TURK TELEKOM

Moderator: Gozde Cullas
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OPERATOR: This is Conference #962514

Operator: Good afternoon ladies and gentlemen, and thank you for standing by, and welcome to today's Turk Telekom 2017 Q2 Conference Call. At this time, all participants are in a listen-only mode.

There will be a presentation followed by a question and answer session, at which time, if you wish to ask a question, you will need to press star, one on your telephone, and wait for your name to be announced.

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

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

Paul Doany: Thank you. Good afternoon, and thanks to all of you for joining the call. Let me start by briefly reviewing our consolidated financial results on slide three.

We're very pleased with our second quarter results, with record revenue and EBITDA growth exceeding our initial targets. In the second quarter of the year, our consolidated revenue increased by 14 percent year-on-year -- a record since the IPO to TRY 4.5 billion.

Excluding nonoperational IFRIC revenues, top line growth was 12 percent. Group synergies, increased penetration drives and pioneer sector convergence player position were the pillars of this performance.

Meanwhile, EBITDA increased 30 percent year-on-year to TRY 1.7 billion. Our EBITDA margin expanded by 4 percentage points over the last year to 38 percent.

This reflects strong profitable growth across our businesses and also improving operational efficiencies. As you know, our company has gone through several phases of transformation.

In the last quarter of 2016, we aimed to streamline the organizational structure to increase agility and maximize benefit from synergies of shared operations, as well as strengthening execution through cross-departmental project teams to operate more efficiently.

This reflected positively on our cost structure and also supported our delivery and margin improvements. Net income in the last quarter grew to TRY 890 million, with improvement in operating performance and improved FX environment.

Consolidated capital expenditure was TRY 545 million in the second quarter, indicating proven capital spending for the first half. But this will accelerate in the second half of the year, in line with our investment plans.

On the other hand, we will continue our strategy to explore options to deploy mobile network CapEx and network OpEx more efficiently, through joint network facilities with other market players.

Our partnership initiative with Vodafone as part of the universal services effort -- which was the last tender that we have now signed the contract with the Ministry -- is an indication of the direction we will be expanding further, with indeed Vodafone and possibly, with Turkcell in areas where we see we can do so in the mobile part.

Our CFO, Kaan Aktan, will give more details on financials and will also discuss our 2017 revised guidance.

Let's review the results and go on to slide four for fixed broadband performance. Although second quarters are among the seasonally low quarters, our broadband performance in this quarter was strong. We had 188,000 net additions in fixed broadband -- our best second quarter net add for the last 9 years.

We had another robust quarter of fiber with 145,000 net adds. Total number of fixed broadband subscribers increased to 9.1 million, out of which 2.3 million are fiber.

We performed very well in the quarter to fulfill our strategic priorities in broadband segment, which is to increase penetration and grow the market and upsell both higher speeds and higher capacities to existing customers and obviously expanding the base.

For driving penetration growth, as you know, we launched a wholesale campaign, Internet Bizden, at the beginning of second quarter, to reach homes that have an existing fixed line connection but not utilizing broadband service.

It is a campaign for entry-level package with 4 megabit per second speed and 20 gigabyte quota per month. We also have a 40 gigabyte upsell option and beyond that -- it gets into our ordinary packages.

Building on tremendous opportunity to drive broadband penetration in Turkey, which is currently at 48 percent, this strategy will accelerate monetization of our network, which after all is there and will provide major prospects to all ISPs for connecting customers and future growth and upsell -- which in fact is what we are investing in.

Although we have just launched this, demand for this campaign was strong. It brought 1/4 of our total net gains in broadband in the second quarter.

Additionally, we recently launched a device campaign in the retail segment, designed for customers who register to the -- to this Internet Bizden campaign, in order to strengthen our broadband penetration further by increasing device ownership.

All in all, combination of high-end fiber and low-end entry-level broadband products were successfully balanced. With financial discipline in our pricing, we delivered a strong ARPU growth of 7.5 percent and broadband revenue growth was 17 percent year-on-year at the end of the second quarter.

As a regulatory update, we would like to inform that the regulator, of course, re-determined port and transmission prices. Wholesale pricing in transmission is now calculated on a logarithmic scale rather than the previous linear model. With this new scheme, port prices also increased, in line with our proposed cost model to the regulator. We believe that this new pricing model is more relevant to the market dynamics and it also provides improved predictability and more flexibility actually to other markets. And in the end, the regulator really wanted this model, so we're very happy that we found a way to make this model work, in line with the parameters that can also work for us.

The revised port transmission as of May impacted our broadband revenue growth around one to two percentage points. However, this model will contribute to the overall growth of the market and also enable ISPs to push higher speeds and quotas benefiting from this transmission cost model and therefore, growing the market and also growing the revenue generated.

In addition to this, we are also working on a positive discrimination price model, which we have, in fact, agreed with the regulator, proposed by us.

And we will be rolling this out as soon as we can. This is very helpful to small ISPs. And we will be expanding this geographically in areas where we can sell our normal offerings at such discounts.

Now, we would like to mention that we are also working on increasing this -- in other words, how to sell this product across the market -- other than TTNETs, let me say, a fair share market of this.

