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Türk Telekom 2012 YE Earnings Call
Thurs, 7th Feb 2013
Chaired by Onur Oz

Onur Oz

Good afternoon everybody. Welcome to Turk Telekom 2012 Year-End Results Call. Before we start the call I would like to remind you kindly to read our notice at the beginning of our presentation. And without further ado I will hand it over to our Group CEO, Mr Hakam Kanafani.

Hakam Kanafani

Thank you, Onur, hello everybody. Good afternoon ladies and gentlemen, thank you joining us.

I will start with page five of the presentation where we have the key highlights of 2012. I am happy to report that we delivered a solid financial and operational performance in all segments in the year 2012. As we always said we continue to grow with robust profitability levels. Our broadband and mobile businesses are growing and our consolidated EBITDA margin is strong. Group annual revenues increased more than 6% to 12.7 billion Turkish lira in 2012.

This is a historic record for us and perfectly in line with our top line growth guidance for 2012. Group EBITDA increased slightly and margins stayed over 40% in line with our group wide OPEX saving initiatives last year. As a result of strong top line growth and the savings initiatives, our bottom line increased 27% in 2012 to 2.6 billion lira. This is supported by a better foreign exchange environment in 2012 compared to 2011.

On the dividend side, you know that our policy is maximum payout, as stated in the articles of association. For the year of 2012 our Board of Directors yesterday recommended distribution of 2.4 billion lira out of 2.6 billion lira net income, corresponding to a payout ratio of 92%. This is subject to general assembly approval.

Firstly our mobile business, Avea delivered a strong performance in 2012, mobile revenues increased 13% and EBITDA increased 28% year over year. Mobile revenues reached 3.5 billion lira in 2012. Avea continues to grow and improve its profitability, especially Avea's data revenue growth is stellar.

Secondly, I would like to talk about our broadband business, which delivered 6% annual revenue growth with 220,000 net subscribers gain, more than 2011, which was 170,000 net subscribers gain. Broadband revenues reached over three billion lira in 2012 and as the leader of the broadband market we are offering the most innovative and attractive data packages to our Turkish consumers. We have a very good trend in internet usage among consumers where what we see is more and more that customers preferring higher capacity, higher speed offers.

If you please go to the next slide, slide six; a quick financial summary of our consolidated results. We delivered a consolidated revenue growth of over 6% driven by solid performance in mobile business and broadband business. Annual revenues reached 12.7 billion lira. We invested 2.4 billion which is also in line with our guidance, in mainly network and channel in 2012, which enables us to sustain our growth momentum. We invested primarily in fibre network in 2012. We also recorded higher construction revenues compared to 2011. Fibre investments enable us to leverage our leading position in broadband and provide super fast internet to our customers.

Secondly, we have the EBITDA graphs in the middle chart as you see in the graph group EBITDA slightly increased to 5.1 billion lira in 2012. EBITDA margin stayed strong over 40%. Thirdly we go to the net income figures. We recorded, I think, an impressive increase in net income in 2012. This 27% annual growth is supported by better foreign exchange conditions in 2012 compared to what we had in 2011. Overall net income for the full year reached over 2.6 billion lira. In 2012 we achieved our guidance in all three aspects; revenue, EBITDA margin and CAPEX. In 2013 we aim to continue our strong growth and we will share with you our 2013 company guidance at the end of this presentation.

Moving on to page number seven; our revenue mix. We have the key highlights of our group revenue mix trends. You can see in the left chart mobile and broadband businesses delivered remarkable growth performance in the last four years for the period between 2009 and 2012 mobile and broadband compounded annual revenue growth rates are 12% and 13% respectively. Driven by this strong growth trend our revenue mix is changing with growth businesses increasing their share in total group revenues.

Revenues for fixed broadband and mobile businesses now constitute more than half of the total group revenue. As our revenues grow share of the fixed voice segment gets smaller in the group revenue portfolio. Fixed voice business used to bring about 43% of our revenues three years ago, but now it is less than one third of our revenues. Overall our revenue structure is further optimised with increasing proportion of high growth businesses.

Page eight, slide eight; TT is the strong leader of the market. Turkish telecom market is strong and fundamentals are even getting better. Turkey is the world’s sixteenth largest economy and Europe sixth’s largest economy. Turkey experienced a stable economic growth with an average annual real GDP growth of 5% in the last nine years. Going forward Turkey is expected to become one of the fastest growing economies among the OECD members.

