

**Türk Telekom**

**930783**

**Wed, 17<sup>th</sup> April 2013**

**17:30 Hrs UK time**

Chaired by Onur Öz

**Onur Öz**

Hi everybody, thank you very much for joining Türk Telekom 2013 Quarter One Investor Call. Before I hand it over to our Group CEO, Mr Hakam Kanafani, as always, I would like to remind you to read the notice at the beginning of our presentation. Now, I can hand the call over to Mr Hakam Kanafani, Türk Telekom Group CEO, to start the call.

**Hakam Kanafani**

Hello everybody, thank you for joining us. If you give me one second, I'm trying to put the laptop here. Very good. I will start with slide five and briefly point to the key financial operational highlights of Q1. We started the year with a strong performance in the first quarter compared to the same period of last year. We increased our Group revenues by 6.2% to TRY 3.1 billion. This growth was driven by both fixed line and mobile segments. In the first quarter we successfully completed the personnel retirement incentive programme, which will provide cost savings and personnel expenses, and it will also improve productivity going forward, so excluding the one-off impact of personnel incentive programme, Group EBITDA in Q1 2013 stayed flat compared to the previous year.

In the fixed line business we have a keen focus on broadband. Our long-term aim is to increase our subscriber base by offering unmatched monthly pay packages and services to our customers. Our efforts in the broadband segment resulted in acceleration in subscriber growth as well as ARPU. Our subscriber level reach 7.1 million with a net addition of about 70,000 subscribers. We recorded 12% broadband revenue increase year-on-year. Despite the aggressive competitive environment in the mobile market we have a remarkable growth in mobile revenues with 17% year-on-year increase. Our mobile revenues reached TRY 917 million in the quarter. We also added about 240,000 subscribers.

Let's go to slide six please. We have the highlights of our financial results. Group revenues increased by 6.2% in the first quarter. This is in line with our full year guidance of 5-7%. As I mentioned before, due to the personnel incentive programme in the first quarter, fixed line EBITDA was negatively impacted by a one-off of about TRY 78 million as expense. Group EBITDA remained flat, if you exclude this one-off. As a result of this programme, we now have 10% less headcount in our fixed network unit. Net income decrease was due to the lack of favourable FX conditions compared to last year. This year we did not have the extraordinary gain we had in the Q1 of last year. This is mostly a result of our long-term debt in USD and Euro, in Dollar and Euro. Our borrowing strategy for long-term foreign exchange debt grew successfully so far.

Moving to slide seven please, we have the highlights of Group revenue mix. The revenue composition continued its conversion in favour of high growth areas, namely in mobile and broadband businesses. Mobile and fixed broadband businesses are the high growth areas for us. These two businesses continued their strong growth in the first quarter of 2013, where we had 14% combined year-on-year and drove our top line growth. The combined share in Group revenues of broadband and mobile had reached a little more than 55%. Within the revenue mix, share of fixed voice decreased to less than 30% in the quarter. This was about 40% two years ago. This is all good news for us and it shows that our transformation revenue mix, or the transformation of the revenue mix, is something positive, we're very proud of, and we are continuing to do that with all the difficulties that we would face in something like that, but I think this has been one of our highlights of successes in the last two years.

Let's go to slide eight please. Let's once again highlight our leading position in the market. We are well positioned to sustain our market leader position and offer the most valuable services to our customers. We are a communication and technology services Group and through our ICT knowhow we lead in research and development efforts in the Turkish ICT market.

This was a brief review of our Group's quarterly performance. Now I'd like to hand it over to my colleague, Murat. Murat is the CFO of Türk Telekom. He will be giving you the fixed line business performance.

### **Murat Kırkgöz**

Thank you Hakam. Good afternoon everybody. As Hakam said, I will present a brief summary of fixed line business performance in the first quarter on behalf of Türk Telekom.

Türk Telekom fixed line business continued to grow in the first quarter, driven by broadband and corporate data services. Our revenues exceeded 2.3 billion in the quarter. Starting with slide 10, we have highlights of our broadband business. This quarter, high speed broadband revenues showed a strong growth, including 12% year-on-year and 6% on a quarterly basis. Accordingly, quarterly broadband revenues reached TRY 830 million in the first quarter. This is 26% of Türk Telekom Group revenues in the same period. The growth in broadband revenues was driven by a strong increase in both subscriber numbers and also ARPU. We experienced an accelerated subscriber growth of around 70,000 net additions and excluding the 25,000 decline in Lokum customers, net addition of broadband customers reached around 90,000 levels in the first quarter. As a result, we have now 7.1 million broadband customers. On the ARPU front, a strong increase in trend continued and we reached TRY 39 ARPU levels. This is an annual increase of 9%. Risk adjustment, increased usage, and upside to higher speed packages were the main drivers supporting ARPU growth. As you will recall, we introduced high speed and capacity fiber broadband packages at the beginning of last year. This is also supporting our growth in broadband.