Having assessed the situation on the ISPs, obviously, Turkcell Vodafone will get there fair share to the extent that they will be selling this product. And if we add TTNET to this, we understood that we need to find an alternative channel. So we are now investing with the electricity distribution companies as this, we believe, will be an ideal channel to grow that particular base, especially for that entry level, of which we have now one company -- which is Millenicom, which was acquired by an electricity , and gas distribution company. We'll have more to say this, soon.

Turning to slide five, while targeting to increase the overall penetration, we also continued our focus on up selling our customers to higher speed capacity services. At the end of second quarter, 26 percent of our subscribers received capacity of 75 gigabytes, which is 12 percent higher than last year. Last year, it was 12 percent, sorry.

This again, highlights the importance of fixed broadband, which is the only cost-effective technology to offer high capacity. And this complements wireless offerings over mobile networks. It doesn't replace, it complements. And that's why in fact, these investments are critical for the sector wide, regardless who the operator is, because in the end we are also wholesalers.

At the same time, the share of subscribers who enjoy our best-in-class fiber hiper-speed increased to 30 percent from 25 percent last year. And in terms of fiber homes passed, we have reached 15 million, which is far higher than any of our nearest competitors, and this indicates a future -- a major future upsell opportunity going forward.

And I'll have more to say about a five year, let me say, trend that we would like to discuss towards the end of this presentation. We are increasing data speeds and capacity quotas, delivering best-in-class broadband access, tapping into new homes, investing to add more value to our products.

And this quarter once again shows our customers are responding well to our offerings, which is basically coming from cross-sell, upsell.

Mobile performance on slide six. Overall, second quarter mobile results underscore a healthy subscriber mix with ARPU growth.

In the second quarter, the market continued to be competitive, however, we followed a disciplined approach, and we didn't respond to the competition directly. As such, we delivered mobile revenue growth of 17 percent year-on-year.

We focused on expanding the base of high-quality subscribers and also, undertook an integrated approach by enriching our offers via other services. In the second quarter, we re-launched our Prime subbrand, which is our premium offer.

You may recall that we had invested heavily in the Selfy brand for the younger age group. And recall also that with the loss of the Avea brand, as was a mobile brand, it's very important that these brands have some attachment to the customer, because Turk Telekom is basically an all-encompassing brand.

So we've launched Prime very successfully, and we've added a lot of interesting packages there with non-telecom benefits such as discounts, entertainment, transportation, shopping, accommodation and so on. And the market responded favorably to this.

We demonstrated a particularly noteworthy performance in the postpaid segment with 54 percent postpaid ratio, well above 51 percent of last year. Number of total mobile subscribers reached 18.8 million with 155,000 net gain in the postpaid, in the second quarter.

ARPU growth in mobile business also came in strength, demonstrating highest pace of growth since the second quarter 2011. The blended ARPU reached TRY 28.2, 12 percent up from the second quarter 2016, supported by growth of postpaid subscribers, increased Smartphone penetration and higher LTE adaption. Our successful performance in tariff and data pack upsells were also behind this ARPU growth.

Now to slide seven, on monetizing data -- as of the second quarter of the year, 53 percent of our mobile service revenues came from mobile data revenues, which grew 86 percent year-on-year.

Smartphone penetration in our total base increased to 78 percent, while average monthly use of Smartphone users reached to 3.5 gigabytes, which was 2.4 a year ago.

At the same time, penetration of LTE-compatible devices among our Smartphone users also lifted to 60 percent from 44 percent a year ago. Monthly data use of our LTE subscribers increased to 4.6 gigabytes, setting the stage for continued growth in mobile data revenues.

TV performance on the next slide, Slide 8. The momentum in our TV business further accelerated and our TV subscriber base grew by 179,000. Net additions in home TV segment was 121,000, the highest-ever net adds in this segment. The acceleration in TV net adds reflects our success in multi-play and cross-sell and our enhanced position with affordable pricing strategy. We will continue to utilize TV as a tool to manage customer retention and increase acquisitions in our telco segments.

Now, we plan to extend the success further with mobile cross-selling, especially with self-install DTH satellite television. Now, the aim to -- is to penetrate as many homes as possible into what is known as the “free-to-air” television segment. These are customers who do not pay any money and they basically purchase a set-up box and they watch whatever is coming free to air.

Now it is essential for this company to target those homes. And that -- we consider these homes will be homes that probably would not wish to spend any money on broadband. The key emphasis here is on increased home penetration, which is a strategic objective.

The current level of pay television penetration is very low in Turkey and this provides a unique opportunity for Turk Telecom to fill this, given that there isn't any other DTH player within these price points. Digiturk and D-Smart are well above these price points. So that's a unique opportunity for us, and we are definitely going to exploit this.

Moving to the next, slide nine -- the number of total access lines has been showing an upward momentum over the past three quarters and realized at TRY 13.2 million, with a robust ARPU of TRY 23.1 in the second quarter.

Integrated approach of cross-selling opportunities and multi-play offers and successful retention strategy were behind the success. Meanwhile, we increased fixed voice prices in consumer segment by an average of eight percent effective May 1st.

