TURK TELEKOMUNIKASYON A.S.

Moderator: Gozde Cullas
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Operator: This is conference # 958338.

Ladies and gentlemen, thank you for standing by and welcome to the Turk Telekom 2016 first quarter results 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 keypad. I must advise you, this conference is being recorded today on Thursday, April 21, 2016.

I would now like to hand you over to your speaker today, Gozde Cullas. Please go ahead.

Gozde Cullas: Welcome, everyone. Welcome to our 2015 first quarter results call. Today's speakers are our CEO, Rami Aslan and our CFO, Murat Kirkgoz.

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 Rami Aslan.

Rami Aslan: Thank you, Gozde. Good afternoon and good morning to dialers from east to west coast. Thank you for joining our call. We'll run you through recent key developments, operational as well as financial highlights, at the first quarter of 2016.

We will start with slide number 3.

As you all know, in January, we undertook a giant step. We unified our mobile, fixed voice, fixed broadband as well as TV brands under single Turk Telekom brand, enabling a very strong position, which is in line with the evolving telecommunications needs. We supported unified brand launch by a strong commercial program and initial results are very solid.

Customers want connectivity at all times and everywhere, regardless of the technology. As Turk Telekom, we took all necessary steps to address changing needs and successfully differentiated ourselves. We implemented significant initiatives to reinforce each component of our offers. Thanks to years of investments, our own fixed and mobile network enabled us to deliver best-in-class converged services to our customers. Now, Turk Telekom is not only the strongest multi-player in Turkey but also the only operator which offers multi-play services in Turkish market under a single brand from a one-stop shop.

If we move to slide 4 on LTE launch.

As of April 1, a new era started in the Turkish telecommunication sector with the launch of LTE services. We worked extremely hard to deliver best LTE services and we had a successful start. Our LTE population coverage is 66 percent. Among our smart phone users, 40 percent own LTE-supported devices. Prior to LTE, we introduced enriched data packages and we will continue our focus on data plans to drive ARPU.

For a complete LTE experience, a superior spectrum and a nationwide fiber are needed and as Turk Telekom, we have both. From day one, we started utilizing our nationwide fiber network to provide the best LTE experience possible. 70 percent of our LTE base stations are now fiber connected, a metric critical for a superior LTE experience. We own the best possible combination of mobile and fixed infrastructure to deliver best telco services in Turkey, and we are set to lead the new era with our fiber-powered LTE network.

If we move to slide 5, let's take an overlook at the quarter.

We set solid targets for 2016 and started the year with a remarkable growth in our subscriber base, demonstrating that we are on the right track as the pioneer convergence player. Our total subscribers reached 38m, with a net addition of 574,000 net adds during the quarter. This performance was thanks to our strength in multi-play offers, strong commercial activity, enhanced mobile coverage via the fast rollout of 3G services in 900MHz and TV initiatives.

In addition, each segment's strong performance contributed to that result, highlighting the fact that our convergence and cross-selling initiatives deliver very tangible results.

Mobile subscribers reached over 17.7m, with a robust net addition of 461,000 in Q1 alone, which is in fact the highest quarterly subscriber gain since Q2 of 2014.

On broadband, 197,000 net adds realized this quarter is as high as the net adds during high-seasons quarters. We had 587,000 net adds in the past 12 months. This is the highest annual increase since 2009.

Home TV subscribers reached 468,000, with a record quarterly net add of 83,000 subscribers. The number of the total TV subscribers exceeded 1.9m at the end of the quarter.

Moreover, the total access lines increased to 13m in Q1 after stabilizing at 12.9m during the last three quarters, and that is thanks to our multi-play synergy offers.

Slide 6. You will see our financial performance in Q1 of 2016. We started the year with a very strong top-line growth of 11 percent. This is the fastest pace of organic growth since the IPO in 2008. TRY3.8b revenue is a record first-quarter revenue realized.

Q1 2016 EBITDA at TRY1.3b is in line with our plan. In Q1, we incurred commercial and personnel expenses above normalized levels which impacted

EBITDA over the quarter. These expenses are strategic for our future growth and within the guidance.

Murat will run you through the details of the financial section. But in Q1, net income was TRY408m, while CapEx was TRY708m.

Our Q1 CapEx is higher compared to previous years' first quarters. LTE rollout was, of course, the main driver of this increase,and this is completely in line with our plans.

Slide 7. In our high-growth businesses, we continue to deliver very solid results. Accordingly, the share of high-growth areas increased to 74 percent of our total revenue, based on 71 percent last year. Our multi-product offers had a positive impact on our fixed-line performance and the decline in fixed voice business also decelerated to 8 percent.

Slide 8. We have a very strong position when it comes to multi-play products. Each component of our product line provides superior performance to our customers. The fact that we are able to provide this in the most convenient way puts us in a very solid position to reinforce our leadership.

