



**Türk Telekom Q4 2021 Financial & Operational Results
Conference Call**

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&

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Conference Call Conducted by Chorus Call Hellas



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

Welcome and thank you for joining the Türk Telekom conference call and live webcast to present and discuss the Fourth Quarter 2021 Financial and Operational Results.

We are here with the Management team and today's speakers are CEO, Ümit Önal and CFO, Kaan Aktan. Before starting, I kindly remind you to review the disclaimer on the earnings presentation. Now, I would like to turn the conference over to Mr. Ümit Önal CEO.

Mr. Önal, you may now proceed.

ÖNAL Ü: Hello, everyone. Welcome to our 2021 Fourth Quarter and Year End Results Conference Call. Thank you for joining us today.

2021 was an extremely unpredictable and volatile period for the whole world. In its second year, the pandemic and its impact on economies, businesses and our lives continued to dominate the agenda. Although vaccination accelerated globally, several variants took their turns to reset hopes for a sooner end to the pandemic.

At home, the business environment and the consumer sentiment were continuously shifting and reshaping on a

quarterly, and at times, on a monthly basis. With Omicron taking the stage in November, we have seen companies advising working from home and kids going back to online classes, once again. Inflation picked up in the last quarter, to reach its 19-year high of 36%, following a turbulent November-December period when lira lost significant value against hard currencies. As the leading telecom company of Turkey, we focused on our responsibility to serve our customers in excellence, while maintaining our financial and operational performance, as well as our duties to stakeholders intact. As a result, we left behind a memorable year, full of valuable experiences, significant milestones and record KPIs.

Starting with Slide #3 on our presentation, net subscriber additions. Total number of subscribers increased to 51.8 million, with almost 400 thousand net adds in the quarter. 1.5 million of net subscriber additions in 2021 grew the total base by 3% YoY.

We expanded our fixed broadband subscriber base to 14.3 million, with 266 thousand of net additions in the final quarter in line with our expectation. Following a very strong Q3 performance, mobile subscribers increased to 24 million, with 171 thousand of net additions in Q4. Number of fixed voice subscribers was almost unchanged from the last quarter.

Slide #4, financial and operational overview. Our Company finished the year with solid set of financial and operational results. Consolidated revenues increased to 34.3 billion TL for the year, up by 21% YoY. Excluding the IFRIC 12 accounting

impact, operating revenue growth was 19.5% YoY; ahead of the 18% guidance.

Consolidated EBITDA grew by 24% YoY to 16.4 billion TL, slightly above the 16.2 billion TL guidance. EBITDA margin was 48%. Excluding the IFRIC 12 impact, EBITDA margin reached almost 51%. Net income reached 5.8 billion TL with 81% annual growth. The impact of the recent unfavorable FX movements on the bottom line was partly offset by the tax income posted in the last quarter. CAPEX was 8.8 billion TL, slightly above the 8.7 billion TL guidance but well under control despite a sharp rise in FX rates. We reported 242 million USD long FX position. Finally, Net Debt/EBITDA ratio dropped to 1.11 times by year end.

Slide #5, fixed broadband performance. Upon 2020's exceptional net add to our base, we kept up the good performance by adding more than 900 thousand new subscribers in fixed broadband in 2021. Total subscriber base expanded to 14.3 million, with 266 thousand of net adds during the quarter. We continued to feel the positive impact of the back-to-school period with the opening of universities in October. November was supported by successful fibre campaigns and seasonal Tivibu bundle offers, both in upsell and acquisition performance.

Fixed broadband revenue growth slowed QoQ to 23%, but once again stood out as the main driver behind the operational top-line performance in Q4'21. Overall, full year revenue growth peaked to 29% in FBB. Even though normalisation

continues, the trends show us that demand for fixed internet and higher speed remains strong.

Expanding subscriber base, portfolio optimisation, customised offers, ADSL to fibre conversions, and low churn ratios in addition to pricing actions and sustained performance in upselling resulted in a balanced 14% ARPU growth throughout the year. Unlike in prior years, we revised fixed broadband prices for the retail segment in early December, amid accelerated inflation. The portion of 24 Mbps and above packages expanded to 67% in new acquisitions in Q4. As a result, Q4 '21 ARPA was 6.0% higher QoQ. The share of 24 Mbps and above packages made 54% of total acquisitions within 2021.

Moving on to mobile performance, Slide #6. Mobile market enjoyed a strong third quarter, amid remarkable increase in mobility with normalisation and a robust tourism season. Excluding this conditional and seasonal boost, we have observed a dynamic mobile market in Q4 as well.