75 million population, growing and young, increasing number of households, robust business environments are creating significant opportunities in the telecom market. In this

booming market we are the best positioned operator to address customer's needs and deliver growth and profitability thanks to our large and well invested, fixed and mobile networks and distribution channels. As you can see from the charts Turk Telekom Group is the key leader of the market in terms of revenue market share and profitability. Moreover our robust revenue growth and strong cash flow capacity enables us to invest in promising segments and sustain our growth.

This was a brief overview of our group performance, now please let me hand you over to Turk Telekom CEO, Tahsin Yilmaz, for an update on fixed line business performance. Thank you.

Tahsin Yilmaz

Thank you, Hakam. Good afternoon everybody. I will give a brief update on our fixed line business performance in the fourth quarter. Before I move onto slides, let me give you overall performance highlights of the fixed line business. We have grown our fixed line business 4% last year and our annual revenues reached over 9.5 billion Turkish lira. In addition we sustained our robust profitability in fixed line with an EBITDA margin of 48% in 2012.

Now moving onto slide ten, high speed broadband continues to be a significant source of revenue growth for us. Annual broadband revenues reached over three billion Turkish lira for the first time in our history. This is a 5% annual growth driven by both net subscriber addition and ARPU increase. We have added more than 200,000 net new subscribers in the last years and the outlook looks positive this year. We believe there is potential for more penetration as our broadband penetration level is still low compared to developed countries in Europe. Turkey's economy is growing steadily. The number of households is increasing and the trend in the business environment is up.

As you can see on the top right chart we have increased our average revenue per user to 37 Turkish lira. We are able to achieve this ARPU increase through our high speed, high capacity internet connection services, internet TV services, value added services like cloud storage and music video portals and price adjustment capacity.

Slide 11, I provide you with the highlights of our private network. As Turk Telekom we are the leader in fibre optic network in Turkey. In 2012 we started to offer high speed fibre to the home and fibre to the building services in the whole country. We launched fibre internet transformation in 81 provinces of Turkey at the same time. We have a fibre infrastructure of about 168,000 kilometres connecting all the cities.

Thanks to our well invested and extensive fixed network, our fibre to the house and fibre to the () homepass coverage reached more than 1.9 million households. The number of fibre subscribers reached 220,000. In addition our fibre to the cabinet () is now over four million. Our fibre network provides practical speeds of 100mbs. This enables us to offer more value added services like our IPTV, its premium content in high definition over our network.

Moving on to slide 12, we have key highlights of our up sell trends in broadband. Here I would like to emphasise that there is a clear and consistent demand towards higher speed and higher capacity(?) packages among Turkish consumers. As Turk Telekom Group we are in the best position to address this increasing demand for high speed and capacity broadband. In our up sell efforts we provide more value to our customers and generate higher ARPU. On the top left chart you can see the capacity breakdown of our broadband packages. Share of unlimited quota subscribers in internet's total subscriber base reached 70% in 2012 from 61% in 2011. On the top right chart you can see the trend in broadband monthly data usage in our network. Average use has increased to 29GB in December 2012.

There is a remarkable increasing trend in total data usage which again is a favourable development for our broadband business. In terms of speed () up to 8mbps and higher speed packages are now 90% of subscribers. Consumer's appetite for high speed internet is growing and our broadband offerings are the best match to meet this appetite. Overall we foresee Turkish consumers continue to increase broadband usage with multiple devices and higher speeds. As Turk Telekom Group we had the right constituents of connectivity to address our customer's dynamic needs.

Moving onto page 13, we have highlights of our fixed voice business. On the top left chart you can see the trends for number of access lines and voice ARPU. We have a total of 14.3 million access lines, including 700,000 naked ADSL lines. As we continue to add lines with naked ADSL customers this offsets partially the PSTN line loss. If you look at ARPU levels you will see that ARPU increased to 22.2 lira in the last quarter of 2012 from 21.9 lira in 2011. We made PSTN price adjustments in June and this supported the ARPU growth.

On the top right pie chart you can see that share of recurring fees in fixed voice continues to increase. As of Q4 2012, 25% of fixed voice revenues come from recurring fees. In 2012 we continued brand partnerships with leading brands of Turkey, giving special discounts to our customers in many well known retailers. We also included joint offers with group companies for residential and corporate customers. We will continue a new partnership and loyalty programme while doing micro segmentation of the market. All in all, these efforts help us reduce churn.

Overall we aspire to offer great value to our customers in fixed voice to make sure that they are satisfied with our service. So this was a brief review of fixed line business performance. To sum up, our growth and strong margins continued in fixed line business in 2012, driven by broadband and other corporate data services. We invested in fibre networks in order to further increase growth in broadband. Now I would like to hand the call over to Avea CEO, Mr Erkan Akdemir. Thank you.

