Türk Telekom Q1 2026 Financial & Operational Results Conference Call

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Conductors:

Mr. Ömer Karademir – Chief Financial Officer
Mr. Emre Çiçek - IR & Sustainability Director

Conference Call Conducted by Chorus Call Hellas

CHORUS CALL HELLAS
PROVIDER OF TELECONFERENCING SERVICES
TEL: +30 210 94 27 300
FAX: + 30 210 94 27 330
Web: www.choruscall.com

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

Welcome and thank you for joining the Türk Telekom conference call and live webcast to present and discuss the Q1 2026 Financial & Operational Results. We are here with the Management team and today's speakers is 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. Ömer Karademir CFO. Sir, you may now proceed.

KARADEMIR O: Hello, everyone. Welcome to our 2026 First Quarter Results Conference Call. Thank you for joining us today. Let's go to slide number 3. I will start with a quick update on markets and our leading position. Global markets in Q1'26 were shaped by rising geopolitical tensions and the Fed's cautious stance. The Fed kept its guidance that further easing would be approached carefully, pending a sustained improvement in inflation. Regional tension in the Gulf and geopolitical developments triggered a spike in energy prices and volatility in global risk appetite.

In Türkiye, the Central Bank cut its post rate by 100 basis points in January but kept it on hold in March and April in response to heightened global uncertainties and risk to the inflation outlook. The year-end inflation expectation in the April 2026 market participant survey stood at 27.53%. Amid this environment as Türk Telekom Group, we remain focused on sustaining our strong operational and financial performance through our disciplined and proactive approach.

We started the year with our strategic long-term investments and strong operational and financial results in the first quarter. I would like to emphasize our key investments in our major businesses: fixed line and mobile, which together represents significant majority of our group revenues and profits. On the fixed line side, we continue to capitalize on our fiber network exceeding 550K kilometres as the fixed line concession has been renewed for 24 years.

Fixed internet delivered robust KPIs beyond our expectations and along with corporate data, contributed to solid revenue growth and healthy margin improvement. Fixed subscribers opted for higher speeds. On the mobile side, as of April, 5G was launched successfully across all provinces in Türkiye. We offer high speed, low latency and superior mobile network performance, supported by our number one fiber position.

Rational competition environment prevailed in the mobile market. Operators took pricing actions in January and April. Subscriber acquisition momentum remained strong. Overall, as Türk Telekom Group, we are in a unique leading position in Türkiye to provide integrated digital services to our millions of customers across the country. We are excited about our Company's future vision and growth opportunities and remain focused on delivering strong financial results.

Let's move next slide, slide number 4, for financial and operational overview. Consolidated revenues increased by 8.7% to TRY 64,9 billion, supported by both fixed and mobile segments. Excluding the IFRIC 12 accounting impact, revenue growth was 5.9%, in line with our full year guidance. 17.1% YoY EBITDA growth was well ahead of the revenue growth, pushing our EBITDA to TRY 27.4 billion, along with a solid 300 basis points margin expansion YoY to 42.3%. Our net profit increased by a solid 55.6% to TRY 10.5 billion, supported by strong operational performance.

Capex excluding solar investments, concession extension and mobile license stood at TRY 17 million. It was higher in YoY terms due to our long-term 5G investments. Excluding concession and 5G license related payments, unlevered free cash flow stood at positive TRY 1.7 billion. This figure indicated a decline from TRY 10.3 billion in first quarter of last year as a result of higher capex and one-off base impact in last year from change in net working capital. Net leverage stood at 0.99x compared to 0.6x at 2025 year-end. Excluding payment of USD 1.1 billion in first quarter related to concession renewable and 5G license, net leverage would have remained constant.

Moving to slide number 5. I will provide update on our net subscriber additions. Our total subscriber base exceeded 57 million with 613K net additions QoQ. Excluding the 163K loss in the fixed voice segment, quarterly net additions were 776K. Fixed broadband subscribers slight declined by 19K QoQ to 15.4 million. Despite the retail price action, we took in January, the activation volume was similar to what we have seen in the first quarter of last year. Q1 churn increased modestly in YoY terms, while declined QoQ under the impact of accelerating contract expirations. Both retail activation and churn performance are positively impacted by the acceleration in our greenfield fiber investments. Retail net additions exceeded our expectations, thanks to lower churn. Wholesale subscriber base didn't change materially.

Mobile segment added 712K subscribers on a net basis, pushing up the total base to 32.2 million. Both actuation and churn volume remained higher in YoY basis, driven by the postpaid segment. Mobile net additions were supported by 571K of and M2M additions by the corporate segment. Subscriber growth remained on a strong track with 87K net postpaid additions excluding M2M. Postpaid and prepaid segments added 658K and 54K subscribers.