Pricing environment was mixed with across-the-board inflation-driven revisions throughout the quarter on the one hand, but some of the pre-revision offers still on the table, on the other hand. It seems, the willingness to gain as many net adds as possible before year-end dominated the final quarter.

In line with our earlier expectations mobile segment found its momentum in the second half of the year. Our subscriber base reached 24 million by year-end with 171 thousand of net

additions in the last quarter and almost 850 thousand in the full year.

Overall, the postpaid base showed a healthy trend by expanding to around 65% of total mobile subscribers in the first half and sustaining these levels in the second half. Prime subscriber total reached 4.9 million with 55% growth YoY and made 32% of the postpaid base by year end. Blended ARPU growth was 14% YoY in 2021. In the final quarter, postpaid ARPU increased by 12% to reach 10% for the full year.

We have attained the lowest mobile churn ratios within 2021. As a result, mobile revenue growth accelerated to 18% in Q4'21 and brought full year increase to 16.5%.

2021 was a year of important achievements for Türk Telekom Group. Now, let's take a look at some of the record KPIs of the year.

Fixed broadband business attained the highest revenue growth of 29% despite last year's high base. FBB revenues made a handsome 31% of consolidated top-line. Our strategy and drive in fiberisation awarded us with additional 3.4 million fibre subscribers, marking the highest annual gain.

Moving on to the mobile business line, ARPU growth peaked to 14%. Our premiumisation strategy verified its success with 1.9 million subscribers transferred to Prime. Prime base grew by 55%. Finally, we reported the lowest monthly churn rate of 1.9%. On the financial front, our EBITDA margin peaked to 48%. Net Debt/EBITDA ratio dropped to 1.11 times, its lowest

since 2013. Even though an extreme FX volatility in the last quarter affected our hedging performance, we ended the year with a 5.8 billion TL of net income, the highest value reported in Türk Telekom history.

Moving on to Slide #8, 2022 guidance. In light of the latest developments, we decided to take a cautious approach in formulating our 2022 guidance. We expect our operating revenues to grow between 23-25% YoY, our EBITDA to be between 17.5-18.3 billion TL and our CAPEX to be around 12.5 billion TL.

While inflation in the coming months will be our watch point in pricing strategies and revenue performance, EBITDA will depend on the consumer sentiment and possibly further pressure on certain OPEX items. While we stick to a range of CAPEX intensity ratio, adjustments around optional and deferrable items allowed a lower increase and total investment budget YoY than the move in FX rates have implied.

Once again, the lion share of the 2022 investment budget will be going into fibre rollouts and transformation projects. Encouraged by the growth momentum of 2021, we will be allocating a fair sum to our mobile business in order to continue our progress in coverage, network quality and customer experience.

Finally, preparations for the 5G transition, new ventures and maintenance items will remain on our CAPEX spending list. Economic challenges will likely continue in the short to medium term. CAPEX and OPEX management in 2022 will be an

extremely diligent exercise for the telco sector in general, but we aim to come out strong with our human capital, technology, risk management tools and smart marketing and pricing strategies.

Lastly, we have been sharing with you our commitment to using energy resources efficiently and reducing carbon emissions systematically. In this context, we are one of the few telco operators in the world that has reduced electricity consumption in recent years, despite significant increases in total customer number and bandwidth.

Our total energy consumption has declined by 3% in the last 5 years. We renovated more than 3 thousand base stations with efficient equipment that consumes less energy. We are proud to have prevented on average 15,000 tons of carbon emission by saving 31 million kWh of energy annually within 5 years.

2021 presented us many challenges, but also opportunities to innovate, improve, and persevere. I want to thank the great team behind our powerful business model. Our teamwork marks our difference.

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

AKTAN K:

Thank you very much. Good morning and also good afternoon, everyone. We are now on Slide 10 with our financial performance. Our consolidated revenues grew by 29% YoY to 9.9 billion liras in the fourth quarter. Excluding the IFRIC 12

construction revenues impact, revenue increase was 21%, along with the strong performance driven by fixed broadband and mobile as well as other business lines.

The robust Q4 performance led to 19.5% annual growth in full-year operating revenue, ahead of our 18% guidance.

In line with our expectation, fixed broadband revenue growth slowed QoQ to 23% as it cycled last year's highest increase close to 32%, yet full-year and fixed broadband revenue growth peaked at 29%.

