Türk Telekom Q2 2021 Financial & Operational Results

Conference Call

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***Conductors*:**

Ümit Önal CEO,

Kaan Aktan, CFO

&

Gülsen Ayaz, IR 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 Yiota, your Chorus Call operator.

Welcome and thank you for joining the Türk Telekom conference call and live webcast to present and discuss the Second 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.

Sir, you may now proceed.

ÖNAL Ü: Hello, everyone. Welcome to our 2021 Second Quarter Results Conference Call. Thank you for joining us today. We have left the fifth quarter under the pandemic impact behind, and today, we enjoy a normalised environment in our country. The whole pandemic era has been gruelling, but it is worth highlighting that the second quarter was uniquely challenging with a slower than usual Ramadan.

Also during this period, the tightest lockdown measures were imposed since the outbreak of COVID. And finally the easing of measures started from mid-June. We observed frequently changing customer behavior and business environment, which urged us to be more focused, agile and adaptive than ever. Thanks to our solid roots, top quality networks and extremely steep and rewarding learning curve throughout the pandemic, we were able to deliver the best-in-class telco services to our customers, and a fulfilling and financial and operational performance to our stakeholders.

Starting with Slide #3 on our presentation, net subscriber additions. Our total number of subscribers increased to 50.7 million with 150K net adds in the quarter. While sales through online channels enjoyed the lockdown impact, the face-to-face channels felt the pressure. We managed to grow our fixed broadband subscriber base to 13.8 million with almost 200K increase despite the Ramadan and lockdown impact. In the mobile market, demand remained subdued for the obvious reasons, and we added 67K net new subscribers, along with our focused strategy. On the fixed voice side, in line with our expectations, we lost 55K of our customers, amid normalised demand for new connections in fixed broadband.

Slide #4, financial and operational overview. Our company has once again delivered an impressive set of financial and operational results. Our consolidated revenues increased by more than 17% year-on-year to 8.2 billion TL, ahead of our expectations, mainly due to a better than expected performance in mobile. Growth in operating revenues was 19% in Q2.

Consolidated EBITDA rose 24% to 4 billion TL, again higher than estimated, as the EBITDA margin remained strong at

49%. Net income grew 30% to 1.3 billion TL, thanks to our solid operating performance, and sound FX risk management policy. Our CAPEX was 1.4 billion TL, on track with planned investments. We reported 38 million USD long FX position, in line with our strategy to minimise the sensitivity of the P&L to FX movements. Finally, net debt/EBITDA fell below 1.1x, owing to superior operating performance.

Slide #5, fixed broadband performance. Although demand for new connections has normalised since the beginning of the year, we recorded about 200K net adds in fixed broadband, ahead of our quarterly target. This result is achieved thanks to innovative and customised offers, pickup in demand from summer locations and carefully managed churn. Fixed broadband was once more the largest contributor of consolidated top-line growth, with 30% advanced year-on-year.

Annual ARPU growth remained flattish quarter-over-quarter at 14%. Earlier price adjustments, but more importantly the ongoing strength in upsell performance, were the main drivers of powerful ARPU generation. Upsell numbers remained elevated with 89% of second quarter performance, driven by upgrades to higher speed tariffs. 24Mbps and above packages made 46% of new acquisitions, leading to 17% ARPA growth. The result of our investment and marketing activities, in order to move customers to higher speed packages, has been extremely encouraging so far. We will continue investing in this area, and remain committed to raising Turkey’s average internet speed in the coming periods.

Moving to the mobile performance, Slide #6. The impact of the pandemic on mobile business has been volatile, with easing and tightening measures. The most visible change in market dynamics was some rationalisation in competitive environment q-on-q, driving a partial rebalancing of price parities. The MNP market, on the other hand, showed no signs of a recovery. We maintain our view that the mobile sector will enjoy improving dynamics, following the full normalisation, that started as of July 1st. We added 67K subscribers in Q2, which included an increase of about 200K in the postpaid segment. Our focus on higher value customer and postpaidisation continued to drive the contraction in the prepaid segment. With the highest quarterly figures since Q2’11, ARPU increased close to 15% year-on-year, showcasing our efforts to engineer a higher mobile top-line growth.