Slide 9. Here, you will see how diversified our subscriber portfolio is. This puts us well ahead of competitors. Additionally, each product line has high ARPU contribution and we have been offering our customers the complete range of fixed voice, mobile, data, TV and broadband services for years and have made significant investments and initiatives to enhance our services. The variety of our customers and service base gives us a very unique position in the convergence world.

Slide 10. I'd like to discuss the broadband performance. Subscriber side, we added a net of 197,000 broadband subscribers in Q1 alone. This is a remarkable performance in a typically low season for the year.

Number of the fiber subscribers exceeded 1.6m with a quarterly net adds of 168,000, the highest quarterly net adds since 2013. This performance extends our leadership in fiber and our broadband ARPU continued to increase in Q1.

Slide 11. Upselling continued in full speed in Q1. We continue our focus on upsell and comfortably offer high usage quotas and speeds to our customers thanks to our well-established network. Demand for high fair usage quotas accelerated in Q1. Now the share of above 50GB fair usage package makes 36 percent of the total base, a 10 percentage point year on year and a 5 percentage point quarter over quarter.

At the same time, upsell for high speed continued. The share of up to 60 megabit per second packages on fiber net or hipernet reached to 77 percent of our base, compared to 59 percent a year ago.

Demand for high capacity is set to remain high. And fixed network offers the most efficient technology to deliver high capacity. As the convergent player, we are in the best position to address growing data demand on both fixed as well as mobile.

Moving onto slide 12. Fiber network is extremely critical for the operators to serve the most advanced telecom services. And Turk Telekom has by far the largest fiber network installed in the whole country. As of Q1, the total length of our fiber network reached 214,000 kilometers; the total number of fiber homepasses increased to 12.4m. This is an area where we are by far the leader.

We cover almost 60 percent of households with our fiber network. Our quarterly fiber net adds accelerated to 168,000, versus 65,000 net gain during the same period last year. In the first quarter of 2016, our fiber subscribers exceeded 1.6m, by far the highest figure in the market.

On slide 13, we move to the mobile performance. Total mobile subscriber base rose to 17.7m as of Q1, with 461,000 net adds. In December, we started utilizing our new capacity in 900 MHz band, converting our historic disadvantage to an advantage. This reflected positively on net adds, not only subscriber base but also ARPU, grew in Q1 as we leveraged on growth in data demand as well.

Our mobile ARPU increased by 8 percent year on year to TRY24 driven by both prepaid and postpaid segments. As you know, we have the highest spectrum per subscriber ratio in the market, which highlights our growth prospects clearly.

Slide 14. You see 33 percent of our mobile service revenues came from mobile data. Average monthly data usage per subscriber accelerated during this quarter and reached 1.5 GB. Increasing smart phone penetration sets the stage for higher data consumption. We continue to lead the market with 68 percent smart phone penetration. The level of postpaid subscribers is another trigger for data growth, as they are heavy data users and our postpaid ratio stood at 50 percent.

We expect postpaidization trend to continue. And our strength in data reflected to 33 percent data revenue and 8 percent ARPU growth in Q1 2016. With LTE, we will continue to leverage our strength in data offers and our fiber-powered LTE network.

Slide 15. Our years of investment in TV business, crowned by the acquisition of the UEFA Champions and Europa League broadcasting rights last year put us in a very strong position. TV became a key component of our multi-play offer under a single brand of Turk Telekom.

In the first quarter, we continued to leverage TV subscriber base with an accelerated pace of growth. The subscriber gain accelerated in line with our enhanced content transition to dual delivery platform and increased focus on cross-selling. Specifically, in Q1, we added 83,000 net adds, net home TV subscribers, a record quarterly net add. We have 468,000 home TV subscribers and the number of total TV subscribers exceeded 1.9m.

Equally importantly, ARPU generation from home TV business is further improving. It is TRY20.4, which demonstrates TV is a real revenue-generating business for Turk Telekom.

Next slide, that's slide 16 on fixed voice dynamics. As you see on the chart, after stabilizing at 12.9m during the last three quarters, the total access lines increased to 13m in Q1 thanks to our multi-play synergy offers and third-party benefits. Meanwhile, fixed voice ARPU remained robust at TRY21.

Slide 17, on corporate data. The corporate data business with its high-growth performance continued to support our Group revenues. Corporate data revenues, making 11 percent of our top line, accelerated further and reached TRY429m, with 35 percent year-on-year growth.

Corporate customers' and mobile operators' demand for the next-generation fixed access is growing exponentially. We will continue to support their business with our complete set of telecom solutions, including advanced data products and ICT capabilities.

I will now hand over the call to Murat for the review on financials.

Murat Kirkgoz: Thank you, Rami. Good afternoon and good morning everyone. I am on page 19. And on the left, you will see the revenue growth. On revenue performance, we had an excellent start to 2016. Our Group revenues increased by 10.7 percent year on year, up by TRY367m. We reported record first quarter revenue of TRY3.8b in Q1 2016 thanks to solid performance of all business lines. Excluding non-operational IFRIC adjustments, top-line growth peaked at 10.8 percent year on year.