On the operational front, we expected a normalised demand in 2021. However, net acquisitions surpassed 900 thousand over prior year's 2 million. We believe customer behavior and customers' relation with technology has changed for good in the post-pandemic world. Data consumption on fixed broadband increased by more than 48% throughout the year, despite prior year's high base.

We upgraded millions of our fixed broadband customers to unlimited and higher speed packages, since the beginning of the pandemic. As verified by our persistently low churn rates also, we are building a stable customer base. Subscriber growth, price adjustments, and continued focus on promoting higher speed packages helped us sustain a strong momentum in our fixed internet business throughout the year and deliver 14% ARPU growth.

We observed normalising trend in the mobile market after a strong third quarter. The relatively subdued 2020 was followed

by an improving performance in 2021, with almost 850 thousand net adds.

The success of our strategy around postpaidisation and premiumisation has become more visible as the year progressed. Resultantly, mobile revenue growth moved higher to 18% in the fourth quarter, along with an expanding subscriber base, pricing actions, accurate segmentation, and customised offers. Overall, we are pleased with 16.5% revenue and 14% ARPU growth for the full year, clearly driven by our renewed mobile strategy.

Stable subscriber trends in fixed voice continued in the last quarter and we recorded flat revenues in the segment for the full year. On the TV side, seasonal Tivibu bundle offers helped keep home TV subscribers flat QoQ at 1.5 million, but a lower ARPU growth in the final quarter weighed on revenue progression. Consequently, we closed the year with 11% growth in TV revenues.

Corporate data revenue growth geared up to 17% in the last quarter, taking the segment growth to 15% for the full year. With the appreciation of foreign currency and higher international traffic, international revenues grew by 50% in the fourth quarter and 36% for the full year.

We are now moving on to our operational performance. Consolidated EBITDA rose by 21% YoY to 4.3 billion lira with the EBITDA margin of 43.6%. This is lower than previous quarters. Even though fixed broadband and mobile segments fully supported revenue growth, other business lines with

lower margins made the biggest contribution to overall revenue growth in the final quarter.

A normalising and inflating OPEX base, together with the larger IFRIC 12 component due to increased CAPEX spending further diluted the EBITDA margin in the last quarter.

Exceeding the revised guidance, the full-year EBITDA reached 16.4 billion lira with a full-year margin of 48%. Excluding the construction revenues, EBITDA margin increased by 170 basis points YoY to almost 51%; this is the annual peak level.

In 2021, operating expenses increased by 18.6% YoY to 18 billion lira, excluding IFRIC 12 cost, growth in operating expenses was 15.5% YoY.

Looking at the main highlights in the OPEX items: Interconnection cost increase only by 16% YoY on last year's high base together with increased international traffic volume. 14.5% YoY increase in the tax expense was led by frequency and treasury fees attached to mobile revenues. Provisions for doubtful receivables declined 33%, mainly due to lower device provisions compared to last year and successful collection performance, which led to a decrease in device receivables despite larger sales volume YoY.

Cost of equipment and technology sales grew by 18% over last year's high base, broadly in line with broadband net additions. 29% YoY increase in other direct costs was largely driven by the pickup in the value-added service revenues and shared revenues.

Network and technology expenses grew 31% YoY heavily due to increased energy prices. Including the impact of new Labor Agreement signed personnel expense increased by 21.5% YoY. And finally, commercial costs increased by 19% YoY finishing the year around normalised levels in the last quarters.

Our 2022 guidance implies a downward trend in EBITDA margin, mainly due to 2 reasons. Firstly, top-line growth will be lagging OPEX growth due to contracted nature of our businesses while the price adjustments will take time to translate into revenue growth, the increase in cost base was imminent.

As you know, world energy prices have been ticking higher. We also feel the currency impact on our energy costs. Additionally, minimum wage in Turkey has been raised by more than 40% effective from January 1st. Finally, 2021 CPI came in at 36%.

Secondly, pandemic related savings inadvertently inflated our EBITDA margin over 2020 and 2021 period. We expect some normalisation in our OPEX base in that sense.

Our CAPEX spending was 8.8 billion lira in 2021, slightly ahead of our guidance.

Coming to the bottom line, Q4 '21 net income stayed flattish YoY at 1.1 billion lira. Strong operational performance and tax income have mitigated the negative impact of currency

movements on the net income. Net financial expenses surged to 2.2 billion lira from 0.9 billion mark over the last couple of quarters amid higher FX and interest rates.