Moving onto slide 11, I will be providing you with the recent highlights of our fiber network. As the clear leader of fiber in Turkey, Türk Telekom continued its fiber transformation programme with network investments. Most recently, we launched a fiber ad campaign showing the benefits of Türk Telekom's expansive fiber network to investors

and corporate customers. In the first quarter, total length of our fiberoptic network in Turkey reached 169,000 kilometres. In parallel with our network expansion, we also increased our fiber homepass. By the end of first quarter, Türk Telekom's fiber for home and fiber to building home reached 2.1 million homepass, and on the subscriber side we have now 270,000 fiber customers. In addition, our fiber coverage reached 4.7 million homepass; through the expansion of our fiber secured network, we increased average speed for our broadband customers. In parallel with our broadband growth strategy, we expand our fiber network and provide best broadband services and solutions to both our national and corporate customers.

On slide 12 we have key highlights of our upsell trends in broadband. We continue to see the benefits of our strong network in Turkey. As we continue to introduce higher speed and capacity internet packages, consumers respond to our offers positively and prefer higher speed and capacity offers, which have higher ARPU. Our fiber network supports this upsell trend. If you would see the left side of the page, you see that the level of unlimited core subscribers reached 73% of our total base. This ratio was 66% only a year ago. You can see on the right side of the page how the strong increase strategy in broadband usage continued in our network. As of March 2013, average market usage reached 32 gigabytes per line. In terms of speed, up to 8 megabits per second and higher speed packages are now 92% of our total customer base. Turkish consumers continued to increase their broadband data usage with multiple devices and higher speeds, and increasing demand of data and usage is supporting an environment where we are able to upsell customers. As Türk Telekom, we have the right ingredients on the technology platforms to meet our customers' dynamic needs.

Moving onto page 13, we have the highlights of our fixed voice business. On the top left chart you see the trend in number of access lines and voice ARPU. The total of 14 million access lines, including 810,000 naked broadband lines, the increase in naked broadband customers partially compensated the loss in PSTN lines. On the same chart we also have quarterly ARPU figures, increasing number of wholesale subscribers had a slight value to impact on the voice ARPU, and as a result voice ARPU slightly decreased to TRY 22 in the quarter, but I want to highlight how a ICT company can connect users with whole movements in multiple bundle packages, and continues to lead the broadband market in innovative offers. We offer fixed broadband, voice, mobile broadband, Wi-Fi, TV games, in single packages, and we will continue to create value for our customers through smart bundles. On the top pie chart you can see the share of recurring themes in fixed voice continued to increase and as of first quarter 2013, 75% of the fixed voice revenues come from recurring themes. In the first quarter, joint offers with good companies for residential and corporate customers continued. We offered benefits to our customers, thanks to our brand publisher programmes and with the leading companies in Turkey. This programme helped us offer the best value in fixed voice in Turkey. Most recently in we even extended these benefits to our customers through all directional minutes as part of our campaign to promote the fixed voice usage.

Now, I would like to hand the call over to our Chief Marketing Officer, Dehsan.

### **Dehsan Erturk**

Good afternoon guys. Let's start with page 15. We started the first quarter of the year in the face of fierce and increasing competition. Competition started in postpaid, but

expanded into prepaid markets, with more aggressive competitive offers, putting substantial pressure on the market. Despite the instability, as you could see from the chart, we managed to increase our revenues by 17% to TRY 917 million on year-over-year basis. Revenue growth is driven by increased voice, data, voice and incoming revenues thanks to also our growing subscriber base and improved subscriber mix. In the first quarter we continued to grow at an accelerated pace. We also delivered an EBITDA of TRY 109 million, a 12% margin, marking 40% growth on absolute level year-over-year compared to the same period. Continuing a significant performance is mainly attributable to revenue growth and smart cost cutting strategies.

