Turk Telekom
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Chaired by Onur Oz

Onur Oz

Good afternoon ladies and gentlemen, welcome to Turk Telekom 2013 third quarter results call. Before we start, may I please remind you to read the notice on the second page of the presentation? Now, I would like to hand the call over to Mr Hakam Kanafani, Turk Telekom Group CEO, to start our presentation today.

Hakam Kanafani

Thank you Onur, hello everybody, good to be with you again; times flies, it seems to me we've done this only last week; it's amazing how time flies, but good to be here again. Let me start with slide five and just point to our key financial and operational highlights of this quarter. In the third quarter of 2013, we have carried on growing. We reached 5% year-on-year growth rate in our consolidated revenues and this is both coming from fixed and mobile businesses. Our fixed line business delivered 5% year-on-year growth, it is a significant achievement to grow a fixed line business in this day despite the challenges we are facing in fixed voice and PSTN and the whole market is facing in fixed voice and PSTN, so we were able to deliver this growth by focusing on broadband, corporate data, ICT businesses, and continuing to defend fixed voice business with innovative value propositions to our customers.

Our broadband continues its high single-digit growth with an 8% year-on-year rate and a significant part of this growth came from a solid 71,000 net subscriber additions in the quarter, as well as we had healthy ARPU growth year-on-year and here it's important to stress that the subscriber traction we have that if we exclude the Lokum phase out that is in progress our net adds are almost 90,000 and the Lokum effect is becoming smaller and smaller. The strong revenue growth trend continued this quarter in our mobile business and despite the MTR cuts that the regulator introduced we grew our revenues 7% year-on-year. Mobile business continued its performance with very strong KPIs, with 224,000 net subscriber additions. Erkan in a little while will give you a little bit more detail on the mobile. Adverse foreign exchange rate conditions affected our net income this quarter and led us to write unrealised FX loss. Despite this effect we closed the quarter with 235 million TL 236 million of net profit.

Now if we go to slide six please, we have the financial summary of our consolidated businesses. In line with our full year, guidance 5-7% annual growth rate as mentioned in the highlights, our group revenues increased by 5% in the third quarter to TL 3.4 billion. This growth is mainly driven by solid performances in broadband, mobile, corporate data and ICT businesses as we have stated. Quarterly EBITDA slightly increased to TL 1.31 billion year-on-year. We are on track to reach our full year EBITDA guidance. In order to achieve this, in addition to our focus on top line growth we will continue our quest for leaner operations through Opex control initiatives. As for net income, as I mentioned a few minutes ago, the headline is the depreciation of the USD and Euro in the third quarter and as a result we recorded an unrealised loss of about TL 500 million in the period.

Finally, let's move onto page seven please, we will talk about the transformation of our business towards growing business lines. The share of fixed voice business revenue declined from 40% levels three years ago to 26% in the first nine months of 2013, and the share of our mobile and broad businesses revenues is 55% while their combined growth rate is sustained in the first nine months of 2013 at 12% year-on-year. As a result in the past three years we not only grew our business at an average of 7.5% annual rate but we also grew our absolute EBITDA in the same period. We think this is quite significant to be going through such a major change and managing it with uninterrupted value generation. The fact that our broadband and mobile businesses are growing at double digit rates is a trend we would like to sustain. On the broadband side the revenue stream potential stems not only from relatively low penetration levels of traditional broadband services and bundle choices, but also through increasing usage of broadband in alternative means like smart home, machine to machine, corporate and public sector connectivity. On the mobile side, again, relatively low penetration levels and a growing market, increasing data consumption, we are doing a lot of post-paid additions to our customer base and our cutting edge competitiveness are among our drivers for growth.

It's very important for us due to the fact that we continue to generate significant amounts of cash from it, the fixed voice business makes up only 26% of our total revenues and we think it's a good trend to have our dependence on fixed voice decline significantly while introducing in the fixed segment new ideas, new projects, and new revenue streams.

With this, I'd like to hand the call over to Turk Telekom CEO, Tahsin Yılmaz, for a fixed line business update and I will be with you again in the Q&A session.

Thank you; Tahsin, the floor is yours.