As a result, 2021 full-year net income came in at 5.8 billion lira, with 81% growth YoY. Leaving out the tax effect, profit before tax grew by a healthy 48% in 2021.

Q4'21 was marked by high volatility in FX and accelerated depreciation in lira. The year end dollar and euro rates were 51% and 46% higher respectively than where they were at the end of the third quarter. Obviously such sharp movements weakened the protection of our hedges and adversely affected Q4'21 bottom line performance. Still, we deem the outcome a significant success, thanks to our prudent FX risk management approach we adopted earlier this year. We avoided taking short-term costly actions during the most volatile interim period, but we aim to go back to FX neutral position as the financial markets turn calmer in the coming period.

We are now moving on to the slide with the debt profile. With the recent currency movements, Net Debt/EBITDA ratio increased to 1.11 times, only slightly higher than the previous quarter, despite the steep rise in FX rates. This is a notably low ratio by industry standards, and we continue to remain within our internal comfort range.

Cash and cash equivalents were 7.7 billion lira, of which 80% is FX-based. We ended the year with \$242 million dollar long position in hand, compared to the \$58 million as of the last quarter. The net FX exposure included dollar equivalent of 2.4

billion of FX debt, 2.2 billion of total hedge position and close to 0.5 billion of FX cash.

We are now on Slide 12. We stick to our target of maintaining an FX neutral P&L. Our primary purpose is to minimise the impact of FX rates fluctuations on the P&L increase and increased visibility of the bottom-line performance. The volatility in the FX market has declined significantly and swap rates have come down in the last weeks. We also see liquidity coming back for complex hedging structures.

These are positive developments that will help us reduce the FX sensitivity of our balance sheet. Maintaining a healthy liquidity both in lira and hard currency is also another priority for us throughout the year.

The FX sensitivity analysis we report regularly in our quarterly financials suggests, assuming all as constant, a 10% increase in the FX rates will have almost 1.2 billion lira negative impact on our pretax income. On the flip side, the sensitivity analysis produces close to 700 million lira positive impact in case of a similar appreciation in lira.

Finally, the unlevered free cash flow was 3.3 billion lira in the quarter, thanks mainly to robust operating and seasonally strong working capital performances. Free cash flow reached 8.3 billion lira in 2021 for the full year with an increase of 21% YoY.

This concludes my presentation. I think we can now open the Q&A session. Thank you.

Q&A

OPERATOR: The first question is from the line of Cabejsek, Ondrej with UBS. Please go ahead.

CABEJSEK O: Hi and thank you for the presentation. I've got 2 questions related to the guidance, please. So first of all, in terms of CAPEX, there's quite a step up in terms of implied intensity to sales. And this is despite you having now passed about 30 million homes with fibre, which is kind of significantly ahead of your subscriber base and especially the subscriber base on fibre, so if you could clarify why are you not maybe spacing this out a bit. Why are you not pushing some of these investments out into the late years?

And then second question, and slightly related in terms of the implied EBITDA margin downgrade YoY. What part of this is driven by the higher CAPEX and therefore higher construction revenues and costs, if you had to strip these out, what is the kind of estimate internally for what the kind of ex-construction margin reset would be in 2022 compared to 2021, please. Thank you.

AKTAN K: Well, thank you very much for the questions. In terms of the CAPEX guidance, you're right. There is an increased intensity when you compare to the revenues in both years. Obviously, we faced a significant cost uplift in terms of the unit CAPEX cost for the business that comes from the fact that there is a higher percentage of spending, which are linked to hard currency in our CAPEX base.

And the average increase of the rates brings a sizeable unit cost increase in our CAPEX, but also the inflation in this time since it's higher, it's impacted almost all, spending items within the CAPEX base. No matter what; whether they are linked to the dollar or they are procured locally. There is also a labor portion within the CAPEX because of the network construction, which is also impacted by high salary adjustments. So, all in all unit cost increase is really the main driver in terms of the increase in total CAPEX cost.

When you look at the composition of the CAPEX, well it's actually it's not going to be much different than the way we spent CAPEX money throughout 2021. So, there will be again a sizable fixed line investment, which will be like half of total CAPEX spending, but also on mobile investment.

All in all, we spent around two-thirds of the CAPEX budget for pure network building, whether it's connectivity network or core network, and the remaining one-third is for the technology related and commercial investments. It's going to be a similar allocation of the budget in 2022 as well.

For the margin question, I leave it to our CEO.

