TURK TELEKOM

Moderator: Onur Oz
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Operator: This is conference # 952546.

Operator: Ladies and gentlemen, thank you for standing by and welcome to the Turk Telekom Q1 2015 results call. At this time, all participants are in a listen-only mode. There will be a presentation, followed by a question and answer session. At which time, if you wish to ask a question, you will need to press star one on your telephone.

I must advise you today's call is being recorded, Wednesday, April 22, 2015. I would now like to hand over to your speaker today, Onur Oz, please go ahead.

Onur Oz: Hi, everybody, thank you very much for joining us today for our quarter 1 2015 earnings call. Today's presenters are Mr. Rami Aslan, CEO of Turk Telekom and Mr. Murat Kirkgoz, CFO of Turk Telekom. I would like to, before we start, please read the second page of our investor presentation in which we have an important notice. Without further I would like to pass the call over to our CEO, Mr. Rami Aslan.

Rami Aslan: Good afternoon and good morning to those dialing from the east and west coast, thank you for joining us today. We had a very strong start to the year with our first quarter in terms of operational performance and I'm happy to share them with you today. Let's start with slide 3 and review first quarter highlights.

After a stellar year in mobile business, our strong subscriber additions continued in the first quarter with 310,000 net adds. This was predominantly driven by postpaid net additions which pushed our postpaid ratio to 49 percent, a very strong ratio and highest in the market. We also had a great quarter in terms of smartphone penetration which resulted with a 59 percent smartphone ratio in our customer base, again, the highest in the market by a large margin. These two metrics are clear indicators that high-value customers increasingly prefer Avea. I will share some more details about this in the following slides.

Our broadband net additions have been a bit matured – muted this quarter, partially as a result of a low season in broadband business. We had 27,000 net adds, while fiber-based net adds reached 65,000. Our ARPU increased 3 percent in Q1 year on year.

On the financial side we have increased our adjusted revenues by 6.6 percent year on year. This is the revenue figure that doesn't include the non-operational IFRIC 12 adjustments. We have grown our EBITDA by 11 percent year on year and increased our consolidated EBITDA margin to 39 percent. This increase was driven by a 7 percentage point increase in mobile EBITDA margin which reached 18 percent in Q1 while we maintained our fixed line margin at 47 percent.

On the next slide, slide 4 we have our summary consolidated financials. I have already gone through most of these figures in the highlight slide except the net income and CapEx. On the net income, as you can see, we have been negatively affected by depreciation in Turkish lira against mostly the U.S. dollar. This resulted with a sharp decline in our reported net income for Q1. Our CapEx in the first quarter has been pretty much in line with last year's figure with roughly TRY300m.

Onto slide 5, this is the slide that we demonstrate how our business has been transforming while maintaining its growth. As of Q1 2015, 71 percent of our total revenues come from double-digit or high single-digit growth businesses. At the same time, share of our contracting fixed voice business come down to one-fifth of total revenues. As fixed revenues share declines further, its affect on consolidated results diminishes and in turn our revenue mix becomes more robust and growth oriented. We expect this transformation to continue and support further growth – growth in revenues. At the same time, we are cognizant and are extremely careful about managing profitability implications of this transformation.

Moving on to fixed broadband business on slide 6, our broadband revenues continued to grow in the first quarter of the year with 6 percent year-on-year increase. It is very encouraging for us to keep growing our fixed broadband business even in low season such as the first half of the year. Our market continues to offer significant opportunities to expand given the penetration levels and population dynamics. Adding the strong appetite of our customers for higher speeds and higher capacity, we are confident that our fixed broadband business is bound to grow healthily in the upcoming years.

Our Q1 2015 subscriber net additions were 27,000 while we delivered 3 percent year-on-year ARPU growth. In the first quarter, we increased the number of fiber-based customers by 65,000. Consequently fiber-based customers now make up up to 16 percent of our total customer base. We will continue to be the premium player in the broadband market that we are the strong leader and meet our customers' needs for ever-increasing capacity and speed.

Slide 7, continued broadband ARPU increase has two drivers, price adjustments and up-selling. Here in this slide we present how up-selling dynamics work. There is a strong appetite in our market for higher speed and higher capacity in fixed broadband connectivity. And as of the first quarter of 2015 almost 60 percent of our customers preferred 60 megabits per second or higher speed packages up from only 17 percent a year ago. Higher speed begs higher capacity.

As for the first quarter, 88 percent of our base is on unlimited capacity packages, up from 82 percent a year ago. Finally, within our limited packages we see that the customers move into higher fair usage packages in order to prevent throttling. All these moves into bigger, speedier broadband tariffs support ARPU growth and our broadband business.