Tahsin Yılmaz

Thank you Hakam, good afternoon everybody. On our fixed line business, we maintained our growth in the third quarter, revenue increase was robust with 5% year-over-year growth and reached TL 2.5 billion in the quarter. Broadband, corporate data services and ICT businesses were the main growth drivers while we continued our focus on the businesses that are having growth potential, we also kept our strong effort to limit the decline in fixed voice business. As a result, the overall picture in our fixed line segment came to the forefront with a growing business and sustained progress.

Let me now take you through some details. Starting with slide nine, here we have highlights of our broadband business. As one of our leading businesses, high speed broadband business continued its strong growth in Q3 2013. Our gross net revenues reached TL 836 million in the third quarter of this year with an 8% year-over-year increase. Accordingly, this segment continued to constitute a significant portion of our overall business comprising to 5% of Turk Telekom Group revenues in Q3 2013. The increase in subscriber number and ARPU were the main drivers of the broadband year-on-year revenue growth. After a seasonally weak second quarter, net additions in broadband subscribers bounced back in Q3 2013 and we recorded 71,000 net additions. If we exclude the phasing out of Lokum subscribers, net broadband subscriber additions in the third quarter reaches 90,000 level. On the ARPU front the growth was 6% year-over-year and I will give you more details of what drives this in the upcoming slides.

Moving on to slide 10, I will provide you with the recent highlights of our fibre network. As the undisputed leader of fibre connectivity in Turkey, Turk Telekom continued its five year expansion in the third quarter of 2013. As of the third quarter, both the length of our fiberoptic network in Turkey reached 174,000 km, existing in all 81 provinces of Turkey. Our fibre to the home and the fibre to the curb homepass numbers are now at 2.3 and 5.4 million respectively. The appetite for high speed broadband is totally persistent and supports the fibre take-up. The consumptions run coupled with our high quarter service levels and unmatched value-added services such as TTNET Music and Tivibu packages leads to upsells in the fiber packages. We recorded 156% year-over-year increase in fibre subscriptions and our fibre customers reached 446,000 as of Q3 2013.

On slide 11 we look at the positive evolution of fixed broadband usage and upselling details. On the left side of the page we see that the level of unlimited quarter subscribers reached 82% of our total base. Remember that this was 68% a year ago. Dependency is increasingly towards unlimited packages as the customers become more acquainted with the services offered within broadband. Our ISP arm TTNET is very vigilant on delighting the customers with attractive bundles and campaigns and paving the way for further access. In addition to our superior broadband services due to our comprehensive network, we continue attaching value added services such as TTNET Music, e-work NETSTORE and our education product, Vitamin.

On the top right chart you can see the trend in broadband monthly data usage in our network. Average usage is 33 GB as of September 2013, mainly driven by increasing video consumption. In terms of speed, TTNET's up to 8 Mbps and higher speed packages are now 94% of total subscribers. We are happy to see that our upsell effort paid off in the form of higher customer satisfaction as well as increased ARPU on the broadband side.

On page 12 we review another bright support in our fixed line business, which is corporate data. Long aware of this segment's importance for our business, we have restructured the company from a functional standpoint last year. We moved away from departments like marketing, sales, customer service and grouped all these functions under customer segments. With this reorganisation we now have corporate and consumer businesses through which we always see the stages that our customers go through from one centre per customer segment. This rework, coupled with our sharp refocus on corporate and public sector customer needs and our drive to develop customised solutions for them paid off. We have grown our corporate data business 14% year-on-year in the third quarter and reached TL 263 million. Through products like Metroethernet, TT-VPN, Leased Line, and other custom products, we provide cost efficient, flexible and save high speed connectivity for our corporate and public sector customers. We strive to be their technology partners and take an important part in their growth and efficiency. Corporate data revenues now make up 10% of our fixed line revenues and we aim to grow it even more.

Moving on to page 13, we have highlights of our fixed voice business. In the third quarter, we continued to design proactive and reactive offers to manage churn. Remember in the second quarter we initiated a campaign giving free minutes to all directions including mobile. After the expiration of this successful limited time offer, we provided our customers with a new all directions minute package that they can add on to their current tariff. We aim to stimulate home phone users by increasing the number of minutes and directions our subscribers can all. At the same time, we continue our brand partnership programmes and joint offers with our group companies which help retain our customers.