While the subscriber evolution was in line with our internal expectations, ARPU improvement was ahead. Robust ARPU growth was driven by a combination of several factors including the changing subscriber mix, continued pricing actions, innovative offers and portfolio optimisation. We strategically scaled down the number of prepaid packages to create a more efficient portfolio. Consequently, we maintained the upward trend in mobile revenue growth for the fifth quarter in a row, with above 17% annual increase.

In mobile, we have been focusing on a value maximising strategy for some while.

Now let me walk you through some eye-catching results on Slide # 7. A solid market share and major wins in areas like coverage, network quality and customer experience over the last few years, have together formed the viability of our changed strategy. Our ongoing postpaidisation exercise is now accompanied by accelerated premiumisation. Prime, our premium segment product has proven one of the most powerful tools in our action plan, towards revenue maximisation. As of the second quarter, our Prime portfolio more than doubled to 4 million subscribers, since end of 2019. The growth was 65% year-on-year in Q2. Prime subscribers reached 26% of our total postpaid base. Prime has generated around 30% of total acquisitions in the postpaid segment over the last 12 months. Furthermore, the number of subscribers we moved to Prime from the non-Prime base, has been on an up-trend in the same period, and grew by 73% year-on-year in the second quarter. Prime is a crucial contributor to overall ARPU growth in mobile business, as Prime ARPU hovers around 1.8 times the non-Prime ARPU. We have made tremendous progress in premiumisation lately. Yet, our low base gives us more room for improvement, in the coming periods.

Slide #8. We are proud to share an important development in our fintech business with you today. We have recently added Pokus, Türk Telekom's newly developed e-wallet application and prepaid card to our mobile payment and invoice payment services under our subsidiary, TTPayment. Pokus is an integrated digital payment system that provides financial services 24 hours7 days across the globe. With its user-friendly interface, it enables users to manage their finances from a single point of touch. It is available to everyone, and operator independent. Thanks to Türk Telekom's expertise in high tech solutions, and customer experience, Pokus will stand solid in the sector, we believe. Pokus will differentiate itself from competitors with its unique set of features, including money loading and withdrawal, domestic and overseas money transfers, invoice payments, online shopping, spend-split and more.

A superior product, combined with Türk Telekom's large subscriber base and effective sales channels, fuels our ambition to make it among the leading actors of the Turkish fintech market. We are aiming to be a part of every Turkish consumer's daily life, not only through our core telco services, but also in the world of digital applications. We set ambitious targets for ourselves. We expect Pokus to reach 5 million users, and generate 1.5 billion TL of transaction volume by 2025. We aim to turn Pokus EBITDA and free cash flow positive on standalone basis by 2023. Our goal is to make Pokus a widely used application and an indelible brand in its league.

Slide #9, 2021 revised guidance. The first half performance has thrived above our expectations. We recorded higher than excepted top-line growth and EBITDA in the second quarter with mobile business being the largest contributor of the deviation. Other businesses also performed better here and there to justify another upward revision to our 2021 guidance. We now expect our operating revenues to grow 17% year-on-year, our EBITDA to be 15.8 billion TL and our CAPEX to be 8.5 billion TL. While the change in EBITDA is driven by improved top-line and OPEX outlook, the revised CAPEX figure reflects the FX impact, as well as, the urge to undertake additional mobile and fixed broadband investments, in response to vigorous demand to telco services.

Our company has been going through an amazing transformation in a rapidly changing world. Through turbulent times we stood calm and mighty, accumulated experiences and expanded our capabilities. We act responsibly with determination and agility, in order to deliver what our customers and stakeholders deserve. As Turkey's leading integrated telecom company, every decision we make and every step we take, ultimately serve nothing but value creation and sustainable growth. Our focus on efficiency, risk management, financial fitness and customer experience remains our indispensable approach in execution.

We continue to integrate the universal principles of sustainability into our business model strategies and corporate decision-making processes. With this opportunity in hand, I would like to let you know that we will soon publish our GRI compliant first sustainability report. This will grant us the opportunity to present our holistic approach towards sustainability and value creation to our employees, shareholders and stakeholders.