ÖNAL Ü:

Hello. For the EBITDA-related question, I can start answering your question in a way that highlighting that inflation and the currency becoming a determining factor for us.

As you know, a big part of our subscriber base are contracted. So, we have 12-months contracts and commitments on the

mobile base and 24 months of contracts for the broadband base. Around 90% to 95% of our subscribers are contracted (*fixed*).

So, the revenue increase will show its effect in time coming from the price adjustments. However, the impact of the cost showed itself immediately, even as of the beginning of January.

Also we are expecting a sizable growth in our ARPU numbers, subscriber base numbers, both in fixed and mobile base and segments here for 2022 implying to more than 23% of increase.

As you know, the energy prices are increasing in all around the world. We also see clearly the effect of the currency on the cost of energy as well. As of the 1st of January, we also have around 40% of increase to the minimum wage in Turkey. And as our CFO mentioned, our CPI has increased around 36%.

So, all in all, we always try to position ourselves in line with the realities of our world as of now and we wanted to reflect the picture of today here with you. But as of the second half of this year it wouldn't be too unrealistic to expect positive improvements in macro environment.

Also, I would like to highlight one more thing here. We have had 4849% of margins in '20 to '21 periods, but it was partly due to the pandemic coming from the effective OPEX management, so it was kind of like a practical result of the reality and temporary. Our safe zone used to be 45% to 46%.

And when we share our new EBITDA with you, and you should not consider it in a way to coming down significantly. We believe that's coming from the realities and the practicalities of the world. We also carry an upside risk here.

AKTAN K:

Let me add a few more remarks and also answer that if IFRIC 12 part of the question. So as our CEO mentioned, when we approached the year end, we saw a significant uplift in some of the major cost items. So, the unfortunate thing is that was the timing of this. This was the time when we initially started adjusting our prices both for mobile and at the beginning of December for fixed broadband. But that also intensified with the additional price increases for electricity and the salary adjustments, which is a function of the inflation for the year.

So, we started the year with a significantly higher OPEX base. So, all in all, we should see the 2022 as a transition year for the company. Not only for this company, but for the whole sector; because the common practice is really contracting your customers for a year or two and give them fixed prices. But we took the first step at the end of last year is to have a series of price increases throughout the next several quarters. So that even with a time lag, we can catch the increase in the OPEX base but it will take time.

The summary of this is yes, there will be a margin erosion in 2022. But that should also follow with an improvement in the margin, also with an acceleration of the revenue growth.

Normally we don't to give you guidance for more than one year as you know, but if you include all those assumptions and all those planned action into the formula, you should see an accelerated revenue growth in 2023. If again, I'm repeating we make sure that we take the necessary actions as we planned and obviously there will be always risk. Execution risk is there and there is also macro risk that there can be further deterioration of the macro environment which is not part of our current plan.

But there will be a new normal for the company going forward and that new normal will not be the guidance of 2022. You should expect an improvement in the outer years but it will take time.

When we come back to your IFRIC 12 question: Well, the margin erosion is mainly explained by the high OPEX increase and that lag between the revenue improvement and OPEX increase. We don't see a meaningful impact that comes from the changed balance of the IFRIC 12 revenues or change in type of dilution coming from IFRIC 12 revenues.

Will this answer all your questions?

CABEJSEK O:

Thank you very much for the comprehensive answer. Maybe if I maybe make one short follow-up. I understand in terms of the OPEX that is something you cannot control but in terms of the CAPEX, I am just curious why are you not slowing down investments a bit now into fibre and given how ahead your network is compared to actual subscriber numbers and demands?

Why are you choosing not to control that better in order to preserve cash flow before the top line catches up in terms of inflation. That would be the short follow-up, please.

AKTAN K: You should take it actually as a result of all the actions that we tried to take in order to limit the CAPEX spending because the cost increase for CAPEX is also including all those impacts coming from the logistics issues or the fact that the dollar or euro prices of equipment are also increasing. So when you look at the per unit cost increase, you will see very high number for some equipment which we invest a lot of money for.

So actually, it's kind of a controlled number, 12.5 bn, but again, we try not to deviate from the long-term strategy which says the investments that we make especially in fixed line gives us a great value for the long-term. There is still room for growth in revenues in fixed broadband that comes with the new connections but also the ability to upsell the customer to higher speeds. We enjoyed this during the last few years. We enjoyed the results of that fixed line investments. We don't really want to lose that long-term benefit just for the sake of having a minor saving in this year CAPEX.

CABEJSEK O: Thank you very much.

