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## **Türk Telekom**

**Monday, 16<sup>th</sup> July 2012**

**17:30 Hrs UK time**

**Chaired by Onur Oz**

### **Onur Oz**

Thank you very much. Hello everyone and welcome to our results call for quarter two of 2012. As always, before we start the call, I'd like to remind you to read our notice in the first page of our presentation please. I will now hand over the call to our Group CEO, Hakam Kanafani.

### **Hakam Kanafani**

Thank you Onur. Good afternoon everyone, thank you for joining us on today's conference call. It's amazing how time flies this time of the year again and we would be covering the second quarter of 2012 results.

Let's go straight to slide number four please. I will take you briefly through the highlights of our financial and operational performance. Our Group, Türk Telekom, continues to have successful financial and operational performance in the second quarter of 2012. Of course, this is despite challenging market conditions, especially in the mobile market, but we continue to grow our fixed line and mobile businesses together with focusing on our other subsidiaries in value added services, in information technology, to complete the picture as a successful integrated operator. Our consolidated revenues grew 7% year-on-year and reached TRY 3.2 billion in the second quarter. This is a record for Türk Telekom Group in terms of quarterly revenues. In addition to this strong revenue growth, we sustained our consolidated EBITDA margin at 40%.

Amid continuing aggressive conditions in the mobile market, our mobile revenues increased by 13% year-on-year to TRY 860 million in the second quarter. This is also a quarterly revenue record for our mobile business, Avea. In the fixed line business, successful launches of fixed broadband initiatives and price adjustments positively supported broadband growth.

Our fixed broadband subscribers are at 7 million, an increase of 5% during the last 12 months. Overall, we continue to leverage our Group synergies with successful launches of bundled services, but offering many value added services to our millions of subscribers.

On the fixed voice side, we launched an automatic home insurance coverage. This offer is offered to all the residential fixed voice customers in partnership with Allianz. With our

retail broadband provider, TTNET, we introduced a new series of bundled packages in July. We were very happy to announce our branded offer, My Smart Home, as a retention tool. For the first time in Turkey, this bundle includes a fixed voice service, internet, and TV on a single bill. We're also very happy to see that as a natural extension of our fiber offering, of course, our IPTV product continues its momentum by exceeding our expectations.

We also introduced a joint offer by Türk Telekom, Avea, and TTNET, in the corporate segment targeting SMEs and corporates. We've called this new concept BIZ, which stands for business in Turkish. As the leading telecommunications and convergent technology group of Turkey, we believe our strategy will carry us forward to enhancing the value of our shareholders.

Just a quick update on the corporate governance side. As you know, Capital Markets Board of Turkey introduced new laws and practices. At Türk Telekom Group we show utmost care to comply with all rules and regulations. In our recent general assembly meeting we took the necessary steps and starting the compliance process by appointing independent Board Members. It will continue our efforts to comply fully with the new regulation and we are closely cooperating with the CMB in every step we take for this particular process.

Let's go to slide five. I will give you a summary of our consolidated financials in the second quarter. Our consolidated revenues are up by 7% year-on-year; solid revenue growth in mobile business and fixed broadband business. As we continued our investments in fiber networks, we also continued to record construction revenue in fixed line businesses according to international reporting standards, IFRIC 12. As you know, this is part of our fixed line business and we always record construction revenue and expenses based on our eligible capital investments. In this period we increased our capital expenditures, as part of our Capex plan and eligible Capex increase that saw growth in construction revenues. We grew our EBITDA 2% year-on-year and reached TRY 1.3 billion, whereas our consolidated EBITDA margin is at 40%.

Finally, our net income grew by a little bit over 24% year-on-year to TRY 630 million. As you know, we have a net debt position in both Euros and US, almost 50/50, compared to the same period of last year we recorded an improved net financial expense in this quarter due to the Turkish Lira's favourable position against the Euro and the US Dollar – basically an appreciation of the Turkish Lira.

Moving onto slide six, we have Group revenues trends from 2009. The chart also shows how our revenue mix changed over the last four years; an important chart here. It shows the different mix we have and how we are improving this mix. As we mentioned earlier, share of high growth businesses like mobile, fixed broadband, and corporate data are increasing. The highest proportion of our total revenue in the second quarter was still generated by fixed voice services, but it's obviously seen that revenue share from fixed voice came down to 31% of total revenues in Q2 2012 and we were at 45% in Q2 2009.