Erkan Akdemir

Thank you, Tahsin. Good afternoon to you all. As it is the case in the last two years 2012 has been another good year for Avea, the financial and () objectives are successfully achieved. We consistently established a swift growth(?) throughout the year in terms of both revenue and profitability despite the fierce competition at the first half. Revenues totalled 922 million in Q4 with 15% growth compared to the Q4 2011, while annual revenues reached 3,475 million TL with the 12% top line growth thanks to the innovative tariffs and campaigns launched, starting from the third quarter.

Daytime incoming revenues growth has been the essential contribution in revenue growth. Avea has delivered a significant annual performance in terms of the EBITDA with 486 million TL and 14% margin which has improved 28% compared to the last year. On a quarterly basis EBITDA has reached to 193 million TL with a 21% margin which is higher by 52% compared to the Q4 2011. Thanks to the () saving measures and the improvement in the collection performance of the company, which has been reflected to the financial ().

As you see there on the next slide, our subscriber base grew by 6% compared to the same period of last year reaching to the 13.5 million. Our value proposition's simplicity, affordability and variety paid off in 2012. Avea again has become the preference of the consumers while in search for the alternative in the market.

Mobility of the subscribers has slowed down in the second half of the year with more rationalised market conditions, posing(?) a decrease in activation. Total churn is around 48% on annual basis which is quite lower by 3% compared to the last year, due to the () and affective churn management action. Avea launched competitive, innovative and attractive offers to subscribers () consumer and () in the business segment stimulating our gross earnings this quarter. Q4 ARPU is 22.4 TL which has grown by 9% on year over year basis.

Focusing underlying reasons on segment basis post paid ARPU grew by 3% year over year reaching 32.7 TL mainly driven by the increase in data revenues by 60%. On prepaid side increasing () sales revenues and increasing the number of active subscribers are the main drivers of change in the prepaid ARPU which is 16.6(?) TL in Q4 and grown by 22% on year over year basis.

MoU has still an upward trend with 9% increase on year over year basis and reached till 346 minutes(?) in Q4. Avea has sustained its leadership for the last five years offering its customers competitive advantages and flat new tariffs(?).

Moving on the next slide, another indicator of the consumer preference is the mobile number portability. You see the Q3 results in the chart but as of the end of the year there is a similar picture with 2011. We are still leading the MNP market.

On the next slide, a few words on the mobile data revenues. Mobile data is still a key revenue driver in the market and () percent of all total service revenue in the last year. The growth in revenues was particularly strong in the data revenues with a 79% increase compared to the previous year thanks to smartphone campaigns with competitive offers which contributed to the boost in both data revenues and consumer loyalty.

Bundled and standalone data offers for various segments helped us in delivering this growth. I also would like to mention that majority of the growth is coming from the () data revenues.

Next slide, about the smartphones; Avea holds the highest smartphone penetration in the market as of Q3 2012. The number of smartphones and tablet users is now about 3.3 million and our smartphone penetration increased to 24% as of the year end. We launched our first Avea branded smartphone, Avea inTouch in Q4. It is affordable price () and advanced features. The target of the Avea inTouch is to convert future phone users to smartphone users and therefore stimulate the smartphone penetration. We also launched ()

campaign model in Q4 so our customers can chose the best model devices matching their real needs.

Such offers for different campaign models such as () all inclusive and cash and credit payment. In this collective success in data and smartphones our () connectivity is very critical. We also trying to increase the investment in mobile applications, smartphones and mobile data.

Finally about mobile innovation and (), you will see there we are pursuing incremental growth in the partnership as well as in that vertical services, such as cell. Last year () launched BIM Cell(?) with largest retail chain in Turkey, providing us a vast access to the BIM customers () BIM Cell and revenue share. The past two months you also saw the two large projects with our new partners PTT who have started offering ATS () in our Avea stores.

Subsequently in January we launched Pttcell another revenue share partnership which it available in 28 cities and 200 post offices. We also continued to expand our () vertical services. Our focus in 2012 was the mobile health where we launched a range of the SMS/IVR services. We complemented these services with the telehealth solution enabling chronic disease monitoring. Our latest addition was in the telecare with one of the world's leading senior(?) phone manufacturers.

Now I pass the floor to () for the financials.

Kaan Aktan

Thank you very much. Ladies and gentlemen good afternoon. (), I will take you through the rest of the presentation with more details on our financials and finally I will hand over the call to our group CEO for the announcement of our 2013 guidance.