OPERATOR: The next question is from the line of Kennedy-Good Jonathan with JP Morgan. Please go ahead.

KENNEDY-GOOD J: Good afternoon. Thanks for the opportunity to ask questions. Just wanted to touch on your revenue guidance, 23-25%.

What kind of price increases have you put into your contracted base in the early part of this year. And are you seeing any churn as a result of those price increases, i.e., have your competitors followed?

And then next on the cost side, it looks like fourth quarter costs were up about 36%. I think you mentioned that as well. You know what kind of cost inflation are you seeing in early part of this year? It seems as though the guided margin is only a little bit down this year on fourth quarter and given inflationary pressures, I would have thought that, that might be optimistic, so some color there would be helpful.

AKTAN K:

Well, the price adjustments that we had for the fixed part of the business in December was close to 20%. But again, you should take it within the perspective of a very large, contracted base and our limited ability to impact the overall ARPU of that customer base with that price increase. It will take many quarters to transfer all this base to the higher prices. But we also plan to continue with additional price adjustments throughout the year.

So that again as I just mentioned in the prior question, it gives us the ability to really uplift the revenue and address the margin erosion issue.

And in terms of the churn, we don't see that because the contracted base is an issue when you want to make revenue uplift by increasing the prices but also, it's a factor that protects you from sharp deviations in the churn rate just

because you now changed your prices. There is a limited number of customers who face the new prices.

But there is always a time lag between us increasing the prices as the market leader in fixed business and the time the competition increases their prices, so there may be a shift in the acquisition shares between us and competition.

But we also see that they are now started already apply to price increases. And I think all the industry now needs this margin expansion because of the obvious reasons. As you just mentioned, there was the margin drop already in the fourth quarter.

When we look at the revenue growth QoQ and the OPEX growth QoQ, now the OPEX was more than doubled the revenue growth from third quarter to the fourth quarter. These are the impacts of the FX rate and the energy cost were already factored in the fourth quarter. But also, fourth quarter was quite busy in terms of commercial activities and we also kind of normalised the level of commercial spending.

Because when you look at the trends in 2020 and 2021, this was by choice, we had limited push for our services because there was already quite a significant demand for connectivity and capacity increases coming from the customers; so that was one factor why we didn't have to push and that the end result was also margin expansion, especially which was very visible in the first, second and third quarter of this year.

When you look at the numbers for next year, there is definitely minimum wage 40%, CPI, 36% which is a kind of reference point for the level of salary adjustment for the remaining base within our employees. So, you should expect increase in the cost of labor to be around that range, 36-to 40%.

Energy now is significant cost item within our base. Normally, it was around 7% of the total excluding that construction complexity. It was around 7% and so far, we see it like almost doubling in 2022. And the timing was almost at the beginning of the year.

So again, it's going to be a transition year for us. Probably, what we see; a bit softer in the first half, better in the second half. But we will continue on adjusting the parameters of this business by looking at the price level. Whenever we see the potential is there, we will do price adjustments.

ÖNAL Ü:

I would like to add another point here. As Kaan mentioned, the price adjustments are reflected on our revenue in time. But it takes time to see their reflection on our revenue. Also, we always take inflation and FX volatility into account when we apply our price increases and we have actually taken some of the price increases before and we applied them at the end of 2021 which gave us more room to apply more price adjustments in 2022.

As the market leader in fixed broadband side, we have started to implement our price increase appetite as we have determined our guidance, but I would also like to add a couple of points on the mobile side.

Looking at the latest developments, we have seen a tactical campaign in December from the operator with biggest market share, but in February we have seen another move from that operator that we have seen for the first time maybe from the other operators that their prices have come down below ours.

For the last one year we have been trying to implement a value-oriented strategy here and we will try to continue implementing it in a persistent manner as much as the market conditions allow us.

OPERATOR: Mr. Kennedy, do you have any other questions?

KENNEDY-GOOD J: Just one follow-up there. In terms of your comment, that's the market leader mobile pricing seems to be below your pricing. Does that still represent a higher pricing than we were 3 months ago, they're actually reducing nominal pricing?

ÖNAL Ü: They are below their previous levels in terms of their prices. But this is a campaign valid for a specific period of time. So, it's only for 14 days, let's say, half a month here. And that is a tactical move that we have seen and that we are seeing from time-to-time from the operators. Of course, our aim is to growing the market and this is all we're trying together.

KENNEDY-GOOD J: Thank you. That's clear.