On the right, EBITDA. During the first quarter, we strategically invested in our business. On the back of that, EBITDA declined by 5.1 percent year on year, to TRY1.3b. And EBITDA margin was 33 percent.

We implemented an early retirement incentive program during Q1 as part of our continuous focus on operational efficiency. This program has approximately TRY35m negative impact on personnel expenses in the quarter yet this will enable cost savings in the subsequent quarters. Excluding impact of this incentive program, adjusted EBITDA margin would be 1 percentage point higher.

Additionally, we had an intense advertising and marketing activities associated with the brand unification and LTE launch. The substantial increase in gross adds was another driver of increasing commercial expenses while the benefits will realize over the lifetime of the customers.

As you would recall, last year's commercial expenses were skewed towards the second half. So there is also a base impact on year-over-year comparisons. All these expenses are strategic for sustainable future growth and are within the guidance.

On the left bottom, you would see the evolution of the net income. The net income grew substantially in Q1 to TRY408m from TRY27m in 2015. Favorable FX environment in the first quarter reinforced the net income growth and it had been negative in 2015.

D&A expenses increased due to growth in the asset base as well as the investments to the intangible assets like license. In the first quarter, to reduce the currency exposure, we hold a higher portion of our cash in hard currency which resulted in a decrease in the interest income.

Moving to free cash flow, on the right, you will see that we continued to deliver strong and growing cash flow in Q1 2016. Our last 12 months adjusted unlevered free cash flow before license fees was increased by 5 percent to TRY2.5b.

I'm moving to page 20 which will give more color on the revenue growth and the EBITDA evolution. The robust revenue growth at 11 percent was mainly driven by 14 percent increase in mobile, 35 percent increase in corporate data and 9 percent increase in the broadband revenues and the decline in the fixed revenues was limited to 8 percent.

Growth in the rest of the business was also strong at 18 percent as a result of growth in subsidiary sales figures triggered by accelerated subscriber growth, price increase and upselling to fiber.

A considerable rise of TRY367m in revenues had a positive impact on the EBITDA. Variable expenses were up by 26 percent, above the revenue growth, mostly due to the change in the revenue mix.

We incurred higher personnel and commercial expenses due to our strategic investments which increased our fixed costs. These expense increases are in line with our EBITDA guidance.

I am moving to page 21. Here, I would like to highlight the changes in our unlevered free cash flow during the last 12 months. We generated about TRY125m higher free cash flow in the first quarter, compared to the previous year, this excluding the license fee payment.

Our cash CapEx increased by TRY568m to TRY2.7b, excluding license fees, primarily driven by the accelerated mobile rollout.

As you might remember, in 2015 we particularly focused on working capital management and launched a supply chain financing program. And this program enables an expansion of the payment terms. Support of this program helped to improve our working capital by TRY329m in the last 12 months.

As well, we paid TRY329m lower taxes as last year's income was lower than 2014, due to the FX losses.

We paid about TRY55m related to the 10 percent acquisition of Avea shares. All in all, underlying free cash flow exceeded TRY2.5b. End of the quarter, we hold a very strong cash position at TRY4.6b. And 77 percent of the cash at hand is in hard currency, which is sufficient to cover the short-term hard-currency liabilities of our Company for the next 12 months.

I'm on page 22. We maintained the leverage steady at 1.68 which is well below the global peers. Average maturity of the debt is sustained at 3.5 years in Q1. And on the risk management side, on the right of the graph, you can see the currency breakdown of our debt before and post the risk-management initiatives. Starting from early 2015, we made significant steps to reduce our net FX exposure. And we continue to utilize cross currency swaps to manage our currency exposure.

In addition to the previous cross currency swaps on the $1b Eurobond, we swapped, additionally, $380m further to euros and additionally $175m from dollars to Turkish lira. We now have a more balanced currency mix of our total debt.

As of Q1, 38 percent of our adjusted debt is in dollars, 48 percent is in euros, and 14 percent is in Turkish lira. Also, as I mentioned, a fixed portion of our cash increased from 19 percent in Q1 2015 to 77 percent in Q1 2016.

I now hand the call back to Rami.

Rami Aslan: Thank you, Murat. Moving to the next slide, slide 23 on guidance. Before completing the presentation section, one last word on the guidance.

We completed the first quarter with solid performance and in line with our targets. At this point, I'd like to reiterate our 2016 guidance. Based on our first-quarter results, we are comfortable with our guidance set at the beginning of this year.

Our targets are 7 percent to 9 percent adjusted revenue growth, TRY5.5b to TRY5.7b EBITDA, and around TRY3.2b of consolidated CapEx.

We are now ready to answer your questions. Thank you very much.

Gozde Cullas: OK, we can take the questions now. You can open the questions, thank you.

Operator: Ladies and gentlemen, if you do wish to ask a question, please press star and one on your telephone keypad now. And your first question comes from Roman Arbuzov. Please go ahead.