The immediate effect of this increase is limited as the price increase applied to uncommitted PSTN lines, but this will definitely support our revenue performance in the next quarters.

Moving now to slide 10, on our group companies. Our subsidiaries --Innova, Argela and Sebit -- are key pillars of our digital strategy, and are well positioned to provide equity value upside to the Turk Telekom Group. That is our strategy with regards to these subsidiaries.

We are now expanding our Argela's products from pure R&D to serving other operators through new international partnerships. For example, SDN, software defined network and virtualization, which we believe is a very essential function even within the LTE standard and let alone when 5G will come.

So we will be announcing some initiatives that Argela have successfully undertaken nationally in this area. We hope that some of that will be coming to Turkey, as Turkey lags slightly behind but we will be catching up all of us that means Turkcell, ourselves and Vodafone. So we see some good value as Argela is the only Turkish company engaged in this activity.

We are also going to extend their play in the consumer segment, digital services, under Argela company and one of these initiatives is a new keyboard application, which we have just launched in beta. The full launch will be around August 19th -- it's currently in Google store. This particular keyboard app is a new direction that we are pushing Argela into, building on its current Wirofon launch.

And we will have more to say about this and, let me say, other moves in the digital services area, be that under our subsidiaries -- Argela, Innova and Sebit. And now I'll hand over to Kaan, (as part) to discuss with you the financial performance.

Kaan Aktan: Good afternoon, everyone. We are now on page 12, with our financial performance. We had an exceptionally successful second quarter with very strong figures in our key financial metrics.

Consolidated revenue grew by 14 percent year-on-year to TRY 4.5 billion. And if you exclude the IFRIC revenues, the construction revenues, top line growth was 12 percent. This growth is primarily driven by mobile and broadband businesses.

The tariff upgrades and growing data consumption underpinned the outstanding performance. Broadband and mobile revenues both -- they both grew by 17 percent year-on-year. Total net addition in this two segments were 1.5 million in the last 12 months.

We had close to 600,000 fiber customer adds. We had close to 900,000 postpaid net adds in the last 12 months. And given our strength in our key growth areas and with the share of fixed voice now just at 15 percent, we are all -- we are well positioned to deliver sustainable growth going forward.

By the way, we did an inflationary price adjustments in our broadband tariffs in July. So, the price hike will be applicable to only our uncontracted and new subscribers.

Just as mentioned for the fixed voice, the initial impact will be limited since most of our subscribers are contracted. But, of course, we should expect some revenue upside from that move, as well, in the balance of the year.

So moving to EBIDTA. Higher revenue coupled with ongoing operational efficiencies and decelerated growth in some OpEx items such as commercial and network expenses drove an annual EBITDA growth to a record high of 30 percent. So EBITDA margin also expanded by 4 percentage points year-on-year to 38 percent.

As you will remember in our previous calls, especially at the year-end and the first quarter, we said we would expect a recovery in the margin starting from first quarter of this year. So this was the case for the first quarter and there is an acceleration in that respect in the second quarter as well.

So personnel expenses declined by 3 percent. By the way, we had some positive one-offs in the second quarter, but we also had some negative one-offs in headcount-related expenses in the first quarter.

So first half growth will be a better reference in that respect. For the first 6 months compared to the same periods of last year, the growth was two percent. And going forward for the full year, we should expect a low to mid-single-digit growth in that specific expense item.

So we had very heavy commercial activity in the first half of last year, as you would all remember. That was due to brand unification and LTE launch. This created base impact on commercial expense growth also in this quarter. Brand unification has enabled synergies for marketing activities. As such, our commercial expense growth was just six percent year-on-year in the second quarter.

As we have guided before, our marketing activities will be skewed towards the second half of this year, so we should expect a growth in that specific expense item in line with the growth in revenues, which will be a better reference point.

It's also worth highlighting that EBIT showed a substantial growth of 50 percent on the back of accelerated growth in EBITDA and normalization in the depreciation and amortization growth, as full year cycle is completed since the launch of LTE.

There was a solid growth in net profit as well, which stood close to TRY 900 million compared to TRY 248 million of last year. The increase was the result of strong set of results, as I mentioned, and supported by better FX environment in the second quarter.

Finally, CapEx was at TRY 545 million. In the first half, we were very prudent in our cash management and prefer to have CapEx to be more skewed towards the second half.

Now we will move to the next slide, slide 13. The strong set of financial results naturally contributed to the improvement in our leverage ratio as well. Now the net debt-to-EBITDA ratio is at 2.04. Thanks to our conservative financing strategy, our net debt-to-EBITDA level remains well below than many of our global peers.

As a consequence of our dividend policy, which I think everybody is well aware of, there was no dividend outflow in the second quarter of this year. On the other hand, we paid the last installment of LTE spectrum fee, which was around TRY 1 billion in April.

So there will be no such big-ticket items like spectrum fee payments in the second half. And along with the improved EBITDA, this will lead to visible improvement in cash flow as well as cash balance.

So we will see a higher cash balance at the year-end, and we also guided towards that --we said we will see the lowest cash balance at the end second quarter because of the LTE payment. So we will definitely expect an increase in the cash balance as we move to the year-end.

