
Paul Doany - Turk Telekom - CEO

Thank you very much. Welcome to this call. Here in Istanbul, we have the management of Avea and the management of Turk Telekom. And now straight to the presentation, on page three, with the consolidated performance, the first half. We can see here the revenue, the first half last year, the first half this year, which is up 12%, and the operating profit is up 13%. And obviously, net income is down on the foreign exchange losses, down to TRY1.026 billion. On the next chart is a summary of the regulatory environment.

You would have heard about the new act which was adopted by Parliament on the 31st of July, but on the 18th of August, the President used his veto power, so it's back to parliament and it looks like they will be making a number of changes to this, and then it will be passed again. The issues, apparently, respond to about four main articles in the act. Interconnection rate decreases are expected to be applied from the first of April. We're anticipating confirmation of this very soon.

The regulator is busy with the models on both mobile and fixed termination rates and we have provided the required information in that respect. The injunction in relation to the on-net, off-net mobile pricing is still in effect. The mobile number portability launch is still planned on November the 10th. We don't see any delay on that.

Fixed portability will be in place the 10th of May, 2009. We have received instruction on that. In fact, the Company, from the fixed-line side, is ready. The 3G tender is expected sometime at the end of this year, though it may be early next year.

Draft regulation on MVNOs has been circulated for discussion. It looks like that may happen soon, but in the meantime, in line with our earlier discussions, Avea have in fact progressed with like an enhanced service provider, branded service provider, model discussions with various parties.

The competition authority investigation on TT and TNet in relation to broadband services is ongoing. Nothing new to report at this point in time and then Turk Telekom made an offer to improve conditions for ISVs other than TNet to stimulate competition in the market and the regulator has approved these, so we are offering an additional 5% margin over and above last year's figures, but TNet cannot benefit from these until the end of '09, or when they lose market share of no less than around 15% to 20%. That's basically where we are there, obviously hoping to boost the market as competition is still very weak on the ADSL side.

On page six, a number of initiatives have been obviously put into place. This again is very much in line with earlier discussions we've had with investors and analysts. In relation to churn management, we have had some promising results. We will be seeing further improvement at the end of this year. And also on the sales channel uplift program, which started July 1st, again, we are on target with that and we will see some improvement there on improved sales, but what are we selling?

Well, first of all, we have the two new voice tariff packages, where basically we have near unlimited offering, first time to market from the fixed-line side. And then we have the DECT phone program, where basically 500 free minutes with every DECT phone sold, currently two models throughout the market.

Videophone obviously already launched, and we have a number of other simulation and migration campaigns that are being planned and we have a targeted campaign that will target about 2 million customers in relation to upgrading them into these new tariff packages. And that should start very shortly within the next couple of weeks.

On the adjustment of our prices, which is second bullet, our fixed-fee adjustment came into effect on the 17th of June and our call charge increase of 5% came in August the 19th, so that is in line with our

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expectation and these delays actually have been due to discussions with the regulator, so they are now in place.

On the next slide, there's a summary of ADSL initiatives at the retail level, meaning TNet Company, so they have been very active with this No Home Without Internet campaign and the Welcome to Internet campaign, which is like a summer campaign, and then the [issue-linked] package for the SMEs, and then we have the TNet Vitamin, which basically is the education software package, which in fact it's partly financed by Turk Telekom as a social responsibility project, providing this free to all schools. This is on target and we expect to be having that mid September, actually, in the schools. That's on target, and then in the meantime TNet has finalized their arrangement with SEBIT, our software company that are providing this content and they should be going to market with this, as well, by the beginning of the school year.

And the plan there is basically to bundle it with ADSL, either through existing customers or to new ones, so the uplinks have been determined in that respect. In relation to the wi-fi, it's currently still basically free, but the plan is to increase the hotspots further and then launch this thing commercially by differentiation to our customers and trying to, again, boost the average revenue per line, as we indicated earlier.

Music and video music is in place -- video not officially launched but actually is on air and the SME campaign that I had indicated, so basically TNet in fact perhaps a bit too successful. We have curtailed TNet to be aggressive, actually, and to open more room for competition and TNet is more motivated to work on their average revenue per line than just getting numbers and also they have now a negative position on their margins, meaning the other ISPs are better able to sell cheaper Internet. We hope this will be helping the competition to increase their market share.

On the next chart, fixed-line side, obviously, Borusan, it looks like the acquisition by Dhanus Technologies is not progressing as far as we are aware, so it looks like there would be further consolidation and some of their customers or parts of their business or perhaps the whole company may be acquired by somebody else domestic.

On the Telcom side, a good development is that Superonline has finally merged with them, and by good, I mean more competition and Superonline seems to be the brand that they would be using for selling to the market, which we think is a good decision because Superonline is a very good, basically, market, a very good mass-market brand. And on the downsizing side, actually, obviously, due to the merge they will be removing a large number of people, but that probably is the right thing for them to do.

In relation to local calls, it's anticipated that the competition will be starting some time next year and we have been cooperating in relation to this as we really never intended to block it. Our own [concern] was to have fair terms and conditions in relation to the so-called fixed telecom license.

On the next slide, nine, we look at the fixed line now, standalone, so here we have the revenue up 7%, first half last year to this year and the EBITDA is up 3%, margin down from 50%, 48%, so obviously, the strong revenue growth is coming from the 36% ADSL side and we have affected our EBITDA margin.