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

AKTAN K: Thank you very much. Good morning and also good afternoon, everyone. We are now on Slide 12, Financial Performance. Our consolidated revenues grew above 17% year-over-year to 8.2 billion lira in the second quarter. Excluding the IFRIC 12 impact, revenue increase was 19% along with maintained strong performance in fixed broadband and further acceleration in mobile growth. The 19.5% operating revenue growth secured in the first half, lends us confidence in meeting our revised 17% target for the full year. 30% revenue growth in fixed broadband was supported by healthy ARPU generation and bigger subscriber base year-over-year. Revenue growth slowed quarter-over-quarter in line with our expectations since the base effect of the pandemic started kicking in. With even a higher base of last year’s second half our guidance incorporates a similar trend in the remainder of the year. ARPU remained flat around 14% over the quarter, although it cycled last year's highest increase. In a constantly changing consumer and business environment over the quarter mobile market remained volatile, meanwhile we managed to accelerate both ARPU and revenue growth constitutively over the last 5 quarters now.

Most importantly, mix was a bigger contributor in this quarter’s near 15% ARPU growth, affirming that our focus on higher value acquisitions and continuous upselling is the right strategy for us. As a result, we attained more than 17% revenue growth in mobile for the quarter. In line with our expectations, fixed voice subscribers declined slightly during the quarter, following the normalised trends in fixed broadband demand. Fixed voice revenues grew about 1% annually owing to higher subscriber base compared to the same period of last year, which was driven by sizeable net adds in 2020.

On the TV side new sales performance remained subdued during Ramadan and lockdowns; hence our subscriber base was flattish quarter-over-quarter. We managed to take some pricing actions in April, despite the difficulties of the quarter. 14% large screen ARPU increase led top-line growth above 11% higher than both our internal expectations and last quarter's 10%.

Corporate data revenues performed well with almost 13% increase over the last year's highest base with more than 18% growth. Finally, the international segment, which mainly includes Türk Telekom international revenues grew by 40%. Once again, the increase was supported by higher traffic and the appreciation of hard currency.

Moving on to our operational performance. EBITDA rose to 4 billion TL first time ever, with 24% growth, beating our expectations with better top-line progression and higher margin. As expected, 49% EBITDA margin marked 1 percentage point quarterly decline, but improved almost 3 percentage points annually owing to bigger contribution of higher margin fixed broadband business to the top-line growth and also higher EBITDA margin in mobile year-over-year.

Although we realised the expected expansion in total OPEX quarter-over-quarter, the annual comparison remained a supporting factor in EBITDA margin evolution. Excluding the IFRIC 12 impact EBITDA margin remained flat quarter-over-quarter, but improved by almost 3 percentage points year-over-year to 52%.

Operating expenses grew slightly above 11% year-over-year; once again well below the increase in operating revenues. Looking at the highlights in OPEX items; interconnection costs increased by 15% together with the increase in Türk Telekom International traffic volume and higher FX rates.

Provision for doubtful receivables dropped almost 22%, mainly due to the decline in device provisions compared to last year. Cost of equipment and technology sales decreased by 15% amid normalised broadband net additions and ICT solution revenues. Other direct costs grew 39% in line with the pick-up in value-added service revenues and shared revenues. Personnel expense rose 15% in a normalised trend and represented a minor change quarter-over-quarter. Finally, commercial costs increased by 29% in line with our expectations again, for ramp up in commercial activities.

Our CAPEX spending was 1.4 billion lira in the second quarter and will be accelerating in the second half. As announced we now expect to generate 15.8 billion lira of EBITDA in 2021 compared to 15.4 billion earlier. Similarly, the planned CAPEX spending rises to 8.5 billion from 8 billion. Obviously there's a fine balance that we want to keep in these projections.

The incremental EBITDA will largely be driven by better operational performance than what we've foreseen earlier. We also expect to incur incremental income from scrap material sales, which is mainly copper as a source of incremental CAPEX for copper to fibre transformation.

As a result improved operational outlook enables us to further uplift our investments in response to a vibrant demand for telco services across the board. The high-end of the fixed broadband market; meaning demand for high-speed, has clearly picked-up in a way not to reverse, we believe. The demand will largely be concentrating on the high-end of the market and we want to be best positioned to capture this growth going forward. Besides our investments in mobile so far, clearly helped us differentiate ourselves in the market. This is not only reflected to our financial performance, but also to customers' preferences and their experience with us. Therefore, we will be allocating part of the additional planned CAPEX to mobile network and coverage investments. Most importantly, these investments will largely be feeding our operational and free cash flow growth performance in 2022.

