



## **Türk Telekom 2023 FY & Q4 Financial & Operational Results Conference Call**

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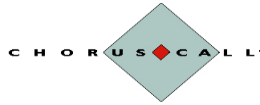
### **Conductors:**

**Mr. Ümit Önal – Chief Executive Officer**

**Mr. Kaan Aktan – Chief Financial Officer**

**Ms. Gülsen Ayaz - Investor Relations Director**

Conference Call Conducted by Chorus Call Hellas



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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 2023 FY & Q4 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 fourth quarter and year-end results conference call. Thank you for joining us today. Geopolitical risks have taken the centre stage in the final quarter of 2023. While the large central banks said the level of tightening was satisfactory, they also sent frequent warnings against immature cuts.

At home, the CPI has continued its upward trend, closing the year slightly below 65%. The Central Bank delivered a surprising 500 basis points hike in its March meeting, taking the policy rate to 50%. We achieved robust results in Q4 following a seasonally strong Q3. We maintained a solid top-line and EBITDA performance in the final quarter. Strength in data consumption, re-contracting and upselling that prevailed in prior periods remained similarly robust in the final quarter

in mobile and fixed internet, strongly supporting ARPU growth in both lines of business.

Starting with 2023 financial and operational overview on slide number 2. Consolidated revenues surpassed TL 100 billion with 10% annual growth. Excluding the IFRIC 12 account impact, revenue growth was 11%. Consolidated EBITDA dropped by 8% annually, closing the year at TL 33.5 billion vs about TL 36 billion in the prior year. FY EBITDA margin contracted by more than 600 basis points on annual basis to 33.5%. Net income rose 138% YoY to TL 16 billion with the help of a sizable deferred tax income. Total capex spending was a tad below TL 26 billion. Net leverage improved to 1.17x.

Moving onto slide number 3 for quarterly performance, which is presented in historic figures. Quarterly consolidated revenues increased to TL 26 billion with 68% YoY growth. Excluding the IFRIC 12 accounting impact, revenue growth was 74%. Consolidated EBITDA grew by 52% YoY in the final quarter to TL 8.5 billion with 33% margin. Capex spending was TL 9 billion.

Slide number 4, net subscriber additions. We closed the year with nearly 53 million subscribers. Our total net subscriber gain was 146K. Excluding the contracting fixed voice segment, a hefty 1.2 million net gains on annual basis or a 2.8% growth in a challenging year, reinforces not only the attractive prospects of the Turkish telco sector, but also our distinguished ability to take advantage of the opportunities in the market with our effective and delivering strategies. Fixed

broadband base increased to 15.2 million with 82K net additions in Q4 alongside the seasonal slowdown QoQ.

Another revision to retail tariff prices at the beginning of December, affected our quarterly performance. 365K total net additions in FY'23 was largely shaped by the combined impact of the February quakes, a strong back-to-school performance and pricing actions.

Mobile segment added 84K net subscribers in the quarter, reaching 26.2 million in total. Postpaid base recorded a massive 611K additions, well ahead of the competition, marking its historic-high quarterly performance. Prepaid base reversed course from prior quarter to contraction with a sizable 528K net loss. As such, we added a total of 724K mobile subscribers in 2023 with a 1.6 million surge on the postpaid side and a total of 890K decline on the prepaid side. Accordingly, annual postpaid net adds also hit a historic record performance. As a result, the ratio of postpaid customers in our mobile portfolio climbed to its highest level of 71%.

Slide number 5, fixed broadband performance. In line with our plans shared earlier, we have changed our retail tariffs' contract structure to 9+9 from 12+12 at the beginning of December, the same time, we revised prices simultaneously. Similar to several rounds of pricing, we have been through in the past two years; we have seen some ISPs making relatively smaller adjustments to their prices and following suit with significant lag. As such, we have seen the same price parity imbalance we observed in Q3, repeating itself in the FBB market, starting from December. Although the

activation performance fell slightly behind our expectations in Q4, we achieved our net add target with a stronger churn performance than we expected.

