

TURK TELEKOMUNIKASYON

Moderator: Gozde Cullas
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Operator: This is conference # 961760.

Operator: Good afternoon, ladies and gentlemen. Thank you for standing by. Welcome to today's Türk Telekom 2017 Q1 conference call. At this time, all participants are in a listen only mode. There will be a presentation followed by a question and answer session, at which time, if you wish to ask a question, you will need to press star and one on your telephone and wait for your name to be announced.

I must advise you that this conference is being recorded today, Wednesday, 26th of April 2017. I would now like to hand the conference over to your speaker today, Gozde Cullas. Please go ahead.

Gözde Çullas: Hello, everyone. Welcome to our 2017 first quarter results call. Today's speakers are our CEO, Paul Doany; and our CFO, Kaan Aktan. Before we start, I would like to remind you kindly to review our notice in the second page of the presentation. I will now hand over the call to Paul Doany.

Paul Doany: Good afternoon. I am pleased to announce that we have had an excellent start to the year. We delivered strong financial and operational results, at the same we continue to move ahead towards our strategic target. Our new organizational structure is now in full force at the company and also our growth company subsidiaries as well, and we target to accelerate our strategic priorities for the remainder of the year and beyond.

In addition to our five years engagement with the PTT through our PTTCell and the mobile segment, we recently signed another agreement given that the national post office of the past had a lot of common real estate with Türk Telecom, either jointly owned or jointly used. So this corporation will provide for more rational utilization of our real estates' values to both sides. And going forward, we are also considering other partnerships with the PTT to create synergies using our experience in telecom and theirs in logistics. And these new initiatives should provide additional strengths in – to our position and relation to our customers and also to both entities and some of our subsidiaries. Another important development is our joint offer with Vodafone, which we submitted in this Universal Service Tender for mobile network implementation operation in 1,472 locations in the country, which currently have no mobile infrastructure; rural areas.

I believe this tender will pave the way for best in class services in rural areas at the most appropriate costs, without obviously duplicated infrastructure. This kind of joint venture partnership is an interesting module that we will consider with Vodafone and also with other operators potentially, to go beyond limited passive sharing, which is all we have currently at this time. So we will continue to seek ways to deploy network CapEx and network OpEx in a more rational format and sharing to the extent – maximum extent possible.

Now, we can move on to the presentation. Operational highlights –on Slide 3, we are showing the first quarter operational results, fixed broadband was the leader in net additions in the first quarter with 218,000; followed by mobile, 142,000; and TV at 97,000. Losses in fixed voice subscribers decreased to 141,000, which is the lowest decline since the third quarter 2010. Number of group subscribers increased by 1.3 million year-on-year to 39.2 million. Subscriber additions in the first quarter reaffirm that we are on the right track with regards to our cross sell and synergy offerings through which we differentiate ourselves in the market while avoiding value destruction.

Next Slide 4, let me briefly summarize the key financials. Our revenue continued to grow at double digits and also with an improvement in the EBITDA margin. Total revenue surpassed TRY4.3 billion, growing 13 percent year-on-year primarily driven by broadband and mobile performance;

excluding construction revenue adjustments, top line revenue growth is 10 percent, which put us on track with regards to our targets. I am also very pleased on the profitability front EBITDA of TRY1.4 billion, a 21 percent increase year-on-year, EBITDA margin at 35.5 percent, which is 2.3 percentage points up compared to the first quarter 2016. On the other hand, negative FX environment continued to impact net income, although its impact is down in the first quarter of this year, where we delivered net income of TRY66 million. We had TRY400 million CapEx in the first quarter corresponding to 9 percent CapEx to sales ratio, down from 19 percent last year. This was again in line with our targets as our investment program this year is more skewed towards the second half. Kaan Aktan will be covering this in his section.

Next Slide 5, digital services are core to our integrated services approach, enabling us to cross-sell, up-sell and increase our value proposition and enhance customer experience with reduction in churn. In 2017, we launched a series of enhancements to our products and their uptake accelerated. We re-launched an upgraded version of Wirofon services, which is developed by Argela company, which is our wholly owned R&D company, while providing a new generation of instant messaging and voice, with high definition video to all mobile customers in Turkey. Wirofon also enables Türk Telekom PSTN subscribers to use their fixed voice minutes using their mobile devices, it has been a great product designed to add value to our customers and also improve retention.

Now, we are adding new functionality to this Wirofon product not only for consumer, but also for corporates, which features are lacking in competing messaging products, especially as we aim to target public institutions that require added security and therefore this product would be addressing those requirements of security in addition to features that other messaging apps that currently have.

We extend successful performance via digital pillars namely Tivibu and Türk Telekom Music Playstore creating more value to our customers. All of these digital services reinforce the value of our product portfolio and highlight the growing number of ways in which consumers can connect to our services,

these services serve as significant competitive differentiators in the market and therefore strengthening our position.

Next Slide 6, is on fixed broadband performance. In the first quarter we added 218,000 net broadband subscribers in total, 10 percent higher than the net adds first quarter last year, and the highest first quarter net add in the last five years. On top of that we delivered an accelerated growth in ARPU, 9 percent increase year-on-year, and again this is the highest growth since fourth quarter 2011. All in all, we now reached 8.9 million fixed broadband subscribers with a strong ARPU at TRY45. Our one stop shop concept all inclusive transparent sole offers as well as our focus on multi-plays such as inclusive Tivibu campaign, cross selling et cetera drives this performance, this explains the very strong broadband adds with increasing ARPU even in a seasonally low demand quarter.

We also delivered great results in fiber adding 164,000 new subscribers corresponding to 75 percent of total net additions in the quarter. The number of fiber subscribers reached 2.2 million, which means 24 percent of our broadband base is now on fiber. We are now fully ready to speed up monetization of our fiber network further, we have passed 14.5 million premises with 235,000 kilometer infrastructure across Turkey and our network is open to all operators. We would like to increase our sales both on wholesale and retail level in a multi-win approach for the sector.