On the next chart, we look a little bit more on the PSTN side. The number of access lines, obviously, slight decline, as we had indicated, but what we are now seeing, obviously, is improved PSTN ARPU, up from TRY24 to TRY24.4 and this is a good thing for us, and we are now basically revising our plans for this year in relation to avoiding just adding PSTN numbers without getting value.

So, frankly, what we're trying to do is use our new aggressive offerings on local, where we can get actually an increase in ARPU through this targeted campaign of 2 million customers that I've indicated. And we feel that that would be a better approach, plus, of course, better selling into the market. So that seems to be working okay for the moment.

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And in relation to the ADSL side, also, we see an increase there and that's on the next chart. So basically, ADSL ARPU is up from the guidance we had given for TRY26 and, really, as I had indicated earlier on in this presentation, that aiming for higher ARPU by TTNNet is a better strategy for us, and leaving room for competition. But what is unlikely to happen now really is the guidance on the ADSL by the year end of 6 million, we feel will not happen. We're not changing our guidance on end-of-year revenue or margin, but the ADSL numbers are likely to be low because competition really has not geared up to this.

One more thing we've done to promote competition, which we are now discussing with the regulator, is that any of our competitors who commit to switch to bit stream may get bit stream terms before they launch it by about three or four months. We hope that that will stimulate competition, but, frankly, on the ADSL side, as you can see, 5.2 by midyear. In fact, TTNNet of course will continue to grow, but frankly, we don't see where the competition is going to be coming from to reach that number of fixed, which we always said would be linked to competition.

Another important point on slide 12 is coming from HR, which obviously is our highest-cost item. Number of employees, basically, as you can see here, we have a reduction in this number, which is improving our access lines per employee, so efficiency level on a TT standalone basis, which is a TT legal entity standalone, meaning excluding, obviously, Avea, all subsidiaries and also excluding our call center, as this is coming up to the level of 540 lines per employee by midyear.

This is equivalent to TT standalone employees of about 33,076, in fact. The number on the left side of the chart, in fact, includes the other supporting staff from the call center. And these numbers, of course, allow for the slight reduction on the number of lines, as well, so in relation to HR, we are also on target in relation to improving our efficiency levels.

And now I'd like to hand over to Mr. Turktan on the mobile side.

Avea CEO –Cüneyt Türktan

Good afternoon, what I'll start with the mobile initiatives we have given during the first half of the year. We had competitive offers. We have launched mass, SME and corporate customers several campaigns and one was -- the good one was the Turkey lira for 300 minutes, and we have differentiated SIM card, it is the Patlican (inaudible) portal for the youth. Today, there are 1.2 million subscribers on that portal, as a number, and we have several campaigns for that.

In addition to that, during the first half of the year, we have increased our scratch card prices by two times, in quarter two, 6.5%, in quarter one, 3.4%, totaling to 10% at the first half of the year. We have done and introduced campaigns together with Turk Telecom and TTNNet. We have seasonal campaigns stimulating reloads on the scratch cards. We have started a prepaid loyalty program and we have additional value-added services like downloading music, electronic signatures, Windows Messenger and m-government services.

When we look at the growth, when compared on a 12-month basis, we had 24% growth, worse that the market growth was 11% to a Q2 '07 to Q2 '08. Total market penetration reached 90% in Q2 '08 and also on 12-month basis, we increased our market share to 17.2%. We had a better growth than the market and we have increased our market share.

On the revenue side, on page 16, on a quarterly basis, for 12 months, for the last four quarters, the growth rate, market growth rate, was 11%. On the other side, we increased our revenue by 31% and on the ARPU side, we have a steady growth when compared -- when compared to Q2 '07. It is TRY16 now.

Moving to page 17. As I said, regarding the revenue growth, the revenue growth when compared to how the first half of '07 to first half of '08, it was [36%] growth. It reached TRY1.017 billion. On the other side, we have better growth on the EBITDA side by 99%. We have used our sources efficiently and we have

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created operational efficiencies and it has been 224 million as of the end of the first half of '08 on the EBITDA side. And we have EBITDA margin reaching the 22%.

On the subscriber base, as of the end of June, we had 11 million subscribers. As I said, it was 24% better than the Q2 '07. We have increased mobile customers by 1.1 million and on the other side, we have a better churn rate due to loyalty programs, due to improvements in our investments on the quality of the networks and when compared to Q1 '08 to Q2 '08, there's a 1.3% betterment on the churn rate and there's a steady decline when compared to the last year end.

On the ARPU side, there's a 3% growth Q2 '07 to Q2 '08, TRY16, and blended ARPU increased by Q2 '07, despite the decrease in the termination rates in Q2 by 33% and postpaid ARPU decreased from Q2 '07 related to the termination rate reduction impact. And we have an increase in blended MOU in Q1 -- compared to Q1 '08 to Q2 '08. It is 181 minutes.

We are continuously investing and we are increasing our base stations. At the end of June, it was 9,335 base stations we have. Our coverage reached 99.83% percent in areas populated to 3,000, 99.47% in areas populated 2,000-plus households and 98.57% in areas populated 1,000-plus households. Towards the end of the year, we will be covering 100% in areas populated 1,000-plus households.