Re-contracting performance once again exceeded our quarterly expectation and reached the highest level of the year. Demand was brought forward a little, ahead of the price revision in the re-contracting portfolio, introduced in January. Demand for higher speed maintained its robust trend in the last quarter of the year. 35 Mbps and above packages made 49% of Q4 new sales. The same ratio was 54% in re-contracting the highest quarterly levels seen in the year, thanks to an upsell performance that exceeded our expectations. Having increased by 41% YoY, average package speed of our subscriber base was 46 Mbps as of year-end. 51% of our subscribers are now on 35 Mbps and above packages.

While fixed internet ARPU contracted by 1% YoY in 2023, segment revenue growth landed on the positive territory, thanks to 2.7% yearly expansion in average subscriber base. Quarterly momentum in ARPU remained intact with the help of July and December 2023 pricing actions, which should also support a strong start to 2024. In line with our high-speed fiber sales growth strategy, we have raised the entry speed to 50 Mbps for new sales and the minimum speed to 35 Mbps for existing customers in FTTH packages. We expect our actions to positively support ARPU evolution in the coming periods. We aim for above inflation FBB ARPU growth this year on the back of continued pricing, subscriber growth and upsells. Similar to last year, we will be aligning 2024 pricing

actions with competitive dynamics, subscribers' appetite to absorb new price levels and the course of inflation.

On slide number 6, we share our pride with you. Thanks to Türk Telekom's persistent investment in fiber, Türkiye has moved up one step to second position by a number of FTTH/B homepass according to the FTTH Council's September 2023 Report covering 39 countries. Türkiye added 2.3 million FTTH/B homepass in the 12 months period to September 2023, thanks to Türk Telekom's 1.5 million contribution in this growth within the same period. In addition, the country has been named third fastest-growing market by adding 1 million FTTH/B subscribers in the same period, of which close to 800K came from Türk Telekom alone.

Moving onto mobile performance, slide number 7. Despite the campaign-intensive marketing strategies of the operators, dynamic pricing dominated the entire mobile market in 2023. Operators renewed their tariffs with similar price revisions almost simultaneously every quarter, the last of which took place in October. Yet, following a bustling summer, mobile market entered Q4 with increased appetite of the operators for subscriber acquisitions, a typical trend seen in the final quarter of the year. As such the promotional activities, which turned fiercer from October to November and only normalised in December, were more aggressive compared to prior quarters.

In this environment, the MNP market recorded growth both annually and quarterly, reaching its largest size since Q4'20. Still, we preserved our position in this domain as the most preferred operator for the ninth consecutive quarter.

While the activations in postpaid significantly exceeded both our expectation and the performance of last year's same period, those in the prepaid segment stayed behind in similar comparison. Overall churn rate was higher QoQ but flattish YoY. Competitive dynamics largely explained the quarterly trend, but continued quake-related line closures and deactivation of expired tourist lines also contributed.

Driven by successful pricing, re-contracting and upselling performances, blended ARPU growth was 15% for the full year, with respective 25% and 9% increase in prepaid and postpaid segments. That, combined with a 4.2% expansion in average subscriber base, took mobile revenues 20% higher YoY.

Mobile delivered an impressive performance throughout the year. LTE subscribers' average data usage increased 23%. The number of upsells, except for those generated through re-contracting, were 46% higher YoY.

A robust consumer demand for Türk Telekom's mobile services and our conquering strategy, both of which we expect to remain supportive in the coming periods are evident in these numbers and lend us confidence in maintaining a strong mobile performance with an above inflation ARPU growth in 2024.

On slide number 8, we compare 2023 performance to our guidance in historic figures. Excluding the IFRIC 12 accounting impact, a 74% revenue expansion in the final quarter has taken the FY'23 growth to 71%, ahead of the high-end of our guidance range of 67-70%.