With the positive effect of these retention actions, as well as the increasing subscriber base in naked DSL and WLR, we have partially offset the PSTN churn and decelerated the total excess line loss in the third quarter. Our number of total excess lines stand at 13.73 million as of Q3 2013. ARPU slightly declined year-over-year mainly due to dilutive effect of wholesale line rental, yet remained flat quarter-over-quarter. On the right side of the slide, you see a significant portion of our fixed voice revenues are recurring with 75%, which is a solid indicator of our success in stabilising our revenue stream.

This was a brief summary of fixed line business performance. Now I will hand the call over to AVEA Chief Executive Officer, Mr Erkan Akdemir. Thank you.

Erkan Akdemir

Thank you Tahsin, good afternoon everybody. As you all know in the first quarter and partially in the second quarter of this year we witnessed intense competition in the mobile market. Starting with the second quarter market conditions eased off and this environment also continued in most parts within the third quarter. In Q3 regulators started to reduce voice and SMS termination rates and despite the MTR cuts of 20% on voice calls and 75% on the SMS, AVEA delivered a strong performance and once again few our revenues and improved our profitability.

Let me take you through the numbers. Starting with slide 15 we continued to deliver strong growth in both revenue and EBITDA in Q3. If it wasn't for the MTR cuts this would have been another high teens growth quarter for AVEA, but despite the cuts we still grew our revenues 7% and reached TL 973 million. Our EBITDA has also proven strong in the third quarter with an increase of 36% year-on-year, our EBITDA margin increased to 18% from 13 in the previous quarter and 14 from a year ago. The effect of MTR cuts on the EBITDA was flat.

Strong subscriber base growth and robust mobile data increases were the primary drivers of the revenue increase as well as the enhanced profitability, roaming revenues also had a higher contribution to our revenues due to seasonality.

Moving onto slide 16, AVEA resumed its subscriber base growth with 224,000 net additions and reached 14.1 million. The growth came from both the post-paid and prepaid segments, this ensure that we retained the best subscriber mix in the market with a 44% post-paid subscriber ratio. Strong base mix was also supported by a prepaid to post-paid switching in Q3; it was also significant that despite the prepaid market that has been declining in the first half of the year, AVEA was able to grow prepaid subs 7% year-on-year in Q3. Our ARPU, which is the higher in the market as of the second quarter, slightly declined to 22.5 from the previous quarter driven by the MTR cuts. Increased voice usage as data uptake led by AVEA's market-leading smartphone penetration are the key points to push ARPU up. However, the effects of the MTR cuts limited the growth in ARPU in this quarter and our blended ARPU remains flat year-over-year, and our MoU reached 375 with a 7% year-on-year increase.

On slide 17 we have highlights on MNP trends. AVEA has been the most successful operator in mobile number portability net gains in the past two years as we continue to be slow in the second quarter of the year. In the third quarter we achieved another 133,000 net ports which brings us to more 600,000 year-to-date, but makes AVEA the most preferred operator in the market among MNP customers is its wide selection of tariffs, device that are customised to feed our subscriber needs as well as it's attractive value proposition.

Moving onto slide 18 mobile data is another area of our business where we see this strong take-up. As AVEA we are in the best position to capitalize on this trend with our most appealing brand image among the youth highest post-paid ratio and the highest smartphone penetration. In the third quarter we grew our mobile data revenue 44% year-on-year and share of mobile data and database services reached 20% of our total service revenues. On this front we introduced new packages addressing different customer segments and lifestyles and back these offers with affordable smart devices. In turn, the increase in smartphone and tablet usage within our customer base triggered mobile data consumption; we grew smartphone and tablet users within our base 41% year-on-year in the third quarter.

Moving on to page 19, AVEA is the smartphone penetration leader of the market for the last eight quarters. As of the second quarter of this year, smartphone penetration average of the market was around 25% while AVEA has outperformed this with 30%. This quarter our smartphone penetration surged to a new high and reached to 33%. In voice data and voice packages and AVEA's own brand of smartphone, inTouch 2, with it is unprecedented quality and very attractive price compared to the other smartphones in the market led the increased usage of the smartphones within our customer base and of course it helps the most popular operator among the youth segment as having the highest post-paid subs in the mix with 44%.

As summary, AVEA has been growing in a smart way and it pays off for us. We will continue to implement this strategy and strive for attractive more customers with our quality network, wider variety of tariffs and devices, innovative offers, best in class customer service and close collaboration with Turk Telekom Group companies.