Another critical point is the tremendous opportunity in Turkey to grow broadband business further by driving household penetration, which we believe will be currently low at 47 percent. We have just initiated this week a wholesale broadband campaign offering broadband new entry-level package, which is offered at no charge to retail ISPs to address households with an existing fixed line home connection. So at least our homes that already have a fixed line connected, be it operational or non-operational, the campaign is called Internet Bizden, we are offering 20 gigabyte capacity to the customer at 4 megabit speed. So, this is a good capacity, but obviously at a reduced speed.

This offer does not have naked DSL option, so it's a tool to retain and attract new voice subscribers. The addressable market is very large, if we just take the working fixed lines that don't have broadband, that's a good enough size and obviously beyond that there is a huge opportunity there for customers as I say that have existing fixed line connected straight into the home.

Now in retail, we will support this initiative with affordable prices, for PSTN customers we offer more attractive prices, we also have 40 giga option up-sell on that 20 giga, so without such an offering, such homes would probably stay wireless, in other words some of those fixed lines that don't have broadband may upgrade to broadband, but most of them or the others would probably just stay fixed or cancel their phones, we would label those as wireless data homes and obviously the cost of mobile data is higher than the cost of this particular form of fixed data especially when you have an existing line, so basically try to utilize what's already in there. And our wholesale team are fully engaged with motivating all external retailers to grow the market so that all operators, Türkcell, Vodafone and other independent providers will be growing the market and they would have future up-sells from those offerings.

As customer data requirements increase with time because obviously people need more data with time, this provides a very nice complement to our mobile offering, mobile data offering which obviously comes at a much higher price and indeed a much higher cost. The future demand will require in time higher speeds above the 4 meg and obviously higher capacity and therefore the up-sell opportunity speaks for itself. This is our strategy as a wholesaler to enable an exciting new growth opportunity to the whole market in which all players will be able to get their fair share out of it.

Next Slide 7 is up-selling dynamics in the fixed broadband. The first quarter of this year more than half of our customers has capacities over 50 gigabytes and this number has obviously doubled in the last two years and we will see that growing further, 29 percent have fiber based high speed access, which is up from 24 percent a year ago. Türk Telekom's superior fixed network is clearly paying off and giving us plenty of room to up-sell in a market where appetite of customers for higher speed and higher capacity is strong. We are upgrading our customers from lower level packages to premium, top and at

full speed with commercial activities focusing on cross-selling more and more and this translates into higher ARPUs and acceleration in broadband revenue growth.

Next slide is on mobile performance, in the first quarter of 2017 our focus again was on up-selling and cross-selling as well as offering value added services to deliver best values to our mobile customers. We faced a tough competition in this period, so we needed to adjust some of our portfolio offerings in order to defend our base. However, rather than just dropping prices, we also undertook an integrated approach by enriching our offers with Tivibu, Wirofon and Türk Telekom Music as well as play store enabling differentiation in the market and fostering more aggressive cross-selling, this captured 185,000 new postpaid customers enabling ARPU to maintain its positive year-on-year trend.

In total we added 142,000 mobile subscribers reaching 18.7 million with a strong ARPU growth at 11 percent which is the highest in five years. Supported by enhanced customer experience with a new frequency spectra acquired last year – or 2015 rather, sorry, we captured rates at historically low levels of 8 percent. We will continue to differentiate ourselves in areas where our competitors are less able to respond, given the diverse base of our offerings, thus minimizing profit erosion as far as possible in periods of tough competition as we faced in the last quarter.

Monetizing data on the next Slide 9, highlights on our data monetization. Currently, the differentiating factor between mobile offers in the market is data clearly with LTE launch and this trend has accelerated. Moreover demand for data is on an upward trend which is natural. Our strong postpaid ratio of 53 percent and leadership in smartphone penetration at 76 percent continue to drive data consumption led by our LTE customers. Penetration of LTE compatible devices among our smartphone users increased to 57 percent, up from 40 percent a year ago and monthly data usage of our LTE users was 4.3 gigabytes in March.

Average monthly data usage per smartphone, 3.1 gig up from 1.9 gigabyte in the first quarter of last year. Accordingly, our data revenues increased 79

percent year-on-year reaching 50 percent share in our mobile service revenues. So the future is very promising for us in this phase with strong LTE adoption in the country and encouraging data consumption patterns. As the conversion player we are in a very good position to benefit from this.

TV performance, Slide 10, our TV business performed well with accelerated momentum in the first quarter. Total TV customer base exceeded 2.1 million with 121,000 net adds, 2.5x last year's same period subscriber gain with encouraging net adds for both Home TV and Tivibu Go.

Specific to Home TV, net additions accelerated to 97,000 in the first quarter, the highest quarter in net gain we registered in the home TV segment so far. Our successful performance in TV segment is one of the good examples of group synergies. We launched Mobile+TV as well as Broadband+TV offers in this quarter. They became one of our most popular tariffs. Our TV position is strengthened by a rich content including football broadcasting rights and delivery platforms and unified sales channel.

We will continue to leverage our TV cross sells and acquisitions and retention in management going forward as this is one area we can offer very competitive and thus affordable pricing to grow the base into the free to air customer as this is the main market player being Digiturk and D-Smart has obviously much higher prices and they are currently not focused on the mid market segment since obviously their prices are above that so this is a unique opportunity for us to be a little bit disruptive on pricing and use that as our disruption rather than our mobile pricing as is or fixed.

Fixed voice on next Slide 11, we have reversed the downward trends in our total access lines figure and total access lines increased for the second consecutive quarter to 13.2 million. This a clear result of cross sell that accelerated especially after the unification of brand and distribution channels, as well as our continuous retention offers and well designed tariff structure.

The pace of fixed voice subscriber declined – also decelerated 6 percent year-on-year from 9 percent a year ago. Fixed voice ARPU continues to be strong

at TRY23.1 and fixed voice revenue decline continued to – decelerated the trend at 8 percent year-on-year in the first quarter.