As we move into the high growth businesses, fixed broadband and mobile revenues now generate more than half of the Group's total revenue. Those two businesses together grew 9% year-on-year in the second quarter and continue to drive our top line growth.

Okay, this was the brief review of Türk Telekom Group's consolidated performance. Now, I would like to hand over to my colleague, Gökhan Bozkurt, the CEO of Türk Telekom and he will take you through our fixed line business performance.

### **Gökhan Bozkurt**

Thank you Hakam and good afternoon everybody. I will give you an overview of our fixed line business performance in the second quarter.

One page eight, I will start with revenue and EBITDA details for fixed line business. Overall, our fixed line revenues increased by 5% year-over-year to TRY 2.4 billion. Growth in ADSL, data services, and construction revenues are set to decline in PSTN revenues. Within the quarter, we've successfully continued our fiber network to support our new fiber services. At the beginning of the second quarter we made an increase in unlimited DSL packages. We also increased fixed fee and use subscribe for the fixed voice segments, including residential and corporate. We're happy to see that our upsells to higher packages in fixed broadband continues. All this factored in, we expect our fixed line revenues to support our consolidated revenue growth.

On the margin side, fixed line EBITDA margins stayed healthy at 49% in the second quarter, nominal EBITDA stayed flat year-over-year. As we recorded higher construction revenue in the second quarter, it's had a slightly negative impact on the EBITDA margin. As you know, personal cost is one of the major cost items in the fixed line business. Personal expenses paid at 19% of total fixed line revenues; access lines for employees stood at 608 as of 2012 quarter two.

Now, on page nine, we look at the revenue stabilisation efforts in the fixed voice. As we mentioned before, we continue our brand partnerships with leading brands of Turkey. Most recently we designed home insurance product for PSTN customers by partnering with Allianz. This is the first automatic home insurance coverage offered in Turkey. Our fixed line customers continue to enjoy many non-PSTN benefits offered by our leading partners.

On the retention side, we are designing proactive and reactive offers to manage churn. We also use group synergies here to provide the best value to our customers. For example, Avea's mobile () tariffs include all-directional minutes and calls for PSTN for all fixed voice customers of Türk Telekom.

On the top left charge of slide nine, you can see the trend for minute bundle packages and recurrent fee in fixed voice business. The good chance here is that share of home advantaged bundled packages is increasing in our customer base. Now, 52% of our PSTN base is in bundled packages, as a result of this share of the current fee in the PSTN having increased to 73%.

On the bottom left chart, you can see numbers for total access lines and PSTN ARPU. We have a total of 14.7 million access lines, including over 400,000 ADSL lines. Although PSTN lines continue to decline, we add lines with next DSL customers and offset part of this decline. If we look at ARPU levels, you'll see that PSTN ARPU is slightly up at TRY 22.4 in the second quarter. We made PSTN price adjustments in June and this supported the slight up growth.

Moving onto page 10, we have fixed broadband growth details. In the second quarter of 2012, fixed broadband revenues grew by 5% year-over-year to TRY 767 million. This growth is supported mainly by upsells and price increases. On the subscriber side we added net 250,000 fixed broadband subscribers in the last 12 months. We also reached around 130,000 fiber subscribers. Overall, we have 7 million fixed broadband subscribers. Comparing penetration levels in Turkey and Europe, we believe there is still a growth potential here. In order to support our growth in broadband, we also focus on new bundled services and digital content. Most recently, our retail internet service provider, TTNET, introduced a new line of bundled products on the smartphone concept. These triple play offers combine PSTN, internet, and TV together on a single bill for TTNET customers. Our education company, Sebit, launched an online portal offering digital educational content. This portal works like an application store where users can customise content according to their needs.

Now, if you look at ARPU figures on the bottom left graph, you can see that year-over-year ARPU is slightly higher at TRY 36.5 in the second quarter.

Now, on page 11 we look at the evolution of fixed broadband usage and upselling details. On the top left chart, you can see a capacity breakdown of ADSL packages. It shows that subscribers are increasingly moving into unlimited packages. Demand for capacity continue to increase, which is a great trend for us, because it helps us upsell. You will notice that only 15% of our retail customers are now in less than 4 gigabytes quota packages. Share of unlimited package customers reached 68% of total customer base and, remember, that this was 56% a year ago. In terms of speed, TTNET is up to 8 megabits per second and the highest speed packages are now 87% of subscribers.

On the bottom left graphic you can see the trend in ADSL market data usage. Average usage stands at more than 20-gigabit levels as of the second quarter, which again is a favourable trend for our fixed broadband product, so this is a brief review of fixed line business performance.

