

TURK TELEKOMUNIKASYON

Moderator: Gozde Cullas
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Operator: This is Conference # 960275

Operator: Good afternoon, ladies and gentlemen. Thank you for standing by and welcome to the Turk Telekom Q3 2016 Results Conference Call.

At this time, all participants are in a listen-only mode. There will be a presentation followed by question-and-answer session, at which time, if you wish to ask a question, you will need to press “star,” “one” on your telephone keypad. I must advise you the conference is recorded today, Thursday, the 20th of October, 2016.

And I would now like to hand over to your first speaker today, Ms. Gozde Cullas, Director. Please go ahead.

Gozde Cullas: Hello, everyone. Welcome to our 2016 third quarter results call. Today's speakers are our CEO, Paul Doany, and our CFO, Murat Kirkgoz. Before we start, I would like to remind you kindly to review our notice in the second page of the presentation.

I will now hand over the call to Paul Doany.

Paul Doany: Ladies and gentlemen, I'm very excited being back in Turk Telekom with my friends and colleagues. The management team had delivered outstanding results in the last nine months and I will proudly present their success to you. Welcome to all of you who have joined the call and great to be back with you. I'm sure that my old friends are among you and I'll be meeting new ones soon.

Now to make this call efficient, we'd like to go very quickly through this presentation in order to allow more time for questions. Management is here with me of course and they will be handling any detailed questions you would have.

Before the presentation, I would like to say a few words on developments regarding our shareholder, Oger Telecom. Now we have publicly announced that we do not expect developments at OTAS level -- which is the acquisition vehicle level -- to impact our daily operations and commitments. We have an independent credit profile and no dependency on OTAS in our day-to-day operations. We also confirm that we do not have any guarantees in favor of our shareholders.

Now to put it bluntly, I have been asked by the government and Oger Telecom to return to the Company specifically to provide stability in this period and to ensure that the OTAS shareholder level developments are totally decoupled Turk Telekom's core operations.

I'm on slide 3. Now we're going over the operational performance and subscriber additions. This year, the Company delivered excellent subscriber growth and of course, this is the result of the investments from the integration projects, in particularly mobile parts. After a very strong first half, the Company continued this in the third quarter -- 280,000 net additions and the number of subscribers reaching 38.5 million.

As you know, in the Broadband segment, the high seasons are the third quarters due to back-to-school period. However, the Eid's holiday shifted the timing and this affected net addition performance. Despite this impact, the Company recorded the best third quarter net gains since 2008 and added 119,000 subscribers in the third quarter. Over the last 12 months, net adds were 656,000 -- the highest annual net adds since 2009.

In the Home TV segment, the Company added almost a third of the subscriber base in the last nine months – now, 590,000 Home TV subscribers and 1.9 million total TV subscribers.

We're obviously doing well in the Mobile business -- you can see from the numbers -- and this is coming from improvements in the perception (with a few) -- obviously brand of Turk Telekom -- improvement in the network quality and obviously the value of fiber on delivery of those speeds. With 342,000 net adds in the third quarter, 1.1 million year-to-date, we increased the number of mobile subscribers by 8% year-on-year, reaching now 18.4 million.

I'm on slide 4. This shows a summary of the Q3 financial performance, comparing it with the previous periods. In terms of revenue, TL4.1 billion revenue corresponding to 11% growth compared to last year's same period. Top line growth, excluding non-operation construction adjustments -- which is also the base of our revenue guidance -- 9%. EBITDA, TL1.5 billion on the third quarter -- up 14% year-on-year. And this is the highest quarterly EBITDA in the history of the Company, which is remarkable, frankly.

Our margin improved compared to last year and the first two years. In the first half of the year, some OpEx items were above the normalized levels, mostly due to the unified brand and LTE launch. So these are like one-offs and, voluntary of course, employee separation program which have been reported earlier.

These were critical investment support -- the future growth of the Company, and EBITDA growth is now accelerated. Turkish lira depreciation against hard currencies and higher effective tax rate had a negative impact on the bottom line. In the final section, Murat will be going over those details.