I am moving onto the next slide. Our subscriber base grew by 6% on year-over-year and 2% on quarter-over-quarter basis, reaching 13.7 million with 239,000 net additions. The growth is particularly attributable to increasing acquisitions through competitive prepaid offers on the prepaid side, and on the postpaid side our SEÇ offers, which offers a wide variety of offers, simple, affordable, and variable offers. Our MOU, as you can see on the right hand side of the chart, in quarter one reached to 343 minutes, which is higher by 7% on year-over-year basis, and our Avea consistently achieved the highest MOU in the market for the first five years. Our blended ARPU grew by 10% year-on-year, as a result of the increasing voice and data usage, and the increasing internet traffic, with a strong subscriber mix. Postpaid subscribers held the highest share with 44 percentage points in our customer base, which had significant contributions on our ARPU. We sustained the stabilised growth trends in blended ARPU since 2010, despite the aggressive pricing strategy in the market, as you all know.

In the next slide, in mobile number portability numbers, as you could see in Q1 2013, in the full year 2012 actually we achieved the highest mobile numbers, portability numbers. Also, in Q1, Avea has been the leaders in the mobile number portability market. Avea will continue to take action in order to meet its subscriber base growth targets in accordance with the market conditions.

Following the next slide, the mobile data revenue is the backbone of our revenue growth. Data revenue now constitutes 14% of total service revenues with a growth of 55% on year-over-year basis thanks to smartphone campaigns and unique internet packages, addressing different customer segment user, various device types and data bundles.

Next slide and also the final slide, I would like to give you a few remarks about our smartphone market. In parallel to the growth in smartphone market, Avea holds the highest smartphone penetration in the market. As you would remember, last quarter it was 24%. Now in quarter one 2013 we increased that penetration rate further to 27%, which is equivalent to more than 3.7 million customers.

Thank you. Now I will pass the microphone to our colleague, Erhan, for financials.

### **Erhan Merdanoğlu**

Thank you. Good afternoon. My name is Erhan Merdanoğlu and I will talk you through the financial section of the presentation. I will start with the page 21, which gives the P&L statement at the consolidated level.

Our consolidated revenue growth, 6%, was mainly driven by the mobile growth, 17%, and the broadband growth at 12% year-on-year. EBITDA declined 7% due to one-off to effect of the personal loan to retirement incentive cost, as mentioned before. This was about TRY 78 million. Excluding these effects, EBITDA would be flat year-on-year. Operating profits declined 13%; in addition to the similar effects of incentive programme, we have seen some increase in the appreciation amortisation costs, which is an issue result of the increased Capex last year.

On the financial income and expense side, we had a flat FX rate gain/loss in this quarter. The USD appreciated about 1.7% and Euro appreciated about 1% in this quarter. However, the driving factor behind the 32% net income rather large EBIT gain in the quarter one of the last year. Therefore, there is a base effect here. This year we are looking to the large gain from the FX since last year, so we are now on page 22.

We will...we are seeing the consolidated summary balance sheet. An absolute change in this quarter on the balance sheet is the cash account, which we see is increasing as a part of treasury programme. On the leverage side we continue to be comfortable with the net debt to EBITDA ratio one and continued to have a healthy balance sheet structure.

Turning the page, please, and consolidated summary cash flow statement. We haven't produced any less operational cash flow this quarter mainly due to the one-off, the personnel incentive gain mentioned before. We expect to produce the higher cash flow in the coming quarters. Debt incentive programme will start paying off into the year. The other point is our Capex is as described, so as predicted, therefore our cash flow from investment activities went down a bit.

Now, we are page 24, summary of revenue breakdown.

We have seen a bit higher decline in the PSTN revenues in this quarter with minus 10.8%, namely driven by the 108,000 excess line loss, and secondly we are able to offset of this line mainly throughout the increase in broadband revenues, driven by the reaccelerated sub-standard net debt, which reached about 66 this quarter and a 9% increase in ARPU, as well as ARPU increase in the fixed supply business revenue. On the mobile side, 17% growth enabled the mobile business to be our main revenue growth driver. Finally, our consolidated revenue growth reached 6.2% as a result.

On the next page, 25, our summary Opex breakdown. On the Opex side, the main increase comes from the personnel expenses and underlying the recent personnel incentive programme as mentioned before. There is also a significant increase in interconnection costs, which is mainly driven by the increase in international termination rates.

This is a complete my part with the financial consolidated financials. I am turning to the operator.