Now, I'd like to hand the call over to Erkan Akdemir, Avea's CEO. Thank you very much.

### **Erkan Akdemir**

Good afternoon everyone. Despite the continuing intense competition, Avea has persistently managed to increase its revenue for the last three years and quarterly revenues reached a record high TRY 856 million in Q2. Assuming an increase of the 13% on year-over-year and 9% of the quarter-over-quarter business. Data and growth in subscriber base has substantial contribution at the top line of gross after revenues. Thanks to the continued cost cutting strategy in Q2, standalone EBITDA reached Try 87 ( ? ) million in Q2 with a 10% margin assuming 26% growth on absolute levels compared to the same period of the previous year.

In this quarter we also improved our ( ) of TRY 13 million one-off expense, which actually means that on comparative ( ? ) business all operational EBITDA's margin is 12% in the second quarter of the year. On the other hand, I like to get your attention to a KPI use for the first time, which I actually believe reflects the...contributes to the performance of the

mobile business to the TT (? ). Mobile contributed a margin of 17% and absolute growth of 12% corresponds to the TRY 147 million to Group EBITDA, which is 12% higher compared to the second quarter of last year.

As you see on the next slide, our subscriber base grew by 6% compared to the same period of the last year, reaching 13 million. The growth was particularly strong in postpaid segment by 8% with an increased number of contracted subscribers. Avea still maintains it is a leadership and a key (? ) acquisition and as you see in the previous quarter, Avea is still the market leader in MOU, return on cost of 350 minutes.

Moving on the next slide, AVEA has delivered the highest spread of ARPU in the market and it is the first quarter of 2012. At the end of this second quarter, blended ARPU reached to TRY 21.3, which grew by 7% compared to the previous quarters. Focus on data and incoming traffic, which includes subscriber mix, are the main drivers of the blended ARPU accrument. In addition, prepaid ARPU has reached the highest level ever of the TRY 12.1, an increase by 12% compared to the same period of last year.

Now, I'd like to move onto ongoing transformation. Our investment on networking cost structures continue to provide the death cover squad to draw our customers. They have received 98% of the population in terms of the 2G and with the 15% increase in 2G base station year-over-year, we provide #g services to the 79% of the population.

For improved customer sub-section and enhanced brand image, we persistently continue to redesign our shops. Within this context number of exclusive dealers reached 911, a 15% increase compared to the same period of the previous year. Also, alternative channels through partnership are added to the distribution channel in this year.

Finally, a few words on the mobile data revenues. The share of the mobile data revenue grew substantially for Avea. Now, it is constituting 11% of our total services revenue in Q2 with 97% increase year-over-year. The launch of the smartphone and tablet campaigns with competitive offers contributed to the growth in both data revenues and customer loyalty. Share of the smartphone and tablet users also grew by 37% year-over-year in Q2.

Now, I hand over to the TT Finance Director Kaan.

### **Kaan Aktan**

Thank you very much. This is Kaan Aktan. I will take you through the financial section of this presentation. I start with page 19. This is the consolidated P&L statement. As you see, we had high single digits revenue growth, but at the same time EBITDA growing in absolute terms. This is both in year-over-year and quarter-over-quarter basis. We also had solid growth in net income with close to TRY 200 million of FX related gains. With that, we've been able to recover approximately one-third of prior year's FX related losses, and that came after 5 to 6% appreciation of Turkish Lira against Euro and Dollar.

Now, it's page 20. Well, not much changed here from first quarter to the second. We only see the impact if you look at the liability line. We see the impact of the very recent dividend payout, which was TRY 1.9 billion.

Going to page 21 with the cash flow, it's a very similar performance at operating level compared to last year's – the same quarter of last year – but at the same time you see a better performance when compared to first quarter and this is mostly supported by the improvements in working capital line items.

The next page is 22. It's the revenue breakdown with different business lines. Much of this has been already covered in the earlier pages, but still some few key highlights. We had 5% year-over-year growth in ADSL and this was the same numbers...year-over-year was 3% (? ) than last quarters and similarly we had 13% in mobile, which was 12% in last quarter...first quarter of this year, so there is a clear momentum of growing revenues and even, as I mentioned, some acceleration with the growth rates.

Now, of course, as you see, construction revenues have been (), which is a function of how much we spent in Capex, but is always where we spend the money. Fiber rollouts here triggered higher revenues in this line item.

Next page is the Opex at the consolidated level, so I will skip this page to give a few highlights in the related Opex stages of the business line.