On slide 5, we have a brief update of our main business. More than two-thirds of the total revenues come from high growth areas. While the revenue share of Mobile business is increasing, the Company managed EBITDA levels very well and supported the OpEx initiatives.

We plan to strengthen and accelerate efficiency plans to deliver better value in this direction. We look also towards the high growth parts of the business, which are also increasing year-on-year. And in addition to that, of course the broadband being 14%, which are mostly coming from successful upsells.

Double-digit year-on-year revenue growth in the Mobile business is also a high level and we're seeing here 15% year-on-year despite negative impacts from roaming. And on the corporate data -- 13%, which obviously is a very high level and we intend to maintain these over the upcoming period with the guidance we will update you on later on.

On the Fixed Voice segment as well, the Company managed to contain the decline rates. For third quarter the revenue was only 8% down year-on-year, which is an improvement from previous performance.

On slide 6, we show the diversification of the product base. Competitors of course are highly concentrated in what they are -- it's mostly mobile and a bit of non-mobile, let's call it. And this picture indicates clearly in the market the presence of one clearly integrated telco player.

Now adding 1.1 million net subscribers year-to-date compared to almost nil in the same period last year. Apart from the strong performance in the subscriber adds and diversification achieved by management in particular, we're very happy with the robust ARPU contributions across all these businesses of the Company.

On slide 7, we're looking at the fixed broadband performance. This also indicates the management's success over the last three quarters. This is performance like 429,000 year-to-date net additions, broadband subscribers now at 8.4 million. In the third quarter, 90% of broadband net adds out of 119,000 are on the fiber side. Increasing the number of subscribers in the broadband business, the Company also succeeded in increasing the ARPU by 5.3%. So capacity and speed upsells are among the main drivers of the ARPU growth and pricing adjustments have supported this growth.

The third quarter, on the back of strong subscriber and ARPU growth, we recorded highest year-on-year broadband revenue growth after 2011.

On slide 8, as mentioned in the last slide, the broadband story of the Company is based on generating demand, and demand generation coming from capacity and speeds, and this basically means upselling. 45% of subscribers prefer 50

GB fair usage tariff, which was only 30% just a year ago. And the share of fiber packages reached 26% in the third quarter.

The main upsell driver here obviously is data and that of course needs to blend into mobile data as well, which is another interesting growth development in the market overall of the Company here.

So on slide 9, we look at fixed network and fiber network. 223,000 kilometers, which accounts for more than 80% of the total fiber infrastructure in the country. In terms of homespass, we added 300 thousand homepass in the third quarter, reaching 13.1 billion in total. That number of course is an important metric to look as to where the growth may come from in that area. And having the largest fiber footprint, obviously with 60% household coverage and 70% of the LTE base stations to provide for obviously wireless data connectivity shows the capacity for forward growth.

The Company is well positioned obviously to harmonize these initiatives between basically fiber and wireless LTE networks, and obviously meeting rising expectations from customers as their need for increased capacity obviously arises and as well obviously getting used to now higher speeds.

So this allows, again, wholesale revenues of the Company to be increased from the fixed line side, which of course we are now improving in relation to our competitors to be able to sell, for example, broadband and also to feed into their network, such as fiber to the station for their data needs to our base station or any node in their network.

On 10th slide, we cover mobile performance. The Company continue to build up scale in the third quarter by adding 342,000 subscribers, carrying the year-to-date mobile net adds to 1.1 million, and the total mobile subscribers to 18.4 million, increasing the ARPU 5.6% year-on-year despite negative impact declines from roaming revenues as mentioned earlier, also free minutes as well special data offerings in the month of July.

Clearly, the Company is benefiting from the concrete actions taken since 12 months ago and new spectrum, including 900 megahertz and integration under a single brand, the synergistic offers that are given, most of which are actually

cross-sells more than binding types of bundles, and of course the LTE service launch and these would be the key success factors that led to this performance.

Market rationalization started in the second quarter extended into the third. Churn rate in the third quarter decreased to 7% from 8% and that of course we have now improving network quality and customer service in that regard with increased coverage and quality of coverage, which means capacity.