Slide 8, having the largest fiber network by far is a key enabler of the growth of our broadband revenues. And with the upcoming mobile technologies at our doorstep, its value and importance for us have multiplied. In order to have the most efficient and robust 4G network, supporting mobile backhaul with fiber is crucial. We believe this will set up – set us apart from the competition in 4G connectivity and with Avea we will provide our customers with the best possible 4G experience.

Our fiber to the home/building and fiber to the curb based customers increased to almost 1.2m in the first quarter of the year. Our current offering and positioning of FTTH, FTTB and FTTC based tariffs are identical in 24, 50 and 100 megabits per second speeds. In terms of home paths we have 8m FTTC and 3m FTTB FTTH.

Moving on to slide 9 for our TV business highlights, you must have already heard our initiative of acquiring broadcasting rights of one of the most attractive contents in the country. Starting this summer, for three years, UEFA Championships League and Europa League's matches and all related content will be on our TV platform, Tivibu. We are very excited to provide our customers with this content in the most advanced TV platform in Turkey. In order to maximize our reach, we are building a satellite TV platform as well which will be side-by-side with our strong IPTV platform.

Slide 10, robust growth in our corporate data business, which is one of the brightest areas in our fixed line offerings, continued in the first quarter. We grew corporate data revenues by 11 percent year on year and as of Q1 corporate data revenues make up 13 percent of our total fixed line revenues.

Moving on to slide 11 for fixed voice business, we have improved the revenue decline rate in our fixed voice business which enables us a smoother transformation of voice-based revenues to data-based revenues in fixed line. This year we have all the intentions to continue this trend. Our fixed voice revenues declined 9.5 percent in the first quarter, compared to a decline of 12 percent last year in the same period. Our efforts are running as high as ever in holding onto our customer base while at the same time maintaining a stable ARPU, which altogether gives us a slower revenue decline.

As the share of fixed voice came down to one-fifth of our total revenues, the effect of the decline in this business on our consolidated results diminished. In addition, we capture a good portfolio of fixed voice line declines through our naked broadband offers and defend our access lines.

Now, mobile business starting with slide 12, last year was a milestone in our mobile business with our extraordinary subscriber net gains, high growth revenues and improving profitability. First quarter of this year is no different. Our demonstration that we can deliver strong results even in difficult competitive conditions continued as we finished this quarter. Our mobile revenues increased 22 percent and EBITDA grew by 95 percent year on year. We improved our mobile EBITDA margin by 7 percentage points year on year and reached 18 percent in the first quarter of the year. In Q1 we reached our record quarterly revenue and delivered the highest first-quarter EBITDA ever. We are pleased to see that our resolution to invest in our mobile business is bearing fruits.

On the next slide, slide 13, let's review the ARPU and subscriber dynamics in mobile. We had 310,000 net subscriber additions in the first quarter. This was driven by postpaid net additions which was 325,000. Our postpaid subs ratio reached 49 percent in Q1 and as you know this is by far the highest postpaid ratio in the market which validates our focus on higher value customers. Our blended ARPU increased 7 percent to TRY22.1 supported by both postpaid and pre-paid ARPU increases.

A bit more detail on the subscriber dynamics in the next slide, slide 14. 180,000 of our net subscriber additions came through mobile number portability. As you see on the chart on the top right-hand side, we are the clear leader in mobile number portability market. Millions of customers switched to us in the past few years from the other operators. More importantly, an increasing proportion of these customers decided to stay with us as our declining churn rate demonstrates.

As of the first quarter of this year our quarterly churn came down to 8 percent, down from 12 percent level a few years ago. Our quarterly churn is in line with the market churn rates, which is a testimony that in the eyes of the customers, quality difference between the operators is diminishing, close to nil. In terms of subscriber growth we outgrew the market with more than three times growth rate at the end of this year. And we recorded 9 percent growth rate in the first quarter of the year.

On slide 15, mobile data and smartphones, we have grown our mobile data revenues by 57 percent year on year in Q1 2015. Smartphone users in our base increased to 59 percent which sets the stage for continued growth in mobile data revenues. As of the first quarter of the year, 29 percent of our mobile service revenues came from pure mobile data excluding SMS and value-added services.

I will now hand over to Murat for a review of financials. And I'll be back with you in our Q and A session.

Murat Kirkgoz: Thank you, Rami. Good morning and good afternoon, everyone, I'm on page 16 the consolidated income statement. Our first quarter revenues grow by 7.5 percent year over year reaching to TRY3.4b. And EBITDA increased by 11 percent year over year to TRY1.3b with an improved margin of 39 percent. Good improvement of profitability as well translated into strong growth of our operating profit by 11 percent versus last year.

On the bottom line appreciation of dollars against Turkish lira by 12.5 percent resulted to FX paper losses of approximately TRY870m which was partially offset by positive TRY165m FX hedge gains. Q1 interest income was about TRY7m positive due to convenient cost of borrowing while our Q1 net income affected negatively by the unrealized FX losses and resulted at TRY27m.