The full year EBITDA reached TL 27.3 billion, sealing an annual growth rate of 43% with close to 34% margin and again surpassing the high-end of our guidance range, which stood at TL 25 - 27 billion. Excluding the annual impact of the earthquake and other one-off items, the full year EBITDA margin was nearly 35%. We ended the year with a total of TL 21.6 billion capex, slightly ahead of our full year guidance range of TL 19 - 21 billion.

Now moving onto slide number 9 for 2024 guidance. We assumed an inflation trajectory leading annual CPI to 42% by the end of 2024. Our trajectory incorporates the Q1'24 actual inflation and a downward trend from the expected peak in May.

Accordingly, we expect our operating revenue to grow in the range of 11-13%, with continued subscriber base expansion in all lines of business, except for the fixed voice segment, dynamic pricing policy and robust upselling and re-contracting performance. We expect solid trends in data and speed demand to prevail in 2024 and nicely support growth in ARPUs.

We see our EBITDA margin improving to 36-38% range, with maintained momentum in revenue evolution and improving opex to sales ratio. Finally, we expect a capex intensity in the range of 27- 28%. A higher volume of FTTH conversions and greenfield fiber access projects in addition to new data centre and solar power plant investments can be considered the main drivers of the expected pickup in capex intensity ratio from last year.



Finally, on slide number 10, we would like to share with you the progress we make on our sustainability agenda. As Türkiye's leading telecommunication company, we are keen to grow our contribution to climate action. In its first meeting of 2024, our Sustainability Committee agreed upon targeting a 45% reduction in Türk Telekom Group's Scope 1 and 2 emissions in total by 2023 and Net Zero by 2050.

We have also submitted a commitment letter to the SBTi for our near-term targets. We are smoothly progressing on our roadmap to get the near-term targets approved by the SBTi. We take important steps together with our stakeholders to control our environmental impact and lower our carbon footprint. These include our work focusing on energy efficiency, diversification of energy sources, renewable energy, clean transportation and waste management.

Moving our 2023 CDP score up by two notches to B from the previous year is a testimony to our commitment for climate action. We will remain devoted to raise our overall CDP score to A in the coming periods.

Overall, we delivered a successfully balanced performance in a year we had to deal with significant headwinds. We have taken several actions to improve growth and resilience of our businesses. Delightfully, the collective impact of these measures has become more visible on the second half metrics. Having left some particular challenges of 2023 behind an improving macro picture and consumer sentiment as well as our ever-growing strength and capabilities in our businesses encourage us to expect a more vigorous year ahead. Certain KPIs that we closely monitor have been

assertive in early months of the year. With this supportive backdrop, we stand confident in our ability to deliver on the ambitious targets we set out for the year ahead.

Thank you. Kaan, the floor is yours now.

AKTAN, K:

Thank you very much. Good morning and good afternoon everyone. We are now on slide 12 with our financial performance. Consolidated revenues exceeded TL 100 billion, rising 10% annually from TL 91 billion a year ago. Fixed internet and mobile together made more than 70% of operating revenues. Mobile made the largest contribution to growth with TL 6.4 billion higher revenue YoY. 13% increase in corporate data revenue was largely driven by growing managed services, including cybersecurity and data centre services. Also, there has been a reclassification of some WiFi service revenues from fixed broadband line to corporate data in 2023. While the robust 29% growth in other revenue was supported by ICT solutions, call centre and equipment sales, decline in international revenue was largely driven by the change in EURTRY rate short of inflation accounting indexation impact.

Moving on to EBITDA. Consolidated EBITDA dropped by 8% annually, closing the year at TL 33.5 billion vs about TL 36 billion in a year ago. Similarly, full year EBITDA margin contracted by 640 basis points on annual basis to 33.5%. Excluding the IFRIC 12 impact, EBITDA margin was 35%. A higher growth in opex compared to revenue was the main driver of EBITDA margin contraction, but the southern earthquakes also affected the performance. While costs swiftly increased high inflation, the positive impact of pricing

and other actions on revenues lagged due to the contracted nature of our business.