To underscore the improved quality, just launched a new mobile initiative, in this campaign subscribers will try mobile service, can withdraw without penalty at the end of the three months. This is a very effective way of allowing customers to have a taste of mobile data without the obligation to remain, and I think this initiative is showing some very promising result already and we will continue in that direction.

On slide 11, a notable highlight is the data growth and the LTE service launch obviously has accelerated these trends. The average monthly data consumption of Smartphone users has risen to 2.3 GB and data upsells of course are increasing. Data revenues increased by 31% year-on-year. Share of pure data revenue is now 34%, which was 30% a year ago.

In terms of Smartphone penetration, the most important driver of this data, the Company is still above its nearest competitor in that regard. In the third quarter, the Smartphone penetration hit 73%, 48% of Smartphone users are on LTE compatible devices, and the LTE subscribers' average monthly data usage is at 3.5 GB versus the average of 2.3 GB, which is obviously far higher. And this again is a promising direction in relation to customers now beginning to get used to having better quality data and obviously using it more and obviously we can also deliver that at a lower cost than we could with earlier generation technology.

An important component of the integrated offer is TV performance on slide 12. While investing in content in the third quarter, the Company continued to increase home TV subscriber base, adding 46,000 home TV subscribers. Year-to-date home TV net adds are 206,000 bringing the total subscriber numbers to 590,000.

Home TV ARPU remained strong at TL18.7 in the third quarter. As to the Tivibu Go package subscribers are included, and this number would then give an overall number of 1.9 million. This is a very promising and important number that we intend to build on going forward we will be giving guidance on that in the next three months to six months.

TV is relatively new business for the Company. We are all very pleased with this progress so far. The UEFA Europe League and Champions League matches had also a contribution on the quality of the content that the Company is providing and introduced an element of -- a taste of, let's call it, of premium sports. So peak season on sports content starts in the fourth quarter, we forecast to increase both sales and ARPA within the quarter.

On slide 13, Fixed Voice is indicated. It's -- obviously this is a business with low marginal cost, so basically it's one we are trying to retain, but obviously on general decline. The management has focused on high-growth business segments and they've managed very well. This shift in those segments multiplies synergy offers and third-party benefits, design tariff structure helped that transition, accordingly revenue decline has decelerated, and we will be maintaining those efforts where we can.

Over the past six quarters, the number of total access lines remained at 12.9 and the ARPU has remained stable at 23.3. I think overall, this is a good result, we will be looking also at other ways of strengthening this and we will be sharing those with you in the next three to six months.

I'm on slide 14, Corporate Data. The Company grew at double-digit in the third quarter, Corporate Data revenues reached TL306 million with 13% year-on-year increase. ,. IPVPN continued contributing factor for that growth.

And at this point, I'd like to hand over to Murat to take over the financial results. Thank you.

Murat Kirkgoz: Thank you, Paul. Good afternoon, everyone. I am on slide 16 and I will talk about revenue and EBITDA performance here. Our revenues grew at double-digit of 11% year-on-year. Revenues excluding the construction adjustment

surged by a 9% year-on-year on the back of solid performance in Mobile, Broadband and Corporate Data, moving from TL3.6 billion to TL3.9 billion.

We increased our Mobile revenues by 15% year-on-year, driven by both customer and ARPU take up. The Fixed Voice revenue decline was limited at 8% and with a diminishing rate in overall revenues to 17%. Broadband revenue growth accelerated with a 14% jump versus prior year, and this is the highest growth since 2011. The non-service revenue component increase slowed down as we shift more of our device business to “intermediary collection model” which improves margins and working capital requirements to this area.

And our guidance for revenue growth is 7% to 9% and we are very confident that the revenue growth for the year will be around the high-end of our guidance.

Now at the bottom chart, you see the EBITDA evolution. Our EBITDA leapt 14% year-on-year to TL1.45 billion. And our EBITDA margin reached 35.3%, up by 1 percentage point year-on-year and 1.7 percentage point versus previous quarter. Adjusted for non-operational construction revenues and expenses, our adjusted EBITDA margin 36.3%, 1.5 percentage point higher versus the last year third quarter.