OPERATOR: The next question is from the line of Kim Ivan with Xtellus Capital. Please go ahead.

KIM I: Hi, good afternoon. May I ask you 2 things, please. Firstly, can you please measure the current interest rates and with your debt for lower schedule what shall be the interest of this in absolute terms in '22?

And then secondly, on the longer-term capital investors. So, you talked a little bit about revenue and margins improving in '23. And I understand it's quite early to think about '23, but is there a possibility that the CAPEX would moderate from this 12.5 billion number or it's prudent to assume that there will be some inflation of 12.5 billion CAPEX going forward in a normalised world without any major let's say macro moves either way, positive or negative? Thank you.

AKTAN K: Let me answer the questions. It would be a similar year to 2021. So, when we look at the expiry of the loan portfolio, we have similar numbers that we see in this year. And 2023 will be much lighter in terms of the repayments. So, we are currently working, and the parameters are changing almost on a weekly basis.

We are still looking at the right balance of refinancing and using our own cash and the cash that we will generate from the operations. For the hard currency denominated part of the loan portfolio, obviously, we are not doing much of that sizable refinancing or new financing for a while.

So, it's a bit difficult to see how the latest news that impact the cost of the borrowing when it comes to raising new financing, if any this year. We'll see how it will work for us.

KIM I: Yeah, I apologise. So, the question was not about the refinancing, it's about the interest, the interest that you pay, so the interest rates will probably go up. So, I'm just wondering how much you paid about 2 billion in interest in '21, so how much this number would go up in '22? Thank you.

AKTAN K: The FX risk policy management has been a factor, a major factor, which impacted the level of the financing costs. And we are utilising, as much as we can, lira funding either through lira commercial loans or swap deals where we lend our dollars and acquire lira for operational use, that is augmenting our cost of financing.

When we look at the numbers in the final part of the year, 2021 full year and the initial part of this year, obviously we saw increased interest rates. Now in the last few weeks, we see a downward trend, it's coming down a bit. But still, it's not at the level of the average lira interest rate of last year.

So, it's difficult to give you a direction, because really we don't now see how it will work for the whole market. So, there are a lot of actions being taken by the government and every week there is a different kind of measure, which impacts the interest rates. We can expect a small increase especially in the first half of the year compared to the last year's average. Second half, it's a bit difficult to give you a prediction, it will be in line how the macro environment will evolve throughout the year.

The final part of the question was around the CAPEX, especially, the outer years, after 2022. The cost inflation rises from not only because of the FX rate or the lira inflation, but also the inflation at the international level or the logistic issues.

Normally we would expect an easing in those factors, which should bring a bit cost advantage in the outer years, but again the level of the FX will really impact our units cost for CAPEX.

We are now approaching in a way especially with this year with this level of the CAPEX, the easier transformation or easier part of transformation in fixed-line network, at least we see that we are now coming to the limit of it. We will have around 95% of the network being transformed into fibre at some point but if you ask what about the 5G, that's another issue that currently we cannot address exactly in terms of the timeline and the overall cost of it.

If 2023 is the year where we have a larger amount of money to be spent in mobile because of 5G, then it's going to be a different picture.

So, excluding that and also assuming that there is a great chance that there will be a further acceleration in the revenue growth in 2023, there should be less intensified CAPEX spending, but it's subject to many conditions that we cannot exactly foresee for the time being.

KIM I: That's clear. Thank you very much.

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

DEMIRTAS C: Thank you for the presentation, and congratulations for good operating results. My question is about your net FX exposure

and the sensitivity analysis we see in the presentation. When we look at the numbers, when we go to third quarter, we see \$58 million FX long and in the fourth quarter, we see a higher net long position.

And again, when we look at the sensitivity in third quarter, we see almost no sensitivity to the FX changes. But when we look at the quarter because of big fluctuations or numbers, we see significant FX loss. my criticism, and my question is, these numbers, when you look at the numbers, it's difficult to understand what really is the FX risk of this company.

So could you be just any given as complimentary information during the quarter regarding this FX position, so that we can have better prediction about the future of the company regarding the FX fluctuation.

I understand the hedging has some effect, but at least for instance in the fourth quarter we see the sensitivity could we just assume that that will give us some idea? Otherwise as we experienced in the third quarter, if we come up with the idea that this company is not like in the past, it's less sensitive to the FX fluctuation and if we inform our investors with this information and when we see such a big effect in the quarter, then it looks like our reliability is diminishing.