Thank you all. Now I will hand it over to Erhan for overview of the financials.

Erhan Merdanoglu

Thank you very much Erkan Bey; Erhan Merdanoglu, TT Group Finance Director; I will take you through the financial section of the presentation.

I have to mention that all financial figures are in Turkish Lira, except otherwise stated. Starting with page 21, we have quick highlights of the quarterly consolidated income statement. Turk Telekom Group achieved a 5% year-over-year growth in the third quarter. This growth rate is in line with our guidance for the full year revenue growth. Compared to Q2 2013, group revenue increase 1%, sustaining the overall growth trends. Quarterly EBITDA is over 1.3 billion, group EBITDA slightly increased year-over-year and up by

4% compared to the previous quarters. Please note that we had around 17 million one-off expenses related to the personal incentive programme in the third quarter of 2013. Overall, EBITDA and EBIT margins improved in Q3 compared to Q2. Under EBITDA level, 553 million net financial expense was recorded mostly due to the depreciation of the TL against US Dollars and the Euro in Q3. As a result, quarterly net income decreased by 63% year-over-year to 236 million in Q3.

Moving on the page 22 we have group summary balance sheet. On the asset side, intangible assets increased by 479 million compared to Q3 2012. This increase is mostly due to IFRC 12 investments. Other assets increased by 680 million compared to the last year, this figure includes 475 million increase in the trade receivables; compared to last year, the cash position improved by 129 million in Q3 2013. On the liabilities side, interest bearing liabilities increased by 2 billion in the third quarter compared to last year. We will talk about our debt profile in the following slide, but this increase is a result of the increasing in FX debt partly driven by TL's depreciation and the decrease in the TL debt. Provision for long-term employee benefits decreased by 52 million year-over-year in Q3 thanks to our successful personal incentive programme.

Going to page 23 we have cash flow details, operating activities provided 1.2 billion cash in Q3 2013. Cash flow from operations decreased 1% year-over-year. Investing activities was 518 million cash outflow in the quarter. Net cash used in financial activities are at similar levels in Q3 2012 and in Q3 2013. Overall net change in cash positions is the increase of 195 million.

The next page is 24, where we have our consolidated revenue breakdown. Much of this has been already covered in the earlier pages but I'd like to provide some additional highlights here. On a year-over-year basis we had 5% fixed line revenue growth and 7% mobile revenue growth in Q3 2013. Our growth engine in the fixed line segment, broadband, and the corporate data services continued their strong performance recording 8% and the 14% year-over-year revenue increases respectively in the third quarter. Mobile revenue continues its strong growth driven by higher data and outgoing call revenues. As a result we have 36% year-over-year increase in mobile absolute EBITDA which is very important for us. Mobile EBITDA margin continues to improve. There is a sizeable increase in other revenues driven by group information a technology company, revenues coming from the education related projects.

Moving on the next slide, page 25, we show Opex at the consolidated level. Personnel expenses are 7% year-over-year. As you know, we started a personnel retirement incentive programme in the first quarter and this will have a positive impact on overall personnel costs in the medium-term, one-time cost, 70 million is recorded in Q3 for personnel incentive programme. Commercial expenses declined 2% year-over-year to 233 million in the third quarter, main reason are lower advertising/marketing expenses and the lower promotion expenses year-over-year. The cost of recruitment and the technology sales include devices, modems and software etc. This comes with their corresponding revenue.

Moving onto page 30, we have debt profile details, so there is no change in the overall funding strategy. The long-term debt is financed through the FX debt mainly US Dollar and the Euro, average maturity of the FX debt is 2.2 years. As of Q3 2013, group net debt is TL 7.3 billion. The increase in the net debt to EBITDA in Q3 is partly because of the depreciation of TL. However, current leverage is still at the comfortable level with 1.46.

With that I complete the financial section and I hand over to operator for Q&A part.

Questions and Answers

San Dhillon – Barclays

Hi guys, three questions if I may. Firstly, you said fixed voice makes up 26% of revenues, how much does that make up of EBITDA? Secondly, for an average subscriber moving to fibre from ADSL, what level of ARPU uplift are you currently seeing? I know it's early days. Finally, in the corporate segment, will you start to leverage your fixed line relationships in order to try and improve your mobile market share in this segment? Thank you.