And also, when we look at the network busy hour call drops, we have a betterment on the last 12 months, 17% better on call drop rates and also, call drop rates, we are 72% better when compared to Q2 '07. We have a service coverage of 70%. Thank you. Now, Marina, we can go to questions and answers.

QUESTION AND ANSWER

Operator

Thank you very much. (OPERATOR INSTRUCTIONS)

Our first question today comes from the line of Will Kirby. Please state your company name and go ahead with our question.

William Kirby - Nevsky Capital - Analyst

Thank you. Yes, William Kirby from Nevsky Capital. Just one question. Stripping out the effects of retirement payments to people leaving the firm, what sort of salary inflation per employee are you seeing at present, please? Thank you.

Unidentified Company Representative

Yes, over the last 12 months, the general fixed-line side has been around about 8%, has been the annual inflation on the pay rises.

William Kirby - Nevsky Capital - Analyst

And what are you expecting over the next year or so?

David Cook

Well, as you're fully aware from our previous presentations, most of our staff are union and that negotiation will start towards the end of this year with the new agreement will start first of March next year. So it's going to depend on how that negotiation goes. The civil servants, it's all defined by the government. The only ones we ourselves settle all the time are [those] in the union. But the union, obviously, we've got a view for what we want to give next year, but that's subject to the negotiations with the unions, which will go on end of this year, beginning of next year.

William Kirby - Nevsky Capital - Analyst

Okay, great. Thank you.

Operator

Thank you very much. Our next question comes from the line of Tom Chadwick. Please state your company name and go ahead.

Tom Chadwick - Merrill Lynch - Analyst

Tom Chadwick, Merrill Lynch. Two questions, firstly on the fixed margins. I'm interested to note that in the second quarter your margin dipped quite strongly from the first quarter. Is this a downward trend or is this a quarterly aberration, and what's driving that decline in the margin and are you -- are these controllable factors and something you're capable of acting on? That's the first thing.

The second thing is, in terms of your mobile usage, what are your sort of thoughts in terms of subsequent quarters, on the absolute level of usage?

David Cook

Okay, Tom. Not a surprise, your first question. I think, in Britain we call that a blip, so I think the Q2 was a blip in terms of the overall margin. It wasn't a big decline. I mean, it was still 47% on the fixed side per quarter, which was still a very healthy EBITDA compared to everybody else.

I think the key thing to note there, as you'll note in the press release, is that in the quarter, we had a 21 million severance pay payment, but also, we had an accounting entry of about TRY9.5 million, because of this strange IFRS rule that when the treasury gave a discount to our staff, we actually had to treat that discount benefit as a cost to the Company, which - obviously, it's from the treasury shares in the IPO. So those two factors, if you take that out, it would have got it up to 48% as the underlying, which is in line with what we're looking at for the year, of about 48% to 49% EBITDA on the fixed side.

Tom Chadwick - Merrill Lynch - Analyst

Good. Okay, thanks.

Paul Doany - Turk Telekom - CEO

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Okay, for your question on the mobile, if I understand correctly, you asked guidance for the remaining of the year on the MOU, right?

Tom Chadwick - Merrill Lynch - Analyst

Yes, I'm just interested to know the dynamics on the usage.

Paul Doany - Turk Telekom - CEO

Okay, overall, I mean, we don't give guidance on the MOU, but overall, I think our MOU are pretty much stable over the last several quarters. And the key thing for us is the rated traffic, so it's pretty much stable and it's slightly increasing on the rated traffic, despite the overall blended MOU has decreased by 5%. The decrease on the unrated traffic is more than 5%.

Tom Chadwick - Merrill Lynch - Analyst

Okay, thanks.

Operator

Our next question comes from the line of Dalibor Vavruska. Please state your company name and go ahead with your question.

Dalibor Vavruska - ING Group - Analyst

Hello, good afternoon, Dalibor Vavruska from ING. I'd just like to follow up on Tom's questions about these margins. I mean, if you look at the cost structure in terms of marketing SG&A, obviously these items that you're talking about, that you mentioned, I assumed that they were a part of the SG&A cost that increased substantially. But I wonder whether there was any increase of cost of marketing initiative or subscriber retention initiatives in fixed line in the second quarter, because it doesn't seem that the marketing costs increased. And if not, whether there is anything expected in the second half or whether you think that on customer retention, you don't have to increase and you can still maybe reverse the trend of declining fixed lines?

And my second question is on mobile. It appears that in terms of the revenue from mobile, there was obviously a solid growth. Nonetheless, the quarter-to-quarter growth for Turkcell in the second quarter was a little bit higher than Avea, so just it seemed -- I'd just be interested to get your feeling how the competition is developing and how much you're expecting to gain market share and when perhaps Turkcell managed to grow faster a little bit their revenue quarter to quarter than Avea. Thank you.

David Cook

Okay, if we take your first question first, on the fixed-line side, I think absolutely there's very minimal retention cost on the fixed-line side. The retention costs are in fact more of a factor on the mobile side than the (inaudible).

On the fixed side, as we noted in the press release, one of the things we saw in the first half was the high maintenance cost of the business. But we expect that to moderate in the second half, but that's something year on year, which is how when you look at the second half '07, you'll see it was already a loss item first half '07.