Major part of our debt is long term -- almost 90 percent of it is in long term. We have more than enough cash to cover short-term debt, which is TRY 1.8 billion compared to our cash balance even at that low level of the year, which is TRY 2.1 billion. We are very comfortable with the liquidity position. So this provides flexibility in managing the funding requirements.

Now if you move to the next slide. So we all know that we had a very strong first half. And we are very pleased with the financial and operational momentum we are showing in our -- in all of our businesses, and we are focused on continuing the momentum throughout the year.

So building on that success, we revise our expectations for revenue, EBITDA and CapEx for this year. We now expect the consolidated revenue growth, excluding construction revenue adjustment, to be between 10 percent to 11 percent. This is up from 8 percent to 9 percent.

Consolidated EBITDA similarly, we guide to between TRY 6.3 billion to TRY 6.4 billion. This is up from TRY 5.8 billion to 6 billion. That's on the back of strong revenue growth and operational profitability increasingly delivered in the first half of the year.

We expect total CapEx to be at around TRY 3.3 billion now. This is up from previous guidance of around TRY 3 billion. We are considering the acceleration plan for corporate data and information technology's project in the second half of the year. Now, our guidance for CapEx corresponds to 18 percent of the sales --this is lower than 19 percent of last year, and 20 percent of 2015.

The new guidance range will correspond to 35 percent to 36 percent EBITDA margin. We also guided in the long term that we will stabilize the margin at mid-30s and start improving from that point on.

This will -- also implies for -- specifically for 2017, the first annual EBITDA margin increase since 2010. We are very positive on prospects of Turk Telekom on the back of strict OpEx controls, integration synergies and also initiatives to drive further penetration of our services. Now, I'll hand over to Gozde for the opening of the Q&A session.

Gozde Cullas: We can start the Q&A session now.

Operator: Once again, just as a reminder, if you do have a question on today's call, that's star, one on your telephone, and wait for your name to be announced. That's star, one, if you do have a question.

And, if you wish to cancel this request, please press the hash key. Once again, that's star, one for question. Our first question comes from the line of Can Oztoprak. Please ask your question, your line is open.

Can Oztoprak: Hi, Can Oztoprak from Unlu & Co. Three questions please. Could you please elaborate how you manage to book such large amount of FX gain? Obviously, we all missed that. Secondly, could you please provide some detail on the increase of CapEx guidance this year?

Also, if I remember correctly, you were mentioning that a long-term CapEx guidance would be around 16 percent of revenues -- is that still intact? And my last question is on dividends. Given there's no dividend payments from last year's earning, do you consider paying advanced dividend from this year's earnings?

Kaan Aktan: So the first question on FX -- the methodology or calculations are not sometimes easy to forecast beforehand, because we also have some derivative transactions in our portfolio.

Roughly 17 - 18 percent of the gross debt is in Turkish lira via swaps and they also include some options in it. So when the FX moves, the impact on FX loss and gain is not always very linear, because of the option component in the transaction.

Beside that, we had in the first half -- but especially in the second half, many short-term Turkish lira dollar swaps, which exist during the quarter, but some of them were executed and closed also during the quarter. So you only see the impact of those items in the FX and hedging cost items, but don't see in our balance sheet.

So we have a very -- we are at a very minimal point in terms of those short swaps. We use them to balance our FX position as well as to manage our cash flow in hard currency, and the impact is minimal from today to the year-end.

The second question was about CapEx guidance. At the year-end, when we guided towards TRY 3 billion, we said -- we received several questions about the level of it considering the rate -- the hike in the rates, FX rates, because we know that part of it -- part of our CapEx is denominated in hard currencies and sensible to FX moves.

We also said we will try to contain the level of the CapEx in that sense. I think we've been able to manage to get there. We contained the CapEx for the FX changes.

But considering the upside in our cash flow because of the EBITDA performance, we said we will have to get into the plan some of the projects that came after the year-end last year.

So they will be around IT technology as well as some corporate data customers' projects. But this shouldn't be considered as a long-term change in our CapEx guidance, which is to get to 15 percent of the revenues.

And the last point is dividends. Paul, would you like to take this? Or my answer will be that there is no plan for advanced payment on dividends.

Paul Doany: Yes, the answer is no. Next question, thank you.

Operator: The next question comes from the line of Walid Bellaha.

Walid Bellaha: Hi, good afternoon. Thank you very much for your presentation. My first question is on the second half. You mentioned that some of your competition has been aggressive in terms of pricing in the first half.

And you mentioned as well, you've been increasing commercial expenses in the second half. Is your strategy to also compete on prices, or is it more on marketing temporary cost increase?

My second question is regarding the tender to which you responded with Vodafone and if you would just comment how does it translate in terms of CapEx for the group?

And lastly, some of your competitors have acquired licenses to do wholesale and trade electricity. And you mentioned you're investing with electricity distribution companies. So just wondering whether Turk Telekom would consider as well acquiring some license to expand its operation into selling electricity as well?

Hakan Dursun: Let me take the first question. For the second half of commercial activities, as you pointed out, first half of the year was, in terms of competitive dynamics, a little bit aggressive on the mobile side.

I think I would like to note that Turk Telekom is a multiplayer operator, so our commercial performance and financial performance is not only dependent on mobile.