Now, we are on page 24, which is the P&L for our fixed line business, which is important for us here is that we see a 3% increase in EBITDA on a quarter-over-quarter basis, but similarly we had another 3% growth last quarters, so the growth came after four consecutive quarters of flat or slightly decreasing EBITDA. Having said that, I should also remind you that we had TRY 38 million of expenses for mitigations and fines from the regulator, which we...are noted as one-off items in our press release.

The next page is 25 with the Opex breakdown of fixed line business. We see the impact of the actions taken within the fixed line business here. As you see, part of that is even lower than last year's and this is the impact of the measures taken within 2011, so reduce vacation pay, liability in this quarter has also supported our numbers. As you see, commercial numbers, we have a significant increase in that one and that came as a result of the changes in our commission structure. All in all it's 2% less Opex than construction costs included and we exclude this, because construction costs here has a direct revenue impact in the revenue stage.

The next page, 26, is the P&L for the mobile business. First remark here, we announced TRY 12 million of one-off Opex in mobile related to tax liabilities, deduct that one EBITDA margin will come up to 12. The important one here is 10, but even we potentially 26% increase in absolute EBITDA, which is very important for us, and also the operating profit continues to improve and our operating loss reduced by 5% on year-over-year.

The next page will be 27 with our mobile business Opex breakdown. There's a lot of variable cost here, is the nature of this business. Opex is growing as revenues are increased, but at a lower rate in this quarter, which gives us that 26% increase in EBITDA that I just mentioned.

The last page I assume is the debt profile, so there is no change in the overall strategy. Similar to last year, we finance our dividend payout through local currency loans. The long-term debt is financed, but by Euro and Dollar-based loans at equal weights.

That completes the financial section and I hand over to Onur for the Q&A part.

## Questions and Answers

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

*Yes, good afternoon, two questions if I may. One is the disconnections on PSTN lines have accelerated somewhat in this quarter. Maybe you can just comment what's the competitive situation then. Why is this taking place? Secondly, I was wondering on the increase of the usage on the mobile side of 350 minutes. Again, what is the main reason, again, for that and, as I could see also on your cost side, the interconnect grew as well, so possibly this will probably be an increase of traffic to other, sort of say, networks, so just again, the trend, what's the reason again for the overall usage increase, what was the main destination for that increase? It seems like again that the tariffs have been relatively stable on the mobile side this quarter, so maybe with that you can also comment on the overall competitive situation in the Turkish market, because as we can see the usage has been increasing and the tariffs have been relatively stable, if you calculate the implied tariffs, so any comment again what you see in the market would be much appreciated. Thank you.*

I will answer your first three questions and then the last one about the market synopsis I will leave to Kadir Boysan, Chief Strategy Officer of Avea. First on PSTN, look, this is one market in Turkey. We look at telecommunications as one market and prices in the mobile will affect the prices in the fixed, and I don't think that it's of any surprise that, you know...to see the churn, albeit it's one of the lowest churns of an incumbent around the world today. The main question is what are we doing about it and because this is not a phenomenon where we can change. We need to control it, defend it, and showcase to the investment community that we are competitive there in retaining in defence. If you look at last quarter you would see that we launched the first – I think it's the first – in the world, but my colleagues put the first in Turkey, where any PSTN line today in Turkey automatically with one SMS you can have a free insurance on home against theft and fire and robbery, so this is a very I think lucrative offer that makes the PSTN valuable, and that shows you how we are doing through other verticals in terms of travel, retail, how to make the fixed line valuable, and that's important; that we package it in different areas to make it valuable. We continue to fight this battle and make sure that, as the revenues are changing from PSTN to other revenues, we are still creating EBITDA and net profit, and we have shown you a slide how the revenue chunk of the PSTN is coming down. The benefits we have: we have 7 to 7 free call, we have the device campaign, the free medical assistance; of course, the Lokum campaign. We have another package with Avea. We have the free insurance. All of these are reasons why people want to defend, people want to retain their PSTN, but it's very difficult that we promise that this trend is going to change.

Now, having said this, let me remind you that a price adjustment came in 1<sup>st</sup> June with the free insurance, so when we do a price adjustment we always add value, because we know that we are in a very difficult competition, so we like the numbers that we have seen in June in terms of revenue of the PSTN. It's on our budget, so this is good news. The other point is the naked DSL take-up. We have about 425,000 naked ADSL take-up and that

compensates for the lines that we lose on PSTN, but this is a battle that we will not shy away. We're not going to give in. We need...you know we take a blow, we give a blow, we take a blow, we give a blow, and it's very important that we are resilient. We have some of our best people in that domain fighting hard, coming up with ideas outside of the box.