But I think, as I said, it's a [fixed] question. I mean, 48% underlying EBITDA, we're looking at 48% to 49% for the full year fixed. There's not really any cause for concern there. There's nothing on the retention that's an issue, so I think everything is looking reasonable and in line with what we've been saying before in terms of getting the staff numbers down and managing the margins, what's the level we've seen in the last couple of years.

In terms of the mobile revenue --

Paul Doany - Turk Telekom - CEO

In terms of mobile revenue trends, we are on track with the guidance that we have provided for. We have provided 25% to 30% revenue growth and we are on track and we are slightly better than the high side of this guidance. If you look at the overall market, not just one quarter, but several quarters, the market has grown by 11%, whereas we have grown by 36%. And if you look at the other operators, one operator has grown by 4% over the last four or five quarters, and the other one 8% growth. And I think our growth rate is much better than the other operators.

Dalibor Vavruska - ING Group - Analyst

Okay, and then you don't see any anomaly in the market in the, say, first quarter, second quarter or it's not something that affected you as I suppose it affected Turkcell, but not you.

Paul Doany - Turk Telekom - CEO

I don't quite understand your question.

Dalibor Vavruska - ING Group - Analyst

There was -- if I look at your competitors, Turkcell's numbers, there was quite a big volatility in their numbers in the first quarter and second quarter, and I agree that we should compare the year-on-year numbers and then Avea is doing obviously very well. But I think most of the market was really surprised seeing Turkcell's numbers and the volatility in those numbers.

I wonder whether there are any risks that your numbers might be a little bit more volatile, too, or whether you think that that issue was specific to Turkcell.

Paul Doany - Turk Telekom - CEO

For us, there is no volatility when we look at the last several quarters, and I cannot comment for the other operators, but I feel [good], basically.

Dalibor Vavruska - ING Group - Analyst

Okay, thank you.

Operator

Thank you very much. Our next question comes from the line of Istvan Mate-Toth. Please state your company name and go ahead with your question.

Istvan Mate-Toth - Credit Suisse - Analyst

Very good evening, gentlemen. This is Istvan Mate-Toth from Credit Suisse. Well, I'm still coming back to this question raised by Tom and Dalibor. It seems that your GM costs went up by about TRY80 million, TRY70 million in Q2 versus Q1, and could you just give an explanation why, what is the TRY70 million increase. I suppose these one-offs are in these general expenses, and if you could elaborate on the inflation or what kind of inflationary pressures you are experiencing.

Secondly, I didn't catch the reason why you are not meeting your ADSL guidance by the end of the year, if you could kindly repeat that. And, thirdly, on mobile, I was just wondering, given the strong performance in the second quarter, do you think that it would be time maybe to raise your guidance for mobile revenues, because in Q1 I think you backtracked a little bit, citing difficult markets. Do you think that you will end the year at the top end of your guidance?

Paul Doany - Turk Telekom - CEO

Okay, we'll do the normal first question first. In terms of margin, I think you're right. If you look at the cost of services, the S&A, S&M, G&A, there are some strange variations year on year. That's more about the way that costs have been allocated in '07 and '08 and the allocation between those categories. We changed some of the things in '08 compared to '07, so it's not a very good probably looking at those individual lines. It's probably better to look at the personnel costs, interconnection in total.

But coming back to your point about where do we see inflation impacting the cost base, it's a good question, given any inflation increase in cost base then would have to be met by revenue for price increase to cover it. As we said before, personnel costs, the question before was around what's your pay increase over the past 12 months. That's clearly inflation linked.

We can't -- well, we can, but track inflation-linked pay rises and [done it] before. On interconnection, which are [fixed price], on interconnection, which is our second-biggest one, in fact it's going the other way. What we've seen is a price decrease this year. In fact, there is pressure on the mobile termination rates, which could push the interconnection costs down in the future.

In terms of maintenance costs, which is our third biggest, what we've seen in the last 12 months is in fact a [debility] on the unit costs, and the reason the costs are going up is because of volume, not units. There's not an inflation-linked area of that. The taxes isn't, therefore debt isn't. Utility is probably the biggest area we've got with inflation, but we're only talking about 4% of our cost base there, but we have taken big hit, as you probably know, of around 20% overall on the utility costs.

But fortunately it's not a major cost for us at this stage. So I think in terms of inflation and for the margin, I think it's more the personnel which we're watching for and, as we consistently said, what we're trying to do there is to manage the relationship with the union and the negotiations, and we'll

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manage the level of headcount. And you've seen already in the first half, that's come down quite considerably.

In terms of the ADSL, I think the same (inaudible) was what we've always said on ADSL guidance, which was we were aiming for 6 million connections by year end. A key ingredient on achieving that target was that all the ISPs, not just the TNet ISP, which we own 100%, would compete, come out with good offers and expand the total market.

I think in March-April, we were indicating that the competition hasn't been very strong. What we've seen in May-June is it's done even weaker and in July it's almost nonexistent, the growth from the other ISPs. So what we're raising is there is a concern about achieving that 6 million, because of this lack of competition in markets. We're not saying it won't be achieved. It might be -- 5.2 at year end, we're already around about 5.4 come the end of August, but it looks like we may fall a little bit short on the 6 million, but I think the point being raised was that in terms of revenue, which is what this is about, that's still looking fairly stable. The key things are volume and price.