Okay, can you…I will answer the third question and then please repeat the second question. For the first question, we don't give out that, so on the third question we don't have…for corporates we have communication, unified communication, we look at a lot of fibre VPN, cloud services connecting retail outlets. These are the security issues, value-added services, consulting services, these are the issues that we look at, at the corporate client, and that includes the three levels of business; fixed, broadband and mobile, so we don't really differentiate in that. We definitely leverage mobility and broadband to enhance what we are doing to the corporates because no corporates now look for a telecommunication solution without the three sides of the triangle, so if you go to a corporate and you say…and you're talking about just giving away SIM cards and making them speak for free, to us that's not really a corporate subscriber, and if you will call them SMEs or you call them whatever else, we don't think that this is a very value-accretive.
Can you kind repeat your second question?

Sure. The second question was around the average broadband subscriber moving from an ADSL product to a fibre product. I think you have 446,000 fibre subscribers. I'm just trying to understand what level of ARPU uplift you're seeing for that average subscriber moving from ADSL to fibre.

Okay, on the prices, they're a little bit more expensive than our regular price, and we can tell you…that's how much what we can tell you, but look, there is a very…there is a misconception about fibre, that fibre is…it's a product you create and you sell, and it's a product on its own. Fibre is a product on its own, yes, but the most important thing about fibre are two elements; the value-added services that you can add on it, so I can tell you that the ARPU is higher because when they reach the fibre, we can add more value-added services, so our Tivibu, which reached about 1.25 million paying subscribers today and growing it is easier to upgrade, it is easier to give them that and a lot of the value added services from cloud services, from…they can get much bigger chunks on our TTNET music, so that is what fibre does to you, it enables you to unlock the potential of your network and broadband, so it is not only that I connected a fibre subscriber I can also add a lot of value added service to them and that is what TTNET does very well, and that is because they have a solid network built by TT for them, so it is a combination of that that we are seeking.

The other element of fibre, it is a preparation for 4G, because the suppliers always say that 4G doesn't cost much, we beg to differ because if you don't have a fibre network, a strong fibre network on your access side 4G doesn't work, it is just as good as 3G, so the high latency that you see is very important to get rid of, that you see in a lot of networks is very important to get rid of, so that is how we look at fibre. Fibre is the future on access and the future of value added services, so it is not only a product per se and that is how we would look at it, but overall the answer to your question is that our prices are higher on fibre and number two we can upgrade on a lot of elements in fibre so it opens the door and unleashes potential.

Atinc Ozkan – Credit Suisse

Thank you. Two questions actually, the first one is related to your recent or past offer to acquire Digiturk. Today we have seen some news regarding the extension of Digiturk football broadcasting rights until the end of 2016/17 season, so my first question is how does that impact your interests vis-à-vis Digiturk and how important is it to get killer content for your up selling efforts on the broadband side. My second question is regarding your public disclosure late yesterday concerning your $1 billion planned bond and Sukuk issue. Is there any chance whether you could share how much of that could be in Turkish Lira and whether that could be a remedy to your short FX positions. Thank you.

Good questions. The first one I think the news that you mentioned is actually a little while back and we don't know what is going to happen the next three years. I can tell you about Digiturk is that we have put fair value from our side based on that we did not enter the data room, what we see the value is. It is very important to us that we do not overpay. It is an important component to us that will enhance and add more scale to our entertainment/TV play, however it is not a must do for us, so there are so many other options. There are no developments on this, they have the offer, I think they are entertaining other offers and we have our plans either to go with to go without. I don't know if you are talking about a particular news that was on today or this is the news about Digiturk, but I haven't heard anything, or are you talking about the news of a few months later that they have extended for one year.

There has been a press release by Digiturk itself about the extension of the broadcasting rights late this afternoon. I was referring to that.

We're looking at it…I have no comment on this press release, I mean it is a press release but I have no comment about it, but that is our position with press release or without the press release.

Thank you very much this has been helpful.

For the bond, it will enable us to increase the average maturity of our debt stock, provide us potentially cheaper cost of funding alternatives. Your question is basically is about the Turkish Lira.

I was just trying to get some colour whether some part of that potential bond issue could be in TL, because I think I have seen a detail regarding that in your press release.

It will depend on the market conditions, so it will depend when we issue on the market and conditions where we can make the decision on the variants of that.