In terms of your interconnect, look, Avea and Erkan, the CEO of Avea, and his team have always talked about the smart growth and I think one of the main components of the smart growth is that we make sure that Avea is...that we make it easy for Avea customers to also speak and get calls from all other components, all other competitors in the market mobiles. We don't want to just lock ourselves on Avea, because this is not healthy. We have to compete head on and we have to...so the interconnect I think comes with the flow. It's something that has to be there and that's actually one of the good reasons why Avea is competing very strongly. It's that the customer feels free to do what they can do with the other two competitors, but what do we look at, at Avea, and how do I evaluate the performance? First of all on the ARPU. The ARPU has increased by 7% and it's now blended ARPU is the highest, and to say this from a third operator with 1,800 megahertz network that says a lot. Also, our operating profits have increased, absolute EBITDA has increased in Avea, so all of these are good things. Now to get...and this is all the drive that we need to continue for Avea.

Now, for the market conditions, I will leave this to Kadir Boysan, if you would like to comment. He asked about what about do you think the market conditions in Turkey and how this affects the business.

Good afternoon, Kadir Boysan speaking. As we all know, the competitor landscape and the market remains aggressive and it somehow got worse in the last couple of months, maybe six months. EBITDA levels are not at a level that we are comfortable, just up actually to last year EBITDA levels. In this context we believe, of course we believe in fair and sustainable competition and we also support rational competition and behaviour in the market. Yet we cannot as an operator, as the challenging operator in the market, we are not going to take the lead in that context. We expect the dominant player to take the lead, and to take the charge and look at the market and take the market share levels that it is acceptable and rational for all players.

If you look at the recent past, in the last couple of months we have not seen a clear signal that it is going in that direction, but I would just want to underline, we would like to believe that there will be a change in that direction going forward, but as it stands the market is very harsh, extremely competitive and aggressive as it stands.

*Thank you, just to clarify this 9% increase in the Avea usage was still based on certain sort of say promotions or you find this more sort of say organic growth, seasonal growth and so on.*

Actually the last three months about the price being stable, the last three months were the most competitive three months that I have ever witnessed. In accordance with the competition, all of the competitors getting into acquisition market and making retention campaigns of course in order to prevent losing customers, Avea is not only outgoing, incoming MOE increased substantially. The answer to your question is not just because of Avea's acquisition or retention campaigns, nothing so extraordinary but also because of the change, the higher rate of competition, actually led to an increase in incoming MOEs as well.



***Atinc Ozkan – Credit Suisse, Istanbul***

*Thank you, I have two questions please. The first one is regarding the ongoing sales channel optimisation on Avea, I see some decline in non-exclusive dealer numbers. Should we expect this to continue in the rest of the year and maybe in next year. If yes – do you think you are going to realise meaningful cost savings that can help your margins on Avea's side. My second question is actually regarding your broadband business. Despite 250,000 net additions year-on-year, I don't see any line growth in the second quarter. Should we think about this... is this more attributable to D-Turk in percent decline in your commercial spending and fixed line, or is it more related to a slowdown or seasonal trends in second quarter. Thank you.*

About the number of non-exclusive dealers, actually we don't see that as a decline in the number of non-exclusive dealers, because this is an ongoing process and every month actually these non-exclusive dealers are reported and their performance is monitored. Whenever the presence of Avea in that non-exclusive dealer is not necessary or it is not worth sending a sales person there. We just re-optimize it every month, so this is a very changing number, especially when it comes to non-exclusive dealers. The number of non-exclusive dealers that we have serviced to the customers is not directly related to the sales Opex, because as you know in Turkey most of the dealers are rewarded in terms of performance, acquisition performance. They earn when they actually acquire new customers for operators.

The second question that you have asked us – it is a tough court. We think that our performance given the circumstances is super. There is a very big competition on the 3G side and as we always say we are disciplined not to jump in and create a price war in the data. We are the incumbents there and if sometimes we are going to get hit with one month or one quarter with a slowdown on some of the subscribers or revenue we will take that, because we are in it for the long term, and we want to make sure that we are maintaining the value of the market. We have made a price adjustment recently in May, and the management of TTNNet have added the cloud services free of charge, on top, we went to the customers that are very close to us with unlimited usage. We have a strategy that we need to go and follow. It is wrong, not only very difficult that we would react on some of the 3G that is happening out in the market today. We are very cautious of that. We are improving our sales initiatives. The competition is very difficult. There is a story of data that is increasing in Avea, we are very happy about it. Fibre and ADSL we have today a respectable number of fibre subscribers, so we are always focusing on the bigger picture. We are disciplined in that way. This is my answer to you on this subject.