What we're saying is the volume may be slightly lower because of the overall market, but our price is in fact currently slightly above and it would probably be maybe 26, 26.5, maybe (inaudible) ARPU for the full year. But I think that's where we are on the ADSL.

Istvan Mate-Toth - Credit Suisse - Analyst

Okay.

Cüneyt Türktan - Avea - CEO

For your question on the mobile, in terms of revenue growth, we have revised our guidance at the end of the first quarter because of the interconnection termination rate decrease to [30%] growth rate on the revenue. I think we still give the same guidance on the revenue growth.

Istvan Mate-Toth - Credit Suisse - Analyst

Thank you very much.

Operator

Thank you. Our next question comes from the line of [Marahas Kapur].

Please state your company name and go ahead with your question.

Marahas Kapur - Credit Suisse - Analyst

Hi, guys, Marahas Kapur, Credit Suisse in New York. Just had a question for you guys about the dividend policy for the new shareholders in the IPO. I guess at the time of the road show, you guys talked about distributing 100% of, I guess, distributable profits. But so far you still are paying dividends out based on '07 numbers.

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Just want to know, when are the new shareholders going to start seeing some dividends? What is the plan on that?

Paul Doany - Turk Telekom - CEO

You're right. During the road show, we did talk about the intention is 100% distribution of distributable net income. That is still the case. In terms of when the dividend will come for the new shareholders, clearly, at the moment what we've been doing is annual dividends, so the next dividend payment will be the first half of 2009. So the new shareholders will get their first dividend in the first half of 2009, relating to the 2008 full-year performance.

Marahas Kapur - Credit Suisse - Analyst

I see. And in terms of outlook for -- I guess last quarter you guys talked about the distributable profit being reduced by some of those foreign exchange movements that you saw. Is that still an issue, because I guess some of it reversed quarter, and how are we supposed to think about a dividend yield on your stock?

Paul Doany - Turk Telekom - CEO

Well, I think the situation is, and what we've tried to indicate through our press release and some of our presentations is that what we'd consider is looking at Turk Telekom, operating profit is the key indicator for looking at the underlying performance of the business.

The issue with net income is that as a business we have around about \$1.8 billion worth of debt in dollar terms today, and what that does is create a foreign exchange gain or loss risk. And what we've seen in Q1 is, as you quite rightly say, is an almost 200 million exchange loss, which actually reduced down to 140 million exchange loss by the end of the first half.

Now, as to where that will go, it depends on what happens on the currencies, the lira, the dollar. So that's why we tend not to forecast that, because we can't -- it's difficult for us to forecast dollar-lira rates, and most of you are very well positioned to do your own calculations on that, so what we look at is we give guidance on the EBITDA, you can do your own assessment on the exchange risk on that \$1.8 billion.

Marahas Kapur - Credit Suisse - Analyst

I see. So the sell-side analysts have suggested that the stock is a double-digit dividend yield. Does that sound roughly right to you guys?

Paul Doany - Turk Telekom - CEO

I think the point is that currently it looks like a double-digit yield, but it's going to depend on the exchange rate, but as long as the exchange rate doesn't do anything crazy, and there's no reason why it should, then that looks reasonable. That's in line with our guidance --

Marahas Kapur - Credit Suisse - Analyst

Great, thanks.

Operator

Thank you very much. (OPERATOR INSTRUCTIONS)

Our next question comes from the line of Pamela Antay.

Please state your company name and go ahead with your question.

Pamela Antay - KBC - Analyst

Hi, good afternoon. Pamela from KBC. My question really is a follow up on an earlier question, I guess, regarding the volatility of mobile revenue. Turkcell's case was basically on the back of some regulatory issues, and the question is, are there any regulatory risks that you foresee that could impact your mobile revenues or mobile tariffs.

And, also, can you give us your thoughts on Turkcell's solution to their original issue regarding on-net tariffs being below interconnect rates and how they went about it, because clearly, that's a very big advantage, given their huge subscriber base. Is there any scope to challenge the current tariff regimes of your competitors?

Cüneyt Türktan – Avea -CEO

When you talk to our competitors' regulatory regime, which has been announced, by the way, at the first quarter, there was no effect on the regulatory side, because there is a court case which has an injunction also from the Turkcell side that it hasn't been applied at the first quarters. The only thing that's changed are off-net prices were reduced from [TRY80] to [TRY60]. That's about the only change.

So we don't see any regulatory effect and change and we don't have any effect for the first two quarters on our financial developmental impact. The only change was the interconnect regime changed. It was reduced interconnect and we have changed our revenue guidelines according to that the first quarter and we still keep that. On the tariff side, we have a court case going on, as I said, on the off-net, on-net prices, and on-net prices are utilized today, used as is, whatever being the case, like last year. There is nothing changed on the first half of the year.

Paul Doany - Turk Telekom - CEO

And maybe what we could probably add there is in relation to the question on the on-net Turkcell rates, where you say, obviously, that could be an advantage and what can be done to, let's say, lessen that advantage, or perhaps remove it, right?

Pamela Antay - KBC - Analyst

Exactly.