Coming to the bottom line, net income increased by 30% year-over-year to 1.3 billion lira. The operating performance was nicely carried down to the bottom-line, despite the unfavorable FX moments in the quarter. Once again, thanks to our comprehensive and proactive FX risk management policy that minimises the sensitivity of the P&L statement to FX rate movements.

Net financial expenses rose to 0.9 billion lira from 0.7 billion in the first quarter. In the last quarter's call we explained that Q1 figure was particularly low, and that we expected net financial expenses to rise in the coming quarters for 3 reasons; we had close to 100 million USD long FX position in the first quarter which benefited from severe lira depreciation. Second, we would be facing higher interest rates as we roll older facilities; and finally, the increase portion of short-term derivative instruments within our hedge portfolio would drive our hedging costs higher, because these transactions are more expensive by nature.

Let me also add that we restructured more of our PCCS contracts, following another round of high volatility in lira during the second quarter. With these restructurings, we bought further protection, at the same time incurring higher hedging costs. As of second quarter, our PCCS portfolio stands much more resilient to a possible currency shock, with severely raised protection barrier.

We are now moving on to Slide 13, with debt profile. Our balance sheet stands strong and resilient as of the second quarter. Net debt/EBITDA further improved to 1.08 times compared to 1.15 of last quarter; mainly as a result of strong operating performance and healthy cash flow generation. Cash and cash equivalents were 4.1 billion lira of which 81% is FX based. And lastly, we reported 38 million USD of long FX position, compared to 100 million long as of the last quarter. The net FX exposure included the USD equivalent of 2.4 billion of FX debt, 2.1 billion of total hedge position and close to 400 million of FX cash.

We are now moving on Slide 14. As mentioned before, we are trying to maintain an FX neutral position. The primary purpose is to minimise the impact of the FX rate fluctuations on the P&L and increase the visibility of the bottom line performance. Accordingly the FX sensitivity analysis we report regularly in our quarterly financial suggests, assuming all else constant, a 10% increase in FX rates would have almost no impact on the pre-tax income recorded as of the second quarter. On the flip side, the sensitivity analysis produces about 32 million lira of negative impact in case of appreciation of lira owing to the long FX position in hand.

Finally, the unlevered free cash flow was 1.8 billion lira, 54% higher year-over-year, mainly due to the improved operating performance. We expect the robust performance in our businesses to continue in the remainder part of the year and feed into a healthy full year free cash flow generation.

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

Q&A

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

CABEJSEK O: Hi, everyone. Thank you for the presentation and the Q&A. I have 2 questions if I may, broad ones I would say, one on CAPEX and then one on your margin. So on CAPEX, I understand that you've been explaining very well that there are a lot of opportunity to reap, in terms of demand for connectivity and higher speeds, etc. But are we not approaching a point where if I look at the penetration. For example, customers subscribing on your fibre network, that is still about just 1/4th of all the homes that you report. Are we approaching a point where next time, you know, guide for growth or higher growth, we are getting to a point where the CAPEX to sales doesn't come up along with that growth. So as you upgraded the guidance this quarter, for example, there is actually an implied decrease in your free cash flow guidance. So are we getting to a point where the network is so robust that you will be harvesting the investments more than accelerating them? That's one question.

And then on the second question, you know, the profitability was great, obviously, you've highlighted that commercial costs were well ahead of or the growth and commercial costs was well ahead of the top-line growth. But still you write that there are some OPEX benefits from the COVID situation. So can you just elaborate a bit in terms of what additional costs you expect to get into the base; Given we've already seen a big growth in the commercial costs? And what part of the say margin gains year-over-year that we've seen year-to-date is sustainable and what is not? Thank you.

AKTAN K: Well, thank you very much. Let me start with the first part. I mean, as you witnessed, we went through a very unique period as Türk Telekom and it's not only this quarter or last quarter it is for the last few years, we had several core business areas which showed a lot of potential, but obviously the prerequisite for harvesting the benefits was to effectively and properly invest in those businesses. I think the potential is still there, but we are applying a very well-balanced strategy. So if and when we see the opportunity, we really want to be there with our CAPEX and spend the CAPEX wisely, but also effectively.

So we will keep this you know, strategy in place, we will closely follow the progress in the market and the customer demand and change in the customer preferences. And whenever we feel like, there is good return from those investments we will be there to invest. But you're right, we went through a heavy investment period and we modernised not only the fixed line, but also the mobile network simultaneously. But as I said, now we clearly see that the returns are there and the payback is quite strong.