And this is our strength because we also have our muscles on fixed broadband, fixed voice and especially TV, as well. So looking at the market in the first half, there are some aggressiveness from both Turkcell and Vodafone which continue -- which started in Q1 and also continued in Q2 -- with aggressive data campaigns, very aggressive acquisition offers.

Also, from Turkcell side, there was special aggressive activities in the retention offers there, as well. Whereas on Turk Telekom side we didn't want to get involved in this aggressive price competition.

Instead, we wanted to focus on maximizing our revenue performance on the mobile side, and we wanted to focus on the areas where we have strength in terms of fixed broadband penetration, as Paul explained – that's our strategy. And also TV penetration. So that we were focusing on penetrating our core businesses in different areas.

But also, on couple of incidents, we prove that if we want to respond and if it is a rational move for us, we will respond strongly. Also, on mobile side, we -- at the end of June -- we started the campaign in order to increase our acquisition performance on the mobile side as well. But this is also within a financial calculation and financial discipline.

For the second half of the year, as Kaan explained, there will be more commercial spending, but this is the nature of business. So if you -- in telecommunication business, especially, back-to-school period -- is a heavy commercial activity period.

So, all operators in telecommunication sector tend to be more active in terms of commercial activities, therefore commercial spending, especially during back-to-school period. And this is why we are going to see a slight increase in our spending, with a return, of course.

Paul Doany: Thank you, Hakan. Back to me now. On your second question relates to the Vodafone agreement. In fact that tender is under the Universal Service Fund, and we gave a price which will be managed jointly between us and them in a 51:49 structure. That price is covered in a back-to-back form, because basically this is an infrastructure project.

So what we do is, we signed agreements with the vendors that cover the requirement and that passes through us. So the responsibility of managing and so on is on us, so therefore, it will not have any impact on either company in that regard -- it will be net neutral.

However, the importance of it is that setting in motion a form of active sharing that we can implement through the rest of our networks, starting from the cold and the lower density areas. And that project now has commenced.

And we also are engaging with the possibility of how we can utilize Turkcell towers from the Global Company, as well. So we are looking into how that works. That would work on our normal network, let me say, which goes beyond what you asked, but I thought I may as well provide that clarification.

On the electricity side, actually to be clear, Turk Telekom had before, in any case, a retail license, which Turkcell now have announced. And obviously, they now have gone to market indicating that they would like to provide electricity discounts to their customer --something that Turk Telekom can do, but our strategy is slightly different.

What we want to do is, we want to partner with the incumbent distribution companies, because if we would like to activate a fixed line that is not carrying broadband or even a canceled fixed line that is already there.

The most effective form of reaching to that home -- knowing which home it is and understanding what is their likely income level -- is to ask that company through the meter reading, which is a monthly reading, to go there and provide an offer in writing to that home and say, "You qualify for this offer. Please call this call center for more explanation." And through that we also want to make more partnership on the existing companies in regards to supporting their own requirements for smart grid, smart meter reading and so on.

So that's another area with our IT companies, where we see a big win-win between us and them. So that's the formulation it takes. They become a broadband reseller, if you like starting with this cheap end offer and obviously, with a potential for future upsell.

The reason we single this out, as I indicated slightly earlier, is that we looked at the current players in the market -- we had D-Smart, they're out of the segment.

There is Millenicom -- they're well in this segment --they're doing very well. Then there's a company called Turk.net, and they have suspended their normal sales channel and they are now basically selling online.

So we need something more of a field force -- people who go to the homes, but without necessarily understanding what the product is. So they, we believe, could become an important channel for us.

And we are now in that, if you like, experimentation phase with them to see, which of them -- because remember we will be -- this is a multi-operator partnership in lots of different areas where they are operating.

We will see where to focus through these -- obviously through all others, because we want to establish this penetration growth one way or another. But without us as TTNET getting more than our fair share. And that's why this is strategic. Thank you.

Walid Bellaha: Thank you very much, it’s very helpful.

Operator: Our next question comes from the line of Fulin Onder. Your line is open – please ask your question.

Fulin Onder: Good afternoon, gentlemen. Thank you very much for the presentation and the opportunity for the questions. My questions will be on your strategies for the second half of the year, even though your upwardly revised guidance includes most of them, and you've touched many basic points up to now.

I was wondering whether you are going to be more or less aggressive in mobile subscriber acquisitions in the second half? And your development of ARPU for rest of the year in mobile?

And also, on the broadband front, I was wondering if you will be able to -- if you think you'll be able to make a price adjustment towards the end of the year?

Maybe, if I'm not mistaken, you have already made one, but that was before the new subscribers. Correct me if I'm wrong, and I would like to ask you to elaborate more on your second half strategy? Thank you very much.

Paul Doany: OK, I will take the first part and then I'll hand over to Hakan to fill in a bit more information.

Fulin Onder: Thank you.

Paul Doany: Now, as you know that when the plan for this year was announced early in the year, we gave guidance for the rest of this year, we were not certain of how this port transmission model will be executed and how that particular model can lend itself to penetration growth in broadband, which is very, very strategic to us.