As such, opex to sales ratio climbed to 66.5% from 60% a year earlier, mainly on the back of a 46% rise in personnel cost, which alone made 60% of the annual increase in total opex. Relatively less so, increases in commercial and other costs have also led an expansion in the opex to sales ratio.

Now down at the operating profit level. Performance turned to negative TL 2 billion from positive TL 1.9 billion in the prior year.

Coming to the bottom line, net financial expense increased less than 2% annually to TL 18 billion despite severe rise in exchange and interest rates throughout the year, thanks to effective use of financial risk management tools.

Finally, net income rose almost 140% in excess of TL 16 billion from TL 7 billion a year ago with the help of a sizable tax income inflated by the indirect impact of applying inflation accounting on statutory accounts for the first time, which should be considered a one-time effect recognised in 2023. We think the sizable price adjustments we made, particularly in the second half of last year, in addition to those we planned for 2024, should lead to a declining opex to sales ratio and improving EBITDA margin throughout 2024 under the assumption that the inflation trend will turn south starting from June.

Our assumptions driving the 2024 guidance also include a 42% year-end and 59% average inflation in addition to a one-time raise in personal wages, which has already

happened at the beginning of this year. It's worth mentioning that our guidance is highly sensitive to these assumptions. Although being rather simplistic, a ceteris paribus sensitivity analysis suggests that every 10% point upside risk to our year-end inflation assumption, repeating the number, which was 42%, will trim about 2.5% points of our revenue growth forecast. That said, we do think we have the options and capability to mitigate this impact through a range of actions on varying components driving revenue growth.

We are now moving onto slide 13. Total capex spending has grown slower than revenues by 7% annually to TL 26 billion. With that, capex intensity ratio declined about 50 basis points from last year to below 26%. On the right-hand side, we present the breakdown of FY'23 investments by lines of business on historic numbers. Accordingly, fixed line investments made almost half of the capex spending, whereas mobile took almost a quarter. The rest was allocated to IT, projects and other capex items.

We are now moving onto slide 14 with debt profile. Thanks to the continued deleveraging the Net Debt/EBITDA ratio dropped to 1.17x of the year-end from 1.27x a year ago. Net debt dropped to TL 40 billion as of 2023 from TL 46 billion as of 2022. Cash and cash equivalents add up to TL 13.6 billion, of which 40% is FX based. By adding USD 270 million equivalent of FX protected time deposits on top of that number, total number will be TL 21.4 billion. The share of local currency borrowings within the total debt portfolio remained flat QoQ at 18%.

The FX exposure included USD equivalents of 2 billion of FX denominated debt, 2.4 billion of total hedge position and 180 million of hard currency cash. The hedged amount included a USD 270 million equivalent of FX protected time deposits, slightly down from USD 280 million in the prior quarter.

As you can see on the top right chart, more than 51% of our debt has less than 1-year to maturity now, a picture driven largely by our Eurobond due in June'24. Firstly, as you might have followed from our disclosure dated March 29th, we signed a long-term loan agreement with Bank of China and the Export Import Bank of China under the insurance coverage of Sinasure. The amount of this facility was EUR 200 million, and the final maturity is March 2029. Secondly, the positive developments that we have seen in the financial markets over the past few months certainly raise our appetite to consider an international issuance soon.

We are now on slide 15. Our long FX position was USD 540 million by the end of 2023. Excluding the ineffective portion of the hedge portfolio, namely the PCCS, foreign currency exposure remained almost unchanged from third quarter around USD 245 million short FX position.

The FX sensitivity analysis we report regularly in our quarterly financials suggests, assuming all else constant, a 10% increase or decrease in FX rates would have around TL 800 million impact on our pre-tax income in either direction. Finally, the unlevered free cash flow was TL 7 billion compared to TL 11 billion a year ago. The YoY change can largely be attributed to the declining EBITDA vs rising capex in the year.