Moving to page 17, the balance sheet, and our current ratio on this page stands at a very healthy level of 1.2 times with a strong cash position just above TRY3b. On the leverage side, which I will give you more details in a while, our net debt reduced from approximately TRY7.1b last year to the south of

TRY7b with an improved leverage ratio of 1.34 times versus 1.43 times of last year.

Moving to page 18, cash flows, our Q1 cash flows naturally have a low seasonality due to the working capital requirements following a seasonally high Q4 CapEx spendings. In Q1 our (unlevered) free cash flow read as TRY250m due to low seasonal effect of the working capital changes. While if you would look to last 12 months of the unlevered free cash flows our cash flow stands at a strong level of approximately TRY2.4b. This is despite the payment of seasonally high CapEx invoices of Q4 and approximately about TRY185m of employee retirement incentive program.

Some color on financing activities, in Q1 funding was limited with the funding of the short-term working capital requirements. And such needs were funded with Turkish lira short-term facilities. On the other hand, net interest collected was TRY90m positive in Q1.

Moving to page 19, the debt profile, we maintain a very healthy maturity level of 3.9 years, again with a comfortable leverage level of 1.34. Our leverage has reduced from 1.43 of last year to 1.34 and we are maintaining a strong cash position in anticipation of the second quarter and third quarter cash outflows due to dividend payments and potential license installment payments.

The figures in this slide are presenting our debt breakdown before the effect of our gross currency swap operations. As you would recall, we have converted about $675m to euros with cross-currency swaps and that has resulted to an MTM gain of approximately $240m so far. Post this swap operation, our underlying hard currency liability in dollars would read as 59 percent of the total debt and underlying euro liability would read as 39 percent.

Now I move to page 20, the dividend information is listed here. As you know our TRY1.841b dividend payments are approved at the general assembly and scheduled for the end of May for payments.

Now I will pass the word back to Rami.

Rami Aslan: Thank you, Murat. Before the Q and A I'd like to just add a comment before we close. I would like to highlight that you may have heard this morning TT submitted an unbinding offer to acquire the 10 percent stake of IS Bank Group in Avea. This offer was approved by our Board of Directors to allow our Group to capture the full potential of our integration and push further with the synergies and efficiencies that come with it. We'll be more than happy to answer your questions. Thank you.

Onur Oz: Hi, Nick, we can move onto the Q and A session now.

Operator: Thank you. Ladies and gentlemen, if you wish to ask a question, please press star one on your telephone and wait for your name to be announced. You can cancel this request by press the hash key.

Your first question comes from the line of Ranjan Sharma of JP Morgan.

Ranjan Sharma: Hi, good afternoon, it's Ranjan Sharma from JP Morgan. Thank you for the presentation and congratulations on your results. First, two questions from my side. Firstly on your margins, you've seen a significant improvement in EBITDA margin in the first quarter. I was wondering if you could share more details of what the main drivers are.

Is it the improvement mainly coming from economies of scale? Or have you also benefitted from certain cost efficiency programs? And also have there been any one-off gains recorded in the EBITDA margin in the first quarter?

Secondly on the non-binding offer for the 10 percent in Avea, can you share any details on this offer, like what has been the offer value? And when do you expect the potential seller to respond by? Thank you.

Rami Aslan: Thank you, Ranjan, it's Rami, I'll pass to Murat to answer the first question but I'll answer your second question quickly. As we have mentioned in our prior calls and discussions, we have been in various discussions with IS Bank in the past and we promised that we will update you as soon as something is available in due course. And this is really fresh and as you heard this is an unbinding offer that was submitted only this morning before the market opened.

And IS Bank needs some time to react; I'm sure, so we are not in a position to provide any details about the offer or the terms of the offer. But we promise you that we will announce as soon as we have any feedback and I'm sure they will also have their obligations to announce from their end as well.

I'll pass you to Murat regarding the margins and the one-offs.

Murat Kirkgoz: Thank you, Ranjan, for the question. So, we actually analyze the year-over-year improvement in the margins in three elements. The first element is the revenue drive, so we enjoyed about a TRY200m improvement in the EBITDA thanks to the revenue growth less the commercial costs and variable costs. So the top line drive was the main drive under the EBITDA improvement while we maintain a flat OpEx year over year.

And the third element was other one-off items of last year which were mostly other operating income like TRY92m change observed here due to the new asset disposals or asset gains that were one-off last year. And there were also some one-off expenses of bonus payments of Q1. You may recall that they were TRY92m, so these two effects actually compensate for each other. So I can say that the level EBITDA improvement thanks to top-line growth with a controlled OpEx.

Ranjan Sharma: That's very helpful, thank you.

Rami Aslan: Thanks.