As we were able in the course of the year to reach an agreement with the regulator and the ministry on these two fronts, this gave us the opportunity to focus on broadband penetration growth -- which is a very, very strategic imperative for the long-term sustainable value of this company, if one wants to project revenues and margin going forward over say a period of, let's say, five years, OK?

Otherwise we will all be looking at quarter-to-quarter and year-to-year. So once that was established that led us to push the focus in that direction and therefore, any CapEx related to those sales -- and any effort related to those sales, cost of sales and so on -- would have to be pushed in that direction to achieve the numbers that we are aiming for. Also, note that this provides a future upsell opportunity.

So some of the things we are doing although may not carry a high CapEx incremental to that of the high OpEx incremental to that particular sale, it will provide a huge opportunity in the future and therefore it can provide a sustainable revenue growth, be that the wholesale revenue or a retail revenue.

Now, this strategy also was guided -- guiding -- our mobile sales. When we saw that obviously, we had some hot periods where Turkcell and Vodafone were being a little bit aggressive in the market.

We preferred to be a little bit less aggressive in the period where we were able to grow our broadband through normal upsell and cross-sell opportunities.

In addition, we also saw the opportunity for us to push in the satellite TV area after we understood what is the strategy of Digiturk and what D-Smart can do, because they are only the only two DTH players.

And we saw another opportunity there where the homes that may not be in the future broadband -- meaning the affordability or they just don't want to spend the money on that.

We want to be covering their entertainment needs through offering very, very cheap Tivibu in those homes, which are normally free to air. Now those homes will also be future up sell homes for all manner of service that we can provide over a television and also, especially, with the cross-sell on mobile.

So, that's the area where we would like to focus on growing our mobile through a cross-sell over satellite-TV.

And that strategy that was just put in place a couple of months ago and we are seeing some very good results -- some of which you're already seeing in our results now as indicated to you. So I can now hand over to Hakan to provide further information. Thank you.

Hakan Dursun: So actually, Paul, explained our commercial strategy for the second half as well -- very well because we will definitely continue pushing in this direction. Maybe to be more specific on mobile side, we have achieved 17 percent year-on-year mobile revenue growth.

Actually, this came from operational focus. After the launch of LTE and heavy investments, we started to increase our performance on monthly data package sales. And actually, compared to last year our monthly data package sales almost doubled.

And in some months even more than doubled, which is a great achievement. And for the rest of the year we will definitely continue to focus on this because this is a value play, commercially.

Similarly, also, for the existing customers, we are upselling the tariffs of our existing customers. Compared to last year we are seeing around 15 percent to 20 percent performance increase -- again with the introduction of LTE and the need for capacity. Therefore, we would like to also keep this momentum upward because this is also a value play.

And the third one, we are heavily focusing on prepaid to postpaid migration because when we migrate our prepaid customers to postpaid, we are able to keep them for a longer period of time with a more healthier ARPU, and continue to value and revenue management actions on this space.

And as you can see, our postpaid subscriber ratio has increased from last quarter and from last year. And we will continue to focus on prepared to postpaid migration.

In terms of acquisition performance, we did not want to get into heavy acquisition -- a price war, actually. But if we need to do something, we will tactically do one or two moves according to the competitive dynamics of the market.

For the broadband markets, we have also achieved a significant revenue growth for broadband. A majority of this is coming from subscriber base. So 9.5 percent subscriber increase year-on-year. Also, our ARPU is increasing 7.5 percent. This is again coming through the initiatives that Paul explained very well. So we will continue to focus on them. We have done a price adjustment in broadband prices in July, which was around nine percent -- gross -- so we are not planning another price adjustment in the second half of the year. But we have tools to increase our acquisition prices if we see an opportunity in the market.

And also, the value -- the ARPU value -- from our customers is not only coming with these price increases, but also with capacity upsells and the speed upsells, which is also an increased performance, compared to last year. And we will continue to focus on these levers, as well. Thank you.

Fulin Onder: Thank you so very much for all your help. Thank you very much.

Operator: Once again, that’s star, one if you do have a question on today’s call. That’s star, one, to ask a question. A further question comes from the line of Ivan Kim. Your line is open -- please ask…

Ivan Kim: Yes, good afternoon. Several questions, please. First, on the tax claims that Avea or Turk Telekom, rather, receives for Avea's activity back in 2012, 2013, I believe. So how do we have to look at that? How much do you expect to pay and what's the timing? Secondly, when the decisions on wholesale fiber are going to be taken?

And thirdly, I was just wondering whether you can give us any estimate of magnitude of costs and CapEx savings if you do a much wider, better-than-active sharing with Vodafone? Thank you.

Kaan Aktan: Let me take the tax part, first. In the last quarter of 2016 and the first quarter of 2017, we received some notices from the Undersecretary of Treasury and as well as the regulator. So we already disclosed those notices. And we also set partially some reserves for it. So those were related to the treasury share disputes.

We also said that we believe we will be able to defend our case. And most of the items were coming a claim based on the discounts that we made to our customers. So we said we shouldn't be in a position to take treasury share -- the share to the treasury on a discount that was already applied to the customers.

