



Türk Telekom 2025 Q2 Financial & Operational Results Conference Call

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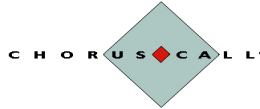
Conductors:

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 Yiota, your Chorus Call operator.

Welcome and thank you for joining the Türk Telekom conference call and live webcast to present and discuss the 2025 Q2 Financial & Operational Results. We are here with the management team and today's speakers are CEO, Ümit Önal and CFO, Ömer Karademir.

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 Second Quarter Results Conference Call. Thank you for joining us today. U.S. President's announcement of Liberation Day Tariffs and brokered deals between the U.S. and other countries since have shaped the macro global scene and financial markets. Geopolitical tension between Israel, Iran and the U.S. has subsided in a reasonably short period of time.

Tense relationship between Fed and White House kept financial markets worried. At home, the CBRT stayed put in May-June meetings, but resumed its easing cycle in July by cutting policy rate 300 basis points to 43% alongside an accommodative disinflation process, which has placed June CPI to 35% and July to 33.5%.

We have seen our businesses performing well over the second quarter in continuation of the strength we observed in the prior one. We have not observed any material shifts in demand or subscriber behavior apart from those driven by usual seasonality and holidays that fell into the second quarter. In a similar trend

to the first quarter, both revenue and EBITDA growth beat our expectations. In mobile sector, MNP market saw record level of activity as competition turned fiercer. In fixed internet, activity was relatively milder in low season. Data consumption remained solid in the quarter.

Now starting with financial and operational overview on slide number 3. Consolidated revenues increased by 13% to TL 50 billion. Excluding the IFRIC-12 accounting impact, revenue growth was also 12%. Once again, 23% of EBITDA growth YoY was well ahead of the revenue growth, pushing the EBITDA to TL 21 billion, along with a solid 340 basis points margin expansion YoY to 42%.

Net profit for the period came in at TL 5 billion. Capex stood at TL 13 billion. Unlevered free cash flow was TL 7 billion compared to TL 4 billion in the second quarter of last year. Net leverage improved to 0.7x.

Slide number 4, net subscriber additions. Our total subscriber base reached 54.2 million with 573K net additions QoQ. Excluding the 165K loss in the fixed voice segment, quarterly net additions were 738K, significantly higher both QoQ and YoY. All our segments performed better than we expected during the period, but mobile once again led the pack with an extraordinary contribution.

Fixed broadband base rose to 15.5 million. Subscriber dynamics were not materially different from the first quarter in the FBB market. Holiday season and seasonality overall dominated the activity in the reporting period. We recorded 39K net subscriber

addition in second quarter, a tad ahead of our expectation in lead of the retail segment, where both activations and churn scored better. Overall churn rate slightly dropped QoQ and YoY, a significant achievement despite increased recontracting volumes, underlining our superior position as a wholesaler and retailer in the fixed internet domain.

Mobile segment added 678K subscribers on a net basis in its highest performance since Q3'22, pushing up the total base to 28.5 million. While postpaid segment added 810K subscribers reaching the historically highest figure, prepaid segment posted a 132K net loss, both performing better than we expected. Second quarter activation volume exceeded our expectation and reached its historically highest quarterly score. This was driven by the postpaid segment, but prepaid acquisitions were also higher compared to same period last year. Similarly, subscriber churn was higher than in the same period last year and above our expectations due to increased competition.

Slide number 5, fixed broadband performance. We paused pricing actions in the second quarter following our first revision in retail prices in March. Yet, we have introduced the first price revisions in the wholesale segment starting from July 1. Subsequent to that, we adjusted the retail segment prices for the second time on July 11. So far, we have seen only a few ISPs adjusting their prices accordingly. A broader attendance should be on its way in our view, although the alignment seems to be taking longer than we expected despite changes in wholesale pricing. The latest actions and the competitors' behaviour will likely shape both the subscriber dynamics and ARPU evolution in the coming periods.