Alex Kazbegi – Renaissance Capital

Hi, well I guess my first question you probably already answered in the sense that I was also wondering so to say in light of the FX losses whether your future funding strategy in terms of relying on Forex is going to change, but presumably it will really depend on the rate differential which I guess you have just gave the answer, if you could confirm that again. The other two questions would be in general where do you see the mobile EBITDA margin going in the medium-term, if again, of course it all depends on the market conditions and so on and so forth, but do you see it going above 20% sometime within next year or what is your rough guess where do you see the mobile margin going. The last one is that when you look at your fibre subscriber, FTTH subscribers, how many of them are generally new subscribers, not in the addition but overall in your half a million subscriber base, how many of them have been generally new and how many of them have been recycled from the other offers you already had, if you could share that information. Thank you very much.

Number three, I think it is a mix between new and upgrade, and I think both components of the mix are important to us. One comes at a little bit lower price, if you upgrade lower cost to us and the other is new. It is a mix and we don't value one better than the other. Usually the fibre comes after a certain journey you go through. For some people it is a short journey, for some people it is a long journey, you know you start with your ABC 3G and then you move onto a little bit of more Wi-Fi, and as you develop in the internet you upgrade your speeds until you reach the fibre. It is a mix. I don't think there is anything that is new to the market of fibre subscribers, because that is usually what happens. As we expand our fibre network, we can get to a stage where we can go to areas where fibre is new and they connect to it directly and right now, it is a mix.

For question number two, the margin, we don't give out our margin expectation of Avea, but I can tell you that Avea is doing a super job on every level, whether it is market share, revenue market share, we are gaining. We have invested in exactly the right places. Remember we are one of the very few companies that…third operators who have the highest blended ARPU, so we have invested in the right place and we're reaping the investments now. We have the highest percentage of data amongst our revenue; we have the highest percentage of smartphones. Avea is playing the game right and they are aggressive when they need to be aggressive, they are defensive when they need to be defensive and they know which wars to conquer and which wars to start, so we are very happy with what they are doing and you can see the results and the results are improving year-on-year, so it shows you that the economies of scale are also racking up in favour of Avea. We are bullish on Avea and we think that Avea is going to definitely be one of the leaders of the growth potential in the upcoming two or three years.

Having said this you have to know that all of the market is…we have a market story here. Remember that the incumbent who had maybe three times as many subscribers is also at a low margin, so the whole market and the international challenger who comes at certain economies of scale and costing is also at a little bit depressed EBITDA margins, so this is a question for the whole market so Avea is doing a very good job in improving there but I

think this is the upside story which is in Avea. If we get a lift in that market in terms of the potential growth of it and the EBITDA margins for all, I think Avea is going to benefit more than any player in the market, and we have reached to the point where we are comfortable and we want to look for bigger and better next year.
Now for the FX that…remember, this is unrealised loss. We are going from one year to the other, sometimes loss, and sometimes we gain, so in the long-term we think that this is the best place to be in this combination, now when we see a good price, Turkish Lira debt at decent levels or maturity, we jump on it and we take it. There is absolutely no discussion there, but it is not here yet the maturity rate or the price, so we think in the long-term we are really at the right combination.

In addition, we decided to tap the debt capital markets provided that the conditions remain positive, which should enable us to diversify our funding resources and increase the average maturity of our debt stock, which is really…we have done…the team has done a brilliant job in that in increasing the maturity of the debt. Thanks for your questions

Herve Drouet – HSBC

Good afternoon, two questions on my side. The first one, in your Opex in fixed line, there has been quite a significant increase in the cost of equipment in fixed line. I was wondering if you can tell us what type of equipment you know has increased from your side and is it equipment coming with your fibre rollout, is it modems, and what may have explained a bit of the pressure on the margins from the fixed line business. The second question is on ICT and the segment which is growing relatively fast for you. I was wondering if you can tell us where the margins are on the ICT business cruelty. Thank you.

For the first question, the equipment, actually, what we…it is not only hardware there is a lot of software and value added services, a lot of software and equipment for the projects that we are doing. We are doing a lot of PPP (private public partnership) projects and also private public partnership projects, so as that increases, this increases too.
Now in terms of the margins, we cannot give specific margins on the different lines, but I think it is important that we diversify and get more revenue out of these projects, so depending on projects, there are some projects that can bring us a little bit higher margin and some lower, but overall on the ICT projects they are not high margin projects.