So we had some positive news on that front -- on the litigation front. So we received the -- several stay of execution decision on almost all claims. So the litigation naturally will continue, that's only the first phase of it.

The timing well, I cannot say anything about it, but as soon as we hear the good news or bad news, we will definitely let you know. So that's what we do.

Paul Doany: OK, thanks, Kaan. Just very quickly, also on this matter of the treasury share claim. You may know that this claim is something which all operators are facing, and we are all on the same side of this.

So there are a lot of sector matters where all operators are taking a common stand to adjust any, let me say, miscalculation in relation to treasury share, in this particular case, or penalties relating there, too.

So, we are very optimistic in relation to these legal positions, which are very important for this company because nothing wrong was done by any of these companies -- just a matter of how these numbers have been reported. But there will be a final settlement.

If not, in any case, we're winning the legal case on this, so we don't see any problems going forward. But this is a major importance to everybody. This is also crucial for Turkcell and also to Vodafone and thankfully, we're all on the same side on that one.

The question you asked for more clarification on how the sharing will work. Actually what I can provide to you by way of general information is that, the easiest form of sharing infrastructure is when you do something like a one for a one -- meaning it's a 50-50 type sharing.

The interesting thing in relation to the mobile network of Vodafone and the mobile network of Turk Telekom -- Avea -- is that if you add the network, the physical network, base stations meaning, primarily the radio access network and the spectrum, it is more or less equal to what Avea has by way of again base station plus spectrum.

So when you are doing active sharing on a facility, it is much more efficient to do it with someone that has a similar network size to yourself. When you're trying to share, however, with, for example, with, let's say, what can we do with Turkcell, the notion there is that how we can pay their tower company to use their tower rather than share, because we can't do our sharing on a tower.

So far, as you know, with Vodafone we are sharing 2,000 each way. But now we want to convert that passive sharing into more active sharing which obviously, is a lot more efficient for where we are on LTE and also going forward, when 5G will come. That's the form it's taking. And this, of course, requires some serious work.

And, we are working now on a pilot scheme in one location, just shy of the so-called rural areas, as we are now doing this joint network and that particular USF.

That's the approach we're taking, and we will have more to say on that going forward. And also, in relation to what we can do with the Turkcell Global Company -- the last meeting of which I had with them last week. So we are very open to this.

And I, in this context, I would also highlight that when fixed line sharing or fixed network sharing was being discussed and mentioned a lot earlier by the other operators such as Telkoder, Turkcell, Vodafone, et cetera -- that has resulted now finally in a very important development, where Turkcell and Vodafone are sharing successfully now that part, which is something we also welcome.

Because any form of facilities sharing that results in lack of duplication should be welcomed and is being welcomed. And the beauty of that is that finally, it is translated into a commercial offering from Turkcell, Vodafone and that's an area where we are very excited about as well. Thank you.

Operator: Our next question comes from the line of Walid Bellaha. Your line is open, please ask your question.

Walid Bellaha: Hi. A couple of questions -- additional questions -- on my side. This question on your funding plans for the next two years -- do you envisage tapping the bond markets in the near term, given the current conditions of the market?

And my second question is regarding news that have been published on Bloomberg, regarding the shareholder and Turkish treasury potentially threatening to take control of the board of Turk Telekom, if you could add any comments?

Paul Doany: OK, Kaan will take the bond part.

Kaan Aktan: OK. Well, for this year our plan is already being executed. For next year as well, we have a light repayment schedule. The major repayments will come in 2019 with the bond payments. So that will be around TRY 1 billion together with the repayments of the existing loans on top of the bond, and the requirement of TRY 1 billion.

So it's a bit early to say that we will go, hit the bond market for refinancing of that -- of 2019. So yes, we are looking at the market condition. But probably, this year it may be a bit difficult for us to go to the bond market.

Paul Doany: Thank you, Kaan. I will take the question in relation to the development at shareholder level. As you know, I was asked to return to the company with one specific mission, which was done by agreement between the government and Oger Telecom, in order to decouple, totally isolate any shareholder matters relating to Otas and their outstanding loans and et cetera from the operation of this company.

So the management of this company and all the operations that require us to obtain board approvals for us to be able to function outside the authority of management is working extremely well, because of the government board members on the board of the company and the cooperation of the Oger Telecom members, who are supportive of the efforts going forward.

And again, decouple totally in relation to what they plan to do with their shares and their situation in relation to the negotiations with their lenders. As a substantially long period of time has passed and there have been press reports that you are now referring to, what is a fact is the notice that has been served from the government side and from what you know that, that probably, we'll have more to say about that from the notice period of the date specified there, which is 23rd of June date received, which takes us to early August. So probably, we'll have more to say at that date. At this time, this is all I have to say.

Walid Bellaha: Thank you very much.

Operator: Our next question comes from the line of Ondrej Cabejsek. Your line is open, please ask your question.

Ondrej Cabejsek: Hi there, I have a question on convergence, please. It seems like with 2017 you've been through the period where the net adds on your fixed side are starting to outpace the net adds that you have on your mobile side.

And with what you've been saying today, now you're focusing on penetration of fixed services, not competing on price and mobile. It seems that the imbalance that you have in your market share on the fixed side and the mobile side will even widen.