Both re-contracting and upselling volumes scored higher QoQ and YoY. ARPU growth has proven our ability to turn higher volume of contract renewals into an advantage through re-contracting and upselling, a performance we expect to maintain in the second half together with the recently introduced pricing actions.

50 Mbps+ packages made 73% of new sales and 64% of re-contracting. Average package speed of our subscriber base increased by 51% YoY to 83 Mbps. 55% of our subscribers now use 50 Mbps+ packages compared to 41% a year ago. The share of fibre subscribers in our total fixed broadband base increased to 91% from 87% a year ago.

ARPU growth remained very strong in second quarter at 17%. That has driven overall FBB revenue increase to 19% YoY, together with a 1.5% expansion in average subscriber base over the reporting period.

Moving on to mobile performance, slide number 6. In mobile sector, competition picked up to levels we are not used to seeing in the second quarters and resembled last year's peak in December. The MNP market volume surged to a level unseen before in lack of pricing actions but abundant all-quarter-round promotional activity across the board inducing subscribers to shop around. In this backdrop, we ceded our three years long net port leadership in the MNP market prioritising the fine balance we carefully maintain between subscriber and ARPU growth.

Within these dynamics, surpassing 2.5 million, total postpaid additions over the last 12 months also reached a new record. The

ratio of postpaid subscribers in total portfolio peaked to 77% as of Q2 compared to 74% a year ago.

Mobile ARPU stayed on a healthy trend with 8% growth YoY, where postpaid ARPU expanded 11%, but prepaid ARPU contracted 13%. That, together with a steep 7% growth in average subscriber base, led the 15% increase in mobile revenues.

On slide number 7, let's take a look at the full year outlook. Second quarter performance boosted our half year's figures to levels that necessitate an upward revision to our 2025 full year guidance. ARPU performances were strong throughout the first half. We expect robust ARPU performances to continue in the second half of the year, along with the fresh pricing actions taken in fixed internet and mobile in July and August, respectively.

As of the first half, we are looking into 15% operating revenue growth and 41% EBITDA margin comparing favourably to our earlier expectations in respective ranges of 8-9% and 38-40%.

We now expect to record around 10% operating revenue growth and around 41% EBITDA margin for FY'25, taking into account the high base in revenue growth in the second half, low seasonality in EBITDA margin in the final quarters and some pickup in certain opex items in the second half. Also, we now expect capex intensity ratio to be around 29% versus 28-29% before.

While the change in our revenue and EBITDA margin guidance reflects better-than-expected performance, both in revenue generation and cost management, the change in capex intensity

ratio is driven by minor upward revisions to our year-end macroeconomic assumptions as well as upscaling of certain projects in mobile investments.

Slide number 8, we are taking a strategic step to broaden our regional footprint. We achieved a significant milestone by launching our first-in-kind international fibre infrastructure initiative in the Turkish Republic of Northern Cyprus (TRNC). Following a bilateral protocol signed between the governments of Türkiye and TRNC, Türk Telekom will undertake the fibre transformation in the country. We will deploy fibre infrastructure and offer retail broadband services across the country, aiming for high-speed connectivity and highest possible customer experience for households and businesses.

The expansion is set to build upon our existing role as the sole operator providing international internet access to TRNC via two submarine fibre routes from Türkiye. Currently, broadband services in TRNC are largely based on low-speed wireless connections with over 80% of fixed broadband subscribers relying on wireless technologies and around half of subscribers receiving speeds below 10 Mbps. Fibre penetration remains extremely low.

With this project, Türk Telekom aims to serve the full broadband value chain in the country and unlock the potential to lead a digital transformation in TRNC's connectivity landscape.

This initiative marks our first international expansion as an infrastructure developer and a retail fixed internet provider, allowing us to showcase our strength in both as well as paving the way for further opportunities in regions within close proximity.