Paul Doany - Turk Telekom - CEO

Okay, now, the court case is not actually, let's say, concluded, but the conjunction was in relation, in fact, to the application from a court to say that the on-net rates should be increased, because that is basically a tariff and that's a competition authority decision. What has transpired, which may be favorable and I think this comes also in line with our earlier discussions with investors and analysts is that when we were asked the question, and our position was, and remains, that Turkcell will need to decide itself whether it wants to maintain these very low on-nets and therefore risk having a further substantial reduction on its termination rates. And I think that is a very likely outcome.

Or, if they wish to protect the termination rate to a certain extent, then they will need to do something on that tariff. So there's two ways out of this, basically. One was a proposal that Vodafone sent to the regulator, which said that why not install a cap on the off-net charge in any tariff plan so that the off-net on the plan cannot be more than interconnection plus the on-net.

So if we have an on-net plan of let's say TRY0.05 in that plan, excluding taxes, then in that same plan, the off-net cannot be more than 9.1 plus five, plus tax. This is being evaluated. Now, the other alternative is, of course, the termination rates will come down, and the advantage to Avea's position basically is obviously the likelihood of on-net coming up all that much is a bit difficult, we believe. It's going to come from the advantage really of termination rates coming down, so that the disadvantage of having off-net charges from their side being high, meaning that they can lower their prices, is the other advantage that we can derive from this.

The only other thing I could mention to you is that Turkcell seems to have, according to their own statements, seems to have been able to let's say fix the ARPU level for this quarter. I don't want to comment on it, as such, but just fix it, shall we say, because of regulation. And I think that seems to indicate that the only way they're making their numbers is by such drastic campaigns, which in the longer term are not sustainable in any case.

Now, of course, hurting Turkcell is not necessarily an objective of ours. I mean, we want to basically have the ability to grow our own company. I mean, whether they end up paying a price for our growth or continue to grow is the least of our concerns, frankly. So on the legal side, we believe therefore the termination rate is going to be the lever that will give us one advantage or, if they finally yield on the on-net. And the court decision, injunction reasons, did not remove the decision relating to the termination rate should be cost based.

And I think this is in line with the lyric calculations now that are being done with consultants to the regulator, we believe that that's where the next push is going to come from.

Pamela Antay - KBC - Analyst

Right, but am I right in thinking that should Turkcell decide, and I think that's the direction that they're going to pursue, if they decide to lower the termination rates instead, it will have a direct benefit to its competitors, including Avea as well? On the other hand, with Avea having a large sort of civil servant subscriber base, which presumably does a lot of on-net calling and hence the reason why your tariffs, or effective tariffs, appear much lower than Turkcell, what do you consider to be a ballpark figure in terms of impact of lower termination rates?

Paul Doany - Turk Telekom - CEO

Actually, the lower termination rates, if you consider, for example, that Avea are disadvantaged, because every time an off-net call has to be cost plus 13.6 and then it becomes cost plus 9.1, which is what it is now, and let's say it becomes cost plus four, for example, 9.1 shrinks to now four, or five, which is really the result of the court. Because in the court papers, this is basically what Turkcell seems to be alluding to be roughly their cost level, meaning they're happy to accept termination at that price in order to protect their on-net. This means that the price differential, if you add taxes now to that price, makes it much more viable for Avea to offer even the institutionals a much lower off-net on Avea, which currently most of them are actually using their SIM cards to call Turkcell when they use it because obviously, they have the advantage there.

Now, Avea's pricing strategy in the past was very much based on, especially on institutionals, which of course is an inherited tariff, where basically we have a bundle for on net but also have a very expensive off net. And the idea behind that was that since you're on net, you're paying us nothing, you have to pay us a lot to call somebody else, and of course, that wasn't perhaps a very wise pricing strategy, but all the same now, we have it.

Now, we've lowered that off net by quite a bit, but as termination comes down and Avea can reduce that price let's say by [TRY10] plus cost, plus taxes, that's equivalent to another minus [TRY18] on that price, which today let's say is about 40, 50. That's a huge discount that they can offer their customers.

That's why terminations coming down is actually also very good for competition. So we always said we want one or the other. Turkcell cannot have it both ways. They can't keep on net low and charge above cost of termination. They're going to have to yield on one. Whichever one they yield on is good for us.

Pamela Antay - KBC - Analyst

Okay, all right, thank you very much. That's very helpful.

Paul Doany - Turk Telekom - CEO

Thank you.

Operator

Our next question comes from the line of Anna Bossong.

Please state your company name and go ahead with your question.

Anna Bossong - UniCredit CAIB - Analyst

Hi, it's Anna Bossong of UniCredit CAIB. Just two questions. The first was I wonder if you're going to take part in the tender for gambling license, which I believe is coming up soon. And, secondly, I believe -- or I'm not sure, actually, perhaps you can tell us your strategy with iPhone and what impact you think it might have at Turkcell and Vodafone will be selling iPhones. Thank you.

Paul Doany - Turk Telekom - CEO

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Sure. In relation to gambling, of course, the only interest that we have in that tender is that whoever gets it will be a big customer of ours, and that's the only activity we have, so all the bidders are contacting us and asking for prices for 700,000 outlets and so on. But, as a participant, or any participation in the tender, we're definitely not interested. It's not our business.

On the question about the iPhone, actually, I should tell you just very briefly about what we are going to do with 3G, which relates slightly to the iPhone thing. The first step we're going to be doing, actually, is that TTNNet, as you know, is a very strong company in the broadband side, with a very large number of healthy domestic home penetrations.