We start with page 22; our summary income statement at a consolidated level. 6% growth of revenues, 4% in fixed line and 13(?) in mobile. EBITDA is slightly higher in our full year terms(?) by 20 million. The major change is in our financial income expense mainly compared to last year. We don't see any such loss this year mainly from FX and with that our net income increased by 27% to 2.6 billion lira.

The next page is 23 with our consolidated balance sheet. On the other assets I will take only the major changes versus last year. On the other assets the increase is mainly derived by higher receivables. Growth—this is the drivers by our growth in overall business volume and also by device sales by instalment. Other liabilities, the final line in the liabilities section, is impacted mainly by one off items. The first one is the termination benefits that we paid in January 2012. It became payable at the yearend 2011, when we executed the incentive programme for early retirement.

There is also around 300 million lira decrease in other regular trade payables. We had high spending in OPEX and CAPEX in the last quarter of 2011. The payments were made in the first quarter of this year and this is creating the change versus last year. The last item in this line is the change of 90 million lira, the decrease in a minority put option liability and this is the result of the decrease in our share—increase in our shareholding and the decrease of the shareholding of Is Bank in Avea.

Next page is 24 with consolidated cash flow statement. The decrease in the cash flow from operations is mainly attributed to change in working capital; one off items as I just mentioned in the previous page leading to such change. We also paid higher corporate tax with the increase in our net income. While CAPEX here you see a slightly different number, 2.3 billion lira, this is the net cash outflow from the CAPEX. Our reporting CAPEX is at 2.4. But in all cases it is very similar to last year.

The next page is 25 with consolidated summary revenue breakdown. When we look at the different revenue streams that were not covered in the previous pages, we see a very strong growth in data services by 27% in full year. This includes our corporate data product. It has contributed 120 million lira to revenue growth. Growth in leased line revenue came most with new discounts to our customers, () came with voice sales and equipment sales and also new account acquisitions by Assist(?) this is our call centre subsidy(?). Finally it is again a double digit revenue growth for mobile business and this takes us to have(?) 6% year over year revenue growth for the group.

I will skip page 26 to give you more detail in OPEX when we come to individual pages for fixed and mobile. Now we turn to page 27 for fixed line. We have revenues growing at 4% for the year and much higher of which is 8% for the quarter. Construction revenues obviously is supporting the growth on the margin side. They are also diluting the margin. When we make the calculations we see around three percentage points of dilution impact from construction revenues in our margin. Operating profits is the reflection of () performance obviously but this is also combined with higher depreciation after recent CAPEX trend in our business.

Page 28 will be the next page with the summary OPEX breakdown in our fixed line. It is a very promising performance in OPEX for our fixed line business, when we exclude IFRIC because related to construction revenues, which is purely a function of the revenue, we see only 2% increase in OPEX base. People related cost is flat as you see at the first line in this table and retirement programme is helping us to reduce the total cost in real terms when we exclude the impact of inflation adjustments on wages. Commercial is another area which contributed to lower OPEX realisation in which item is five percentage points less versus last year.

Next page will be the mobile summary income statement, page 29. Last quarter in mobile revenues is the strongest quarter in terms of revenue growth and EBITDA margin. We see here 21% EBITDA margin. We have a footnote for your attention here which mentions about the one off. With we normalise the margin at around 17%. Another reminder, which is not quoted here, we had a similar one off gain in the last quarter of 2011. This has to be considered to have a better understanding of the year over(?) change in our margin. Operating profit is at 3% and when we adjust with the one off item this is just below the breakeven point. It will come to around minus one.

Next page is the summary OPEX breakdown for our mobile business, page 30. We see 11% increase on OPEX all included. Interconnection and taxes(?) obviously these are the reflections of increasing revenues and change in our offers. The other big ticket item is commercial, we see here 5% less () and this is supporting the bottom line performance as well.

My last page will be the page 31, shareholder remuneration. We see 2.6 billion net income, which will yield 2.4 billion dividend payout after setting legally required resource(?). This is the full payout scenario and this is what has been advised by our Board of Directors to the general assembly for the final approval. This has given us 0.69 kurus per share dividend and 10% yield. These are both the highest of the past five years.

Now I will hand over the call to our group CEO. Thank you very much.

Hakam Kanafani

Thank you, Khan(?). I only know that it is really a new year when I get to say the guidance, so that is the time of year. We are going to guide for five to 7% revenue growth. Our CAPEX will be around 2.2 billion lira. And this year we are guiding on an absolute EBITDA between 5,100 million lira to 5,300 million lira. That is our guidance for the year of 2013 and I will open it for Q&A and thank you very much for listening to our presentation. And we are all ears, awaiting your questions.