Operator: Thank you. Your next question comes from the line of (Byena Pashtiva) of Barclays.

(Byena Pashtiva): Hi, good afternoon, just two questions from my side. So, on the net leverage target, just when we put the things together: 4G license application, Avea's stake acquisition, lira depreciation and similarly high CapEx level for this year, would you be able to maintain that leverage below 1.5 this year?

And secondly on 4G license, how would you finance that? Thank you.

Rami Aslan: Thank you for your question, a very good question and not an easy one to answer, because there are too many variables as you have mentioned. Of course we don't have full control over the macroeconomic environment and the Turkish lira. But what we can say is that we are continuously working very hard to manage our FX exposure by diversifying the foreign currency so we have a huge portion also is now in euro base and some also in Turkish lira to minimize the impact of further deterioration.

But as you rightly said there's 4G and there's CapEx requirements that come with that as well as the 10 percent stake that we mention. We don't believe that the 10 percent stake will affect us much and we will hopefully disclose the terms in due course. However, in terms of the 4G impact, the CapEx related to 4G a good portion of that is already in our plans. And we will have to reassess, of course post the bids in the spectrum that we receive what – whether there'll be additional requirements or what impact that would have on our CapEx.

In terms of the bid, you may have seen the bid terms. It is available also in installments, in four equal installments which would be paid semiyearly and at a very good rate as well. So we believe that it is lucrative to optimize our cash flow requirements this way. So we will be most likely using that option as when it comes as well.

(Byena Pashtiva): Understood, thank you so much. But just to clarify in terms of the net leverage target, given that there is a quarterly installment payment as an option and as you said this year will not necessarily impact that much. So is it fair to say that net leverage targets should still remain at 1.5 times level this year?

Rami Aslan: Look, we don't have – we never said that this is the target and we will work only on that target. We are well below it and we're happy to continue to be below it as well. This said, other than the fluctuation in TL we believe that we have tremendous discipline to maintain strong leverage. We have, I think, peaked around, if I'm not mistaken around 1.6 and we managed to go down to below 1.25 times.

We are a fast deleveraging company as well; we have a very strong cash flow. We continue to enjoy very strong cash flow and we believe that whatever we will do if it is strategic for us and it builds value for our shareholders and stakeholders that is something that we will do. We will not be distracted by a small blip that still remains in a very respectable leverage level. So if a small blip means that we are building value and will continue to deleverage post that blip we will have clearly the discipline to do that.

(Byena Pashtiva): Understood, thank you.

Rami Aslan: Thanks.

Operator: Your next question comes from the line of Tibor Bokor of Arqaam Dubai.

Tibor Bokor: Hi, I've got three questions if I may. First on Avea, can you share with us what's the net debt at Avea level?

Second, what do you take out of the comments from your president, saying that the country should skip 4G and focus on fifth generation mobile networks?

And the last question more strategic, how do you see the CapEx profile of the Company? Are we at the peak or do you see on a next two, three year view – when should we expect the peak in CapEx? Thank you.

Rami Aslan: Let me pass you to Murat for the first and third question and I will handle the second question afterwards.

Murat Kirkgoz: As you would recall, last year Q4 we had make a club facility in Avea level of $400m approximately while we don't disclose the related party loans between the company and the mother company. So this is the third party loan at Avea level.

And regarding CapEx we anticipate the CapEx payment and CapEx amounts increase post the LTE period for year of 12 months. But we also anticipate to have substantial working capital improvements in our supply contracts, thus little affects to cash flows this year.

Rami Aslan: As for your second question regarding 4G, clearly we are not policy makers, we are operators. And we will work with whatever policy is made and we are very well positioned to operate very successfully whether there will be 4G or whether there will – we will skip to 5G as in when it comes. We enjoy a very strong fiber infrastructure and we have – we are actually at an advantage in terms of our ability to work within the laws and the regulations, and the regulatory decisions as and what comes. So we are quite agile in that space.

This said we are also investing in 5G. We are already heavily looking into what are the opportunities in 5G. And we have through our subsidiary, Argela, looking at what can be produced here locally in Turkey on the 5G front in preparation for 5G. So we are as a company and as a responsible operator very keen to serve our customers in the best way possible, continue to be the first at whatever we do and the best at whatever we do, the fastest, the strongest and certainly give the best customer experience to our customers.

Tibor Bokor: Just a quick follow-up on the previous comment on working capital cash release. To me it's a little bit contradictory because we have seen the smartphones penetration increase and now you guys want to launch the satellite platform. It seems to me like the whole working capital will actually be a negative cash flow. Can you elaborate on this a little bit? Thank you.

Murat Kirkgoz: Sorry just – I couldn't catch the detail so my colleagues help me to understand your question. So a good point, but the smartphones we are not financing them through our working capital. We have today a finance program that finances our distribution chain to pass these phones and we are acting as a collection agent. And that therefore is not creating a burden to our Company balance sheet in the form of debt or working capital pressure.