So looking into the components, the operational revenue take up contribute about TL250 million after deducting the variable costs increase. In third quarter, our commercial expenses growth normalized from its peaks in the first half and stabilized around 6% of our revenues. As you would recall, we had major initiatives such as brand unification and LTE launch which intensified our commercial activity in the first half.

Moving to personnel cost, which increased 9% year-on-year, and this is broadly in line with the inflation figures. In this quarter, absolute EBITDA improvement was TL183 million. This exceeded the change in depreciation and amortization line of TL119 million by TL64 million. Therefore in result our Q3 EBIT increased by 10% to TL733 million. The unrealized net loss

negatively affected net income, we recorded about TL9 million of net income in the third quarter.

On page 16, I would like to highlight the changes on our unlevered free cash flow during the last 12 months. Our rolling 12 months free cash flow excluding license payments slightly declined by 8%. And looking into drivers, EBITDA supported by TL300 million compared to last year of the same year. Excluding license, our free cash CapEx was TL662 million higher, mainly due to the accelerated Mobile investments.

The working capital inflow was TL296 million as we start recovering the VAT of our license payment. We paid TL96 million higher tax as net income was higher than the last year. As a result of all these, our last 12 months underlying free cash flow was about TL2 billion, which is broadly sufficient to close our cash flows for the license payments.

On slide 18, I will walk you through our debt profile. From second quarter to third, our net debt decreased around TL100 million to TL10.5 billion. Strong cash flows in the quarter partially cannibalized by unrealized FX loss. The leverage eased from 1.99 in previous quarter to 1.92 at the end of September.

As part of risk management initiatives, we had balanced the currency mix of our liabilities through long term cross currency swaps. And on the top right graph, this is shown as the currency breakdown of our gross debt position post these transactions, the share of TL in debt remains at 18% and Euro at 51% and Dollar is remaining 30%.

We sustain, at the end of the month, a strong liquidity, around TL3.2 billion cash, of which 51% is in the hard currency. The average maturity of the debt remains stable at 3.4 years. So this covers our presentation.

Gozde Cullas: We can take the questions now. Thank you.

Operator: Thank you, as a reminder if you would like to ask a question please press star one on your telephone and wait for your name to be announced. If you'd like to cancel your request press the hash key. Your first question comes from Roman Arbuzov.

Roman Arbuzov: Good Afternoon. Thank you very much for taking my question. Just one on EBITDA guidance. I believe you've previously communicated that the EBITDA guidance now depends on you being able to execute certain real estate transactions. So I was just wondering if you have an update on that? And well, in fact whether you're still dependent on these transactions to be within the range you've communicated?

And then secondly, just on Mobile please, you mentioned the two factors that were tracking Mobile down in the quarter in terms of the free usage and roaming, but then do you expect Mobile to pick up already from Q3 and when and maybe how much -- what would you expect basically from 4G momentum in terms of monetization? So any commentary here, that would be very helpful. Thank you.

Murat Kırkgöz: So I'll take the question with EBITDA. We are confident with our EBITDA guidance. And yes, the asset disposals are the guidance and we expect asset sales that you mentioned to be completed in the last quarter of the year.

Hakan Dursun: So basically, there were two effects on the ARPU in Q3, as you have briefly mentioned, there was a fail coup attempt in the third quarter, as you know. So all operators, we gave free minutes and data to ensure communication at that time to all our subscriber base in July. This has of course, effect on our revenues and the ARPU performance. And there was also a decline in the number of foreign visitors to Turkey. So there was a negative impact on the roaming revenue, which also reflects into the ARPU performance.

But on the positive side, there is the rationalization in the markets, so all the tariffs almost in the market went through a price increase and we will definitely be seeing the reflections of these price actions and rationalization in the market in the coming quarters. So we are going to see an improvement in ARPU performance even further in the upcoming term.

And also as a result of the LTE investments, as you know, as of Q3, operator starts with upselling data packages instead of giving them free trials to let them taste and there will also be a positive effect of this upsells in the upcoming quarters.