Roman Arbuzov: Thank you very much for taking my question. I've got a couple on the guidance and then one strategic question. So on the guidance, on both EBITDA and the revenue -- firstly on the EBITDA -- given the weakish start to the year, this implies that you need to be delivering something like mid-teens EBITDA growth in the second half of 2016. So just wanted to get your thoughts on how realistic is this quite a strong acceleration is, do you think, in your view?

And then within that question, if you could please provide us additional color on the commercial cost, how that will phase out during the year?

And then on the revenue guidance, again, given a strong start to the year and given that we haven't really seen the 4G effect kick in, doesn't your revenue guidance now look conservative? And is there any particular lines or business segments that you see potentially slowing down as the year progresses?

And then the strategic question I was talking about is on the infrastructure sharing. So what do you think are the prospects of infrastructure sharing in Turkey? And what potential form do you think this potential cooperation between the market players can take? And is there real risk, in your view, of a structural separation?

Rami Aslan: Thank you, Roman. Just taking down the last question. So forms and risks, right? OK. Let me start with the guidance related to EBITDA.

We are very confident with our EBITDA guidance. Accelerated growth will translate into higher EBITDA in the coming quarters once the intense commercial activity period is over. Operational efficiencies and economies of scale will also support our EBITDA growth.

On the commercial costs, let me just tell you a little bit about our commercial costs because I'm sure that will be a question that might be repeated. First of all, this is part of the plan. So in Q1, our plan was exactly what you have seen on the commercial costs and there was no diversion of it.

We had a very successful rebranding effort. I am very proud of the team and the team achievements when it came to our rebranding in the night of January 26, we were able to actually rebrand ourselves overnight. All our shops, everything we do in our lives was transformed in 24 hours, or maybe 12 hours, overnight where we have started to operate under our new, unified and highly successful brand.

In terms of positioning of our brand, I'm also very happy and very comfortable that we are today leading the 4.5G era under this unified brand. And we have positioned our brand extremely well. And I believe that all our commercial costs and commercial efforts where money well spent. And that -- where money will have a great impact on our story, our growth, on our positioning and on the new brand's power going forward as well.

Now if we look at the commercial costs, maybe in a little bit more detail, the main reasons for the decline in the margins in the first quarter are really, I'd say, the commercial and the personnel. So let's look at both together.

In Q1, we witnessed major initiatives, like I mentioned. The brand unification, we also had the LTE launch and that increased also our advertising expenses. And that commercial spending is very much within the budget. And the commercial expense to sale ratio, we expect it to decrease in the next three quarters. But overall, we are very confidence that we will remain within the annual budget. And that is why we are confident with our guidance.

We had also very solid net adds in the mobile, broadband, TV, which increased the acquisition costs. And the benefits will spread over the lifetime of the new customers.

And I would also say that if you compare our commercial costs, year on year in particular, there's a basic impact there because last year, the commercial expenses were skewed in the second half of the year. And this year, we expect it to be a little bit heavier in the first half of the year because of all the commercial activities that I have mentioned.

I'd like to also mention the incentive program that we did for retirement incentive program, for personnel expense, which will enable us really -- it's a one off and it will enable us really to have cost savings in the next few quarters as well. And the impact will be recovered easily.

So net net, I would like to say that we had three brands, we phased out of the two brands, Avea and TTNet. We had to spend, commercially, money very well spent, I'm very happy over the outcome. And we are confident that this combined spending will -- under one brand will be saved gradually within that one unified brand.

And as I mentioned, this was the plan, we have not diverged from our own plans. And that is why we are confident to achieve the guidance.

On the revenue question, revenue guidance, I believe it's a little bit premature. So we'd like to see how we fair in Q2. And then we will give an update on that guidance. But I will say that I'll be comfortable to say that we are expecting to reach at least the top end of the guidance on the revenue side. So I'm quite satisfied with how we started the year and kicked off this year with this solid revenue growth for the first quarter.

Strategically on the infrastructure sharing, let me tell you a few things. First of all, the market structure today is -- or let me say maybe in general, the market structure with infrastructure-based competition supporting new infrastructure deployment and broadband penetration increase is definitely healthy.

And if we look at markets, for example, like South Korea, Japan, the US where there is infrastructure-based competition, these are among the world leaders in terms of average download speed, FTTX coverage, etc. So if we compare to nations with a common wholesale or a structurally separate network, like New Zealand, Australia, South Africa, they really lag behind in both categories, the download speed and the FTTX coverage as well.

We've seen a few independent studies on the high-speed broadband highlighting that the issue regarding high-speed broadband penetration is more -- in Turkey is more related to demand than it is for supply. If you look at our market, in the fixed broadband, the fixed broadband coverage in Turkey is 98 percent of premises at the entry level, 66 percent at high speed, and 42 percent of ultra-fast speed. This is at par with or maybe better than the EU 2015 averages that stand at 97 percent, versus our 98 percent, 55 percent versus our 66 percent, and at par with ultra-fast speed.