Before I conclude my presentation, I would like to make a few remarks. We are extremely pleased with the second quarter performance of our business segments. We have recently been mandated to transform TRNC's infrastructure. We are on the verge of renewing our fixed line concession agreement for about two and a half decades, which should enable us to strategically act on a clear path where we are destined to strengthen Türkiye's digitalisation. We are well prepared for the soon expected 5G tender with a subsequent rollout plan.

Clearly, we are about to step into a whole new and exciting era for the sector and for Türk Telekom, and we are truly fascinated by the abundance of the opportunities ahead of us. We remain committed to financial discipline and sustainable growth and meeting our stakeholders' expectations at highest possible standards. Thank you.

Ömer, the floor is yours now.

KARADEMİR Ö: Thank you. Good morning and good afternoon, everyone. We are now on slide number 10, financial performance. In Q2, consolidated revenues increased above 13% YoY to TL 50 billion compared to TL 45 billion in the same period of last year. As a result, total revenues for the first half reached TL 99 billion, up 16% on an annual basis.

Excluding the IFRIC-12 accounting impact, Q2 revenue was TL 47.5 billion, up nearly 12% YoY, including increases of 19% in fixed broadband, 15% in mobile, 20% in TV, 24% in corporate data and 1% in fixed voice as well as contractions of 13% in international and 17% in other segments.

Fixed internet and mobile have continued to lead growth, together making 78% of operating revenue in Q2. The two lines of business made the largest contribution to growth with more than TL 5 billion higher revenues in total YoY.

The strong performance was maintained, thanks to proactive base management, pricing behaviour and robust re-contracting and upselling performance. We expect the strength in fixed and mobile revenues to continue in the second half of the year with similar drivers in place in addition to the upcoming high seasonality.

While corporate data added another TL 0.6 billion, ICT solutions, equipment sales and international revenues mitigated that contribution with a total of TL 0.9 billion drop YoY. The change in corporate data can largely be explained by the contribution from repricing of contracts whereas it is mostly attributable to an expectedly milder year in general in ICT solutions. In our international business, the decline is largely owing to currency impact.

Moving on to EBITDA, direct costs fell 4% YoY. Similar to previous quarter, decline in interconnection cost was driven by currency and inflation accounting impact. The drop in equipment & technology sales cost was parallel to contracting revenues from ICT solutions offered by Türk Telekom and its subsidiary İnnova in the period.

Commercial cost went up by 16% YoY and other costs by 9%. The annual increase in commercial costs was mainly driven by higher spending on marketing, advertising, and brand and

corporate communications, in line with the trend observed in the previous quarter.

Under other costs, network expense dropped by 7% YoY, whilst personnel cost rose by 16%, largely owing to the regular non-union personnel salary adjustment we take at the beginning of the year. Semi-annual adjustment to union personnel salaries has also taken effect starting from March.

In Q2, opex to sales ratio dropped to 58% from 61% in the same quarter of the last year and 61% in the previous quarter, thanks to continuously improving operational leverage. As a result, consolidated EBITDA grew by 23% YoY in Q2'25 to TL 21 billion from TL 17 billion in the same period of last year, along with a solid YoY margin expansion of 340 basis points to 42%. Excluding the IFRIC-12 accounting impact, EBITDA margin stood at 44%. In the first half, EBITDA rose by 25% YoY to TL 40 billion, while the margin improved by 300 basis points to 41% compared to the same period of last year.

Operating profit rose by 68% YoY to TL 11 billion in Q2, bringing the first half total to TL 20 billion, up to 78% YoY.

Coming to the bottom line, TL 8 billion of net financial expense was 6% lower in annual comparison, but 31% higher on quarterly basis. Annual trend can largely be explained by a 27% increase in USDTRY and EURTRY rates on average, 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 10%, ahead of inflation in the same period. Additionally, the impact of the volatility in financial

markets, which was triggered in March was visible on market interest rates and hedging costs as expected. We think Q3 net financial expense may look more favourable QoQ as the markets restored calm and CBRT resumed its easing cycle in July.