If you can go to slide number 6, let's look at our fixed broadband performance. We had a very strong performance in fixed broadband. We introduced a retail price revision for new acquisitions in January. As most players in the market followed our price adjustments, price parities have re-balanced in favour of our retail activations by the end of the first quarter.

Subsequently, we adjusted the retail segment prices for existing customers in March. Re-contracting volume scored significantly higher YoY. ARPU growth remained strong at 18% YoY in Q1, despite the last year's high base of 19%. The combination of solid upsell and sustained re-contracting performance along with successful price implementation enabled us to maintain high growth. We expect the robust ARPU trajectory to continue in 2026.

Average package speed of both our total and retail subscriber base increased by 61% YoY to 111 and 120 megabits. 66% of our subscribers now use 50 megabits and above package compared to 51% a year ago.

Moving on to mobile performance. Let's go to slide number 7. Our strong customer growth continued in mobile segment. The rational competitive environment visible by the end of 2025 prevailed in the first quarter of 2026. Price revisions were made in January and April. MNP market size, which was higher in the first quarter of 2026 in year-on-year terms, declined slightly from its historical high at the end of 2025.

Postpaid segment recorded 658K net additions in the first quarter. With that, total net additions surpassed 712K in total. The ratio of our postpaid subscribers in total portfolio rose to 80% from 76% a year ago. Excluding M2M, postpaid base added 87K subscribers.

Mobile ARPU, excluding M2M, came down by 3.8% YoY over last year's strong 21% base. In the first quarter of 2026, we are seeing a normalization in annual mobile ARPU growth as already seen in the third and fourth quarters of 2025.

Let's go to slide number 9 to update you on our summary financial performance. Consolidated revenues increased by 8.7% to TRY 64.9 billion from TRY 59.7 billion in the same period of the prior year. Fixed broadband, corporate data and ICT projects led growth. IFRIC 12 revenues rose strongly in the quarter, driven by the acceleration in fiber investments. Excluding the IFRIC 12 accounting impact, Q1'26 revenues reached TRY 61.2 million, up 5.9% YoY, including increases of 17.8% in fixed broadband, 15% in TV and 28.1% in corporate data, while mobile international and other revenues declined by 1%, 27.5% and 0.7%, respectively. Fixed voice remained flat YoY.

Fixed internet and mobile revenues together accounted for 76.7% of operating revenue. Fixed internet made the largest contribution to growth with TRY 3.2 billion higher revenues in total YoY. Corporate data and ICT solutions added a further TRY 2.3 billion, while call centre, international revenues and equipment sales declined by a combined TRY 2.1 billion. Mobile revenues were lower by TRY 253 million.

ICT solutions recorded significant growth supported by new projects won by our subsidiary, İnnova. The decline in call centre revenues, in line with our expectation, was attributable to projects that concluded in the second half of last year, while our international business was impacted by the decline in international voice revenues.

Moving onto EBITDA. Direct costs fell 3.5% YoY. The decline in interconnection cost was driven by contracting international voice revenues. The equipment costs were lower YoY as well. Commercial costs rose 27.7% whilst other costs declined 2.5% YoY. The increase in commercial cost was driven by higher spending across sales & marketing and advertising line items.

Within other costs, network expense increased 1.3% YoY. The 4.1% YoY decline in personnel costs can be explained by the reduction in headcount at our call centre subsidiary due to project completions in the second half of 2025. Opex to sales ratio improved from 60.7% in Q1'25 to 57.7% pointing to continued enhancement in operational leverage.

Consolidated EBITDA increased by 17.1% YoY to TRY 27.4 billion, while the EBITDA margin improved by 300 basis points YoY to 42.3%. Excluding the IFRIC 12 accounting impact, the EBITDA margin expanded by 390 basis points YoY to 44.1%.

Coming to our net profit. Net financial expenses increased by 26.8% YoY and 66.5% QoQ. The interest income declined from TRY 2.3 billion to TRY 659 million QoQ as we made a payment of USD 1.1 billion in the first quarter regarding 5G and concessions renewable. Moreover, FX & hedging expenses rose 107.5% YoY and 27.5% QoQ on the back of higher FX liabilities. The average hedge costs remained flat on QoQ basis.

On the balance sheet side, monetary gain surged by 80.4% YoY to TRY 14 billion as non-monetary assets of 5G license and fixed concession extensions were included in our balance sheet in the first quarter of 2026. These long-term assets revalued each quarter with inflation index. In Q1, a total tax of TRY 7.1 billion was recorded, largely consisting of deferred tax expense. The effective tax rate was 40.5%, mostly due to inflation accounting. We assess that the deferred tax expense recorded will have a very limited impact on near-term cash flows with the total effect spread over an extended time horizon. Overall, Türk Telekom Group recorded a net income of TRY 10.5 billion for the period, up by 55.6% YoY driven by strong operational performance.