And in that level, we have a big potential upside in terms of increasing our average revenue per line, and we're doing that through a number of initiatives, including the wi-fi, including the music and the quarter, IPTV coming and so on. But within this is an interesting opportunity for TTNNet, which is basically to provide broadband wireless. By that, we mean mobile broadband, and this basically is going to be 3G based. So they will be an important distributor, which they are currently, of Avea, but we may strengthen that relationship and then TTNNet will be in a position to sell these types of services to its own customers, as they are better equipped, really, to offer these services to their customers than let's say Turkcell will be or Vodafone, or for that matter, even Avea.

So what will happen in this case is that TTNNet will be a very important driving force into the market for the 3G segment. So if you look at 3G all together, you will see the high end of the market, which probably of course is Turkcell customers through potential churn and then Avea will be a player and Vodafone is a player and TTNNet is a player. So if you add TTNNet and Avea together, that is a substantial force in that segment.

So what we will be doing is that TTNNet will be going to the market on the wi-fi spot basis and promote the Touch iPod first, before we will be promoting the iPhone, which may be a good target for this market, and obviously we will be offering it.

But, frankly, as we've studied this market, Turkey altogether has about 200,000 iPods today, which is a very, very low number, so that when people mention iPhone as if it's going to be making such big inroads in this market, it's not such a big deal. So what we plan, actually, in this overall segment, how we look at it, is basically -- in fact, we said these things in our press conference today here in Turkey, so I have seen that most of the callers are not from Turkey, so we can just repeat in a couple of minutes what we said in there, is that our strategy is for TTNNet to be the primary data provider, as they are today on the fixed. They're also very strong on the mobile side and their focus will be on the high end.

In addition, they'll have a focus on the lower end of the market, middle to low end, which is going to be mostly wi-fi based, and this is wi-fi plus a 2G or 2.5G, allowing for EDGE. And we've also demonstrated in the meetings today seamless communications with full service between the 3G phone and the wi-fi phone and the computer over an IPTV and a videophone as well, because videophone service, we see interesting pickup in the market and we have some interesting expectations, frankly, which were not on our plans in terms of numbers, what we see here.

Now, having all these services interacting all together allows all the members of the group to be in the selling game, but TTNNet will be the main member of the group that will focus on the data side, both high end and middle to low end. And that is the long answer to your question but at least we've now updated everybody in line of what we mentioned today in our press conference here in Turkey.

Anna Bossong - UniCredit CAIB - Analyst

Excellent. That's great. Thank you very much. Can I just have a quick follow-up question, just the impact of Ramadan on your fixed-line business, if you can give us some ideas, please?

Paul Doany - Turk Telekom - CEO

We have some initiatives, actually, for this period, in fact. We are going to have like a lottery-based thing -- maybe Erem will say [something] to that.

Erem Demircan - Turk Telekom - VP, Marketing and Internal Communications

Hello, this is Erem Demircan, VP of Marketing. Actually, regarding cost stimulation, as Paul explained, we have some initiatives that we started and we are going to start. Ramadan is a good period for some campaigns. Last year, we did some campaigns with companies like Pepsi, for example, that we distribute free minutes with Pepsi where the usage of soft drinks is increasing and the bottles, number of bottles sold, are about two, three times more than a regular month. Then we are initiating a lottery. That will be for the Bayram period after Ramadan but before the usage in Ramadan, that for usage of fixed line, we'll be distributing cards, which is a very effective way, especially in Turkey, for this kind of fast-moving consumer goods and also telecommunication.

And, also, what we are doing right now is after those price increases on both fixed fee and usage, we are offering more value to our customers, like free minutes and also, for example, by offering a certain amount of guaranteeing amount, we are offering free minutes for 10 YTL, every 10 YTL bills. We are offering 100 free minutes, for example, for text penetration to increase. We are offering 500 minutes with a DECT phone that they are buying if they (inaudible) for that from any distribution channel, not only limited to Turk Telekom dealer channels.

And then we look at the traffic patterns of the past Ramadan period, we don't see a major change in this period of time except only the Bayram period, and we are taking, as we said, some precautions for this.

Anna Bossong - UniCredit CAIB - Analyst

That's excellent. Thank you very much.

Operator

Thank you. And next we have a follow-up question from the line of Marahas Kapur.

Please go ahead.

Marahas Kapur - Credit Suisse - Analyst

Yes, hi, guys. On the mobile business, it looks like, for the first half of '08, you're at about on the operating profit line a loss of about 24 million. Do you guys expect to exit the year -- this year with a breakeven or -- and I guess the second part of that question is what do you think the run rate operating profit should be for the (inaudible).

Cüneyt Türktan -Avea - CEO

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So as you now that we have a higher operating profit the first half year, but we don't change the guidelines for that because to the [extent] you know that number portability will be launched by the 9th of November and, based on the year-end campaigns, we can be aggressive, so we are not changing our guideline based on the first half of year results.

Marahas Kapur - Credit Suisse - Analyst

I guess what was the margin guidance?

Cüneyt Türktan – Avea -CEO

The EBITDA margin is 20% to 21%.

Marahas Kapur - Credit Suisse - Analyst

Sorry, what was that? 20-what?