Maybe you can say that there is no way to predict, that will be our answer. In this presentation, if I first look at this company and if I see the net FX exposure like the long FX exposure, I wouldn't be worried.

But, in reality the numbers show that, when there is a deep devaluation of Turkish Lira, we should worry about the bottom-line. It is a long question, but I just wanted to point out that and I don't know if you have answer for this. Thank you very much.

AKTAN K:

Thank you for the question. So, to be honest, it's difficult to sensitise any hedging portfolio when it comes to having like 50-60% devaluation that takes place in two weeks time. So, we always try to be transparent, not only in the formal written communication but in all meetings that we have with our investors about the fact that our FX portfolio includes sizeable amount of structures including option embedded derivatives and there are certain limits until which we have the full protection and then some of the contracts will become ineffective.

And when you look at the full year FX impact on a gross level, we've been able to compensate more than 90%, like 93%, of FX loss and it only took two weeks to have that 50-60% devaluation and then it incurred around 1 billion plus FX loss in the last months or last two months of the year.

Since there are options with different protection levels, we also give a sensitivity analysis in every quarterly reporting which says what happens if there is 10% devaluation or appreciation of Turkish lira together with the size of the hedge portfolio and the allocation of the portfolio between different instruments.

So, there are close to 200 different structures that we currently have in our portfolio and it's a bit difficult to sensitise

that complicated whole; in case there is unexpected, unforeseen and very high devaluation.

That will be the answer to your question honestly, but if you ask what kind of measures we are taking to address this issue. You didn't ask but probably you would like to know what will happen going forward. We already started taking actions so that there are some sort of restructuring within the hedging portfolio which will again take us to a less sensitive levels in case this devaluation trend continues. The good thing is, we see much less volatile market for the last several weeks when it comes to FX rates.

There seem to be significant effort from Central Bank and Ministry of Finance in order to keep that volatility low going forward, which means we may have some time to adjust a weakness in the hedge portfolio. It will give us time so that we really make the right moves in the right time at the right cost to restructure the hedge portfolio and we already started taking action by the way.

But again, it will some time. You will see, if everything goes according to the plan, diminished sensitivity in those analysis, and as a may be remedy or a solution to your initial question. We may increase the range of the sensitivity since now we saw that when it happens, it really can be sizable and 60% is even possible when it comes to the volatility. So, this will be my answer.

DEMIRTAS C: Well, thank, thank you. It's clear. Just I understand the point. I just want to make that comment. Some factors are

overshadowing the strength of this company and that's why I want to give my criticism and I wish you the best with your operations and everything.

I am trying to see some reason why this share is not performing. I might be wrong. Any clarification or anything that will be more than helpful. I see the operational performance and everything, in this country I see all the things, I really don't see any negatives about the operations.

That's why I am focusing whether the market is discounting this factor or something else. So, sorry for taking your time.

AKTAN K: Thank you very much for all your questions and comments. I think we all got the point. Thank you.

OPERATOR: The next question comes from the line of Annenkov Evgeny with Bank of America. Please go ahead.

ANNENKOV E: Good afternoon, thank you for the call. I have 2 questions, please. First on your '22 guidance. Can you please discuss what macro assumptions do you have for this year inflation and FX rate? Do you assume 12.5 billion CAPEX under stable lira or do you assume some depreciation?

And secondly, on FBB contracts, you did mention upselling higher speed packages, but also can you please discuss the maturity? Could you visibly reduce it towards 12-months contracts from 24-months contracts recently? Thank you.

AKTAN K: Okay. Thank you. Well, we assumed 25-35% range in terms of the inflation and we also assume that there will still be depreciation of the lira, but at a lower rate compared to the inflation, which means Turkish lira in real terms will gain value in a limited way, but still it will gain value. The duration of the contract is a topic that we are discussing.

We also believe that it will make sense to come up with different structure either in the form of shortening the duration of the contracts or step up the prices within the contract term. We are currently working on the formulation of the contracts. For some of the offers, we are also doing the IT implementation for transitioning into a new contract structure, that's within our agenda right now.

ANNENKOV E: Thank you. So, in the beginning of this year, it still was like heavily dominated by 24 months contracts, right, still not yet visible 12 months contracts?

AKTAN K: You're right. We are still working depending on the customer's preference, but significant majority prefer 24 months. It will take some time to change the contract structure. But, it will take within this year.

ANNENKOV E: Thank you, that's clear. 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.

AYAZ G: Thank you everyone for joining us today. Have a good day.
Bye-bye.