And finally, on slide 16. We tried to present the impact of the inflation accounting on our balance sheet and P&L through some select ratios we monitor regularly. Evident in all the metrics, including net debt to EBITDA, debt to equity or the valuation multiples like we present on this slide, inflation account crystallises the true strength of our balance sheet, value of our company, and the effectiveness of our risk management policies, we believe.

This concludes my presentation, and we can now open up the Q&A session.

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

DEMIRTAS, C: Thank you for the presentation and congratulations for good results. Firstly, I want to thank you for the transparency in your disclosures regarding TAS 29. Honestly, it's not the best but it's one of the best examples in terms of transparency. So, I would like to thank you once again, and it actually keeps me more optimistic about the future of Turkish markets, regarding the disclosure standards. So, thank you again. I think it's a big thing for the analysts, to be honest. So, I thank several times. And I will get to my question.

Regarding your guidance, your margin guidance is signaling some improvement. What are going to be the central drivers of improvement? That's my first question. The second question is about how the trend is going regarding your fibre. And the last one is about the long-term strategy where we are heading regarding 5G and also your license for the fixed

side. So, what are going to be the prospects in that area?  
Thank you.

KAAN, A:

Thank you very much. We really appreciate your kind words about the quality of the disclosures and the inflation adjustment as a standard, It's really not easy to implement, but we also know that it's even more difficult to analyse from outside parties.

We try to be as transparent as possible and also try to set a base for future disclosures. Obviously, we assume a healthy revenue growth for the next year. And when it comes to drivers of the revenue growth, we forecast a healthy subscriber growth in all business lines. I mean, the mobile and fixed line businesses, hopefully better than what we had last year.

And at the same time, we also forecast a stronger ARPU trend, especially for fixed broadband and expect to see strong ARPU growth for this year, both in our mobile and fixed line businesses. So having said that, I think it's worth mentioning at least how the real revenue growth formulation work when it comes to inflation adjustment, so we are following the comments, especially after our release of the financials.

We said we are forecasting the inflation at 42% for the full year. This is 12-month inflation. But when it comes to inflation adjustments in our financials, the references is mainly taken from the average inflation increase for the year. So, although we did see a drop vs last year in the full year inflation number, the average inflation that we calculate based on that 42% assumptions comes to almost 59%.

So, the revenue growth takes the reference from that number rather than the 42%. So, if you want to translate to a historic revenue growth, you should use first the average inflation. And on top of that, you should use the guidance of 11-13% increase in the revenues, which comes to a strong revenue growth with the old standards or historic number comparisons.

But finally, our opex assumptions is the key factor, I mean, with a strong revenue growth. But on top of that, our opex assumptions show that we see an opex growth lower than the revenue growth. One of the factors, as I mentioned in my part, we assumed only one salary adjustments, which is in line with the government's expectation at least for the minimum wage, which was also confirmed yesterday by the minister himself.

And also similar to inflation kind of increases, especially in the energy-related items like electricity and not a FX hike, at least it is something not higher than the inflation forecast of 42%. So, all combined together, that's what gives us the EBITDA margin improvement. And again, if there are deviations from these critical assumptions like the inflation or wage adjustments, we are ready to take further actions in order to at least go back to a similar margin improvement scenario.

Probably you will remember we started last year with again a low inflation assumption which was around mid-40s percentage, but the year-end came up to 65%. And there were a lot of corrections that we made in our operating model



so that at least we can overcome most of the challenges that came from this inflation hike.

ÖNAL, Ü:

First, I would like to thank Mr. Cemal for his words. Our consistency is, of course, very important for us and it will continue. And we will always continue to inform our shareholders, stakeholders and investors correctly and transparently over.

The renewal of the concession as soon as possible is critically importance for Türkiye's digital transformation and Türk Telekom. For this reason, the issue of the renewal of concession will continue to maintain its top priority position on our agenda until the process is completed.

As we have shared a while ago, ICTA the regulatory authority for the Turkish telecommunications and information technologies sector, had requested that our Company conduct studies as the part of new contract preparations. And in this regard, we shared with you that we submitted the framework document in which we brought together our opinion on the business and demand on this subject.