Next Slide is 12 on group companies. We are very proud of the 5G center of excellence launched by Argela, our R&D subsidiary. It is not only a world class test and demonstration center for our achievements with 5G but a direct gateway to international markets and laboratories and vendors to follow the state-of-the-art technologies closely to carry R&D with universities and research institutions and industry partners between Turkey and also the U.S. base and particularly obviously for 5G technologies. We are further extending Argela's product and services from serving us, but rather into other operators especially in consumer segment. This will be an area that we're focusing and we will be having more to say about this in the next couple of months.

It is also worth mentioning that we recently hosted in Istanbul the ceremony to celebrate the success of SEA-ME-WE 5 launch in which Türk Telekom International is a partner with a 40,000 kilometer fiber footprint outside Turkey, which is the only Turkish company participating in that project. This project gives Turkey and Türk Telekom the opportunity to carry data to other countries.

Now, I'm happy to see that these companies together with Innova, together with Sebit and also together with AssisTT, our call center, are beginning to create critical value to the group, but also equity value in their own rights and we will be saying more about that in the next three to six months.

I will hand over to Kaan now. Thank you.

Kaan Aktan: Thank you, Paul. Good afternoon, everyone. We are now on Page 14 with financial performance.

On the revenue fronts excluding non-operational FX revenues top line growth continued to be strong at 10 percent. Broadband and mobile are the main drivers of the revenue growth. These are now accounting for 64 percent of our total revenues and growing high teens year-on-year. Meanwhile fixed voice business now accounts only for 15 percent of total revenues.

As Paul mentioned in Fixed Voice slide, we see a bit strength in fixed voice with a slowdown in the decline rate. All in all, our revenue mix continues to shift from fixed voice towards broadband and mobile services. At the same time decline in fixed voice is more than offset by growth in broadband. In the first quarter annual growth in broadband revenues was around TRY190 million. This is more than three times of the decline in fixed voice revenues.

Both scale and the mix of the top line growth contributed to the EBITDA performance, combined with positive impact of organization streamlining and other efficiencies, EBITDA now reached TRY1.5 billion. This is up by 21 percent year-on-year. As you know we had heavy commercial activity in the first quarter of last year. This was due to branch unification and LTE launch. This created base impact on EBITDA growth this quarter in line with historic trends our commercial OpEx a little more back loaded to the second half of the year this time.

Network and IT expenses are higher year-on-year due to new network player in mobile leading to increase in repair and maintenance expenses as well frequency fees and rental expenses. TL depreciation has also impacted on these expenses items.

We implemented another voluntary early retirement program in the first quarter of this year as part of our continuous focus on operational efficiency. There is around TRY34 million impact on EBITDA on personnel expense, but this is very much similar in size of the program that we run last year in the same quarter. Our personnel expense is under tight control supported by organizational streamlining.

Coming to net income on year-on-year comparison, Turkish lira deprecation still demonstrated the main impact in our net income. However, this has significantly is down in the first quarter when you compare to the last quarter of last year. As a consequence, we delivered a positive net income of TRY66 million in the first quarter of 2017.

Finally, on CapEx, we invested TRY400 million in the first quarter. CapEx to sales came down to 9 percent, which is in line with our targets for the first

quarter of the year. This means that we will still guide to TRY3 billion in the full year.

We are now moving to next page, Page 15 debt profile. Our net debt increased by TRY1 billion during the quarter mainly as a result of Turkish lira depreciation. And it's also important to mention that first quarters are always the weakest quarters in terms of operating cash flow performance. We incurred very heavy OpEx and CapEx spendings in the last quarter which are paid out mostly in the first quarter.

Historically, we generated around 60 percent to 70 percent of operating cash flow in the second half of the year. This time specific to this year we also started with paying the larger installments for Avea share purchase. We paid around TRY200 million in January and there will be three similar payments in the next three years and both in the same months in the first quarter.

Adjusted net debt to EBITDA ratio is now at 2.23. We know that our leverage ratio is lower than many global peers, as you will see in the graph on this page. But still we would like to see the ratio to converge to the level of two in the short term. We have to expect one more similar or maybe higher ratio in the second quarter. You also remember that we have last payments for the LTE license in April, this is around TRY900 million. This will also put some pressure on the ratio, but starting from second quarter we should see gradual improvement in every quarter that will follow. Of course, FX rates will always be an important element in this equation.

We kept our average debt maturity at 3.4 years at the end of the quarter. This is in line with our target. We don't have any material short-term financing requirements. We have TRY2.6 billion in cash, close to 50 percent of this in dollars mostly and euro as well. And this is more than sufficient to cover even our 2017 fully financial requirements. We will continue to assist our financing and risk management strategy going forward so we will try to bring even more diversification to our funding sources. And this will be the end of my presentation I am now handing over to Gozde for the Q&A part.

Gözde Çullas: Thanks. We can now take questions. Thank you.

Operator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. As a reminder, if you wish to ask a question, please press star and one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press the hash key. And once again, it's star and one on your telephone if you wish to ask a question.

And your first question coming from the line of Ivan Kim from VTB Capital. Please go ahead.

Ivan Kim: Hi, good afternoon. Two questions from my side please. Firstly, on your TV revenues, so your broadband revenues are obviously very strong in the first quarter. And I was just wondering why the TV revenue doesn't pick up more because it's few kind of growing similarly from the low base but it's not accelerating.

And the second question is on your digital strategy in mobile, so those applications about which you've talked a bit more, I think, for the first time now Wirofon, the music application and other things. So, do you view them as more of the customer retention, lowering churn type of instrument or it's about diversification of your revenue stream and you potentially trying to maybe become more of a digital provider, I mean, slow competition within the Turkish tech markets. Thank you.