We also provide wholesale access to our infrastructures, to all operators, in line with all relevant rules and regulations. And the essential regulations like duct sharing, co-location, LLU, sub-loop unbundling and bitstream are all in place.

So this said, I believe that there are good areas of cooperation, which we welcome to explore, both in the fixed and the mobile space, and specifically in rural areas or areas that need more infrastructure. And these can make sense to all of us and we welcome that and we are exploring how we can improve our infrastructure accordingly.

Thank you, Roman.

Roman Arbuzov: Thank you very much.

Operator: And your next question comes from Ivan Kim.

Ivan Kim: Yes. Good afternoon. Two questions from our side, please, firstly on the mobile prices. So your voice revenue has accelerated to almost 11 percent year on year, and I was just wondering what was the driver behind that. Have you been raising prices maybe?

And then secondly, on your advertising and rebranding campaign in the first quarter, can you elaborate maybe a little more on what you have been doing, whether there were any major promotions during the quarter and probably where it leads, basically, is whether you think you have the net additions as strong as you had in the first quarter for the remainder of the year across business segments? Thank you.

Rami Aslan: Thank you, Ivan. I would like to introduce Hakan Dursun. Many of you know him. He actually recently took the role of CMO for our consumer segment, and Hakan is here with us. He's been of course with us for a long time as Chief Strategy Officer, but he took over the role of CMO for Consumer. So I'd like to introduce him and maybe he can answer both questions on the mobile prices, as well as maybe advertising and revenues, or I can take that. I'm flexible.

Hakan Dursun: Sure. So I’m Hakan Dursun. I was previously taking care of strategy and business development functions. I have been recently appointed as the Chief Marketing Officer for the consumer segment.

So basically, on the mobile prices, as you know, we have been running on a major disadvantage for a long period of time because of lack of frequency. With the tender that took place last year we were able to come to a fair competitive position. Given our strength in terms of leading the market and having the strong subscriber base, given our strength in terms of unifying our sales channels and bringing all our propositions in a single-structured concept, given the power of our brands being unified under the strongest brand in Turkey, of course we are seeing a lot of traction in the market.

And we are -- we have been the preferred operator for many years already in the mobile business, but that preference is even increasing further. And together with this, we are seeing a good traction, both in terms of increase in our subscriber base and also increase in our ARPU, the revenue we are generating from our subscribers. So as a result of both, we are seeing a significant increase in our revenues in the mobile business, also mobile voice business. So that's for question number one.

Question number two, as you know there were major developments in the market. As we are leading the market, the activities we have been undertaking in the first quarter were also shaping the market. Two of them basically to mention is our new brand. Basically we have launched our new brand, as you know. And that new brand launch is being the main enabler for our future activities for the coming term, so we were positioning our new brand and what this new brand means for our customers in our advertising as well. We were equally focusing on the specific business proposals, on the broadband side, on the mobile side and on the voice side as well, together with TV.

So these were the main components. And recently, as you know, there is this LTE launch, so as a preparation for LTE launch there was also a hype and promotions in the market for mobile data stimulation.

Ivan Kim: OK. Thank you.

Operator: And your next question comes from Mitch Reznick.

Mitch Reznick: Hi. Thanks for taking my questions. I have two. The first one is on the cost saves that you said would be coming in the next couple of quarters. Are you prepared to quantify what those are?

And the second question is regarding financing plans for 2016. Just curious to know if you've any desire into the bond given how much it's rallied year to date, if it's suddenly becoming a more attractive place to raise debt capital.

Rami Aslan: I will pass both questions to Murat. Or if you want to start with the second I can do the first. As you like.

Murat Kirkgoz: So for 2016 funding needs, we secured most of the financing needs back in 2015 for 2016 debt service and CapEx. So all our CapEx contracts, we have ECA facilities and IFIs that secure the funding needs of the Company for funding these CapEx investments and as well the debt service of the Company.

So in addition to this, the Company's generating very strong cash flows, and we have about TRY1.1b in hard currency to service the license payments and other hard-currency liabilities that may occur throughout the course of business. So we don't anticipate tapping the market in 2016. However, for the upcoming years, we believe that we would be a regular player in the ECM domain, although not a frequent one.

Mitch Reznick: OK. Thank you.

Rami Aslan: What was the first question?

Mitch Reznick: Then on the cost saves, if you were prepared to quantify the cost saves that you expect.

Rami Aslan: Well, let me -- to be frank, we don't usually give guidance on cost savings. But what we can tell you, that we can give you a long-term guidance on EBITDA. And maybe I'll just touch a little bit on -- just to give you a feel on our cost savings. As I mentioned, when it comes to personnel, we had a one-time cost in Q1 and we expect to recover -- at least recover that cost. So this is very much in line with our plans and we see a small upside there.