Second part of the question, second quarter of last year in terms of commercial spending, as far as I remember, that was the lowest number that we saw, in the many years. I don't even remember when we saw such a low number. And the reason was very obvious, because it was the first quarter and there was a very harsh lockdown. And we deliberately stopped the marketing communication, because there was almost no return to come from any marketing activity, at that time that especially valid for mobile, and for the fixed line, the demand was already there. So our challenge was really to make the connection rather than finding a customer.

Now, we're repeating that very low base in our second quarter. And in many instances, we also said that we like to see and we plan to see a higher commercial spending going forward. You see COVID changed the calendarisation of that business as well, but this business traditionally has a busier commercial agenda in the second half of the year. So you should take the second quarter commercial spending number as a base at least and maybe see some further increase in the coming quarters.

Some of the COVID-related savings are still in place. And we also enjoy the benefits from the low level of spending because, I mean, most of our employees, except the field employees are still working from their homes. So travel, entertainment expenses went down quite significantly. But the question, obviously, how long we will have this, you know, COVID-related measures in place, that way of working and that way of, you know, spending OPEX will stay in place. But we always want to be on the safe side, and that also refers to our, you know, guidance when we announce our guidance, we tend to take the potential risk into that number and wait until we really see clearly that there is opportunity, and then we flag it. So maybe you can evaluate, you know, or you can have an answer to that question in line with our guidance as well. So potential risks are already included, but if there are some opportunities on top of what we had right now, they will be reflected into the coming quarters, into the coming guidance.

CABEJSEK O: Thank you. A follow-up if I may, because you can highlight that the fact that there's a lot of demand, and you've kind of invested for growth in both fixed as well as mobile. So there still seems to be a lot of headroom in terms of, you know, investments running ahead of demand, especially on the fibre side. So can you just maybe confirm if you do have an answer whether 2021 is the kind of peak year in terms of CAPEX to sales and 2022 and onwards, we'll see a gradual normalisation of the CAPEX to ex-construction revenue levels?

AKTAN K: Well, I think it would be good to see the second half of the year, the way we close the year, because as I said, we are kind of in a critical point, you know, in this company in terms of how the markets will be evolved and the demand to evolve and the preference of the customers will change. And COVID, on top of everything that we did to really, you know, upgrade the networks and attract new type of customer. So we will see the results of it maybe we have a better clarity towards the year end. And probably when we have, you know, the fourth quarter and third quarter conference calls, we may have a better idea whether that’s really the peak or whether there are some further opportunities that, you know, we can harvest and return we may accept to have some further spending in CAPEX.

CABEJSEK O: Thank you very much.

OPERATOR: The next question comes from the line of Nagy Nora with Erste Group. Please go ahead.

NAGY N: Hi, good afternoon, thank you for the presentation. And one follow-up question in relation to CAPEX. How much of your upgrading CAPEX guidance relate to FX changes and how much of that to increased investments in mobile and fixed network? Thank you.

AKTAN K: Well, very roughly, we have like you know, $1/3^{rd}$ to $1/4^{th}$ of it is coming from the FX difference. The remaining part is almost balanced, you know, allocated to fixed and mobile.

NAGY N: Okay. Thank you for the answer.

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

IGNEBEKCILI M: Hello, thank you for the opportunity. This may not be a question, but may be a comment. We see that you have gradually decreased your short FX position in the last couple of years and now have a slight positive position in the last 3 quarters. And looking at the U.S. dollar Turkish lira rate, movements, it was up 12% in the first quarter and 4% in the second quarter of 2021; but despite the long position, we are still seeing FX hedging gains and losses in the financial expense part. I can easily understand the higher interest expense portion. I also understand the additional hedging costs, fully understand that, but at some point, this negative trend should reverse. I would expect that, so are we going to see in the coming quarters a reversal of this trend? And that's maybe my first question.

Secondly, you revised your CAPEX guidance to 8.5 billion Turkish lira. That means that in the second half, you're going to spend 6 billion Turkish lira in 6 months period. So how much of this is maintenance CAPEX, how much of this will translate into growth in the coming years, because it's a substantial amount. And this is excluding any sort of…in the coming years we're going to see maybe license payments et cetera and 5G related expenses. So can you elaborate more on this CAPEX part, because it's increasing every year; I know there is Turkish lira depreciation. I have sympathy for that, but still, when are we going to see higher free cash flow in Türk Telekom. Thank you very much.

