjustment in Q4.

We have now restated Q1'24 depreciation and amortisation line for this adjustment in order to present Q1'25 financials on a like-for-like basis. Accordingly, we recorded TRY8 billion of operating profit, up 93% YoY, once again crystallising our robust performance.

Coming to the bottom line, TRY5.5 billion of net financial expense was 29% lower in annual comparison, but 4% higher on quarterly basis. Annual trend can largely be explained by a 17% increase in USDTRY and EURTRY rates on average, well behind inflation.

Lower net debt amid healthy operational performance and free cash flow generation also helped. However, the quarterly change in exchange rates was about 9%, again largely intuitive for the trend in net financial expense QoQ.

Hedging costs have also gone up a bit due to recent volatility in financial markets, of which the impact should be more visible from Q2'25 onwards, along with CBRT's recent tightening.

We recorded TRY3.5 billion of tax expense in total, largely driven by the deferred taxes leading to 41% effective tax rate. The deviation from the ordinary corporate tax rate was largely driven

by the indexation of last year's tax assets to Q1'25 as per the inflation accounting principles and the gap between PPI and CPI.

As a result, we generated TRY5 billion of net income in the first quarter, growing by more than 45% annually.

Moving on to slide number 10, TRY8 billion of capex spending pointed to a 28% increase YoY, owing to last year's significantly low base. Capex intensity stood close to 18% for the period.

Moving on to slide number 11, debt profile, net debt over EBITDA has inched down to 0.7x from 0.8x a quarter ago. Cash and cash equivalents, of which 41% is FX-based, totalled TRY8 billion. The share of local currency borrowings within the total debt portfolio was 6%.

The FX exposure included US dollar equivalents of 1.7 billion of FX-denominated debt, 1.4 billion of total hedge position and 90 million of hard currency cash. The hedge amount included a mere US\$20 million equivalent of FX-protected time deposits, expectedly down from 260 million a quarter ago, as the CBRT ceased to offer FX-protected time deposits.

In fact, the balance in this instrument has entirely diminished as of April.

We are now on slide number 12. We closed Q1 with a US\$200 million short FX position. Excluding the ineffective portion of the hedge portfolio, namely the PCCS contracts, our short position was US\$280 million.

According to the sensitivity of the P&L statement to exchange rate movements, a 10% depreciation of TRY would have a negative

TRY1 billion impact on Q1 PBT, assuming all else constant. Similarly, a 10% appreciation of TRY would have a positive TRY1.1 billion impact.

Finally, we generated close to TRY8 billion of unlevered free cash flow in Q1. Strong operating performance and collection of remaining insurance coverage for the 2023 earthquakes led a tripling free cash flow YoY. This concludes my presentation. We can open up the Q&A session.

OPERATOR: The first question comes from the line of Singh Madhvendra with HSBC. Please go ahead.

SINGH M: Yes, hi. Thanks a lot for taking my question and congrats on a great set of results. So, two questions from my side. Firstly, on revenue growth, your guidance is high single digit kind of revenue growth, but you have delivered very strong double digit growth. So, I was wondering whether you are being conservative in the guidance or are you expecting any significant slowdown in the coming quarters? So, you could talk about that.

And the second question is on margins. You already had the salary hike and your margins are almost close to 40% level. So, I suspect the salary hike came later in the quarter. So, do you expect this margin level to be sustainable going forward or do you see some impact on margins in the coming quarter because of the salary hike? Thank you.

KARADEMİR Ö: In our guidance, as we have stated, our guidance for the revenue growth was 8% to 9%, but the realisation is somewhere around 17%. We are not conservative, but as you may expect, it is too early to make a revision in the very first half of the year.

But what is behind this, if you are asking what is behind this high revenue growth, we can say that the one reason for that is the last year's low basis and the other one we can say is the inflation expectation.

And last but very important one, the operational revenue growth is slightly above our expectations with the balanced management of subscriber and ARPU. So, these three main indicators impacted high growth than our year guidance. But we should wait since we are closely monitoring the market and the international global developments at the moment.

AYAZ G:

Let me add a few things on top of that. I think what is really important here is 8% to 9% is for the full year and remember that last year we grew the operating revenues by 7% in the first half and then it accelerated to the 17% in the second half of the year.

So, that is the kind of thinking that you should be forecasting for this year's first half and the second half taking this base effect into account. Also, I mean, we said explicitly in our press release that the revenue growth so far has been a little bit ahead of our expectation.

Thanks to very strong pricing, subscriber growth and upsell and re-contracting activities. But also, I mean, there have been some local and international developments that keep us a little bit conservative about the inflation outlook. And as you follow, I mean, it's good that the central bank is still keeping the tight monetary policy.

They did a rate hike. But also, I mean, they are considering perhaps reviewing the inflation and that is affecting the inflation adjusted numbers in our forecast a lot. So, that is why we do acknowledge that the results point to some upside risk. But I think it's reasonable in this kind of uncertain environment to wait a little bit and consider revision in the second half if there needs to be.

And with regards to your question about the margin, basically, the wage effect has entered to the first quarter results for the non-union salaries, personnel salaries, starting from January. And then the union adjustment has been made in March.