We also know that our Minister of Transport and Infrastructure stated that we expect a conclusion for the renewal of the concession of Türk Telekom within 2024. Our minister also said that he expects the conclusion within the first half of the year, and it will probably be for a 25-year expansion. In line with all these explanations and since this issue is a priority for the sector in general and for Türkiye, we expect to make a concrete progress in the not-too-distant features.

Allow me to give you some information about 5G as well. Again, our Minister of Transport and Infrastructure stated that they aim to share the 5G transition plan with the public this year, and that priority will be given to local products. As we said before, we have been continuing our work on 5G for a long time, and there are many things to be decided upon and to be clarified in terms of the regulations on this subject by the regulatory authority.

I mean, implementation of 5G technology at the right time, at the right conditions is critical for consumers, for the industry and for the total benefit expected from 5G, and we believe both the government and the regulatory authority to be factoring all this information into account.

Also, a concrete timetable has not yet been put forward by the decision makers, but this doesn't necessarily mean that we are not making our current investments to be compatible with future technology. All our investments are in line with the future technology. Thank you.

OPERATOR: Mr. Cemal have you finished with your questions?

DEMIRTAS, C: Thank you. I appreciate it.

OPERATOR: The next question comes from the line of Gustavo Campos with Jefferies. Please go ahead.

CAMPOS, G: Hello. Thank you for the presentation. Congratulations on the results. Just one quick question from my end. I'd like to review your refinancing plans. You mentioned that around half of your capital structure is due now during this year, and that's around TL 32 billion. Now you have the Eurobonds and

that's around the TL 15 billion related to your plan to refinance, right? And would you mind confirming did you say like you were planning to come to the market? Or are you planning to assess other market alternatives. And then you're going to have like TL 6 billion from the Bank of China refinancing rate that's due in March 2029. So, I'd just like to get some color on how you're planning to address those maturities. Thank you very much.

AKTAN, K:

Thank you very much for the question. As I mentioned, we are now, at least as of the end of last year, our cash and cash equivalent balance plus the currency protected time deposits, the total number comes to something like TL 21-21.5 billion at the end of the year, which is the cash that's mostly plan to be used for as the base case scenario for the refinancing of June 2024 Eurobond payment. That was the plan.

Probably you know, there will be another payment of Eurobond in the early months of 2025. So, we said complementing other financing options as you mentioned EUR 200 million Chinese sourced ECA funding. And probably, there will be a similar number from 2 other different sources in the coming months before we close maybe the second quarter. There will be a similar number in total that we will be able to get the commitment, again under ECA transactions. So, in total, that should be something like EUR 400 million for the year on top of the cash that we had.

But we said in order to have a more visible forecast for the refinancing of 2025 maturity, where we are now seriously entertaining the idea to come to the market for another Eurobond issues in the coming weeks. So that will be the

basic plan for refinancing of this year and also the early next year's maturities. But on top, we are also using local currency funding from local sources in the form of commercial loans as well as short-term lira bonds.

We already got the authorisation from the capital markets for both under different companies and under different structures, the right to issue up to TL 10 billion bonds and Sukuk in the local market. That's still not utilised. But that's also a plan B for raising financing. This will be the summary of refinancing options for the next 15 months.

CAMPOS, G: Yes. Thank you very much. That is very clear. And just one thing that I would like to clarify. Are you going to try to come to the market to refinance both of the 2024 and 2025 tranches? So, let's say, an issuance of USD 1 billion? Or are you going to try to refinance them one at a time as the maturities progress?

AKTAN, K: If we come to the market, that will be a standard USD 500 million, which should mean that we will be refinancing one tranche and the other should come from the sources that I just listed, mentioned.

CAMPOS, G: Okay. Got it. Alright, thank you very much appreciate the call.

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: Thank you everyone for joining us today, and we hope to see you next time. Thank you. Bye-bye.