Now how to relate it to the... I don't think there is a relationship with that. there might be a slight relationship, but we discovered that there is really a supply clot of advertising in Turkey, it is a supply clot, and we decided, we said if we take some of our ads down we don't think that we are going to have to see a major hit and we would rather maintain our EBITDA, this is ongoing, we are always looking at these numbers. We don't see that it has affected it and we have also some programmes to improve that in the third and the fourth quarter.

***Alex Wright – UBS, London***

*Thank you. I have one question please on the broadband business again. As you mentioned you have the price increase on the unlimited broadband subscriber base earlier on in the quarter and yet the impact on the ADSL ARPU and revenues was quite small in Q2, just looking at the absolute numbers of the year-on-year growth rates. Is there something offsetting that price increase on the unlimited ADSL subscribers or do you expect to see a more positive impact in the third quarter perhaps from that price move. Thank you.*

Well we have an increase in the naked ADSL take up. We also have a two month campaign – it is a good question by the way Mr Wright, and I would like to highlight that because it is important – we have our two free months campaign where we tell the customer you can take two free months and then we start billing them, and most of those will be billed... we have started the first phase of the billing the end of this quarter, so we didn't see that impact, also we are looking at Lokum and with Lokum there is a little bit of ARPU depletion on it, but we are increasing the base. We're very happy that there is a high uptake of the programmes on the internet to buy ours on Lokum. There are also other ISPs as you know that we give them a higher margin, on ISPs so maybe their price, they can compete on the price level. They are increasing their uptake. In the short term this is negative a little bit, but I think it will improve in the long term. I think it is a smart way of dealing with the price blows that we are getting on the 3G side. I see other markets and other countries where the incumbents are getting very big hits on the fixed ADSL and fixed broadband from 3G, because they are doing exactly what we are not doing, but you have caught onto something and I hope that this gives you a good explanation on what we are doing vis-à-vis this issue.

*That is helpful, thanks very much.*

***Dalibor Vavruska – Citigroup, London***

*Hello, good afternoon and good evening, just a couple of questions and they may be in general. One is about this insurance bundle. I am just wondering in general if you can talk about synergies and just explain how far you may want to go in this bundling of products or services which are from totally different industries and how do you economically justify that synergy and basically the business rationale for doing that. the second question will be about the fixed line business, I think what we are increasingly seeing and I think you very rightly pointed out to it in your press release is that customers basically demand more data and higher speeds, which means that there is more demand for fibre. In areas where fibre is unrealistic, maybe some of the rural areas, I think what we are seeing in other countries is increasingly a strong business case for 4G on this 700/800 frequencies. Do you think the fixed line business, the copper actually is start disappearing over time as it does elsewhere. I think on that side I just wanted to see whether you have any thoughts about these 700/800 wireless technologies and where are we in Turkey about licensing on this spectrum, etc. Maybe just two questions.*

Thank you very much for your questions. Let me start with the first one. We are very commercial minded on these things. I want you to be confident that when we are doing these items, we are not going overboard with the cost and we are just – it is a disciplined approach, it is a product that makes sense in terms of the business model, and it also has a future where we can upgrade. You can upgrade because obviously the insurance that we

are giving might not be enough for some families, and other families say that they are getting enough insurance.

What happens/ the ones who have enough insurance, all of a sudden you will see that the PSPN line is more valuable, so they will think twice, three times before cutting the PSPN line. Now on the ones who think that it is a good idea, I would like to insure my home, I am starting with this amount, why don't I go and get an upgrade, and we are working on that on the up selling, so we are getting benefits there. You are right about the bundling. We want to continue to do the bundling and bringing in verticals. We have the medical directory on there, we have some services, like travel, energy, electronics, family stores, you can get all of these discounts. It is very important that we get out of the box and start defending the PSPN in this way. We make the PSPN valuable to be there because we are adding services on it.

Of course you have heard about our bundle with Avea, if you have a PSPN you will get a very lucrative offer from Avea, and we are going to continue these ideas, but rest assured these are commercially driven.