We recorded more than TL 2 billion of tax expense in total, largely driven by current taxes. Effective tax rate decreased to 33% from 41% a quarter ago. As a result, we generated TL 5 billion of net income in the second quarter, up 14% annually. With that, net income exceeded TL 10 billion in the first half, up 29% YoY.

Moving on to slide number 11, Q2 capex spending was more than TL 13 billion, 39% higher YoY as investments picked up pace in line with the annual plan. Capex reached TL 22 billion with accelerated spending in the second quarter, carrying the capex intensity ratio to 22% in the first half.

Moving on to slide number 12, debt profile, cash and cash equivalents of which 32% is FX-based, totaled TL 10 billion. The share of local currency borrowings within the total debt portfolio was 2%. The FX exposure included US dollar equivalents of TL 1.7 billion of FX-denominated debt, TL 1.4 billion of total hedge position and TL 77 million of hard currency cash. FX protected time deposit balance entirely diminished as of April.

Net debt/EBITDA fell below 0.7x from 1.1x a year ago. Obviously, we have consciously deleveraging our balance sheet for some time now in order to comfortably accommodate the upcoming multiple investments, including the 5G tender and rollout, renewal of the fixed line concession agreement and fiberisation of Northern Cyprus.

At this point, we believe we stand financially fit and sound to attract several financing options for these critical technology transformation projects. including but not limited to debt issuances in the form of sukuk, green or sustainable instruments, ECA loans and asset sale.

We are now on slide number 13. We recorded USD 210 million short FX position as of Q2. Excluding the ineffective portion of the hedge portfolio, namely the PCCS contracts, our short position was USD 260 million.

Finally, we generated TL 7 billion of unlevered free cash flow in Q2 compared to TL 8 billion in Q1 and TL 4 billion in the same quarter last year. 66% annual increase can be explained by strong operating performance, while quarterly decline is owing to prior quarter's high base boosted by the collection of remaining insurance coverage for the 2023 earthquakes. With that, unlevered free cash flow in the first half has more than doubled to TL 15 billion compared to the same period of last year.

This concludes my presentation. We can open up to Q&A session.

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

BYSTROVA E: Yes. Hello. Good afternoon. Thank you for the presentation and congrats on the results. I have several questions. So my first question is related to currency protected deposits. Is it right to assume that the balance was used to repay some part of debt? Or how did you spend the cash?

Then my second question is related to potential bond issuance. I mean I know you received an approval from the CMB. So just wondering if you have any comments on the timing? And also finally, my final question is about potential new mobile operator coming to the market. If you could please provide any comments on that, it would be very helpful. Thank you.

KARADEMİR Ö: For the currency protected deposits, last remaining balance of USD 20 million was due in April and closed, leaving no remaining balance on that side.

For your second question on financing, yes, we have received the Capital Markets Board of Türkiye approval for Eurobond issuances. This is mostly related for our expected 5G license auction and renewal of concession financing. We are planning to tap the market if needed. But still, we don't have the magnitude and the schedule of this possible payments.

You know, we have currently one Eurobond in the market. It is USD 500 million. And we see we have still room for additional Eurobond issuances up to, let's say, USD 1 billion. Yes, we have received this approval, but this does not mean that we will use this limit. But this is the upper bound for this limit. And additionally, we may also consider Sukuk issuances in the Gulf since there is an appetite from this region. And I'm sorry, I didn't understand your third question.

BYSTROVA E: Yes. So on the third question, there were news of Turksat potentially coming in 2026 to become like the fourth mobile operator. So I just was wondering if you could provide any color on that?

ÖNAL Ü: Allow me to answer your question. Thank you very much for your question. First of all, we haven't yet received any official or definitive information on this matter and just like you we are following it. However, I can say that when we examine the dynamics of the competitive landscape of the mobile market in Türkiye, we see that the market is currently reasonably competitive. Therefore, clearly, I can say we don't believe the market needs a fourth mobile operator in these respects and we don't expect that.