## **Questions and Answers**

***Cesar Tiron – Morgan Stanley***

*Yes, two questions, please. First, I would like to understand what would be the positive impact of this early retirement program on the Opex going forward, if you can explain*

*what it will be by quarter. Second, do you expect the fixed line revenues to continue to deteriorate in the next quarters or to improve? Thank you. By fixed line I meant PSTN, thank you.*

Okay, thank you for the question. Right now all we can say is that 10% of the workforce in PSTN TT fixed are...would not be with us, so...and I think the most important thing also is that the biggest amount of these colleagues who have concluded their journey with Türk Telekom, almost 1,500 or 1,600 of them are high school diploma and lower, so these are the savings that we will get – tangible in terms of saving the personnel costs and intangible is that we will have a new more enthusiastic human resource element join. That's basically what we can tell you. I can't go into the breakdown of the numbers on this one.

For your second question, look, this is a battle that we are fighting and it's a long-term vision that we have. We have to change, transform our revenues. We need to bring in the revenues from mobile and broadband. We cannot be dependent on revenue coming from a PSTN. One quarter we do well, another quarter we do a little better, another quarter we do not too good, but what I can tell you is that we will continue to defend. We have new programmes that are coming, new incentive programmes that are coming for promoting the sales of PSTN, new advertising, marketing communications. We are going to spend on that and do whatever it takes. Right now I think we are one of the leaders of our region in this decline. I am hoping and planning that next quarter decline and the third quarter decline will not be as bad as the decline in Q1, but as we always say this is a business that will decline, and the smart companies want to take it slowly and try to fix the hindrance that happened on the way, but the good news is if you look at the revenue from Q1 2010 when we started witnessing the churn and decline, and compared it with the number of subscribers in decline, you will see that our revenues are increasing, our dividends are improving, our EBITDA margins are improving, and when we've done all of that without a severe hit in our profitability, so that's our strategy, that's the way we look forward. We think we're doing a very good job at it. It's very difficult to manage it quarter-by-quarter, because we have to keep our eye on the strategy, and that's what we would have to say about this. The encouraging news is on the broadband we have encouraging news. We have good news on, of course, the Avea side and that's the way that we are going to lead the Company.

*Thank you.*

### ***Alex Kazbegi – Renaissance Capital***

*Good afternoon. The question is exactly on the broadband side. You had a quite significant growth in the broadband revenues as well as in ARPU in this quarter, probably the strongest since the first quarter of 2011. Could you give us some more, so to say, color to what has been driving that growth, what was the main reasons, and what is your expectation also for the future? That's one thing. The second question would be on the mobile side. We hear quite often that the market, of course, continues to be quite competitive and aggressive, but maybe you could give us a bit more quantitative, if you wish, view of how much really lower are the tariffs within one or two months when the market took a bit more twist to the higher competitiveness. Do these tariffs actually apply to – does the new subscribers, do you see them applied overall to all the tariffs? What is your estimate, if you wish, of the scope of the tariff reduction currently in the market? Thank you.*

Okay, I'm a little bit not clear about your second question, but I will start by answering the first question and then you can ask me the second question. Do you want to go into tariffs or do you want to know about our view on what's going to happen the next two or three quarters? But, look, for broadband, we are very excited about broadband and I think the story is bigger than we have gained; we have reached 7.1 million. You know, that we were at the 7 million and we reached a glass ceiling, and then we were hit by tremendous competition on the 3G and our strategy was very clear, that we needed to differentiate our product, protect our revenue and our price, enhance our quality of service, add more value to the subscribers and, if we can get away with a higher price, why not, and that's what we have done and we have done this very well. If we had put any other strategy or competitive strategy, we would have lost a lot. We would have been now talking about a completely different dimension in the game, but right now we need to build on subscriber growth. This is what we are focusing on. We think that we are going to grow this year in broadband. That's our plan. This is where we are headed, so I'm excited about this. We have a new Management in TTNET. Abdullah and his team are focusing on that. We have a very good programme that we are going to launch and actually the gentleman in charge of that is not here with us. He is working on that programme now. Mehmet Ali Akarca, who is the wholesale chief, so we are working on igniting also the ISPs, so that they can get new market share and expanding our ADSL and our fiber customer base, so that's very good, and we have got the increase from all levels of this. I mean we have increased our percentage of open unlimited subscribers, which is actually the price that we have increased, so that shows you that the price increase we have put made sense to the subscriber. It's not just people who are controlling prices, but actually customers who believe in the product who are starting to know and noticing that our speed is better, that the requirement of the new internet in the 21<sup>st</sup> century requires higher capacity, they appreciate our value-added service like the music option, like the cloud option, and the gaming option. All of that has added speediness to this very important subscriber base for us; the ones who are on open unlimited and I think the team has done a fantastic job there. Also, our ARPU, we have been successful in upselling and upgrading some of the subscriber bases from the limited subscribers to the unlimited. We have a new campaign coming out, we have new surprises for the market, and we think that's going to be a good year for TTNET in terms of subscriber growth.