Let's go to next slide number 10 to review our capex numbers. Capex spending rose to TRY 17 million in the first quarter compared with TRY 10 million last year, on the back of higher 5G rollout expenditures. As usual fixed line capex, most importantly the fiber access and core network investments took lion the share in total with 51% rate, 23% of spending went to mobile, while another 15% went to IT and project investments and rest other investments.

Moving on to slide number 11, you can see our debt profile. Türk Telekom Group have total TRY 30.4 billion cash and cash equivalents of which 56% is FX based. The FX exposure includes U.S. dollar equivalents of 3.3 billion of FX denominated debt, 2.7 billion concession and mobile license liabilities, 3.1 billion of total hedge position and 382 million of hard currency cash.

Net debt/EBITDA increased to 0.99x from 0.6 as of 2025-end on the back of 5G and concession renewal payments. Net debt/EBITDA would have remained flat QoQ, excluding those payments. In January, we paid the first instalment of 5G license, namely USD 365 million + 219 million VAT and the VAT amount of concession extension worth of USD 500 million. By the end of the year, we will have also paid the second instalment of 5G license and the first instalment of concession extension. We prepared detailed schedule of payments and income statement and balance sheet impact for your easy reference. You can find it in the appendix of this presentation.

I want to emphasize that the increase in FX liabilities is due to our longer-term investments in 5G spectrum and concession. Our future payments are extended over a long-term period until 2035 and the payments will be in Turkish lira equivalent. We also actively manage our FX exposure risk through hedges. Moreover, while concession and 5G liabilities have been additional FX exposure, on the asset side, they are re-valued under inflation accounting and hence, creating monetary gains which as a result balances P&L impact overall.

Let's go to slide number 12, where we provide update on our cash flow and FX exposures. We recorded USD 2.5 billion short FX position compared to USD 102 million as of year-end due to booking of USD 2.7 billion 5G and concession renewal liabilities. Excluding those payments, our net FX long position is positive USD 162 million.

Finally, we generated positive TRY 1.7 billion of unlevered free cash flow in Q1, excluding 5G and concession renewable payments compared to TRY 3.3 billion in Q4 and TRY 10.3 billion in the same quarter last year. Annual decline is mostly due to higher capex.

Moving on slide number 13, we provide update on 2026 full year guidance. Our business performance as a whole was in line with our expectations in Q1. We expect operational revenue growth to accelerate in the remaining quarters of 2026. Yet, first quarter inflation came in slightly higher due to regional geographical developments, putting pressure on real growth.

We will update our revenue growth guidance, if necessary, based on the performance of our business lines in first half and the course of inflation. We currently do not see major downside risk to our 41-42% EBITDA margin guidance. As Türk Telekom Group, we remain cautious especially regarding inflation expectations and prudently monitoring regional geopolitical developments and taking necessary actions.

This concludes my presentation. Thank you for your listening. And now we can open up the Q&A session.

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

DEMIRTAS C: Thank you for the presentation and congratulations for good results. My first question is about your short FX position. It's 2.5 billion. Could you further elaborate this in terms of risks going forward? Most possibly, it's going to be critical for the next 2, 3 years? And what are the plans on your side? And I would like to understand the hedging costs. Did you see any increase in the hedging cost in April compared to March?

Do you see any risk on your guidance for capex considering the risks on the FX side? This could be very helpful from the capex and FX position side. And the other question is about the business side. We see some decline in the mobile side, could you also further elaborate that? And connected with this, how do you see the outlook so far for the second quarter in terms of the business lines? Thank you.

KARADEMIR O: Thank you. For your first question of the FX position. Actually, we don't have a short position. We have long position if we exclude our future 5G and concession payments. So that means for our financial debt, financial payments, we are securing our FX position. When these payments are made, so the next payment is scheduled for December of this year, I am referring to our, 5G and concession instalment payments that will be made in December. After we have made these payments, we are planning to hedge our short position. So right now, our main strategy is to hedge our financial debt. Based on the hedging cost, actually, we are using the cost declining instruments for our hedging policy, and we have access to onshore, offshore and also Central Bank NDF channel.

So, the average cost of hedge didn't change compared to last quarter of 2025. AI mean, it was similar for the first quarter. But in April, we have witnessed a slight increase in hedging costs. But the main reason for the increase in our hedge cost is attributable to higher hedge volume. The payments for 5G and concession in the first quarter with their VATs, as a total, it was USD 1.1 billion. That has increased our total hedge amount. The main difference comes from this hedge volume. But with the help of Central Bank’s inflation program as we have witnessed in the second half of the last year, we are expecting a decline in the hedging costs, but hedging volume will be similar till the end of this year. I hope this answers your first question.