And in terms of the commercial costs, as I mentioned, we've done a mega rebranding for our Company and our Group. And clearly we want to make sure that this is communicated very properly across the entire country for all our customers and the entire population. So that is not a small effort at all. And phasing out of the two brands is also very important to ensure that this communication is very effective and is powerful. So in that sense, these two one-offs are quite significant. Also, there's the preparation for LTE, etc.

But what I can tell you also very happily is that positioning our brand with the new era in mobile, as well as our quad-play and multi-play and our one-stop shop, etc., was also critical and timely in Q1. So there were extensive commercial efforts there and that is as we planned. This was -- the plan for us is to do this in January, February and March and this was I believe extremely successful. The impact of positioning our brand has been phenomenal and the market realizes that our brand and our Company are leading all the businesses that we are in. So this is very critical for us and we believe it was very, very effective and we are happy with the early momentum that we're seeing in Q1.

Murat Kirkgoz: Sure. May I chip in?

Rami Aslan: Sure.

Murat Kirkgoz: So this is -- Rami, thank you for -- he explained basically what is happening in Q1 as a hiccup of the commercial costs and the good cause of those spending. While on the long run we have structured OpEx reduction program to optimize the network, IT costs, cost of serving to the customer, and to deliver those in a most cost efficient way. While the fixed cost, you can observe that, apart from the one-off impacts and the commercial and the variable cost, the fixed cost base have increased barely around 4 percent, which is half of the inflation figure.

Rami Aslan: Yes. Thanks, Murat. Maybe I'll just -- since we give long-term guidance, as I said, we will not give you guidance or will not change the guidance. But I'll be very, very unhappy if we end up with the lower end of the guidance on EBITDA. So all these efforts that we're putting in cost efficiency, synergies, etc., that we expect them to materialize in the next few quarters are on plan. Some are a bit earlier than planned. And the extra costs that we incurred here are also on plan and they were not over our plan. So these two elements are really critical to highlight and that's why I'll be very disappointed if we end up at the lower end of the range for EBITDA guidance.

Mitch Reznick: OK. That's perfect. Thank you very much. Perfect.

Operator: And your next question comes from Herve Drouet.

Herve Drouet: Yes. Thank you very much. Two questions as well on my side. The first one is back to the margins, and especially the fixed line versus the mobile. I understand obviously there were this branding exercises. I understand there were commercial activities and there was some one-off relatively small -- I was, nevertheless -- also I understand, especially on the mobile side, on the mobile margins, we could see some pressure on the fixed line.

I was wondering why EBITDA margins did not improve more as especially corporate data revenue was good. I thought that quite a lot of the other mobile operators were going to upgrade some of their transmissions, and part of the transmission cost will go back in your revenue for you and therefore help on the fixed line margin. So I was wondering if it's something you anticipate in the future or is there anything I may have missed there?

And the second question is I just wanted to get a bit of feedback as well on your promotion. So I understand there has been -- I think there's three mobile operators put some promotions to try to kick up data usage. And I believe the one put by Avea is mostly towards the postpaid segment. I think you give 10 gigabytes free for 1 month, if I remember.

I was wondering, what do you think? Do you see sign of data usage really picking up? And also, in terms of the take-up of subscribers, if -- how do you read the fact that in fact the postpaid increase in Q1 has not increased more than in fact the prepaid despite the promotion. Thank you.

Rami Aslan: OK. Hakan, do you want to start with the second question?

Hakan Dursun: So basically let me start with the first part of your second question. Sorry. The first part of your second question is we have been focusing on stimulating data usage in the market, and also naturally not only Turk Telekom. It's Turk Telekom, by the way, not Avea. We are Turk Telekom and we are very proud of being one brand, single brand, unified brand.

So what Turk Telekom was offering in the market was for stimulating data usage. We were doing it in a couple of forms, for example a gigabyte for every 4.5G SIM card change or 10 gigabyte for some of our customers or X gigabytes for a minimum amount of money. And similarly, our competition was also doing the same. But this is very natural because 4.5G is a new chapter in Turkey, so what all operators are (technical difficult) doing is giving some opportunity for the consumers to pace consuming data because with the increased speed in mobile network especially, the data appetite of consumers and the data usage of consumers are increasing.

By giving them a chance to experience and use it, we are better understanding our customers so that in the coming weeks we will be able to offer them customized offer. And also our competitors are doing for this reason. Those customized offers will be generating much higher ARPUs than today. So this is the commercial reason.

The second part of your question is prepaid/postpaid. Let's please not underestimate our performance on postpaid. The ARPU performance on postpaid might be less than our performance on prepaid, but this doesn't mean that our postpaid performance isn't very good. I think it's outstanding performance on the postpaid side as well in the market. So that's number one.

Number two, we focused on larger data content for prepaid tariffs, especially in Q1. And the strength of our offers led to an increase in our prepaid base, but at the same time we delivered 10 percent year-on-year prepaid ARPU increase. As you know, in Turkey we are the leaders in prepaid ARPU in mobile business. And we increase, year on year, 10 percent our ARPU, which I think is a significant achievement.