Given the devices or TV we anticipate the amount of working capital gains as we anticipating from supply chain finance is much higher than the needs that will be needed to finance the growth of the TV business.

Tibor Bokor: OK, that's very helpful, thank you.

Operator: Your next question comes from the line of Herve Drouet of HSBC London.

Herve Drouet: Yes, good afternoon, two questions from my side, firstly on the margins. It looks like your costs are increasing much lower than inflation rate, even lower than half of the inflation rate. I was wondering do you anticipate that to continue over the rest of the year, so it's really my first question. And where you see the most decline of costs, can you highlight is it more where you see less pressure on cost, is it more from the marketing side, sales and marketing, or other general and administration expenses?

And the second question is on fixed voice revenue which continued to decline at a lower pace than before, but still continued to decline. I thought there would have been some recent price increase on fixed voice I think recently. I was wondering if you start to see some effect of that.

And will you anticipate at the current, I think you are at around 9 percent decline on fixed voice revenue, do you believe that can go towards more a decline around the mid-single digit post the tariff hike? Thank you.

Murat Kırkgöz: So thank you for the questions, Herve. I will take the one about the personnel, the costs decline. So I would just like to highlight one element. The cost reduction in year over year is mostly in the personnel cost. You would see a 5 percent decline in our personnel costs. And personnel is about 40 percent of our OpEx base.

The reason of this decline is if you would make into two components. There is a one-off expense in the first quarter of 2014, which was TRY92m of bonus provisions that were obtained in the second quarter. So this amount is normalized this year, so we have normal costs of personnel bonus provisions.

Therefore if you would eliminate these two items, then you will see a 4 percent growth in personnel, which is still effectively managed, thanks to the employee retirement program. But you would not see the same magnitude of savings in the remaining quarters. Just I want to give a heads up on that one.

Let me give some color on the fixed voice price increase. It had been in the mid of the quarter, so it had not been fully in force for the full quarter. There are a few elements about the fixed voice. We have also higher use of the lower access line products in terms of ARPU, by other ISPs, or also by the competition and also preferred by the customers.

So we have a few pressures on our fixed voice revenues. And we believe that the low teens or high single digit is a better, realistic forecast going forward.

Herve Drouet: All right, thank you. And do you expect on marketing, so the marketing in terms of the cost side, looking forward, may be higher inflationary pressure coming on sales or marketing? Or do you think the level you currently are having is going to continue?

Rami Aslan: That is mostly related with our product deployment program. So Q1 was a relatively slower quarter for the Turk Telekom fixed voice. But as we are taking up with our products and with our commercial plan, it's going to eventually take up. But inflationary pressure is the secondary thought here. It's mostly the activities and the commercial success associated to that.

Herve Drouet: All right. Thank you very much.

Operator: Your next question comes from the line of Vera Sutedja of Erste Bank, Vienna.

Vera Sutedja: Yes, good afternoon. Thank you for taking my questions. I have question related to the CapEx. I just want to confirm this guidance for 2015 at TRY2.3b. Does that include any of the spectrum for the 4G or not? So that's the first question.

Second question is regarding this non-binding offer for the Avea stake. Can you elaborate a bit what could be the integration synergies can be reached by owning 100 percent compared to currently already 90 percent? What would make the difference in terms of the benefits that you can achieve by integrating the company? And maybe highlight a bit of course, is there any tax benefit that you can realize from this deal? Thank you.

Murat Kirkgoz: So thank you for the question, Vera. The CapEx guidance does not include any reference to the LTE tender. So this is all going to be an add-on on top of our guidance figures.

And related to the integration benefits, I will pass to Rami.

Rami Aslan: Thank you, Vera. Good afternoon to you as well. Related to the offer – I'm sorry if we're not giving you satisfactory details, because it's still non-binding and it's very early. But we promise that we'll update you as things move, and hopefully they will. So we will keep you posted.

In terms of the impact, clearly, owning 100 percent will allow us to have full control and ownership of the company. We'll have no minority rights that might hinder certain movements that we'd like to do or certain integration-related movements.

So far actually we have been able to capture more than 50 percent of our potential, maybe 60 percent, 70 percent of our potential. But with full ownership, and hopefully eventually putting the Group as one Group, one full Group, this will allow us to capture a lot more synergies, both from a scale point of view, from ability to integrate our functions much more, and particularly move people around, particularly, for example, we will be now in the very short term and very, very soon, aligning the payroll and fringe benefits across the entire Group.

That will allow us to move staff and be able to maneuver within the current environment much more.

With a full integration, of course there is an upside. You mentioned, if we are able to get to the first stage and conclude this deal, we also have an upside of the ability to merge the companies in order to have a natural upside that come with the merger as well.