*Okay, clear. Let me try to explain the second question, then. What I meant was that I think that on the previous calls generally the – of course the competitive situation is always quite complicated in the market in general, but I think we heard now there was a bit more, if you wish, aggressiveness in the market on the mobile side. So I was just wondering if you could quantify that somehow, saying that, look, tariffs have been reduced by 10% or by 20% or there is general tendency to offer the lower tariffs to all subscribers rather than the new subscribers. So what is your assessment, if you wish, now over the past one, one-and-a-half months, and indeed what do you think – what's going to happen over the next one, two quarters?*

Okay, maybe I will allow Dehsan, CMO of Avea to answer, but I wanted to give you first a very quick overview of the strategy. For Avea we are facing tremendous competition and I think the litmus test for you to evaluate what Avea is doing is to look at our blended ARPU, to look at our EBITDA without the tax, and you will see that we are improving all of these elements and we are doing this in tremendous competition, so from our side it is not only that we are focusing on just cutting the prices and we will follow the lead of any

competitor who wishes to have much more value on the table and we are doing this in the broadband, if you notice, we are doing this in the broadband, but Avea is the challenger. We are going to nickel and dime, we are going to be aggressive, we are going to seek to take new subscribers and that is the nature of the challenge and I think we will need to have the competition look at how the incumbent will try and protect and increase the value so the whole market does not come down in value. we are in a market that can be a lot better and I think this is the upside story for Avea, if we have a little bit better of frequency, if there is an improvement on some of the items that we are hearing about now in the market – all of this is an upside for Avea, but we are very happy and very excited about what the management has done. I would like to thank them for a great quarter and it is a very difficult quarter.

Where we are going after that I think it seems that this is going to continue. We hope that the competitive level comes a little bit down and we focus more on value for the customer, we focus more on quality of service, but it seems that this is the trend. Can we forecast it for Q3 or Q4, we don't know, it is a very volatile market and it changes quarter-on-quarter and we are just a challenger with a small player and we are not the ones who set the trend. I will give you a little bit more detail about your 10% example.

Very briefly two points, one the level of aggression actually is pretty much like May/June last year, so we haven't gone below last year's aggression levels actually in the market, and it is pretty much as related to your second point, pretty much as related in the mobile number portable to market, specifically in prepaid.

#### ***Ivan Kim - VTB Capital***

*Good afternoon. Two questions, please. One the follow-up on the competitive environment, you were saying that Avea is a challenger, obviously, and will continue being aggressive. Can you provide us with some sort of a target on subscriber base or market share roughly that you want to achieve? Is it to become a market leader, or is it to go, let's say, 10 percentage points market share higher from here? More I would even say [quote] if description. Secondly, can you tell us what is to be done to accelerate the broadband subscriber growth and whether you still keep the pricing power on the broadband side? So basically, whether you would be able to increase the tariffs again this year? Thank you.*

There is no one who can keep pricing power in such a competitive market, the incumbent, the leader will create value in his or her products and convince the customers to continue to work with them. It is not something where you put a price and people will respond. We have moving parts and it takes extreme hard work to get to the point we are in broadband and in fixed services generally, because we are the incumbent, we have the most to lose, so I cannot respond to every silly offer left right or centre, I need to focus on the product and make sure that our price creates value for the customer and the customer believes in our products. That is the way you protect the revenue and that is that TTNET is doing. We have a lot of programmes that are coming up because we want to see this expansion; we want to see that better traction on subscribers.