On the future – I disagree, and we have disagreements about the view of how to LTE, there are some people that are saying that this is creating an idea for LTE, creating an environment for LTE, and our opinion it is, we are going to get into an invest cycle, because all of the telcos Dalibor in my very humble opinion, mobile and fixed have a big challenge ahead from internet companies. I want to be realistic, mobile companies only will give you an answer, as ah, this is the answer. They have said this even starting in WAP. This is answer. I don't think that ah this is the answer is valid for LTE. I think the challenges remain there Dalibor, the challenges remain. We are going to have a big impact from internet companies, we have to transform ourselves, we have to make ourselves more agile, we have to see how we can transform our strengths into value on fixed, on mobile, on bundled products, on fibre, on all of these new products, and giving the customer an understanding that when you are with us you are going to get a total solution on a single bill and add value because I don't think the eventuality is just lose margin and come down. I think it is a bigger story what we think the challenges are coming from the internet companies, because some of them are not paying taxes or some of them maybe are having less people of hiring, some of them maybe even have no infrastructure, and their products are free. These are challenges and I think for the LTE if we go every country that is going to build four or five LTE infrastructures, I don't think that this is the case. I think the case is to telecoms vision on these areas, how we are trying to transform ourselves, make ourselves leaner, make ourselves more integrated into other products and to other departments in information technology, in value-added services; that is a key answer to us and basically that is our strategy. That is what we want to do.

You asked another question on copper – two things. The first thing is yes sure I would love to see the copper go away because we sell it. our strategy is we remove the copper, we sell it and we lay out the fibre, and I think this is a very smart strategy and it shows that Turk Telekom has a very good eye on what is going to happen in the future; that is why the mesh, the architecture of our network does enable us to do that. This is not something that anybody and everybody can do, especially in Europe, so we are doing that.

The other point is if you have seen what is happening in the European community, it shows that Turkey is doing something right. It actually has given the regulatory holiday has helped in the investment and they were pioneers, here in Turkey before the Europeans. The Europeans have said something about copper prices and fibre competition, and now they have changed that, and I think this is good news. I think they are on the right track. There has to be an incentive for us as telcos to invest in that fibre. It is also a very

competitive business. We are not just digging fibre when the customer pays us, it is an investment that we are receiving and that we believe in.

All the factors I think are right for a group like Turk Telekom to enhance its value and continue its growth in the midterm and the long term.

Sorry you asked – there is no news yet on the LTE, when there is any planning for the LTE. We have our ideas on how to launch the LTE in commercially viable, good for the country, it might be a little bit different than just what happened in Russia where they paid these huge amounts. Of course these are only our suggestions and ideas, because we go by what the regulator says in this country, we don't make the decision, but we are one of the stakeholders and we have our own ideas about it.

*I think in Russia, I am not sure, but they haven't paid anything. They actually got free spectrum, they have some commitments to pay to some people, the amounts are not that clear. I think maybe my last question is – what do you want the regulators to do about LTE. Do you think that that spectrum, especially the 700/800 spectrum is something that you would want now or is something that you can wait for. What is your position?*

First of all I hope I am wrong about Russia and they don't end up booking huge provisions about LTE and get to pay these. I hope you are right. Second – as Turk Telekom Group, we believe in innovation, we believe in all of these technologies, but we don't think that there is one technology that is going to come and trump all other mediums and all other technologies. It did not happen before, it will not happen again. We think that the building blocks approach is very important. We are very much interested in LTE, like any other company in Turkey.

How and when, I think it is a little bit for us to disclose our ideas and our vision on LTE. We need to be led by what is happening in the country and what is happening through the regulator. We are one player amongst many and we will take this position for now.

#### **Oyton Altasli – Standard Unlu, Istanbul**

*Are you considering to change your management guidance after the first half results. I am especially wondering about your top line growth. I calculate about 5% year-on-year growth for the first half and most of the growth seems to be coming from construction revenues which I believe is mostly to do with accounting. If you could elaborate where you expect the growth to come in the rest of the year that would be great.*

Yes we are sticking by our guidance. That is our position.

*Would you then expect the construction revenue to remain at the same growth pattern for the rest of the year, or would you say that the lower end of the guidance is more meaningful at this stage?*

Well we are spending high on Capex so this is natural and we have been doing that, this is not something new that we have done, we have done this in ADSL. If you look at our 2011 financials you will see that there is an extract that you can look about () how we have used it, how is the estimated profit margin used in construction services, so you will see that we have been doing this. As we have more Capex in fibre this number will be there, but all I can say because we do not give revenue breakdown, so we are sticking to our guidance which is 6-8%, 2.4 billion and low 40s.