For your second question, capex guidance. You know, our guidance for this year is 33-34%. The last year's realization was somewhere 29%. The main difference was coming from our mobile investments for the 5G rollout.

The first quarter's realization is 26.3% as we have announced. Our budget numbers are in nominal terms. So, we try to be in the boundary of this budgetary volume in case of an unexpected FX shock.

So right now, we will stick to our guidance for the capex. But we cannot predict easily what's going to happen since there is a regional conflict and it will, of course, affect the supply chain. We haven't seen its effects in our capex spending at the moment, but there will be some effects. But on the other hand, our contracts are not 1-year term. They are 3-4 years of term that fix the price of our capex spending that will also help us.

And for your third question, our total revenue growth (excl. IFRIC 12) is almost 6%. The inflation for the first quarter, was almost 10% and that was beyond our expectations. Higher than expected inflation affected real revenue growth. But we are still in line with our budget for the first quarter since the fixed broadband compensated for our mobile business. But basically, for the mobile maybe you are referring to our ARPU growth.

DEMIRTAS C: Yes.

KARADEMIR O: The mobile business, there are 2 main effects we can state. One is base effect. The other is inflation. For the base effect, we have realized high ARPU growth in the late 2024 and 2025. That is one reason. But another reason is the competitive environment in 2025. That happened, let's say, in the middle of the year. But we saw a rationalization and normalization at the end of the last year.

And for this year, we are witnessing continuation of this normalization since we and other operators were able to make their price revisions. In January and April, we made 30% and 13% mobile price revisions. With the help of these price adjustments and with the help of this normalization in the market, we can expect the ARPU and revenue growth to recover. But it will be in the second half of the year, I can say.

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

SINGH M: Yes. Hi, thanks a lot for taking my question. I have a few quick questions. The first is on, maybe I missed it in the comments, but what has been the price actions this year if you could share that. I think the last price hike was in Jan, but if you could talk about any further price actions you have seen so far?

And then the second question is on your energy cost. I understand that most of your network is on grid power. So have you seen any price hikes on the electricity side, so if you could share that, any anticipation of higher electricity prices, that will also be great?

And then the final one is on the new fixed concession and license, which you have received for 5G and all. Is there any change in the asset ownership clauses or is the asset still owned by the government and you just have the right to operate it? So, if you could share any colour around that? Thank you.

KARADEMIR O: So, for your last question, is it for fixed or mobile side, for the ownership of asset?

SINGH M: For both, fixed and mobile.

KARADEMIR O: Thank you. For your first question about our price actions of this year, for the mobile, we had 30% adjustment in January and 13% in April. We had two price actions in mobile. For the fixed side, in January, 21% for new activations and %17 in March for the existing customers. These are the price actions of this year.

For energy costs, we have electricity consumption in both our mobile and fixed business. And we meet the major of our electricity needs from the free market and national tariffs. Although we observed increased volatility in the market prices from mid-February onwards, the first quarter results were in line with our expectations. The energy market regulatory authority increased retail electricity price by 6% for the lower tier and 18% for the higher tier of the public and private services sector subscriber groups and it's effective in fourth of April. The increase in national electricity tariff is lower than our expectations. And our energy expenses decreased by 14% YoY and constituted almost 5% of our opex base (exc. IFRIC-12) in the first quarter of 2026.

This rate was 6.3% for the whole year of 2025. And also, we have a solar power plant. 96 megawatts of installed capacity is operational since the beginning of this year and it will meet 15% of our whole consumption and we will have two more power plants.

And as a total, we are expecting to meet 65% of our whole consumption from these solar power plants. And additionally, the hydroelectricity plants in Türkiye are fully operational this year thanks to the rainfall. So this is also an advantage for us. And briefly, we haven't witnessed any energy cost pressure up to now.

And for your last question, the ownership. For the fixed side the ownership belongs to the government. We have this concession for the fixed. For the mobile, all the assets are our own, but we will transfer to government at the end of the license period. We have additional comments from our IR & Sustainability Director.

CICEK E: Maddy, as Ömer Bey said the fixed line concession is a great achievement because as you know, the new concession they added a new scope. So, as you know, we are the leading operator. We have all the assets. And as Türk Telekom, we developed a brand, marketing etc. At the end of the concession, if it is not extended, we have to transfer the assets to the government. But obviously, we will extend it and keep our investments.

KARADEMIR O: And it is the same, for all operators. Thank you.

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.

KARADEMIR O: Thank you all for joining us today. Have a good evening.