Vera Sutedja: So we can say that this tax impact will be – could be materialized if there is some merger impact? Without counting the amount yet, but basically we can release this tax loss carry forward, or realize it, basically, from Avea?

Rami Aslan: I think that's a fair statement, yes.

Vera Sutedja: OK. Thanks very much for explaining the synergies.

Operator: Your next question comes from the line of Ivan Kim of VTB Capital, New York.

Ivan Kim: Yes, good afternoon. Most of my questions were answered. But the last one I have is on non-service mobile revenue, which increased more than two times year on year. Can you please have a rate on that? And it also looks like had no really impact on the margin. So basically probably without that, the profitability would have been even stronger at Avea. So any comment on that would be appreciated. Thank you.

Rami Aslan: Let me pass you to Dehsan Erturk, the CMO of our Consumer Unit. Dehsan?

Dehsan Erturk: Hi, Ivan. Thank you for the question. Actually, as you might follow, our smartphone penetration rate is increasing, thanks to increase in smartphone sales, to especially postpaid contracted customers. So most of the non-service revenue you see there is coming from the device commissions that we are receiving in the business of 24 months of contracting our customers with smartphone devices. Thank you.

Ivan Kim: OK, so the rate, so to say, of contracting consequently has increased so much, even compared to the fourth quarter of last year, right?

Dehsan Erturk: Yes. There are a couple of drivers which are affecting the smartphone sales in our business as well as the competition business. One of them, as you might know, there is a regulatory involvement for the technology retail chain stores that they are not allowed to sell smartphones with installed payments any more through credit cards. So there's an increased demand on postpaid contracts of mobile operators.

So thanks to our business model in which a previous question our CFO explained, we are not involved in any kind of revenues or costs, except that we receive device commissions, and it is actually recognized under others revenue. The increase that you see is specifically and only coming from the increase in smartphone sales. For instance, last year there is similar period. We had a share of market in smartphone sales about 14 percent, 15 percent.

This year there's a tremendous increase in Avea's business. We have 25 percent share of market in smartphone businesses. So as we contract more postpaid subscribers with 24 months and so, our other revenue, I'm inclined to say other service revenue, but it's not service, it's other revenue, will continue to increase, actually.

Ivan Kim: Thank you very much.

Operator: Your next question comes from the line of Ondrej Cabejsek of Wood & Co.

Ondrej Cabejsek: Hi, thanks for taking the question. I would like to ask what happened in your pay TV business. Because it seems like you lost almost 10 percent of your subscriber base. So is that increased competition, the competitors' positioning against your entry in mid-2015? Or what happened there?

And second question, please, following up on the 5G question, in the case of skipping 4G, would there be a lot of sunk costs in terms of CapEx for this scenario? Thank you.

Onur Oz: Can you repeat the second question, please?

Ondrej Cabejsek: Yes, for the second question, in the case Turkey does skip 4G; I assume you've already started positioning for 4G rollout. So would there be a lot of sunk CapEx relating to this?

Rami Aslan: Not really. I mean, that should not be the case at all. So I don't think – I mean, the second question, the answer is a clear no, it's very manageable, there's no issues there.

The first question, Dehsan? Dehsan, please go ahead.

Dehsan Erturk: Hi. About the TV business, as you know from the beginning presentation, we now have the rights of the UEFA Champions League. So this is going to impact our business model in television. So what I'm trying to say is that we are restructuring the business model in our television business. So I think the first quarter results is not a clear indicator of what's going to happen in the next couple of quarters. Maybe I could introduce our new – yes.

Onur Oz: Please go ahead.

Rami Aslan: Maybe I'll say that, OK. Cagri Donmez is actually, he's – as you know this is a new core business for us, and we have announced about three, four months ago that we are establishing this as a core business for our Group. It's a very important business for us, and Cagri Donmez has joined us about a month ago, six weeks now from Digiturk. And Cagri Donmez here is with us, so he can also add some comments. Please go ahead.

Cagri Donmez: Hello. It's very exciting to join the Turk Telekom Group. Right now, we are looking at two things. One, a long-term strategy of putting Tivibu in the heart of the business as a core business. Also, we are looking at our current new content Champions League and UEFA League, and how we are going to monetize this.

So also we are in the development of the news satellite business. So in two, three months we will see a big change in the TV business. So right now, we're just restructuring the whole business.

Ondrej Cabejsek: So the losses, because I'm not sure I got an answer for this. The losses in terms of subscribers, which is the result of restructuring or the way you count subscribers? Is that just – is that really losing customers to competition that may be sort of increasing aggressive offers because you now will have the right to start in two quarters from now?

Cagri Donmez: It's not losing to competition, and it doesn't have anything to do with competitive reaction to our new content. It's more we are more focused on a longer term restructuring than a short-term result.