Questions and Answers

Caesar Tiron – Morgan Stanley

I actually have two questions on the guidance. It seems quite bullish, because if I look at the 2012 numbers and if I exclude the construction revenues, your revenue growth was only 5%, which is really what the underlying business is. So do you expect significant construction businesses in 2013? That is first. And then on the EBITDA, I note that over the past two years the clean margin has declined by 200 basis points per year. What actions are you planning to take at the OPEX level to avoid that the margin will decline again in 2013?

For the first question, we think that the contribution of the construction revenue will be less in 2013 than in 2012. And we are guiding for five to 7% revenue growth. That is our guidance for 2013. For your question about EBITDA, I think we are—the main focus now for us is to see how we are changing the revenue streams. PSTN is a cash cow for us now, but we know that eventually this is a declining product, so it is very important that we change the revenue streams and we want to do it when we are preserving and () our EBITDA so that is where we are looking at now.

One of the main programmes that we have done, and I think we have done it very successfully in 2012 and I think we will continue this success in 2013, is the OPEX saving and the prudence in OPEX. We have committed to the investor community that our CAPEX is going to come down and we also believe that the team is going to be doing I think a very good job in looking at the OPEX. We have tremendous challenges and we think that we are going as planned, the right way, the steady way of changing our revenue structure and we are very optimistic that we will continue to do this with success.

Just a very quick follow up if I may on that, actually as your revenue streams are changing and averse contribution to the total is increasing, your consolidated margin is diluting. So again I just wonder if you could shed some light on those OPEX savings that you are talking about?

My friend, this is not something you know hidden or—of course, I mean that is the idea, but we have to do this and we have to go through the start to change these revenue streams. Now we don't want to do this as we are doing a lot of—do a shakeup of our EBITDA. We have protected our EBITDA. The absolute value of our EBITDA is very important and I think you are able to calculate where are we going with the EBTIDA margins and I think the first key to success is that we change these revenue streams, we are successful in doing this, that is what makes Turk Telekom Group a long term investment and that is key for us. We are not here to look on quarter to quarter and that is where we are driving this. And I think there will be some questions about broadband and I will be able to tell you also what is our strategy in broadband and how do we see the future of TTNET and our mobile broadband as well.

Thank you very much.

Herve Drouet – HSBC

Two questions as well from my side. The first one is coming back on the margins, where do you think—which elements of OPEX do you think you have more room to act on? Do you think on personnel, which is the biggest item, there could be a natural attrition that may help you in reducing OPEX in your own view? And the second point is on the revenue, I mean do you expect or do you think you will have some room to increase tariffs?

The first question, the first line item is a candidate for all of the OPEX, but I think we can do it group wide to many other line items. But the line item that you mentioned is important. We have initiated a programme just like we did last year and I think this programme for personnel, incentivising personnel at the age of retirement and this programme I think will gain a lot of traction in Q1 and it will have— It's ROI in 2014 and 2015, so it is a very profitable investment for us, we will be able to get younger, more educated, new employees and maybe also less in number, so that— This is the aim.

We are also looking at how we can jointly procure together as a group and see where the savings are done and we have done I think a very good job in 2012; 2013 we would need to continue that. It is definitely and every time we talk to the investors, every time we talk to the analysts we tell them we know that by changing the revenue streams we will lose some margin. The question is what are we doing how to protect these margins on the OPEX side and making ourselves much more efficient? That is key. And this picture is being done successfully and we see a lot of traction there, because the alternative is difficult to continue.

Now you have another question about— Can you remind me of your second question please?

Yes. I mean do you think the current competitive landscape can enable you to increase in your package tariffs and if it is the case in your guidance you have given up five to 7%, do you include in that some assumptions on potential tariff increase?

I don't think there will be anything in detail I can say about this. All I can tell is if you look at how we are focusing and protecting the high end open unlimited in ADSL, how we *are giving them more value, we have done a slight increase in tariff—correct me if I am wrong, Tahsin—in December. So you know December 2012 we need to give it time. It is— I don't think that we are there with this.*

And then on the PSTN it is very important that we focus on ways to look at our business as an access line and not only protect the PSTN but introduce new access lines, new ideas to put on this connection and Turk Telekom is doing a very good job in that and I think that our experience in this is a little bit more developed than the experiences of others in the past, so we look at the access lines and how to generate services on these access lines, because like you know we are not looking at the PSTN as a long term product and we must do these difficult decisions and it is very important that we do them while the company is creating EBITDA, while the company has created the solid EBITDA, the solid dividend.