AKTAN K: Well, thank you very much for the comments and also the question. You're right. We have now a derivative FX gain loss item, which shows around 400 million lira expense, but this is purely cost of hedging, that comes from both the hedging of the financial debt, as well as the commercial debt, which is the accounts payable. As a change to, especially to last year, we started fully hedging our commercial payables, and we are using this, since by nature they are short-term payables, we are using short-term instruments, which are the short-term options and forward contracts. And the cost of those items are fully reflected into that line.

As of the second quarter, our FX gain/loss item is almost zero, it's 1 million lira, positive. In the first quarter, we had around 8 million positive FX gains, because we had a long FX position, it was the first quarter where we were hedging the whole balance sheet, and we had a surplus at the end of the quarter.

Now we balance this out, we have a neutral FX position, but they are coming from those, especially from those short-term contracts. As you know, the interest rates peaked in the second quarter. And we are now, incurring in a way almost the full year numbers show that our costs in the short-term contract is almost equal to the existing rates in those contracts, which means we fully absorb the cost of the increased interest rates in the second quarter. So, again, it should be a kind of a base, new base for the third and fourth quarter unless we have a change in the lira interest rates.

For the second part of your question, I will say that normally the calendarisation, may be a bit tricky, because in our business, we tend to take the full year as a good measuring point for the CAPEX because some of the projects take more than the quarter, even they take several quarters, and we always have to incur the CAPEX towards the end of the year, especially last quarter, it's a busy period, it's almost sometimes close to half of the full year CAPEX spending. And normally for the full year we have around, 20% to 30%

CAPEX as maintenance CAPEX. The rest of it, the bulk of the rest is going to the fixed and mobile networks. We see expansionary spending for in IT. Naturally two-thirds of the CAPEX has a direct relation with either expanding the network and acquiring new customers, or increasing the capacity of the existing networks, which means, again make our customers happy, but at the same time, have a good service level. Did I miss anything in your questions?

IGNEBEKCILI M: I would appreciate some kind of a guidance as to when this CAPEX to sales is going to normalise, or maybe this is the normal level. I don't know, looking at the past performance, it was 20% in 2018, 21% 2019, 25% in 2020 and now it seems it's going to be 26% almost, so there is an increasing trend in CAPEX to sales. How should we assume going forward?

AKTAN K: Again, I think it's a similar question to the previous question and my answer will mainly be something similar. Since the intensity of the CAPEX spending is really a part of our strategy, since we saw that, that incremental CAPEX would give us a higher return and higher growth. And we saw that, it's a proven strategy, it's a successful strategy because it really gave us additional momentum for growing this business. And to be honest, it's sometimes a rare concept to have good investment projects for especially incumbent telco to invest its CAPEX money, and start driving higher growth, in a very short period of time. I think, it should be accepted, considered as a good thing for the company, but we are also monitoring very closely how this money is turning into real return, and we are trying not to hurt cash flow, because we know that, and we are proud of that fact., this company has a very strong and healthy cash flow generation from its operations.

And as you know, when we did the guidance upgrades in the last 2 quarters, we always tried to be balanced; so that, if we see better return ,I mean this should come from the EBITDA since we are only guiding with the EBITDA, when we see a better return from this business and if the demand is there, we would like to also spend more CAPEX, but we try to be balanced when we improve the EBITDA, we also improve the CAPEX and not do the opposite. This means that we want to keep the cash flow generation at least at a similar level compared to last year, which was a very strong one by the way.

IGNEBEKCILI M: And finally, do you have a medium-term target as to what level you intend to reduce the net debt/EBITDA ratio?

AKTAN K: Well, it's a bit difficult to set especially a medium-term target, which if you consider that's 2 to 3 years, because in that time frame probably we will have some news for 5G rollout. So, which we don't know what the size of it will be, what type of investment requirement it will bring to us. So without having that clarity, it will be difficult to set a target, but currently what we see, I mean looking at the guidance which gives us a certain flavor for the potential cash flow generation, and also the fact that now we have a resilient balance sheet, which shouldn't be impacted from any further movements in the FX rate, I think we should come down towards 1 multiple maybe go down below it towards the year-end, but it's just an estimate of what we have right now as our guidance on operating performance.