Paul Doany: Thank you. On the question of television actually I would like to make it clear that you know from what I mentioned earlier on is that this is the one area where television in this market if you look at free to air obviously has very, very poor content and any otherwise provider such as Digturk which is extremely expensive and then you have D-Smart which is not at all cheap. So, we have we have a unique opportunity to be disruptive actually in that segment, in order not to be disruptive with our main mobile service offering. So, this gives us an opportunity since the cost structure is rather flat in this business you know once you pay for content.

So, we changed the strategy and the direction of using this as a way of – as an incentivizing cross sell into a segment which is now severely underserved, meaning people just buy basically a television and a set top box and basically

have nothing to watch. So, we can give them very good film and a good amount of reasonable sport at a very competitive price. So, rather than trying to generate revenue on a smaller base this is something which we would rather grow the base as fast as we can. So, we are being a little bit disruptive in that segment given that this is a unique market making opportunity for us and also we are now becoming number two in fact we have already now become the number two provider of television and we'd like to grow even, even further noticing that what has been paid obviously for the football rights is very, very excessive.

So, therefore, the value of the highest premium content will always be very high and that is what Digiturk are pricing it. And if we price it a little bit lower than D-Smart, we're not going to gain what we would like to gain in this particular segment. So, that's a strategic drive.

In addition to serve those homes we are providing obviously a satellite TV into that home, which on a self install basis. So, we have a lower cost of provision. The customer makes their own installation so we don't have any headaches of installation and maintenance and all those stuff which obviously with an IPTV type of service as we all know it involves a higher cost. And therefore, that's the approach on that front.

On the digital content generally we would like to move in a direction where we have more differentiation or giving more value. So it is a combination of the two that we're aiming for. Wirofon in particular is opportunistic for us because it provides the security advantage that special customers in this country would rather have a product that is let me say, not open or available externally to Turkey. In addition, it gives you the advantage of putting bulk customers.

So, if you want to install, for example, 100,000 base people who are working in a specific government sector for example you can do that to a single entry with this product. So, it's designed really for that type of customer. So, it's quite specific in that regard. We will be coming with more products of this kind under the Argela company. This is a strategy for us to grow the value of Argela and we become a customer and therefore they then take it to other

operators. So it could, in the end, become an opportunity of growing the value of Argela in that sense.

Ivan Kim: Yes, very clear. Thank you very much.

Operator: Thank you. Your next question is coming from the line of Herve Drouet. Please go ahead.

Herve Drouet: Two questions as well on my side. The first one is going back to your digital strategy. I mean do you think on some of the, your applications you're going to give free data rating i.e., if you use your application you are not paying for the data. I mean, we start to see that type of tariff policy you know in some other countries. I was wondering it, what is your thought on that.

And the second question is on the mobile segments where it looks you've done, you know, quite pretty good results there. I was wondering I mean usually Vodafone is – in Q1 tends to be much more aggressive, usually. I mean is this quarter a bit different from what historically we have seen that can potentially explain your mobile performance or do you believe there is no change with in terms of the promotions usually been put by Vodafone in Q1.

Paul Doany: Thanks. Actually let me start with the second one. The strategy that I mentioned in relation to being disruptive on television, which has a mobile component and it also has a satellite TV component. These are two new important directions that we can give a lot of value to the customer.

Now, you notice that when we do this thing over satellite TV then obviously we would call that a wireless home, which means this is the home that's unlikely to ever use a broadband. So therefore, we are giving them entertainment over satellite and obviously that's a very good offer if they are a mobile customer with us. So, that obviously Vodafone and Turkcell don't have that type of service. They could easily launch one but at the moment they don't have it. So, this is an area where technically we're in competition with a satellite TV operator rather than a telco type.

So, in that regard that is how we have chosen and we've just launched this product actually. So, we're not seeing effects of this yet. So we begin to see

the effect of this actually during the course of this particular quarter and beyond. So hence, during the first quarter it was getting a little bit hot in the first month so we didn't want to react so much but then we have to react at some point and we weren't really ready with this approach, we needed an extra couple of months for this.

So, we use more applications like you're indicating, which now takes us to the first part of your question. Now, your first question rather, which is in relation to, do we have to give free data to some customers for certain apps.

Yes, for example messaging app, let's WhatsApp most people use WhatsApp. We have Wirofon and Turkcell have their BiP product. So, we thought for certain parts of our customers like to Selfie, they're young. We say, included in this price is basically free messaging and rather than being, saying this only would apply to WhatsApp that wouldn't be nice. We have a product Wirofon and not many are using it as yet because we just launched it. Perhaps some are using BiP, so we are saying any messaging platform you use but without the voice calls is included in that tariff.

This is also very important for roaming by the way because where people are roaming they tend to be very careful about their spend. So, if we include a bit of messaging in that, in the end messaging is probably the most important of communication right now after voice.

So, if you can't speak or you can't afford to make a call at least you want to send a message. And that's why messaging is ultimately going to become part of the, what you would have to give away, which is not a lot by the way, but that would be something essential to give so that people feel even if they're out of quota at least they can make a phone call, they can send and receive message and that would be the minimal. I think the market will go in that direction.

Now, for certain parts of customers if you're giving heavy content, for example, mobile TV or something and if they're paying more than a certain amount it would be normally possible to provide something to those people. But as you notice from my earlier presentation what we try to do is we're

trying to gear customers towards using fixed data when they are in their home because that obviously – data usage is addictive as we all know. So, we're trying to make it more like a Wi-Fi access as opposed to a mobile data provision. So, that's the approach we're taking because obviously the last thing we want is just to be price disruptive in our main core services because that none of us can afford.

Herve Drouet: All right. Thank you. And maybe just a quick follow up on the cost side and especially on the commercial cost side, I mean obviously compared with last year when you launch LTE and you had your rebranding exercise, you had a heavier cost structure, which is now being phased away. I mean, are we going to continue to see that trend looking forward. I mean especially on the rebranding exercise is it completely over and now we can assume costs we've seen last year are not going to be booked this year. And something for LTE, the LTE commercial exercise you had last year.