Alper Ozdemir – Oyak Securities

There was little growth in the subscriptions in 2012. What I want to learn is, was it a choice of yours or the market conditions are too tough? And do you think you have the tools to ignite the subscriber growth again in 2013?

I think that is a key question for us and at the time where 3G is in its high growth life cycle, we have to make a decision to invest in our services, in our network, increase the capacity and protect and move, up sell the people to higher capacity, open unlimited. We have done that very successfully. We did not take a hit on the subscribers. We added 220,000 subscribers and tell you even a little bit on some of these new subscribers are coming on in place of our () product that was refused by the regulatory authorities.

So this is actually good news. And we see that there is traction now and I think the challenge to us in 2013 is to grow this base. And it is very important to us to look at in 2013. But in 2012 we did not want to get into a price war. The competition is undercutting prices, the competition is bringing in more reachable 3G, so we have to make sure that you know if we get into a price war then it is not going to look good, it is not going to have a positive effect on year two and year three.

So that is our plan and we see that there is traction. We see that the consumer behaviour is changing, where they are using—they want to use higher capacity. They want to take the open unlimited and that the challenge for—to tell you the truth that is the challenge for 2013, for myself and my colleagues. And we think that we are able to meet this challenge. So it was improve the quality of service, increase your speed, up sell, make sure that people are tasting, if I may, the open unlimited, protect the revenue, maybe increase it a little bit. See if you can differentiate also in pricing, give it a little higher price, the open unlimited and add a lot of value added services.

Today we have—what is the percentage Abdullah, of the open unlimited? 72%? 72% of our subscriber base is open unlimited and that is very important. I think another thing that is going to make this attractive and we were working on it because we are in a transformation programme, is our sales channel joint effort and consolidation. Our commercial teams are doing a very good job in consolidating the sales channels. Now we see that all the products are in all the show rooms. We have higher number of exclusive show rooms.

Now we need to make it much more efficient and adding the services and value that we include the ADSL and up sell it, cross selling and smart bundling with others. So that is the story we have always said and we did not think it is wise for us to get into a market share gain or a price war in 2012 and we like where we are and we like this result and to tell you the truth our challenge is to grow our broadband base in 2013.

Ivan Kim – VTB Capital

I have one question on the mobile competition, so basically can you please elaborate on what is happening there and what you are seeing in the first quarter? And the second one, more specifically probably on Pttcell sort of agreement; what was the reason for you to pursue that one and aren't you afraid that it can result in some price reductions in the market which won't be welcomed of course I guess.

Thank you. Another important question. I have Onur waving at me telling me you cannot mention anything about Q1, so you asked me about Q1, I will not say anything about it. But yes we are seeing some indication of some rationalisation but we don't see this as a trend yet and we cannot bank on it that it is a trend. We are working very hard in Avea. They have done a fantastic job. We are very proud of what they have done in 2012 with their MoU blended ARPU is the highest MoU. The net adds have done a great job, we can compare them to the results of our competitor that we will have just seen. So we are happy with where Avea is with this smart growth.

And one of the things that Avea is doing very well, remember that the Pttcell that is not the first time these guys do this. They are experts. They have all the sports clubs, they have the BIM Cell for the retailer. We also have with the oil and gas retailer, so these are—we are working on all of these things to come up with new ideas and it is part of their strategy. So definitely they are assessing one, the impact on the value; and two, the impact on the cannibalisation and all of this is positive for us. And by the way this also comes at a lower price because our partner does a lot of the marketing and sales work. So we are very proud of that and we think that this is a trend and this is a strategy that Avea is leading.

Mehmet Agyuz – Yapi Kredi

My question is about your guidance; when I look at 2012 if you exclude the construction revenues you only grew 3% and I am curious to know where do you see the acceleration coming from, especially you mentioned that the construction revenues will be lower this year. I am curious to know whether you are including any contribution from () sales from your old infrastructure in your guidance? And secondly on your EBITDA at your mid end of your guidance you are looking for about 38.6% EBITDA margin which is around 150bips contraction year on year. And you mentioned dilutive effective of the construction revenues in the 2012, considering it will be lower, the dilution will be lower next year even actually may help you where do you see the margin pressure coming from?

Okay on your first question, I think the construction revenue has always been there. It is not something new. One year it will go you know maybe different ways than the other year. So we are giving guidance on our total revenue. We think we have a very good opportunity from our mobile and our ADSL/fibre broadband value added services and we think we are going to be able to grow our revenues by five to 7%.