Ondrej Cabejsek: OK. Thank you.

Cagri Donmez: So we are more in projects than looking at the market results right now.

Rami Aslan: I can tell you very confidently that this is a core business and we are really setting ourselves for a very strong second half in that business. So I would not worry about this. We are in a regrouping phase, but you will certainly see a very good pickup in this area.

Ondrej Cabejsek: OK. Thank you.

Operator: Your next question comes from the line of Ksenia Mishankina of UBS, London.

Ksenia Mishankina: Hello, thank you for the presentation. Most of my questions have been answered. However, probably the last one, could you please comment on your borrowing plans this year? Thank you.

Rami Aslan: Murat, you want to take that?

Murat Kirkgoz: Yes, sure. We have a pretty easy debt redemption profile this year. But we are in anticipation of looking for opportunistic options to prepay some of the 2016 debt service, and as well a potential funding for maybe the first tranche of the license payments.

But clearly, we are not in a pressure of debt service or debt restructuring this year, which was thanks to a very strong momentum of last year's bond and the club facilities we have drawn down TRY1.4b of fresh cash from the market that they used to prepay 2015 debt service.

Ksenia Mishankina: Thank you.

Operator: Your next question comes from the line of Vibhor Kumar of Citigroup, Mumbai.

Vibhor Kumar: Yes, hi. Thank you so much for the opportunity. I have just one more question. This is related to EBITDA margin guidance for 2015. The current guidance for revenue and EBITDA for 2015 implies 35 percent to 36.5 percent margin range, if we take the upper and lower range for revenues and EBITDA, and which will be basically 60 to 200 basis point lower year on year.

But if we look at the strong mobile margin performance in first quarter, and if you expect it to continue in rest of the year, should we expect any margin upgrade in rest of the year? Or do we expect some steep decline in fixed margin? And any – so do you anticipate any reactions from the competitors rest of the year? Thank you.

Rami Aslan: Yes, just a second, please. Vibhor, can we ask you to repeat the question, just because we're not sure we got the second part in particular. But if you can repeat it, that will be helpful.

Vibhor Kumar: Sure. My question was very quickly EBITDA margin guidance for 2015. The current guidance for revenue and EBITDA range, I guess it would imply 35 percent to 36.5 percent margin for 2015, which would be around 60 to 200 basis points lower versus 2014.

While looking at the strong mobile margin performance in 2014, should we expect any margin upgrade in 2015? Or do you expect some steep decline in fixed margin or other strong reactions from the competitors in the market in 2015?

Rami Aslan: OK. Murat, do you want to take that?

Murat Kirkgoz: Yes, sure. Vibhor, thank you for the question. We have given that the outlook with 4G for the fixed line margins going forward last year Q4, and we remain intact with our guidance on this matter. Q1 performance was good in mobile. We anticipate this to continue. And we remain – we keep our absolute EBITDA guidance in line with our original guidance.

Vibhor Kumar: So do you expect the strong mobile margin to continue for the rest of the year? 20 percent kind of5 level?

Rami Aslan: Look, I mean, we're very happy where we are. And I believe we have demonstrated over the past several quarters, more than five, six quarters, that this is not something that is temporary. And we do believe that our growth and our margins will continue to be very healthy and margins will hopefully continue to improve going forward.

So we are very well positioned, very cognizant of the challenges at the same time as opportunities. And the team is geared for those opportunities to make sure that we capture them and continue to grow the margin on the mobile side.

Vibhor Kumar: OK. Thank you so much. Just if I can add one last question. On this non-binding offer, can I ask, if you can answer, is the basing of the 10 percent stake would be higher than the fair value which you report on your press release, which is around (TRY458m)?

Rami Aslan: I'm sorry, we cannot comment on that, Vibhor. Please stay tuned, and we'll share with you as soon as we can.

Vibhor Kumar: Sure, sure. Thank you so much for taking my questions.

Onur Oz: Thank you. Thank you very much.

Operator: Your next question comes from the line of Ranjan Sharma of JPMorgan, Dubai.

Ranjan Sharma: Hi. Thank you. Two follow-up questions from my side: Firstly, on your dividends, could they be a risk to dividend payment if your net debt to EBITDA ratio increases beyond 1.5 times this year? So my question is specifically for 2015 dividend.

And the second question is what percentage of smartphones in Turkey is currently LTE enabled? And do you also see a risk of cannibalization of fixed lines from the launch of LTE? We have an evidence of this in some markets. I'm just wondering if this concerns you in Turkey as well. Thank you.

Rami Aslan: Thanks again, Ranjan. Just a quick one is the smartphone question. We don't know the market, but our own smartphone percentage is about 20 percent, correct, Dehsan? So 20 percent of our smartphones are actually LTE ready.