Will you think the ICT margins will be above 25%?

I can't give you a number, but look, these are things that really open the door, they open the door with the relationship to – good try by the way – these are projects that open the door for customers that you can never touch with just PSTN. These are customers that you are upgrading their lifestyle in terms of the internet, whether they are children at school or at healthcare or at banking, and it just opens the door for bigger relationships and adding value added services, and that is our strategy to go into that field, but that is important for us, and as we get more skilled at it and as we become good at it, and manage to attract these verticals to us, I think there will be a lot of improvement there.

Tibor Bokor – Wood and Co

Hi, my first question on the cost, if you could shed some light on the personal costs, were there any one-offs in the third quarter and what should we expect in the fourth quarter. Can you remind me how you book potential bonuses, is it impacting your fourth quarter or first quarter next year. Thank you.

Hi Tibor, this is Onur. The personnel costs we have incurred in the third quarter is 17 million and we also stated it as a one-off in our financials. We say it is one-off because it is related to the incentive announced that we give to our personal and this is actually a positive thing for us because our personnel, these are the people who retire voluntarily from the company, so we will benefit in the future periods of this. What was the other part of your question?

Sort of the seasonality of the personnel costs going forward, specifically what should we expect in the fourth quarter on this cost line.

This is our CFO, Murat.

The bonuses of our key personnel is regularly accrued every month, therefore there is no one-offs or jumps due to the bonus.

That is clear, thank you very much, and if we talk about cash flow, two questions on Capex and working capital, my understanding is that working capital improved in the third quarter, can you explain where it came from and whether it is sustainable or we should expect some reversal going forward. On Capex it would be helpful to understand a little bit where the Capex is going. I assume it is going mostly to the fixed line, and we are at the situation of relatively high Capex to sales and how long this situation can last in your opinion. Thank you.

Thanks Tibor, I will answer the second question and on your first question Murat, TT CFO will take that. on the second question we are doing I think a very good job with Capex, you know that how we are…because our architecture and our ducting and cable allows it which is a very unique item and unique capabilities in the fixed incumbent world, we are able to swap copper for fibre, so we pulled the copper out and we put in the fibre, so it is basically a natural sort of subsidy on our Capex and we have been doing this for almost two years now, maybe a year and a few months and we're becoming very good at it, we are becoming good at it, we have good relation, we are hedging the price of copper, so it is a very unique experience. I think it is a case study so that is good, and this shows you that our Capex has actually declined from last year where we have guided 2.4, we came I think at 2.45, this year we are guiding at 2.2 and we are sticking to the guidance. We believe that our Capex is one of the key elements where it is a safe investment with Turk Telekom because we are managing the Capex and we think that the Capex will be on a trend of steady decline.

Now, on how we divide it, we can't give you but we also have good investment of Capex in Avea and in our information technology, so there are three elements, the fixed element, the mobile element and the information technology and value added services and software and all of these three are important components. Last year we have doubled our 3G masts in Avea, this is an extremely difficult task, great achievement because if you add the optimisation to it and you see how this was done and how it helped our brand equity, it helped our brand positioning with higher ARPU subscribers and more affinity to the brand, I think this has been fantastic for us and you can see the elements there. The Capex has been I think managed very well.

For your first question, Murat CFO of TT will take the question.

Q3 financials the cash flows are pretty strong, but this is a normal phenomenon for Q3, it is when we have the Capex rolled up but not paid. Usually in our business, Q1 is a stressed quarter because we have the payments of the Capex, but this year in the third quarter, also we have a positive effect of the lower tax payments because of the unrealised FX losses.

Doria Domina – Goldman Sachs

Hello, I have two questions. The first one is again on ICT and device sales, which together is the fourth line in your fixed line revenues, could you please elaborate on what growth potential you see there, I am just trying to understand how high that can go. The second question is on the cross selling in your fixed line segment as well. What is the percentage of your customers that take more than one service from you, I mean not only voice but data, and not only broadband but pay TV as well, I am just trying to understand what potential to up sell the services you still have on your subscriber base.