Cüneyt Türktan – Avea -CEO

20% to 21%.

Marahas Kapur - Credit Suisse - Analyst

For the year, okay. What do you think on a normalized basis, when you guys get some more scale and in terms of operating in line with some of the other guys in the industry, what do you think you can be operating at for a smaller business, looking forward longer term? Because obviously guys like Turkcell, et cetera, like, all right, 20%, 25% operating profit margins and right now, you guys are still at a negative operating profit margin. So what do you think you can get to eventually?

Unidentified Company Representative

I didn't understand the negative operating margins. We have a positive operating margin. Are you looking at EBITDA?

Marahas Kapur - Credit Suisse - Analyst

No, I'm looking at EBIT operating profit.

Cüneyt Türktan – Avea -CEO

EBIT, okay, okay.

Cüneyt Türktan – Avea -CEO

I mean, in the second quarter, we have reached breakeven, even slightly positive, on the EBIT line.

Marahas Kapur - Credit Suisse - Analyst

Right.

Cüneyt Türktan – Avea -CEO

In terms of going forward, I think we will be -- one second, please.

Marahas Kapur - Credit Suisse - Analyst

Sorry, the --

Cüneyt Türktan – Avea -CEO

Yes, just hold on one second. One second.

It's basically second quarter -- I mean, first half -- it's minus 2%.

Marahas Kapur - Credit Suisse - Analyst

Yes, I know that. But what I'm asking is that if you look at, let's say, the second quarter, as you said, your \$5 million net operating profit, which is like a 1% operating profit margin, is that your ideal level of profitability for this business going forward on a run-rate basis?

Cüneyt Türktan – Avea -CEO

No, that is not, obviously. But it depends on the CapEx that we will make, as well. We will definitely be positive. Our goal depends on the capital expenditure that we will --

Marahas Kapur - Credit Suisse - Analyst

I guess I'm not looking for an exact number, but do you guys think this is a single-digit operating profit margin business? Do you think it's a double-digit operating profit margin business? Where do you see this business? I mean, I look at Turkcell and they have a 20%, 25% operating profit margin. You have a 1% operating profit margin in the last quarter, so that's a huge gap there. And what I'm trying to understand is it a different business, structurally?

Cüneyt Türktan – Avea -CEO

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Okay, you compare with those of Turkcell, but please bear in mind that Avea has paid a significant amount of license, which has also amortization costs, amortization expenses for us. Probably going forward, it's probably single-digit positive numbers.

Marahas Kapur - Credit Suisse - Analyst

And that's obviously a high single-digit number, I assume?

Cüneyt Türktan – Avea -CEO

It's difficult to say. Again, it depends on the capital expenditure and so on. Generally, we don't give guidance for the operating profit.

Marahas Kapur - Credit Suisse - Analyst

Well, I mean, give it for the EBITDA margin. Let me ask in a different way, then. What do you think is a normalized EBITDA margin?

Cüneyt Türktan – Avea -CEO

Okay, EBITDA margin, during the road show, we said that we will reach the levels of mid 30s in the next four or five years.

Marahas Kapur - Credit Suisse - Analyst

Okay, that's helpful. Okay, fine. Mid 30s in the next four or five years. Fine. Okay, thanks.

Operator

Thank you very much. (OPERATOR INSTRUCTIONS)

Our final question for today comes from the line of [Omar Grant].

Please state your company name and go ahead with your question.

Omar Grant - Lucite Research - Analyst

Hello, that's Omar Grant, calling from Lucite Research. I had noticed that the effective tax accrual is higher than it was running for last year. Could someone just talk about that a little bit? It seemed to be running a little bit higher than the 20% corporate tax rate for Turkey.

Paul Doany – Turk Telekom - CEO

Yes, you're right. The corporate tax rate is 20%, but what you'll find is that what we do is we paid profit on the Turk Telekom side and the losses on Avea we don't go to recovery, so it's a combination between the two, because in Turkey you can't do a group consolidation tax. You can't consolidate the two and pay it on the net tax position. So if Avea is making a loss, then that loss can't be offset against the Turk Telekom tax position. So you tend to find we're always just over the 20% on the effective tax rate.

Omar Grant - Lucite Research - Analyst

Okay, and so you expect that rate to continue for all of 2008? There will be some sort of ... in the first half?

Paul Doany - Turk Telekom - CEO

Yes, for the full year, yes. I mean, what will happen, and let's be clear about this. For the full year, we probably expect that. It's going to depend, though, again on the FX, because if you look at last year, last year we had, I think, around about 300 million to 400 million exchange gain on the Avea side, so of course that can make a big difference in terms of the net income of Avea. But we don't expect such a huge exchange gain this year, given that we are in an exchange loss position at half year.

Omar Grant - Lucite Research - Analyst

Yes, okay. Okay, that's what I wanted to confirm. Thank you.

Operator

We have no further questions from your telephone participants. I'm handing over to you.

Paul Doany - Turk Telekom - CEO

Okay, well, thank you very much. I think we've answered all the questions raised at this point and there's no revision in our guidance. As we've indicated, we're very pleased with our results and we'll be talking to you in the next -- well, after three months, and some of you before then. Thank you very much.

Operator

Ladies and gentlemen, thank you for your participation. This concludes today's conference. You may now disconnect your lines. Thank you.

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