For your first question, we do not intend to be the market leader, Avea has a role to play amongst, – in mobile I mean. Avea has a role to play amongst our group strategy, they are doing an excellent job, they are creating value in terms of the blended ARPU, they are creating growth for us, and as I said we are going by the market. If the market is a little bit aggressive we will be a little bit aggressive, if the market comes down and we have set a



trend and we followed the leader before when there are trends to improve the market conditions. We do not create the most EBITDA in that market, but we are focusing on growing our subscriber base and we are keeping our eye on our blended ARPU and we are doing a lot of smart bundles so that we do not destroy the value in the market. We are doing a lot of cross selling, all of these are good things, and they are gaining traction for Avea. We do not have something that is extraordinarily aggressive to become this or we become that. We have a group strategy, we know our strengths, we know our weaknesses and every unit has a role to play and I think Avea has been doing a very good job there and we will continue to move along the plans that we have set for Avea, and we have improved the network tremendously also and we are going to continue to do that in 2013. We are very proud of where Avea has come with its network, even though they have very limited 900 frequency and mostly 1800 frequency. We are trying to be as efficient as possible in terms of our dealer network and all of that is being done while creating good traction in customer acquisition. We have had a very good quarter in that, so we are very proud of some of these elements and how they are working on this and we are going to continue to invest in Avea.

Also one more thing, Avea had a very effective strategy of bringing in MB&O like enhanced service provider names, we now have the post office so this is good and this is all creating value and it is giving us sort of a bit of a niche to the customer and to the suppliers that Avea specialises in this and does this very well and I think this is smart because it doesn't cost us marketing, it doesn't cost us sales, so we are happy with this trend and we are going to continue this trend, and again this is one of the things the team in Avea have done very successfully.

*Thank you very much. Just to follow up on the first, so we shouldn't expect the price increase this year on broadband side?*

No I mean...no if we have a way...look if we have a way, if we find that by adding value to any of our lines, to any of our services that will enhance stickiness and the customer will believe in and we will buy, of course we will bill it. This is an industry where everybody expects the price to come down, and there is always finger pointing on anybody who tries and creates value. We know that we need to look and make sure that at the area where we can create value in terms of enhancing the product itself we can. If we see that there is an area where we need to be very competitive, we will. It is very important that we look at the total picture, at the whole telco market to maintain our leadership position there. I don't want to close the door but in our plans, no I don't see that there is any price increase that is coming. To us again for the tenth time when we talk to our investors and our analysts, it is not simply a price increase that we put, we look at the product, see what we can add, we do our customer research very well, our segmentation, our focus groups and realize what the customer wants, how much they are willing to pay for it and if we can do it we will add it and it moves forward.

***Dalibor Vavruska – Citigroup***

*Good afternoon. I have two or three questions, if I can. Basically, coming to the same subject as Alex and the other guys raised. In terms of the broadband net additions, can you give some color about what was happening last year? You said you reached this glass ceiling and the 3G was strongly competing against the broadband. Obviously you added these Lokum subscribers, but it didn't show as net additions in your numbers. Now you are saying that the underlying net additions are about 90, which seems much more*

*encouraging that it was last year. So I don't know if you can give us some sense to allow us to forecast at least this year's numbers in the broadband additions to just explain what exactly has changed in the last couple of months. This is the first question. The second question is on the mobile situation. Now obviously if you grow your market share in mobile with Avea substantially, that means that one of your competitors who saw themselves as a dominant player will basically get even more marginalized. Because if you look at the total market share in telecom, I mean you are the leading operator and, if you grow your market share in mobile, they are unlikely to get that offset by the growth in fixed line. So you'll become even more dominant in terms of the overall market share. Don't you think that you can expect some really harsh competitive response as a result of that? Again, it comes back to the questions, maybe it was answered partially, to what extent you are targeting market share in mobile. To what sort of market share level you would be happy in mobile. The last question is in terms of dividends. To what extent you will be happy carrying on paying dividends which are in excess of your free cash flows. At what point do you think that the dividend levels might sorted equalize with the free cash flows? Thank you.*

For the broadband question, we have been at the 7 mark for a few quarters, I think maybe 7 or 8 quarters and this was due as I said to the competition coming from 3G and we have reached a point where we would need to have a paradigm shift and that is what we have done and we knew that that is the best way to go forward. The easiest thing we would have done is just kill the price by 50% and competed, but we wanted to make sure that we have improved retail sales and marketing channels, innovative, unmatched offers by TTNET, device campaigns to push the device penetration up, we saw that the tablet is a great opportunity for Wi-Fi, so we have invested in Wi-Fi, increase our speed and capacity on Wi-Fi, we have 6,000 hot spots around Turkey, and we knew that this is going to eventually increase their habits and the capacity requirements on the internet, they are going to go to the fixed broadband, and our vision is this. As we have seen a SIM card in every pocket, why not have a Wi-Fi zone in every home, that is what we are pushing for and since September we have seen a good positive trend.