So I'm just wondering in terms of cross-selling and conversions going forward, how do you plan to address this? Whether you're happy with that gap broadening, or whether you plan on introducing hard bundling into the market? Or how you think about that simply?

And then second question is on the wholesale model that you've had changed in early May. I'm just wondering whether the one that you had since May is working so far, and whether you see potential changes ahead again? And last question, please on the potential SCT review, whether there's anything new that you could share?

Paul Doany: Thank you. Actually, I would like to take that because this is more of a strategic question. Hakan may answer any specific question you have, but I think your question is more general.

So what I'd like to say outright and for absolute clarity is that, one of the, let me say, weaknesses, in fact obviously, all companies have their strengths and weaknesses.

One of the weaknesses of this Turk Telekom, let me say, portfolio is that its market share of mobile is below what you would find in such type of telcos. And on the other hand, its share of fixed is higher. Now, we had to strike a balance in relation to designing the strategy.

And we believe that the only effective way of carrying cost-effective data in a country like Turkey, which already has the physical fixed line infrastructure is that for penetration of broadband cannot be justified to be below the 70 percent mark. And that, of course, should be the combination of all facilities that are providing that connectivity.

Now, obviously, Turk Telekom has the prime share of value out of this. It already has a very large number of homes that are passed, let alone homes that are connected.

So what we are trying to do is with the minimal incremental capital investments, first of all, to grow our wholesale offering to the market and allow for a future upsell, which will mean that over a five year period -- we can project over a five year period -- a meaningful and sustainable revenue growth and also EBITDA margin growth, to get back to the levels that this company enjoyed.

So the reason this came down to what it came down to is no excuse to keep going in the same trend. So this is a strategic importance and this is exactly what we are doing. Now that's in relation to growing the broadband and why this has to be done and as a wholesale as well, it's not --. So we don't plan to take more than our fair share of that.

This is also strategic, by the way, for the future competitive landscape. So that's a role that this company has to play in order to defend its value on the one hand and to provide both revenue and EBITDA margin growth over time.

So that means strictly CapEx invested has to provide the return and the only CapEx we can invest and get the return on is to do what I just told you, OK? Now, when we come to the mobile side, it's a challenge. And the challenge comes from when you are in this number three market position.

And the CapEx demanded of you in order to be competitive --and in order for you also to be competitive on price -- will mean by definition that any incremental CapEx, let alone OpEx, invested in the mobile side will not provide a return.

So, it's not a question of what we would like. It's a question what is practical and therefore, what we will do. Now in order, therefore, to make a sustainable integrated story, on the mobile side, we decided that we need to go for aggressive radio access network sharing.

This means that we will be able in mobile to bridge the quality gap, but at a much smaller incremental CapEx. Otherwise, our CapEx to revenue on the mobile side will forever stay very high. And we will never be able to, in any case, get any return on that investment whatever we do.

We keep investing more CapEx and aggressive pricing to get our market share. Now, where do we get the market share from, which I think is your question. And here is the answer to question.

The reason -- of that part of your question -- the reason why it is imperative for us to penetrate what we call the wireless homes, which are the homes that will not be broadband connected, or don't wish to pay the money on broadband, is to come to satellite TV is that we have a soft spot. And that our competitors in DTH in that segment are Digiturk -- whose prices are high, and D-Smart, who are focused on a segment that they can't grow beyond. Definitely they don't gain by going to that segment. Now the value we give to that segment is very high value of television, if they buy our mobile.

So that cross-sell can increase our mobile base. Yes, with the lower-end ARPU, but at least it's not a losing ARPU. It's a profitable ARPU - -it's a low ARPU, but it has a healthy margin within it. So our target is to use a high fixed cost on satellite, since we can't do anything about it, and we have a low incremental cost in getting that customer.

And through that we will be able to be in a home rather than a person as a service, and we can then expand this, let me say, home connection from a television sale into a mobile device and a mobile service sale that becomes a cross-sell into the mobile segments. So our target of growing mobile is coming from the average minus, let me say, segments.

Obviously, in the average plus, we will get our fair share of where we are. Let me say our share as it is now, where obviously, Turkcell and Vodafone are very competitive in that segment. And the only way we can compete with them is to lower our price.

And that -- OK, I'm not prepared to increase market share at the expense of EBITDA margin, OK? So that's the part that requires us to play multi-play and to go to the lower end of the customer base, where we will grow our market share at profitable levels as opposed to just growing it just to show good numbers. And that's the discipline that this company will follow to provide a five year sustainable story.

You asked about a SCT. I don't have anything specific to say about a SCT at this time, other than to say that, obviously, 25 percent voice and five percent data at some point is going to be rationalized into something which is working for the whole sector as a telecom service. And in this regard, all operators are exactly on the same side and are talking to the government in one voice. Thank you.

Ondrej Cabejsek: Thank you, very much.

Operator: There are no further questions -- please continue. Thank you.

Paul Doany: OK.

Gozde Cullas: We shall close the call. Thank you for your participation.

Paul Doany: Thank you.

Operator: Thank you. That does conclude today's conference. Thank you to our speakers for today's call, and thank you for participating on today's call. You may now all disconnect.

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