Now your second question, I mean it is obvious that when we are changing the revenue stream, slowly this impact is going to come. Now how we talk and how we protect our absolute EBITDA that is very important. Now we need to enhance this with the OPEX programme, enhance this with accelerated revenue programme. That is why we have made a lot of changes on the company. We have changed the way we look at customers. We are going to end to end with customers. We are bringing the joint procurement and we are bringing in the consolidated show rooms. We are doing all of these things to be able to sell more and the effect will be little by little.

Remember we are in a transformation phase. We are a company that is trying to transform itself and it is very important that we are able to do it because we are a long term investment and we are able to do it in a time where you know we don't—we are not forced to do it. So these are all I think realities of what the management is facing and I think the transparency of how we face this with our investors is something that we commend our management team and we are going to continue to do that.

But the point that you have mentioned, you are talking about margins, but in absolute terms there will be a slight increase in absolute terms and this is actually the sweet spot we want to be in. Plus you will see that we have transformed the revenue streams. So if you are able to transform more revenue streams from the higher growing one, at these EBITDA levels, at these absolute EBITDA I think that will be a good job. But the main challenge for us () is we need to look at our ADSL and fixed broadband growth. We need to look at that and see how we can improve it and create traction based on the good scenarios and the good basis that we put last year in differentiating our product, in improving our services, without getting a hit on devaluing the market. And that is how smart market leaders play the game.

Maybe if you could give us some colour about are you planning to monetise your copper assets or copper network this year or should we expect any contribution in the revenues or in other items this year?

I think the fibre () project, our famous fibre () project is a project that is not really on the revenue side, it is on the CAPEX side. That is the way we look at it. We have an asset of copper and we are selling that copper. We are now transforming it into granules(?) so we will be able to have more value about it and continue to transform our copper network into a fibre network. And this is a long term project. This is an investment in our future and I think we are doing—we are getting a lot of traction. This is not—this is maybe our contribution to….

Thank you.

I didn't finish. The main question is the copper sales has no contribution on revenues. That is why I want to tell you that this is something that is— So I explained the fibre camp and eventually I think we have a programme where it is very ambitious, we want to remove the copper and have it all in fibre and then this is being done I think in a positive way and we are getting traction. This is not something that we will do where we are telling you about future plans, we are already a year and half into this programme. And this is—we are reaping the benefits of it.

And we have committed to the investor community that our peak CAPEX years will be 2012 and 2011 and from then on we are going to come down with our CAPEX figures. And I think very few telco companies would be able to say that to the investors. And we know that the investors in their mind they are hesitant about the extra CAPEX and the CAPEX requirement in our business. So we have done this to show that we are a different kind of company that we are committed to good business, to prudent and this year in our guidance we are guiding for 2.2 billion CAPEX and I think this trend of lower CAPEX will continue in our next three to five year view.

Just one thing to add, Hakam has already mentioned copper contribution comes as a positive OPEX to us bottom line, not—this is not included within the revenues and this company has been traditionally incurring similar non operating income from its operations because we already have more than 160,000 km of fibre being laid and this has—this came with the prior year's investment. Of course the transformation project has accelerated the contribution from copper and as long as we have similar transformation projects in place it will—we will continue having similar contribution.

Alex Kazbegi – Renaissance Capital

Two fairly simple questions, please. One on the smartphone penetration on your network, which seems to be significantly higher than the other Turkish mobile companies; what is your own explanation so to say for that? And if you can also tell us how many of the smartphones which you have are actually on Sybian and how many of them are using so to say the () or the Windows—I mean rough numbers would be fine. Second question would be on the ARPU trends, just again comparing the growth in the post paid and the prepaid segment and I think you mentioned some reasons for that, but maybe you can give us a bit more colour to why on the prepaid side the ARPU actually increased by so much year on year?

Okay the second question is about the operating system on the mobile phone, Sybian or not, that is very difficult to do and we would not venture there and give any numbers. When we talk about smartphones there are certain criteria and we have the highest penetration. For question number one and number three, Dehşan my colleague, he is the CMO of Avea, he will answer your questions.

Good afternoon. There are actually two major reasons why we have a significantly higher smartphone penetration in our base. The first one is, as you know from subscriber figures, our post paid subscriber base ratio in the total number of subscribers is also significantly higher than the competition. So post paid subscribers tend to use smartphones more than prepaid subscribers. That is one of the reasons.

And the second one is we had almost 40 campaigns this year in 2012 for smartphones and 12 of them were exclusively launched by Avea. So we are actually focusing much more than others, future phones etc. in terms of campaigning in the channel and in the marketing mix as well.