Paul Doany: Actually, last year I mean the heavy spend last year was to launch a unified brand, and obviously that is something you do once, once the unified brand is done, it's done. So we don't foresee any major launches equivalent to that. So now we are running as we are and obviously if we have something new to launch, we launch it, but it would be small in comparison with what had to be last year. And remember also last year was a total rebranding as well, which also was very heavy at the point of distribution and everything. So obviously, this is again something you only do once.

In relation to just normal marketing and advertising as you know what we did in the company is we rationalized all the marketing under a single unit so now consumer, brand and corporate is under a single – under a single budget and that allows us to control the budget better, if you like. So therefore, I think, it's very easy for us to live within our operational guide.

Herve Drouet: All right, that is clear, thank you.

Operator: Thank you. And there are no further questions at this time. But as a reminder, it's a star and one if you wish to ask a question.

And your next question is coming from the line of Roman Arbuzov. Please go ahead.

Roman Arbuzov: Thank you very much for taking the questions. I just want to follow up on the last one around the costs.

If I heard Kaan correctly, I think, he was talking about costs potentially picking up in the second half. So clearly, in terms of your strong performance in Q1 part of it is comps right, the easy comps versus Q1 '16, but are we actually sort of at the normalized level cost-wise do you think or were costs relatively depressed in the quarter and will be picking up through the year. Just in terms of extrapolation of the trends that we saw this quarter how should we be thinking about that, please. That's the first one.

And the second one is just around convergence, it would be great just to get maybe a few additional – sorry, just a few data points around convergence and the overlap of your fixed and mobile bases. You spent a lot of time talking about it and it's clearly an important driver for the market overall, but we don't actually see much statistics coming out of you on that front, so if you could give something away in terms of the overlap and sort of how you are thinking about and what's happening to churn and the value that you are creating through convergence, that will be very helpful.

Kaan Aktan: Yes, for the first part of the question, I think it will be a business as usual quarter when you look at from the costs side. But as I mentioned in my part, we have some streamlining efforts already in place. So that will be kicking in the remaining of the year, it's some more impact on the financials positively. But you should remember that this is a well established seasonality we have always heavy OpEx as well as CapEx in the last quarter and in the second half. So are you seeing that it will be again a normal year in that sense.

Roman Arbuzov: Right, but nothing beyond the usual in that sense, it's just sort of normal seasonality.

Kaan Aktan: No, we don't foresee that.

Roman Arbuzov: That's clear, thank you.

Hakan Dursun: For your second – this is Hakan Dursun, the Chief Marketing Officer. For the second question actually we are providing fixed broadband services, fixed voice services and TV services under single bill. The mobile part we are evaluating the single bill options which pros and cons and the technological constraints. However, our service our commercial strategy is rather than bundle, we are focusing on cross selling activity in order to preserve the value in the best way possible because there are territories for cross selling especially and we are looking at the different dynamics also in our market shares.

When you look at our revenue growth acceleration and churn reduction, this is reaffirming that our strategy is the right commercial strategy and we are proceeding in the right direction. What we are doing is we are continuing to enrich our group synergy offers to leverage our strength in fixed line, especially, to support our mobile acquisitions. And share of synergy offers in this respect within the new acquisitions and new subscriptions are in an increasing trend everyday. So this is as much as I can provide.

Roman Arbuzov: OK, thank you.

Operator: And your next question is coming from the line of Alper Ozdemir. Please go ahead.

Alper Özdemir: My question is about your doubtful receivables, as far as I can see there has been a continuous increase in allowance for doubtful receivables in the past couple of years in both nominal and relative terms. Could you please give us details about the underlying drivers. And also, could you give us some guidance about what will happen in 2026 when your license expires. Thank you.

Kaan Aktan: For the first part of the question, we had adjustments in terms of the assumptions used for one of the segments our customer base. So that shouldn't be direction – that shouldn't give you a direction for the rest of the year. And for the second part, Paul.

Paul Doany: I can give you some general background in relation to concession let me say renewals. I think this obviously is a sector-wide issue on Türk Telekom and on the mobile there are three main concessions at least as you know because the concessions are also coming by spectrum license as well ending at the 2029 front.

So obviously, the government and the regulator are looking at all-in-all how to address this whether Turkey is going to go for renewing concessions or having some other form and – of licensing I mean in relation to this particular company I mean let's say Türk Telekom itself the right of renewal is obviously enshrined into the concession agreement itself.

The matter of for what price be that an amount or an annual amount or whatever it is obviously would be determined at that time, let's say two years ahead of the intention to renew, I think there is a like a notice period like that. So we are obviously well away from that point but that's the dynamics of how it works. And obviously all interested parties, us and the mobile operators as well, are talking to the government in relation to what would be the right approach given that the government already obtains very high annual charges from all the operators in the form of special communication tax and treasury shares for example in the mobile.

So therefore, there is a natural annual licensing sort of revenue that the government is making, which as we all see, is one of the highest in the world if not the highest. So in that sense the government could look at soft renewal type terms since they are getting all of this. So I think all these subjects are going to be, obviously, discussed let's say, this year and next year, I think, we will have more clarity on that.

In relation to Türk Telekom itself, what is important for this company is that within this year and at least no further than next year there should be some more clarity on the accounting treatment because this, of course, will be important for this company and we started that discussion and the regulatory authority and the government understand this and we are positive that there will be good developments for this sector, at least be sector wide, let me say, clarity that will be helpful to everybody. And that's as much as I can say for now.

Alper Özdemir: Thank you.

Operator: Your next question is coming from the line of Mehmet Agyuz. Please go ahead.

Mehmet A. Agyuz: Congratulations on a strong quarter. I have three questions if I may, first one, regarding your tower sharing plans, you mentioned in the previous conference call whether if there is any development on that fronts in terms of further cost cutting initiative.

My second question is regarding the acceleration in your broadband revenues, we see very healthy churn especially on the ARPU side, how do you see that going forward especially looking at your new campaign to tap into new households et cetera should we see some dilution on the ARPU, going forward.