Operator: Your next question is coming from Can Oztoprak.

Can Oztoprak: Hi, Can Oztoprak from Unlu & Co. Thank you for taking questions and welcome back, of course. I would like to ask two questions, please. I'm aware that it may be too early, but given your past 16 years with Turk Telekom and after having review with operations for the past month, do you see low hanging fruits to improve efficiency? I mean potential for more efficient OpEx management, perhaps next years and onwards?

And my second question is on football broadcasting rights. I would like to hear your opinion on the prospective for football broadcasting rights tenders and your positioning in the tender. Thank you.

Paul Doany: Thanks, Can. I'll take the second one first, in relation to the football rights. I think it's been announced by the Federation a high price expectation, which was made public in the range of \$600 million, I believe. And we also have heard that Turkcell has expressed serious interest in participating in this process. So it's not clear whether that would be for a single package or not.

So I think the key parameters here are whether it's a single package, obviously if it's a single package then, obviously this is a major undertaking. Also it involves a heavy burden on operational expertise and cost to manage the whole operation. Also that would require a satellite delivery platform.

So in the sense that we are a telco operator having at least the delivery platform from satellite obviously that means any customer anywhere, and also delivery across others, obviously, over the top or Tivibu structure we have also within our web TV service, which I think is a unique opportunity for us.

We see ourselves mostly interested either in some packages if that's how it works out, or with a single package, being part of how that single package license fee would wish then to sub package and sub-license on non-exclusive basis to the market. So we're looking at this thing opportunistically, it's not strategic for us that we think that this is a must-win at the level of a full package, but obviously we will be in the game and watching to see how that emerges.

I think that gives you sufficient guidance in relation to what we could be doing there.

In relation to -- the other question was about, obvious things that may have been seen over time, obviously, this is my fourth week in the Company. What basically I'm seeing here overall in the sector is that one is about rationalizing CapEx, with the opportunity of sharing as much as possible in the Mobile segment.

Obviously, we are all facing high cost in relation to CapEx and related network-related OpEx and that obviously has a big uncertainty with the 5G coming up at a certain point in the future. And we would be engaging with both operators to see what our opportunities -- I think looking at what Turkcell have established Tower Company, seems also to be an opportunity in relation to what they could be interested in talking to us about obviously, Vodafone as well.

So on the Mobile side, we see some opportunity there. And again, that as you know, we already have large sharing with Vodafone at the level of tower sites and we'd like to basically push in that direction. In relation to the strategy going forward, we would like to leverage the satellite investments the Company has made.

And we see also an opportunity -- I see an opportunity there that the management now has already started working on. But I'm also seeing this as an opportunity frankly for myself to go through the whole operation and I've started meeting all departments in groups of 20, and I think I've been around -- I've met now around 200 people, each one having five minutes each across the main departments that I needed to focus on. And that excludes C level and director level. If you add those, about 280. From that we'll come up with a list of around 30, 40 projects and now we put a stronger project management unit to basically oversee these projects. My target is to prioritize the 100 most important initiatives, including stopping things that are probably not worth continuing and focusing where the Company has the strength, most of these ideas are coming from the people working actually and that's basically how

we're approaching it. And that's what we relayed to our employees in my first letter to them. Thank you.

Can Oztoprak: You mentioned network sharing of -- infrastructure sharing for Mobile. Does that you will be willing to share your fiber infrastructure as well?

Paul Doany: Actually, as you know that we are a regulated entity on the fixed line side. And I have managed in this time that I've been here to meet with the regulator two times, and these are people, of course, they are new in their positions, so they aren't people that I know.

And I try to understand what is the outlook on this and the also important metric for a regulated company like ours is basically to have a fair basis of pricing that can be defined on basis of cost separation and a certain method of accounting such as CCA is what they're supposed to be following. And that is really what I'm focusing on at the moment. And that can involve in both example that access, which is very important to third parties. Right now, the price is high, that can come down.