Let me again remind you about Lokum, Lokum as we have done we have gained in one quarter about 200,000 subscribers, unfortunately the regulator did not allow TT to sell retail so Lokum has a number of subscribers that is just coming down and you will see that its net effect is causing a problem in our net gain in the total number of broadband subscribers, but today net of Lokum coming down we have about 76,000 subscribers. If you add the Lokum effect, if you look, then we will have our increase could have been almost 90,000 which is good for this quarter, we also had a little bit of traction last quarter and we think that this trend will continue. We are investing as I said in all the ecosystems to make sure that we have a paradigm shift and we can compete.

Next step for Avea, please; we are not doing anything different. We did not cause this, we are not the market leader, we are just responding as the others are doing it. when the market was cold we responded that same way, the most important thing for us, the way that we view Avea is the role that Avea plays in the total telco space of Turk Telekom Group, that is very important for us and we look at the factors that are good and healthy factors and we look at the blended ARPU, we are looking at the penetration rates in certain cities, that is all very important to us and that is how we are viewing Avea. We want to get to a point where mobile is going to have more percentage in the revenue mix than PSTN and as that point gets through we need to do a lot of work on our Opex, a lot of work in dieting and reshaping our bellies because we know how this is going to affect the EBITDA margin and we are doing this very slowly quarter-on-quarter to transform

ourselves. We believe that this is the right strategy that an incumbent must lead, especially an incumbent that has a challenger, third operator and that is basically our vision to you. For the dividend question I will refer you to Murat. Murat is the CFO of TT.

The dividend component is 2.4 billion and our intention is to finance it with the operating cash flows of the company and given our guidance levels of 5.1-5.3 billion EBIT and 2.2 billion Capex we intend to have the cash flows to finance the dividend distribution with our own cash.

*Okay, so going forward you want to finance it through cash flow. I understand. One very last thing, I don't know if you can give an indication, but do you think expecting something like 200,000 to 300,000 broadband net additions would be reasonable for this year?*

I don't want to put a number. I will Abdullah the CEO of TTNET give a short answer to that but we are not going to put a target.

First of all we don't only rely on the subscriber net additions for the revenue growth at broadband; we are also working for the mixed. Q1 we have experienced highest upsell in the last four quarters. We had the lowest churn in the last four quarters, so we are improving customer experience there as well. As mentioned we are investing in the channel. We are in the market with bundles mostly; we are having a regional campaign. We do have a more targeted approach so we are doing lots of segmentations there and definitely we would like to see more and more subscribers, but we are close to following pricing and a mix as well, but we can't give guidance on the subscribers but we want to continue this momentum.

This is a priority for us, I think this is a priority for us and we have been doing a lot of work to get to this point, so it is not something that sudden has happened. We have seen elements of traction in September and we have seen much stronger indications of traction now, but before that throughout 2012 and the last quarter of 2011, we have been changing and improving some of the things on how TTNET plays the game. Abdullah has mentioned some of these things and we continue to do that.

*Thank you.*

***Atinc Ozkan - Credit Suisse***

*Thank you. This is Atinc from Credit Suisse. Two questions. The first one is regarding your IPTV initiative, what are your plans going forward for content investment in excluding movies? Are you considering to re-participate to the football broadcasting rights tender if that's renewed in 2014? And how important is that for your IPTV business plan? My second question is actually a follow up on Abdullah Bey's answer to the subscriber mix or the comment on subscriber mix on TTNET side. Is there any detail you could share with us in terms of the targeted subscriber mix in terms of fibre versus DSL, let's say by the end of year or 2014? Thank you.*

IPTV we have rolled it out almost three years ago with Web TV, pocket TV and we have branded it and it is a very known brand. We have done this almost three years ago. We are very happy with the success that we have so far, especially on Web TV. Competition

responded about three months ago and they came up with some of the competing products but we still think that we have the technological edge and we also have the content edge. We are going to be a sort of renting, buying the content but we are not going to create content or change our strategy to become a content creator or invest in any companies that focus on content. We did not decide yet, it is a bit too early to know are we bidding for the football rights or not. I think there is a potential of course a big success on the football side, but we have not decided and it is a bit too early for that.