And the first question on dividend, our policy is to distribute maximum dividends as a company. And this is as per the company charter and the shareholder agreement. Over the past 10 years or so, or since privatization, I do believe that maximum dividend has been distributed, with the exception of one time, where there was a contemplated transaction, and there was a discipline to distribute slightly less. But over the 11 or 12 years, I do believe that the dividend distribution was around the 90 percent mark, more or less, of course, the maximum distributable dividend.

So it's not the leverage that really dictates the distribution, but rather the outlook. Really, this is not a decision for management. It's a decision for the Board. And I do believe that if it is a one-time investment for the next 13 years because of spectrum, I'm sure the decision will be a long-term decision rather than a short-term decision. But at the end of the day, this is a Board decision.

Ranjan Sharma: OK, thank you. That makes things clear. On the last question, do you see any risk? Are you concerned on any risk of cannibalization of fixed line from the launch of LTE services?

Dehsan Erturk: Hi. We believe that 4G will come with advantages as well as disadvantages for our fixed broadband business. So it's not only about the threat, it's also about the advantage. Because consumers will hunger for more and faster data, content will be enriched, and naturally, fixed broadband will have its advantage, to address increased demand for speed and capacity. Thank you.

Rami Aslan: Thanks, Dehsan.

Rami Aslan: Thank you, Ranjan.

Ranjan Sharma: Thank you.

Operator: Your next question comes from the line of Caspar Erskine of New Street Research.

Caspar Erskine: Hi there. Most of my questions have already been answered. I was just wondering if you could give me a quick – so your views on net pricing issue regarding Turkcell. I was just wondering whether you see – they've been losing a lot of subscriber share recently. I was just wondering whether you thought there might be any changes to the regulations surrounding that?

Rami Aslan: Well, actually, for the last couple of quarters, maybe four quarters or so, the impact of on net regulation on the market is not so significant. So I think it might not be accurate to establish a relationship with the market share changes and that specific regulation, because, as you might have observed from the developments in the market, we observed, we witnessed more than 10 or 15 specific tariffs that are not compliant with the specific regulation. So I think that regulation de facto lost its impact on the market dynamics as of today. Thank you.

Caspar Erskine: OK, brilliant. Thank you very much.

Operator: Once again, to ask a question, it is star and one on your telephone. Your next question comes from the line of (Dmitri Tekona), Commerce Bank, London.

(Dmitri Tekona): Hello. I have a relatively quick question. A large part of your debt is in hard currency, while you don't have really a natural hedge in terms of revenues, because most of your revenues are coming from domestic markets. Do you actually have any thoughts about hedging your disposition? And also, what is your view on the lira? What do you see happening with it, say within this year? Thank you.

Rami Aslan: Thank you, Dmitri. It's a good question. First of all, as we have demonstrated, we have been putting a concerted effort to diversify the hard currency exposure. And I believe management have done a very good concerted effort also to move the exposure from predominantly U.S. dollar exposure to euro and other currencies as well, and local currency as well, of course.

So we've managed to convert a lot of the exposure to euros. And that has partially offset some of the negative impact of the U.S. dollar to the lira devaluation. So we've seen the euro against the lira appreciating, so the lira appreciating against the euro from the 3.10 level to around 2.80, 2.83 levels as well. And that was partially offset. So there is that element.

To your first comment, natural hedge, in our industry and in Turkey, the ability to pass on the inflation impact and the FX impact is not low. Of course, there could be some time lag. But, we have witnessed in many cases that operators are able to pass on some of that to the tariffs and through tariffing.

This is of course, that could be a few months' lag. But this is very common in utilities and in telecom prices as well.

Hedging, we have a very active team trying to capture any opportunities to hedge our exposure. And we have done a little bit of hedging on that front. We are very actively looking at opportunities that would allow us to not only convert or eliminate the exposure to foreign currency, but to make sure that we do that with a very good and lucrative interest cost as well, so the borrowing cost.

And the team has done a very good job in a few areas, and will continue to do that to try to optimize this.

Last question is on the lira. I believe that this period, this quarter and the next quarter are probably very high uncertainty periods for the market, because, as you know we are heading to elections coming in early June. And we do believe that similar to previous years pre-and post-elections, we do believe that the currency will correct and, go back to a more natural level because the fundamentals in the economy are still very strong. But sometimes uncertainty causes a weakness in the currency.

(Dmitri Tekona): Yes, thank you very much for your answers.

Operator: And there are no further questions at this time. Please continue.

Onur Oz: I would like to thank everyone for joining our call today and I would like to remind you, if you have any follow-up questions, please get in touch with the Investor Relations team. Thank you, and have a great rest of your day.

Rami Aslan: Thank you.

Operator: That concludes the meeting today. Thank you for participating. You may disconnect.

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