***Haim Israel – Bank of America***

*Good evening, good afternoon, two questions. First of all you have mentioned about a price increase in fixed line prices, taking into account in June. Can you quantify the effect or at least give some kind of a range to the effect we are going to see in Q3. I guess the effect on Q2 was quite meaningless. My second question actually is on the fixed broadband side of things and when you have presented your monthly data usage, we have seen that this quarter in terms of gigabytes, we have seen some kind of a decline versus quarter-on-quarter at least. I just want to know if that is more of a seasonal trend or if that is a trend we should see, or things are actually stabilising.*

On your second question, no Haim, no we think it is not a trend. Actually we think that there is more room for growth on the consumption of data. Again you have to know and you have to see that we have tremendous competition from 3G, especially at this time, and we have heard a very experienced executive who said that this is one of the most competitive periods he has witnessed. I think this is normal. I think we came out of this with flying colours to tell you the truth, as Turk Telekom Group showing our discipline, showing that our strategy is working and defending our turf.

For your first question – I don't want to give an exact percentage of that price adjustment, because we have added also a lot of value to the line. We have added value with other value-added services, we have added value with the insurance which is I think unique and a very retentive idea. You can see that all our price adjustments before, when we rebalanced were adding value and it is a little bit less than what we have lost on revenue, so overall there is a slight decline in the long term and I think this is going to continue. I don't see that we are going to get any harsh declines. That is the way we are working at and we are doing it. It is accepted because first of all we are facing that there are hits that we might take on the subscribers, but also we are adding value to the customer and we are making the decision to remove the home phone. It is becoming a decision that they would think about. I hope that in the midterm we will make this a difficult decision and that is where we are going with that.

***Vera Supedja – Erste Group, Vienna***

*Good afternoon, I would like to ask regarding the fibre to the building rollout. How long do you plan to invest in this rollout. Is this during the regulatory holiday period, so in the upcoming five years. Do you have some kind of long-term targets? How many home passes do you want to achieve. Maybe you can give us a bit of the economics of this kind of investment, how much is the cost per line and how much is the expected revenue for lines and how do you market this product.*

It is very difficult, especially the last three questions. These are Board member questions with a lot of detail. I am not at liberty of giving these very detailed answers on revenue per line and what is that. This is almost like a business plan. I can tell you that we need to utilise our position and we need to make sure that we are utilising the fibre in a big Capex year like 2012 and make sure that we are the biggest fibre network, the fastest fibre network, the best fibre network and we are starting from a handicap, because our strategy in Turk Telekom, specifically when rolling the fibre was we need to go on 81 cities. We cannot play a target game, we have an obligation because this is about the value of that market and it is about also investing in our growing economy here in Turkey. When the

team launched our fibre in February 2012, we were talking about the 81 cities and that is what makes us different than the others.

Therefore we would need to continue this investment. I think this year is going to be a big investment. We already have 3.5 million home passes on fibre to the cabinet, and right now it is 1.3 fibre home passes. We will continue to go there. There are some growth areas in the brown field and in the Greenfield and we want to make sure that we are part of that.

I think we have released a number, they have the number of fibre customers which is 130 and you can easily check the success rate, the rate there, but mind you we have a bigger picture and we have a bigger I think agenda on our hands because we are also looking on, making sure that we are in 81 cities irrespective of the target that we are putting. We think it is a successful programme for us. It is going to continue a successful programme with us. It is helping our IPTV uptake, it is helping our web TV uptake and we are doing a lot of commercial, you will see a lot of new commercial ideas that are stemming from these investments.

*If I can understand correctly, 81 cities plan is for FTTC or is it for FTTH?*

We have 3.5 million in the fibre-to-the-cabinet already. That is done, we are there, and that is what makes our life a little easier when we are rolling out fibre-to-the-home and fibre-to-the-building. Also the way we are rolling out – I am just backtracking a little bit to give you... when we are rolling this, we are making it a little bit, the smart way because we are taking out the copper, selling it and rolling out the fibre. Since we have this big network in fibre-to-the-cabinet it makes our life easier to fibre-to-the-home and fibre-to-the-building, and these are the numbers that we are talking about now, fibre-to-the-home, fibre-to-the-building.

*Okay I understand, and 130,000 subscribers you have?*

I am sure there is a little bit more now but yes you are right.

### **Closing Comments**

If we don't have any more questions we can end the call.