And the third question was the prepaid growth. Avea has been traditionally preference for youth, so especially our launch last year regarding the youth segment has been very successful in terms of customer acquisition so we have been actually harvesting the revenue growth of the customer acquisitions of 2011 in 2012.

San Dhillon – Barclays

A couple of questions unsurprisingly on the guidance; I know you are reluctant to give some granularity on the EBTIDA, but could you give us a sense in coming to your EBITDA guidance what you anticipate mobile margins will do next year on a trend basis? Do you expect them to go up, down, stay the same? And the second question on broadband and net additions, what seems to be the problem? Is it the gross add number that is an issue with high churn, or is it just that the gross add number is low and the churn is fairly small?

On the first one we are doing the best we can to improve the margins. The management team in Avea is taking that very seriously. It ranges, you know quarter to quarter, at the end of the year we want to do the best we can, but to get a significantly higher margin is something where the whole market—there has to be a shift for the whole market. And there is an upside story there about maybe the () maybe we are talking about you know taxes and that will help the whole market.

Remember that even the incumbent or the big operator is working on below average worldwide market on percentages. There are high taxes. That is important to us and our international competitor, you will see that they have almost the same margins like us, it depends on which quarter you look at. So it is a market issue. If there is continuous rationalisation, if we are focusing on value added services I think this is—this will improve. That is for Avea and we think that Avea will contribute more on the revenue side as change the revenue stream. And we are going to be as efficient as possible.

On the broadband side it is how you— I mean it is just like fiscal tools and monetary tools you know with inflation and unemployment. You know you help this, this doesn't work very well, you help that, this doesn't go very well. So the management needs to focus on how are they going to lead the company out of (). Now the choice was that we would need to upgrade to—our customers, let them—most of them especially the high ARPU customers to the—or we see that they are high potential to go the open unlimited. Enhance our value, enhance our brand equity, invest in quality of service, add value added services. That is very important. This was the challenge for 2012.

We were able to raise the price a little bit. Our revenues went up by 5%. We did very good up selling and we wanted to do that. We did not want to get where the 3G is going in the high growth phase, part of the life cycle is to get into a fight where the value of the market might deteriorate. Now we think that we have reached—we are where we want and we need to focus on adding subscribers. This is the challenge for us in 2013. So focus on you know what are you trying to do and what your sales teams are doing and how you are upgrading and how you are moving on your marketing and sales path.

Great and perhaps one more follow up if you have time; you mentioned MTRs(?), I know you have been active in trying to get () to have another look at them and potentially take them down again, where do you think we are with that? Do you expect MTRs to come down over the next year or so?

No, I think this is something that the regulator is in charge of. We have no say in this. We just look at when was the last MTR and just like you we guestimate is there another MTR *coming. But it is not something that we are able to control or forecast. We respect the regulator as you know the chief architect of these things and that is where we are.*

And just to mention one more thing on the previous item, it wasn't health. We knew that it wouldn't have been healthy to get into a price war with 3G. We expected, like any market, that is what happens when 3G come after ADSL this happens and we have to fight this the right way and make sure that we are building for the future and with the price cutting and that was a difficult decision to make. And I think we did the right decision, the team did the right decision.

The team did a very good job and we will continue this and now we are going to focus on how we can add broadband subscribers. From all ISPs by the way, not only TTNET, actually we want…if that is something that would help us because that is very important because they would be on our network and they are paying us good ARPU. So that is important for us and that is the team's focus.

Caesar Tiron – Morgan Stanley

I just wanted to understand if you think the decline in fixed line voice revenues over the course of 2013 would be better than in 2012?

It is a good question. Actually I have a note here that I have prepared, so I am very happy to have actually prepared a note and the question was asked. We are looking at access lines. We are committed in access lines in—I am talking about the fixed, access line we have minus 950,000 and minus 6% loss on revenue. We will commit that in 2013 our access lines in terms of numbers, loss and decline of revenue will be less.

So less than 6% declining PSTN revenues for 2013?

I am talking about access lines. Remember I want to look at my network at access line. There is PSTN, there is naked ADSL, we have been for about I think three or four quarters reporting our naked ADSL. We have a few new products now on the access side, so we want to go and look at the access line and that is what we are— And the net access line impact for 2012 was minus 950,000 and minus 6% and we want to be less than that in—well more than that, better than that in 2013.

So both in terms of access lines, but as well in terms of revenue decline? The revenue decline would be less in 2013 than in 2012?

Well let's ignore the revenue, just let's look at the number of subscribers. So let's look at the minus 950,000. Since you are specific, I will be specific.

Okay. Thank you.

Closing Comments

Okay, thank you everybody. See you again next quarter. Bye-bye.