And my last question is in regarding your mobile data revenues, like the other players in the sector, I see that you have shifted some revenues from voice to data and it's still at – and I think is the logical thing to do which is the main cost site and the consumption site is going from the data side, could you give some color or some guidance about the – what would be in the next couple of

years the data revenues where it could reach in the couple of years. Thank you.

Paul Doany: OK. Let me start with your first one. In relation to sharing, as you know – and I mentioned in the last call that there was a standing agreement with Vodafone, which was to share a site for a site. So basically, no party pays anything to the other. So for every site that Avea was providing Vodafone would provide a site and I think there was about 2,000 sites, roughly shared each way. And that is more or less was the status quo.

And then in the same period obviously, Turkcell established a tower company and obviously if we wish to use that tower company, there should be a payment that we would make. So this is a not a sharing form. This is a format we can compare what we would pay them in relation to if we do it ourselves. So, the structure in the market now is mostly around self provide, do yourself the same thing applies by the way to fiber or everything or if you are able to share, you share. And that's how the approach is done.

Now, we started obviously, engaging with the operators, whether we can push that form of sharing into something more towards active sharing. So we are sharing active devices as is allowed under the LTE license or in 3G for example, it would be more of a form of – but obviously 3G is slowly being phased out. So we're focusing on the LTE side which allows for that.

So we started to work on that and hence came this opportunity of the USF tender which we have give the best offer jointly with Vodafone in a 51%/49% JV structure for that particular, let me say obligation, that USF obligation. So that model seems to be a useful model, however obviously we will be looking at now certain locations with them, where we are able to go beyond just passive sharing, because active sharing would be a lot more efficient.

In addition, by the way even when there is passive sharing, like we have multiple occupants in a single location, there appears to be a form of multiple payment also for leasing. So we're also trying to rationalize that structure. This work is very advanced now, so we're very optimistic that mobile form of sharing, just like there has been a lot of talk around fixed sharing, there has

not been any real talk around active mobile sharing, which is very, very key. So we see there is good prospects especially now with this rural, this is a very good model for us to progress with Vodafone.

We are also open to both of us paying Turkcell for use of its tower's against a fee. So I think all parties are looking into this. Obviously, for our side the mobile is much more important because fixed people share what we have against the payment which is regulated, so that's the maximum we can do on the fixed.

And your second question was, in relations to the, let me take the high broadband revenue. Let me just take the first part and I'll hand over to Hakan to cover the remainder of the broadband part and also your mobile data question.

Since our target is to grow the broadband markets, then obviously that is going to be as an impact on the overall arch coming down. So if we stay as we are now Turkey is around 46 percent household penetration, which obviously we believe that number to be low. If we don't grow that number in the next two to three years, those homes are going to stay wireless homes. They're not going to benefit from the value of the fixed.

So, where we are coming from, is we are coming from let me say the easy win. Now the easy win comes from a customer that already has a fixed line and is currently operating it as a voice service and doesn't have broadband. Now that's an easy one to target, why are they using broadband today. Because they are prepared to pay the full broadband price. Perhaps their data requirements are sufficient, using their mobile and they don't want to pay the full price of a full real broadband service, which comes at the higher speed and obviously a choice of generally high capacity.

So for this customer what we designed, as we designed the tariff, which is affordable after quite a lot of study. That's why it took a little bit of time to get to this numbers. So we will try to understand what is the number that this customer would be willing to pay, and make that increments, small enough for him to afford it. And from our side we are giving 20-giga for as a meaningful

contribution to their shared, let me say mobile data usage in that particular home, that's why we have to set that 20-giga, but we set the speed at 4-mega, that's very important to minimize cannibalization, and this is the useful protection because for them over Wi-Fi they won't perceive much difference on speed and reality, if they are mobile data users in any case.

So, that's where we are coming from this particular broadband offering. So it is offer to customers where the incremental cost of provision the marginal cost is very-very low, is the lowest anyways to minimum. We can't offer service at less than this incremental cost. So those who have voice obviously this would be the easy pick.

The ones who already cancelled the voice, obviously that would a different type of sale. You can capture the customer at the point of sale when he is buying, let me say, a new mobile and he could be asked that and this will be offered by Turkcell, by Vodafone, by obviously our own mobile and in addition obviously that alternative operators in the market and we're trying to grow alternative channels in order to secure in particular customers that have cancelled their line. So they are totally wireless at the moment.

In order to reach to those particular homes would require a different kind of a channel. So our wholesale team are very focused on how we can grow that penetration through again channels that will be willing to sale because this is important for us to have those channels and not that TTNET actually grabs the bulk of this. Part of our let me say understanding would be regulator and with the Ministry is that this is wholesale offer that not only TTNET benefit from it.

Now, by growing the market to this level, it means that those homes that have the ability of having fixed will in the future, the capable of an upsell. We have a 40-giga up sell now already designed by the team, which will be already available. And in time we also for see that, the main offers that we now having broadband, which obviously we are trying to grow the ARPU through upsell, I think that will continue. So we are able to capture customers that wouldn't otherwise capture, if we don't capture them in the next two to three years, those homes are forever going to be wireless.

So therefore Turkey should be aiming at a broadband penetration more into like Central-Eastern Europe level which we couldn't do without this type of an offering. So it took a while for us to first of all design it and second to actually get consent for it. I think all in all this wasn't, I mean to do this within this time of came in almost at the right time I believe for us, but obviously this is going to have an impact on ARPU without a doubt, but what will come out of that will be a far higher revenue stream I believe. In addition is complimentary to mobile data, remember because the cost of this provision is lower than doing it by mobile network.

So Turkcell and Vodafone, I believe will be benefiting from this, which is also important for us. To see it complimentary and we hope that they will get their fair share of this product.

In relation to the balance of your question for the normal customers I'm focus on the, on the low end myself and hand over to Hakan to who handles the normal customers and mobile data part.