The second question and then Murat CFO of TT will take your first question. On the second question these percentages are increasing and these percentages are helping us and we are doing it in a smart…we call it smart bundling where the lower margin items are protecting the higher margin items. A lot of incumbents historically have been doing the opposite and that has created value decline, so we are doing it the smart way. We don't believe that bundling on its own helps the value. It helps in retention, but in the value, sometimes it drops the value, so we do it a little bit differently, we are very smart about it, but we do a lot of upselling and cross selling and these are the two elements that we believe have protected our value compared to other fixed incumbents around the world, so this is sort of the trick that we are focusing on.

Now if you go to any of our stores you can buy any product. The teams are being incentivised to cross-sell and especially with TTNET, there is a lot of up selling that is going on. When there is smart bundling, you have seen that Avea has done a fantastic job in bringing…and with TT if you have the fixed line you get one of the most highest value mobile SIM cards, so all of these things we are doing in a smart way, but what I can tell you is that the percentages are growing and the retention is becoming more effective and more efficient.

Now for your first question, Murat is going to take that.

The device sales and incorporated data revenues and all other services also have a bundled CP part and portion and these are recorded in our other line, which is growing in terms of revenues, but also costs and they have a very low margin as Hakam Bey had stated. The cost increase is around 80/85 million compared to last year same quarter, while the revenues also grow above that around 91 million.

Vera Sutedja – Erste Bank

Good afternoon, I have two questions please, first on LTE, can you perhaps tell us how is it going, when is LTE going to start in Turkey or when is the prospective spectrums going to be auctioned, just on a rough idea when it is coming. The second question is related to your guidance, the guidance for the EBITDA is maintained although your nine months performance in terms of EBITDA is still behind, so if I assume correctly then you would have to increase your EBITDA by 15% in the fourth quarter. You mentioned some of the potential Opex saving, maybe you can elaborate on that, so how you could achieve a 15% EBITDA growth in the fourth quarter to achieve your guidance or any of the key initiatives that you would be doing or you are doing at the moment, please.

I will take the second question first. Yes we are sticking by the guidance, we have a whole programme that we have been looking at to improve the EBITDA, but also we have been doing it not to hurt the midterm and the long-term, and if there is an opportunity to invest like the personnel cost, incentives, like some of the Opex that will come from a bit of software or value added services improvements, we have to let it go, so we are smart about that way, so we are only looking at the fat and not the muscles, but overall bad debt reduction, personally incentive effect, all of these things are going to help, but all I can tell you on that domain is that we are doing the best we can. This is a difficult business that we are in but I believe and I am sure we have the best management team, world class and they are taking the challenge on and we are going to do the best we can, but we are comfortable to say that we are going to stick to the EBITDA guidance.

For the first question, I would like to give it to Erkan Akdemir.

For the question regarding for the LTE, we don’t have any idea or any actions regarding the LTE strategy or the LTE timeline, however I can only refer to the Minister, is responsible for the overall telecom and of course the outcome of the LTE strategy. He is saying that end of next year they may go for the LTE licensing, and also he expressed the view of the one network for the whole country, so we believe that this new strategy regarding one network is the efficient way for this service delivering for the LTE or the LTE advanced.

If I understand correctly, 2014, end of next year we will more about the strategy of the LTE from Avea or did I not understand that correctly.

Erkan is saying that the Minister has given some guidance. Of course, this is something that the Ministry and the regulator are going to take care of, so we cannot confirm any of these timings. On our strategy, we want to do what exactly has value, so we’re not inclined to do one thing for the other. We have the best access network, we’re investing in our fibre access, we have the best value added services and TV, entertainment, gaming potential so 4G will become very seamless to us and we are sure very easy to invest, but there are big question marks today. We in the telco world we need to think of questions of countries that have 3 or 4G networks, are they going to have another three or four 4G networks, how much is the Capex, how much is the investment. We really believe that companies need to think of sharing networks and sharing these capacities. We cannot be supplier driven, especially in cases where 3G in different cases around the world where 3G has not yet delivered the return on assets or return on investment that is required, so these are all questions and we advocate this smart way of looking at it, especially in smaller countries, so these are all questions and the Minister and the regulator have discussed that and have given their opinion, but we go by the book, we go by the rules and we think that

Avea together with the great access network that we are building for TT are positioned to be the leaders in 4G in Turkey, but we are committed to the investor to do it the smart way and the efficient way and to make sure that as we are doing it, we are creative value.

Closing Comments

I believe there are no more questions tonight, so I thank everybody for joining us tonight and have a good evening.