And prepaid for us is a chance because we are the -- market share-wise, today, we are the third operator. This doesn't mean we are going to stay the third operator, but today we are the third operator. By offering strong prepaid to our customers we are giving them a chance to experience our network and to see how our upgraded network now performs so that we can immediately turn them to a postpaid subscriber and make them stay for longer periods for us. And of course, this is a very strategic move for us as well.

Rami Aslan: Thank you, Hakan.

Hakan Dursun: -- I will hand you over to our CFO, Murat.

Murat Kirkgoz: Thank you, Hakan. So in fact we have a substantial take-up of data revenues in the first quarter, which is on the back of the transmission revenues and data product as well. While we have been very aggressive on the LTE rollout, as well we have been quite substantially advanced in the fiber connectivity to the sites. So we have 70 percent of our LTE sites connected with gigabyte connections of fiber.

We believe LTE is just taking up and the speeds and the usage and the load per site will evolve throughout time. And the operators are assessing the load and the optimization and which kind of speed that they will choose in the upcoming periods. And we are confident that this will be a differentiation factor, either on the retail or the needs of the operators on an upcoming future.

Herve Drouet: Maybe a follow-up question. Have you -- during Q1, have you accelerate maybe the fiber within the network that may have increased the cost, especially on the installation cost within the network for obviously the LTE base station, but also within the transmission network? And is it one element that has happened as well that may explain some softness of the market in the fixed-line segment?

Murat Kirkgoz: This goes mostly to the CapEx for the investments line, so that doesn't boil into the OpEx or to the margins on the consolidated level. So we have incurred of course investments to the -- both transmission network, while the load mostly on the transmission network increase is coming from the fixed-broadband customers' take-up and increase of their data usage. So a fixed -- a single customer in the fixed broadband is using about 60 gigabytes and we reached close to 8.2m customers. For the big chunk of the load is -- on our transmission is coming from the fixed-broadband product line. And mobile is not representing anything more than a fraction of this load.

Herve Drouet: OK. OK. Thank you. Thank you very much for your answers. Thanks.

Rami Aslan: Thank you, Herve. I would like just to mention, just to keep things clear, the 900Mhz started in December of last year and LTE 4.5G started on April 1, so just to put the dynamics. You'll see a lot of the dynamics with the LTE launch in Q2 as well.

Herve Drouet: Yes. Yes. So it's mostly -- H1, obviously, on the margin is likely to be softer, but H2 really catching up, I guess is the expectation on your side.

Rami Aslan: We're confident with the annual guidance, for sure. That is I can assure you. Yes. Thank you.

Herve Drouet: Thank you.

Rami Aslan: Thanks, Herve.

Operator: And your next question comes from Dalibor Vavruska.

Dalibor Vavruska: You seem to be successful in terms of gaining these subscribers. And I'm just wondering what sort of market share gains you're aiming at because if your strategy is successful with the bundling and all the unique attributes it seems that you will start gaining market share. You'll be successful. Would you expect at some point the competitors to come back aggressively and try to fight on price if they don't have other -- in your view, they may be weaker in terms of differentiation? So this is my first question.

The second, actually I have one technical question, which is whether you can share the number of fiber-connected base stations, of all base stations out of Turk Telekom mobile base stations rather than just the LTE base stations.

And the third question, just briefly, I think you mentioned the three markets where you think infrastructure competition works well, in Japan, South Korea and US. And they have high broadband penetration. I was wondering whether you or the independent experts believe that it's actually the penetration or the usage of broadband is high because of infrastructure competition or it's just other reasons, like demand that you mentioned as well. Thank you.

Rami Aslan: Dalibor, I don't know what sort of takeup will make you use language there without the words seem to be successful. We are very proud of what we have done and we believe that the acquisition is very successful.

Now, in terms of competition and on price, I can tell you one thing, we are extremely happy with and comfortable with our positioning right now. We are going to lead this market comfortably. And we believe that we are ready for a potential price competition, but that's not the game we are playing. We are successful without seem to be because we are integrating ourselves, because we have been able to offer a one-stop shop and really offer a truly convergent offering to our -- and services to our customers through that one-stop shop.

And that is starting to pay off. We closed -- we finished our one-stop shop model in late January, beginning of February. And the ability to upsell, cross-sell and be able to provide multi-play or, at the bare minimum, quadruple-play, is really picking up. And that is where we see ourselves differentiated heavily from our competition.

In terms of the infrastructure, if you look at any credible study you'll see that there's a lag between demand and supply. And in Turkey there is certainly no issue with supply, but the issue is really demand. And that is what these experts have confirmed and I believe that is the consensus in the policymaking environment as well.

So in terms of fiber-connected base stations, I don't think we have that number, but maybe we can do that at a later stage. Thank you.

Dalibor Vavruska: Thank you very much.