Hakan Dursun: So when we look at the broadband revenue growth, we include – there is very healthy growth as you pointed out. Which is driven by a solid subscriber gain which is 8.7 percent year-on-year and ARPU growth of 9.3 percent year-on-year. The main reason for strong net additions is definitely demand one-stop show, because after integration we are now leveraging the total number of visitors in the shop regardless if they came for a mobile need or a fixed need or TV needs so we are able to pursue our products, it's very helpful.

The second reason is the brand unification and no more confusion, it's the single brand to meet all the demand; and the third reason is all inclusion transparent solo offers with the clear speed level and clear quota level. So, these are the main reasons which that growing strong net additions.

Then we look at the ARPU front, the main reason behind 9.3 percent ARPU increases a main upsell. Because our up sell performance increase almost 40 percent to 50 percent year-on-year compared to the same period of last year. And some price adjustments in tariffs and items like activation fees. There is

some seasonality usage in Q1, so you're going – correct in Q1, there is some seasonality.

And finally as the market leader, of course, we will continue to drive sustainable market growth and we'll play at a new game. So the penetration effort is an incremental effort as Paul has mentioned, there is a detailed research just to make sure that there is no cannibalization with the existing fixed broadband business. And there are also mechanical fixed to door number control, so that if this the new penetration offer is not available for the existing fixed broadband users, they also buy a door number control. And of course, the needs are different one, is addressing the mobile users, the others are addressing the fixed broadband usage. Where fixed broadband gigabit use is almost 70 – close to 70 gigabits. And so, it's not comparable to the 20 gigabit offer.

Well, first of all, we are quite comfortable in that front as well and while we are building the future of the market for all operators.

On the mobile side which is your third question. The current differentiating factor between offers in the market is the data rather than voice minutes or rather than amount of SMS'. And with the launch of LTE actually this trend even accelerated further. And moreover the demands for data is on an upward trend. So in Q1, total data usage increased more than 80 percent year-on-year. Therefore, an accelerated increase in data revenues is a normal trend. So, it naturally impacts the overall mobile revenues positively. Our data consumption drivers are basically our smartphone penetration which is again up by 8 percentage points year-on-year so our smartphone penetration in the base is now 76 percent. It is also related to 57 percent of all the smartphones are now LTE compatible. And LTE smartphone user consumes 50 percent more data than non-LTE smartphone uses.

And the third one is of course we are doing a higher number of data package upsell and cross sells and we are also migrating more customers from prepaid to postpaid which is also stimulating more data uses.

Mehmet Agyuz: OK. Thank you.

Operator: Thank you. Your next question's coming from the line of Walid Bellaha.
Please go ahead.

Walid Bellaha: Hi, good afternoon. Thank you very much for the presentation. I have just a question regarding the full year guidance. So, I see there was – there was no slide on the guidance. Do you expect the guidance that you provided for the earlier this year to remain?

Kaan Aktan: Yes, for the time being we don't foresee any change to our guidance. So, we will stick to the same set of numbers for our guidance. But looking at the first quarter performance was in terms of revenue and margin. So, we can say that we – we should be targeting the higher end of it for the moment. But we won't change the guidance in this quarter.

Walid Bellaha: OK. I understood. Just as a follow up because I understand I mean one of the reasons Q1 was very strong is that the comparables were – were quite weak Q1 last year in terms of EBITDA was relatively weak, there were a lot of commercial cost involved. So, do you expect some improvements quarter-on-quarter going into Q2 or rather stable performance.

Kaan Aktan: Well, when we had this same discussion in our last call at the year end, there was a lot of questions that are onto margin performance and the trend of it. So, we said we believe we should have seen the worst of it, or the lowest point somewhere towards 2016. And that would be a turn around year for us in 2017.

And in short to midterm, we should be targeting somewhere it's mid 30. This is the first quarter performance is a bit higher than this. So, we will still say the same thing. We believe that definitely will stabilize and if we can, we will increase margin a little bit compared to the last year. But we have to wait and see for the – for the next few quarters to see how big the margin improvements will be.

Walid Bellaha: Thank you very much.

Operator: Thank you. Your next question's coming from the line of Ondrej Cabejsek.
Please go ahead.

Ondrej Cabejsek: Hi. I want to follow up on – on the broadband discussion. So, maybe I understood wrong but you mention that you feel like you have two-, three-year window now during which you need to increase fixed broadband penetration and if you don't do that basically a lot of these households that you're now targeting with the low end offers will remain wireless forever. I'm just wondering what makes you say that.

Paul Doany: Well, you know, the main – well, perhaps I was being too tough by saying two years, I mean three years is an arbitrary number, I mean. But what I mean by that is that customers who are using mobile data and are not willing to pay the price of broadband and especially places where we already have a home connection right into the dwelling units so that the incremental cost of providing this service is so low there is no reason for us not to provide service.

Now, what was the impediment. The impediment to doing this by the company was being able to get an approved wholesale tariff that the regulator can consent to without it turning out to be to the benefits only of TTNET and the expense of other operator.

So, the main problem and this has always been a regulatory competition issue. So, what we try to do this time is to design it well enough and get the approval and design a means for this to be a market wide offering. So, that was actually where the effort went into. So, this is not an entirely you know, revolutionary, a new idea such that this time we are able to get the consent for it.

Now, what happens if we don't do it. Well, obviously if we don't do it the prospect of a future upsell will be – will be a lot harder in the future, right. So, once we did the market research, we understood that this tariff which is around 15 lira incremental, I think – I think we already announced this tariff so I can say it this week. So, it became public just below 15 lira, 14.9. On top of a fixed line amount and that's a total payable by the customer.

Now that is a very, very compelling proposition to a mobile customer because he gets 20 gigabit in your home just for incremental of 15 lira. If you gone to – if you're going to buy anything like that over mobile a fraction of that is

going to be at a multiple, you know, between 5 to 10 times depending on what tariff you're on. For people who are in that segment, it would be probably closer to the range of 10x. So, it's a lot, lot cheaper and therefore they got disadvantage of keeping their mobile quota while they're out of the home.