Then on the mix no I don't think we have a mix for you, but this boils down to now fibre is here and we have the IPTV, we have it ready, we are more skilled, more experienced, our technical staff has been doing it. We have our learning curve has improved a lot, we have 10,000 employees, they go to the homes for a living, that is something that no mobile company can compete with. We know what to do in the homes, how to set it up, what are the problems. Our technical team is focusing on improving the quality every day, so fibre requires these value added services so that we can upgrade them and we have some very good upgrades and upsell programmes and like Abdullah said smart bundles that we are putting in the market. I think it is going to be a very interesting year for broadband, our time has come here, and we need to show that our strategy was right and that the management team has prioritised that. The picture will be better than it is today, although we are happy with what is happening on TTNET side.

*Okay, thank you. As a follow-up, if I may, I believe you had shared initially when you launched your fibre transformation program last year your ultimate objectives in terms of home passes. Is it possible to remind that?*

Our fibre strategy, remember we only launched in the fibre to the home in Q1 of 2012 right, so we were waiting to make sure that all our fibre investments, we are the ones who are going to gain benefits of it, and we got the five year, and that is what we were looking for, so we started in Q1 of 2012, so we have right now about 2.1 for Q1, 2.1 million home passes and we have about 4.7 million home passes on fibre to the cabinet, but remember our strategy was we want to be in every city, we're the incumbent there, we are the leader there, so we want to make sure that our fibre covers 81 cities. We carry the flag of that of the regional play, national play, so our fibre story is a little bit different than others. We could have cherry picked, but to us, Turk Telekom is very strategic company, we are 160 years old and to us we are fibre. We have had fibre for years in terms of fibre to the cabinet and we wanted to make sure that every city in Turkey has some fibre coverage. I think this is going to help us tremendously in the next few years because this is giving us a tremendous advantage. This is where we are going with that.

*Thank you for your detailed answers.*

### ***Daria Samina***

*Good day. I have two questions. First I wanted to ask on the news on – that Turkcell got increase in their floor off-net tariffs. Do you think that this might be in some way supportive of either through your ability to uplift prices or compete better through marketing offers? The second question is on fixed line. Promotions of fixed voice usage that you are making, do you anticipate any pressure on margins to make from there? Also, where do you expect your fixed-line margins trending in the next two years? Adjusted for one-off, of course.*

Your question was about the SMS, because there are two things happening, it is the SMS where it has come down, and there is also the put on their website that there is a minimum price on net that Turkcell could not. Which one are we talking about sorry?

*The second one, the increase in the floor pricing.*

I think anything that gives the market fair and level playing field is good. From our side this is something that decides and we support the decisions. Our strategy is very simple, if any of these decisions come to hurt our interests, we will try our best to turn it into an opportunity and build on it and we have done this on naked ADSL, we have done this on nationwide pricing of the long distance, we have done this on local loop unbundling, that is the Turk Telekom Group way, but we think that these decisions are going to help level the playing field and you know life will go on and this is something that we will need to see what is the impact of it and how our companies can benefit from it and build on it. We are not going to tell you what our reaction in terms of pricing now is; I mean it is a little bit too early. Of course PSTN margin pressure, this is the name of the game, it is not something that...it is a discovery. We have higher margin revenue that was most of our revenue mix, we need to change that as an incumbent, and we are playing this game in the long term and we are doing a very good job at it. What are we going to do, we need to look at our Opex, we need to become slimmer, we are doing a very good job with that, so that we can protect the margin. If you see coming down from about 45% mix to now, it is what, 28% of the mix, we still have growing revenues and growing EBITDA and the dividends are there and this is I think something quite unique around the world in telcos. For the PSTN all the promotions are time limited of course and we are going to continue to focus on the upsell opportunities there, so that is important, and if need be that we need a new product like naked ADSL or wholesale line rental, yes, little less ARPU is better than no ARPU at all. We are pragmatists and we need to focus on that, TTNET and TT have been doing a very good job with that and the pressure is of course strong because of the nature of the game, especially when there is tremendous competition on the mobile market, candidly, openly, honestly, we have to tell you that this affects the fixed mobile substitution, but the team is doing a very good job at it, very difficult to follow quarter-on-quarter, as long as the strategies are there. Ali and the team our chief sales officer for TT are putting in very good campaigns that are going to come out, limited time campaigns but they will have I think very good effect on us and we are trying. That is the fight, that is a battle that we would need to fight every day and we have to have one clear strategy for it. That is the issue, you have summed it up. These things come at a high EBITDA margin; we need to transform this revenue. Where is that going, I don't know, the next few years very difficult to tell you where that is going. We have our vision where the market will go, where are we going to make our margins and our EBITDA from, but I think it is a bit too detailed for us to say on this analyst call.