IGNEBEKCILI M: And one maybe final one, maybe you talked about this, but I might have missed, my line cut off 20 minutes ago. The first quarter FX and hedging losses 189 million, and second quarter 408 million. Does this quarter figure have something extra and should we assume lower hedging cost moving forward that wasn't clear on my end? Thank you.

AKTAN K: Not this quarter, but last quarter had something in extra, because of our long FX position we incurred around 80 million FX gains, which was part of that 190 million as a balancing figure. So without, if we didn't have that long position and in the second quarter we went to a neutral position and we incurred an FX gain in this quarter. So, in a way if you consider this comparison as second quarter versus first quarter; it's the base impact of 80 million coming from the first quarter, plus as I said, almost all short term, the trade payable related hedges the cost of those short term contracts goes to that line, and the interest rates went up. So, the very basic change in the second quarter operationally or externally was the increase in interest rates.Now the full portfolio has the exact cost of the current actual costs, which meant an increase in the overall, you know, percentage wise cost of hedging; and plus as I mentioned the base impact.

IGNEBEKCILI M: Moving forward assuming no change in Turkish lira dollar rate or no fluctuation, what is the base level of losses are we going to see on that particular line?

AKTAN K: Well, I think it should be a good base or a good point to forecast the remaining part of the year. Again, as you said assuming all stay constant.

IGNEBEKCILI M: Second quarter's figure to occur at similar levels in this coming quarters, right?

AKTAN K: All else constant…

IGNEBEKCILI M: Well, all else constant, okay. Thank you.

OPERATOR: We have a follow-up question from the line of Cabejsek Ondrej with UBS. Please go ahead.

CABEJSEK O: Yes, thank you. Couple of follow-ups from me, please? One on mobile, you mentioned, well, first of all, you had a significant exploration in the growth and you mentioned that more than a fourth of your subscribers now is on the Prime program? Can you give us, you know, some color as to how long that took from 0 to the 26, and what target do you think are achievable for this program? And then, you also talked about the environment in the mobile market in general being a more benign one, when it comes to competition. So, maybe a comment on that would be appreciated? Second follow-up if I may, on the Fintech side of things, so you clearly have some operating targets when it comes to the application that you currently have or do you also have ambition to apply for the multi, saymore robust banking licenses etc. that some of your peers are doing? And third question, if there is any update whatsoever in terms of the composition on the concessions? Thank you.

ÖNAL Ü: Allow me to answer your first question related to our Prime. You know, we don't prefer to share a number as a direction here, but the basis, I mean, in 1.5 year of period, we have reached 26% of basis in terms of our Prime segment. But, our numbers show us that we still have some room for improvements. So, we will see.

During the last 12 months subscribers that we have acquired; around 30% of them came from Prime, so it can give us some direction, but it's not binding as of now.

I would like to add a couple of points related to your second question on Pokus; maybe Kaan then adds some points, we considered high appetite for this market as a motivation point.

The number of pre-paid cards in Turkey is as of June 2021 is 50 million.

And the volume of the transactions that are made with prepaid card is increasing day-by-day.

And, you know, all these efforts are in line with our strategies to lead the digitalisation of our country with high technology and innovative solutions.

TT Ödeme (TT Payment Company) has been established in 2013 and this way our Fintech journey has started and this TT Ödeme received payment services license in 2017 and e-money license in 2019.

As the leading integrated operator of our country with its 50.7 million subscribers, you know, we have the needed ecosystem for it, and we are quite motivated about it. Thank you.

I mean thank you very much for your concession question which is one of my favorite questions. But apologies, because I would have to only give you a standard answer for that question, because there hasn't been any change related to that. You know, concessions are a fact of our lives within our sectors. In 2023, the 2G licenses of the other mobile operators within our country will expire. We will see the reflexes of the public authorities and the other operators accordingly. Our main focus is to be able to generate sustainable growth and results, which will be able to provide us pay out dividends in a way to, you know, support our company. So we will follow all the results and developments just like you. Thank you.

CABEJSEK O: Thank you very much.

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

AYAZ G: Well, thank you very much everyone for being with us today. We look forward to hosting you again in our next quarter results, and I wish you a nice day. Thank you. Bye-bye.