Operator: Once again ladies and gentlemen, if you wish to ask a question you need to press star and one on your telephone keypad. And your next question comes from Koray Pamir, please go ahead.

Koray Pamir: Thank you for the presentation. Most of my questions has been answered. Two quick ones if I may. First, should the current TL strengthening continue or stay at these levels, will it have a tangible impact on your CapEx guidance?

And secondly, regarding your

Rami Aslan: Sorry to stop you. Can you repeat the question? I missed it.

Koray Pamir: Sure. Should the current TL strengthening against the dollar or against the euro continue or should the TL, Turkish lira stay at the current levels, would that have an impact on your CapEx guidance?

And secondly, regarding this smartphone penetration on your network, could you provide a numerical figure of what you are targeting for the end of 2016? Thank you.

Rami Aslan: So I'll park the second question for you, Murat. But on the smartphone penetration, we can't give guidance, unfortunately, but I can tell you that we are, as -- in the past, as a challenger, with quite a bit of a disadvantage on the spectrum, etc., we are very proud that we have a significant differentiator when it comes to penetration on smartphone or the postpaid mix as well.

And we would like to maintain that edge and we are very eager to grow it and to maintain at least a gap. So we have actually widened the gap over the last couple of years and we do not expect ourselves to slow down in that area. And we are doing all the concerted effort to ensure that.

When it comes to your first question, the Turkish lire strengthening maybe effect on CapEx –

Murat Kirkgoz: Sure.

Rami Aslan: Maybe before you start, Murat, I just would like to say our CapEx guidance is fair and we believe that we have done -- unlike last year, we have done an acceleration of CapEx because of the LTE launch and because of our strategy and we wanted to make sure that we really differentiate ourselves. And I can tell you comfortably that our coverage because of that, when it comes to LTE or even for 3G and 900MHz as well, is really differentiating us versus our competition, when it comes to coverage, when it comes to speed, when it comes to any of the metrics that we'd like to lead. We are very comfortable with that. And we believe that the CapEx strategy of acceleration over the year has been quite helpful.

Murat, maybe you can discuss the TL impact.

Murat Kirkgoz: Yes, sure. So when we were providing the guidance to the market we were pretty much aware of the market stabilization around dollars. So we have given a guidance of TRY3.2b, because it was $1.1b at that time. So our CapEx, broadly 60 percent of it is in hard currency and about 50 percent in dollars, 10 percent, 15 percent in euros. So the dollar -- Turkish lira appreciation against dollar positively affects our cash flow. However, the current levels are not dramatically different than our budgets levels. So if Turkish lira continues to appreciate then that will have a positive impact.

Koray Pamir: Thank you.

Rami Aslan: Thank you, Koray.

Operator: And your next question comes from Yavuz Birdal. Please go ahead.

Yavuz Birdal: Yes. Thanks for the call. I would like to learn your net debt target for the year-end after all these dividend payments and the CapEx expectations.

And the other question is, when I look the first quarter it seems that your FX gains should have been higher, but because of hedging costs you reported lower than people's estimates. So would you comment on your hedging costs for the quarter and going forward? If the currency stays at these levels, should we expect similar hedging costs from you? So that could be a good color.

Rami Aslan: About the hedging cost developments –

Murat Kirkgoz: Let me address the second part of your question. Hedging costs, we have about $1b converted into euros from the beginning of the quarter. And secondly, we have Turkish lira for $500mn of liabilities. So the effectiveness of the hedge is showing that we have -- actually have done a good job against the dollars.

So we have the increase in the MTM last year, and this year, decrease in the MTM. So the change in the market-to-market value of the hedge is what it reflected the P&L, and we don't care them in equity.

But in Q1 there were two moves. One of them is euro appreciation against dollars, which created a MTM loss on those hedges. So the initiatives that we have done, therefore, had moved against the FX movements in the right way, but slightly in the high. If the currency remains stable, there will not be substantial FX hedge losses in the remaining part of the year.

So the sensitivity of us is both against euro-dollar parity and also against dollar-Turkish-lira parity. And I can say what made the most of the movement in the first quarter was euro-dollar hedges, for the protection. And secondly, the interest rate swaps that had un-winded. So that is more or less the framework.

On the leverage standpoint, we are actually doing quite of a stable leverage and we are pretty confident with the current levels. We will have two installments of the license payments this year, so they will have a temporary impact on the leverage and net debt level. However, on the long term, we believe that it will be stabilized at the current levels.

Operator: Once again ladies and gentlemen, if you do wish to ask a question you’ll need to press star and one on your telephone keypad now.

Gozde Cullas: Operator, if there are no further questions we can close the presentation.

Operator: OK. Thank you, Gozde.

Operator: There are no further questions at this stage.

Rami Aslan: Thank you very much.

Gozde Cullas: Thank you very much, everyone, who comes to our call today.

Operator: So, ladies and gentlemen, that does conclude today's call. Thank you very much for your participation. You may now disconnect.

END