BYSTROVA E: Thank you very much. Appreciate the comment.

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

SINGH M: Yes. Hi, thanks for taking my question. I have a question on the dividend policy. I remember you said that the margin needs to be above 40% for you to consider dividend. So now that your guidance is 41% for the year, how does that place the dividend policy?

And then second question is on the competitive environment in the market. It has been quite competitive in the early part of the year and late last year. So has there been any change in the competition?

ÖNAL Ü: I will try to answer your question. Simply, I can put it this way that there is no change in our dividend policy. But as you know, this is a decision that is taken on the shareholder level. We said we have the 5G auction ahead of us. We have the concession road map, which is about to be finalised very soon. So we also have

many big projects, some of which we have shared within the information that we shared with you.

So we believe that our shareholders will combine all of them together and take the decision accordingly. As the executive team of this company, we are trying and working to ensure the healthy and financial sustainability of our company, also protect the rights of our shareholders and investors. So we propose and the shareholders take the decision as you know.

Is it possible for you to repeat your second question?

SINGH M: Just talking about the competition in the market. It was quite competitive towards the end of last year and also early this year. So has there been any change in the competitive behavior in the mobile market, especially? Thank you.

ÖNAL Ü: We can say that it was a very highly competitive quarter and actually half year was very competitive. But the competition environment in the quarter was also very difficult. We can say that in the second quarter, the competition took up its pace even further, and it continued this way in many working areas. Still with that, I can say that our activation numbers within the quarter was very high and even the highest among all the quarters.

We also intentionally ended our leadership position in the MNP market, in the Mobile Number Portability market. It was a very intentional decision because we don't want to be in a competition solely based on price. Also, I would like to highlight the fact that we have reel ARPU increase and also a record level of net subscriber increase. This has been our policy for so long so far. It's very important following up to have a golden ratio which is

having a healthy ARPU growth and subscriber addition balance, and we follow this policy. We have been gaining market share for 3 years consecutively, and it's very gratifying to see that it continued the same way in the first half of 2025. But you also should say that the ARPU levels of our company are not diluting within this competitive environment.

SINGH M: Thank you.

OPERATOR: We have a question from the line of Demirtas Cemal with Ata Invest. Please go ahead.

DEMIRTAS C: Thank you for the presentation and congratulations for good results. My question is about the balance sheet side. We see an increase in your FX and like financial expenses in second quarter. Could you further elaborate that considering the TL depreciation, it looks more significant than I thought.

Is it related to hedging or the volatility because after first quarter, we see a volatility in the markets. Does volatility also affect your financial expense generally and specifically in second quarter, did we see any impact of that volatility due to your hedge position? Thank you.

KARADEMİR Ö: Thank you. For the net financial expenses, we have recorded TL 7.6 billion, decreased by 5.8% YoY and increased by almost 31% QoQ. The annual decrease was driven by the 27% average increase in USDTRY and EURTRY exchange rates, which remained well below inflation during the period. And also strong operational performance and free cash flow contributed to this decline. Firstly, I am explaining our first half net financial expenses. But especially for the Q2, what has happened, you will remember the

impact of the volatility in financial markets triggered in March affected market interest rates and hedging costs as expected.

But with the rebalancing of the markets and the return of the Central Bank of the Republic of Türkiye to its interest rate cutback in July, we believe that financing costs may exhibit a more positive outlook on quarterly basis in Q3.

The cost of hedging has increased almost 9% to 10% for yearly cost in Q2 after 18th March turbulence in the market. But we may expect it will decline in third quarter since the cost is declining and our leverage is still below 0.7 since the net debt over EBITDA is still declining. So we may expect it will decline in third quarter compared to second quarter. Thank you.

DEMIRTAS C: Thank you. Thank you for the comments.

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

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