So, that will be seen in the second quarter of the year more so. But, I mean, I don't think there's a significant downside risk to EBITDA margin. Only, I mean, we did again say in the press release that some of the costs lagged a little bit. So, we do expect them to accelerate starting from the second quarter.

But that is in line with our budget. So, 38% to 40% range is still viable. And we started the quarter at 39%, which is very, very strong. But I think, I mean, unless there is any surprises, negative surprises in the macro outlook, we do not expect any downside risk to those numbers.

KARADEMİR Ö: And maybe for the margin side, I can make some contribution on that. The expected increase in electricity tariffs also was later than we expect. So, we haven't seen the impact of this expenditure in the first quarter of the year.

SINGH M: That is very, very helpful. Thank you.

OPERATOR: The next question comes from the line of Bystrova Evgeniya with Barclays. Please go ahead.

BYSTROVA E: Hi. Hello. Thank you very much for the presentation and congrats on results. I have just maybe one question. So, previously, you were thinking about potentially coming to the market later this year, depending on the concession renewal and 5G tender, etc.

So, given the current spread levels and just where the rates moved, how are you thinking about potential issuance? Are you still considering it or would you consider other sources of funding in case you need to? Thank you.

KARADEMİR Ö: Based on financing, our net debt over EBITDA is very low. It is 0.7x for this quarter. So, thanks to our cash generating operations, we haven't need to borrow up to now for our operations. But upcoming 5G and renewal of concession, yes, we will need to borrow from the market.

But we are still monitoring and following the model and the calendar of these two big operations. Based on the magnitude of these two main items, we are going to make the exact plan of our financing. But we have several options on that. We can borrow from international markets as we have made last year, USD 500 million Eurobond.

We can also borrow from Sukuk markets. We are closely monitoring. And we have limits in domestic markets. Still, we have limits in domestic markets. And we have other financing instruments as ECAs. So, there are lots of options and the market is reachable. And the creditors have demands to give support financing to us.

BYSTROVA E: Thank you.

OPERATOR: Thank you. We do have one last question from Demirtas, Cemal with Ata Invest. Please go ahead, sir.

DEMIRTAS C: Thank you for the presentation and congratulations for good results. My question is again related to concession and of course, the 5G. Do you have any models working on that from the previous experience? I don't know. Maybe it's early. But at least, when do you think we will have at least some picture, color on the potential or possible cases after 2027?

At some point, are you going to share something more clear about that side? Because we have been expecting this year at some point. But I see that maybe because of some other reasons, it's not coming soon. But at what time are we going to be more confident about the direction or the potential costs related to concession and of course, 5G? I know it's very early, maybe. But at some point, we need to go forward.

And the investment, for instance, how the investment to net sales will evolve going forward in a case, any example you have in the, I see some small concession agreements with the smaller populations. But, when do you think we will have at least some picture or the ability to picture the situation? Thank you.

AYAZ G: Thank you for the question. I think you're right. But let's remember that the concession is expiring on February'26. So we're hoping that this will be concluded this year. I think what we have communicated with you has been very consistent so far. We said that we are working on a process of extension or the renewal

of the concession. And this was the only process that we have communicated with the investors and the analysts.

Although, I mean, there were different news flow here and there. Therefore, in that sense, I mean, we do think that the Treasury and Finance Minister's latest statement about the extension of the concession agreement very firmly is very valuable, showing the direction and the nature of the progress in this very important agenda for Türkiye.

Remember that this was, I mean, an agreement reached in 2001. And it will be hopefully renewed for the next 20 to 25 years. So the discussions are being held very carefully, and it's taking a little bit of time to bring everyone to a consensus.

Again, I mean, so far what we have communicated is, there will be a formula; and this is really the formula that everyone is seeking for, the golden formula that will prioritise Türk Telekom's financial sustainability, healthy business continuity, and also healthy investment trajectory. And that is very important to us, because we have so far been by far the largest investor in this domain, and we want to protect that position.

So these are the very discussions that we are talking about. The model is really, I mean, we don't know if we knew we would share with you. But I mean, the alternatives, as our CEO has several times mentioned in the past, it can be a lump sum payment, it can be a revenue sharing model, or it can be a combination of both. But it will not, I mean, simply be driven by those, it will be driven by Türk Telekom's future plans in order to remain

competitive in its business and in order to maintain its investment trajectory.

So that's what I can share on the concession side. On 5G, I think this is more a sectoral, I mean, theme rather than just Türk Telekom specific. We know that, I mean, agenda from the, Ministry of Transportation and Infrastructure is to hold a tender in the second half of the year, and then plan a rollout starting from next year. And we are really only working on exactly this calendar. It was also stated that the C band is going to be the main band 3500. So that's going to be the main 5G frequency, it looks like, although not certain. Also, there are discussions around 26,000, the latter of which is the industrial frequency. So again, I mean that we have included this year's number into our capex, but that only includes the preparation work, it doesn't include the tender capex, which we do not know.

So we are also eager to hear from the Ministry, the calendar and the details. But once we know, we will share with you. I hope this is helpful.

DEMIRTAS C: Very helpful. Thank you. Thank you.

OPERATOR: Ladies and gentlemen, 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'll see you next time. Thank you. Bye-bye.