Hence this home which would be – they would tempt to stay – to stay wireless will now become a fix home provided. But obviously they can stay on Turkcell, Vodafone or any mobile provider that they are doing. So, this is a pro competition model that we have managed to design if you like this time and more importantly we get consent for it. That's the – that's why actually it's quite an exciting proposition. It allows us therefore to grow the markets at a very low incremental cost. Remember, we can't offer this to any customer who asked for it.

Ondrej Cabejsek: Thank you. And just a follow up here. Does this approval have to do with – with the new wholesale pricing model and if so do you expect more because it's – after the instruction of the wholesale pricing model, there have been very few changes on the retail and the tariff seems to be quite the same as they were before this change. So, do you think – do you anticipate this new pricing model to lead to more regulatory approvals in terms of pricing flexibility.

Paul Doany: Actually what we – it has not been announced as yet, but I can say that the regulator gathered all the sectors players last week in a meeting in which I think we have now made major progress all of us. I mean every participant in the sector voiced their views in relation to the wholesale pricing, the model that the regulator would like to introduce. And it looks to me anyway that there's a very good likelihood that this week we will get an announcement in this regard.

So, on the basis of what I can say with 90 percent probability of happening I can see now that the notion of growing the market became actually healthy part of this discussion. Because frankly this has been the most important thing to Türk Telekom. And if you are – if you are the main wholesaler in the sector you need to see growth in it because if you don't the only thing that happens is that the price point gets to a certain level of saturation and then people are just trying to steal each others customers if I can use, you know, a

course word to describe it because that's basically what happens. So you know they take your customer, you try to win them back and that's not going to help anybody. So, growing the market is very important.

Now, with the – with the cheap internet tariff restricted, albeit to the people who have a fix line which is the one already covered, the one that I haven't covered because I can't because the wholesale terms have not been announced, but I think with 90 percent probability I can say that even with that, there will be further opportunity to grow the market as well. And that comes with proposition of providing support to the small players and also providing some level of wholesale pricing flexibility that allows Türk Telekom to grow the market with what we call positive discrimination meaning that we can offer more discount on our wholesale in order to grow. So, the idea of it is all growing the market.

And in fact the other operators like it very much too because they also are trying to gain a margin out of doing this business, and right now, it's very hard for them to gain a margin because what happens is that in this type of model, whatever the wholesale rate is, all it takes is one person to sell at that price and then obviously there is no margin left at retail. That's the sort of danger of this model and that's why also you end up not being able to grow and this is where I think we have made major progress with both Ministry at the policy level and the regulatory authority at the regulatory level.

I have to say that this is the first time I have seen it get to this level since I have been around for a while. So, I am very now – I can see that we can, this country can easily grow into a healthy level of penetration first, second it has also a healthy level of facilities based competition which is important, where they can self-provide and do their own fiber and earn the whole revenue, but also carry the burden of investment, this is something that they can do and they are sharing that as well, I think Turkcell and Vodafone and Turksat and Telco members are working on that.

This is also healthy competition. So we would have facilities based competition where they choose to self-provide, if they are using our facility, we now have a better basis of wholesale that allows us to grow the market and

this cheap internet which by the way is my personal follow up because I am working with our wholesale department to grow the market just to make sure that we actually benefit from this unique window of opportunity that I think will put this Company in a much stronger position for the future to contribute towards data use.

If you are a mobile data user and your data usage is becoming 3 or 4 giga, your total data usage should be 10 on which 3/4 is on your mobile network and 6 is on your fixed network, that's where the market should be leading to, that's really what I meant. And if you miss that opportunity in the next two or three years, I mean, two years or whatever, then that customer is going to end up just using mobile, he won't be incentivized to pay anything, finish, and that's what happened with voice.

So, we have this opportunity now to come from the other side where fixed mobile substitution whilst mobile voice substituting fixed voice, now fixed data can complement, not substitute, complement mobile data. So customer has got a lot of value add as we generate more wholesale revenue for a future upsell because many homes will always benefit from having a cheaper data provision, so exciting times.

Ondrej Cabejsek: OK. That's a great comment. Thank you very much.

Operator: Thank you. And your next question is coming from the line of Ivan Kim, please go ahead.

Ivan Kim: Yes, just a quick follow up on your offering. So about 20 percent of your broadband customer base is still on up to 8 megabit per sec speeds and so you are not afraid of cannibalization coming from this TRY15 offering for the broadband or you think it's kind of going to be more constrained to certain geographical areas and won't apply for all households let's say in Turkey. If you give some clarity on how it works from that perspective, that will be great. Thanks.

Hakan Dursun: Let me take this question. This 8 megabit per second acquisition offer is with 50 gigabytes, and after the acquisition in the next couple of months, we up-sell this to 16 megabit per second or higher and this capacity is going to 75

gigabytes. So the customers when they use our services, they are basically using across 70 gigabytes of data. So, this is from a customer behavior perspective. The offer that we are talking about is not only lower speed, but also much lower gigabytes, so 20 gigabytes for a real fixed broadband user is more than enough for his needs. So, this will only appeal to the mobile phones.

On the technical side, there are technical constraints, so this offer is not valid for existing fixed broadband users. So, on the risk we were taking is actually then somebody decides to buy a new fixed broadband connection would he consider this offer instead of buying the current offers which are high speed, high gigabyte offers and for that one, we did a very detailed research and the cannibalization is at the very minimal level. So, this is why we decided on 4 megabit per second and 20 gigabytes capacity and we are very confident that with the limitations with the right targeting as within this call described in detail, this will be a success for increasing the --. By the way, this is not only for Türk Telekom, so this is for all the operators we will--- fair share.

Ivan Kim: Yes, that's very clear. Thank you.

Operator: Thank you. We don't have any further questions at this time. Please continue.

Gözde Çullas: OK, Operator, we can close the call. Thank you.

Operator: Thank you. That does conclude our conference for today. Thank you for participating. You may all disconnect.

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