If you're looking at port level, that price now is on paper below cost, we will be working on that. And the fiber costing now is actually technically above cost because of the way it is being calculated. So I'll be working with the regulator and taking initiative with the other parties in relation to the fixed as well.

Now we're already trying to also offer volume discounts to third party, I've looked at two opportunities in that area and we acted on that immediately and the regulator had been, in the past, reticent on allowing volume discount of these kinds. So I will be taking full control of these negotiations personally because this is an area of strength, that I can have and it allows me to take it -- escalate it to the Board and just make a decision move very fast.

So I believe in the period that I've been here, I can see that there is big room for win-win all the way. So we have room to grow in relation to the fixed and also we can share the mobile and these don't necessarily have to be coupled with each other.

But to be very precise in relation to fiber, when you say fiber, in fact the method of port transmission that will now be used as the regulator has announced October 3 I think it was, it was supposed to be October 1, it was just the Monday after and I believe there was a two-week period after that, we are into that period, they're going to be making an announcement in this regard, we will be switching in line with the regulators wishes.

I believe the operators are moving in that direction and we will then take it from there. So we are willing to move so long as the basis of this volume discounts and the pricings are actually within the regulated determination of cost separation and cost determinations are very critical for all sides actually, and we've made some good progress in these three weeks in that area.

Can Oztoprak: Thank you. Very good answers. Thank you.

Operator: Thank you. Your next question comes from the line of Herve Drouet.

Herve Drouet: Yes, good afternoon. Two question as well on my side. The first one is on promotion currently in the market on mobile for 4G LTE, from what I recall in April, all operators put different promotion, I was wondering on your side, do you still have promotion on in term of free usage or doubling of the data allowance? And do you see any change from your competitors on those promotion, are they being gradually phased out or are they remaining for the time being? So it's my first question.

And second question is regarding TV and TV subscribers. We see good numbers from Tivibu coming through, but if I looked at the total number of your TV subscribers quarter-on-quarter, it went slightly down. So it looks like your TV satellite subscribers, as well as potentially your previous TV over IP subscribers are churning out and it looks like hasn't been totally offset by the pickup of Tivibu. So I was wondering, is it just a seasonal effect, do you think or do you think these will resume in term of gross overall? Thank you.

Hakan Dursun: Thank you very much for the questions. Let me start with the first one about monetizing the LTE era. And nature of the -- in Q2 as of the launch of 4.5G

in Turkey, all the operators, provided the full capacity for free or extra gigabytes for free, but this is natural, this is how the business is done.

Because it's a new era which provides a lot of data, and in order to sell this data and monetize this data, first, you need to convince the customers to taste it and to try it and then to really feel that they need extra data so that you can monetize in the coming term.

So including Turk Telekom, also our competition did the same, and this was very natural. But at the same time, as of Q2, there was a rationalization in the market. So after we provided all these free units in the market, then the rationalization starts, especially towards the end of Q2, not only in terms of pricing, price is going up, but also the content of the packages came down.

So let's say, for TL19 operators were providing 3 gigabytes. Those 3 gigabytes became 1 gigabyte and on top that TL19 went up. So there was a rationalization in the prepaid market. And especially also this continued in the postpaid market, we also updated our postpaid prices at the beginning of Q4.

And not only this, but also instead of providing free units, operators started to upsell data packages to their existing customers as well so that the LTE can be monetized. And I think this is going in the right direction. So this is for the first question.

For the second question, actually on the TV side, we are continuing to grow our TV subscribers basically. I think what you are referring to is the Tivibu Go, we took an action to focus on the subscribers that are actively using the service, so that we can build that pace even further. And for the customers that are not actively using, we decided to terminate them. So this is where the difference is coming from.

But active subscriber numbers is going up significantly on all platforms, on OTT, on satellite and on IPTV and we are not going to stop our performance which even going to increase, but we are not looking at TV as TV stand-alone as you know. So TV supports our main businesses, we are not in TV for TV only. So you're going to see a joint support of the TV business to Broadband

business and also to Mobile business and we'll continue to focus on it. It's a great differentiator for us.

Paul Doany: Actually I can just add a few notes on this. Now Tivibu is a very strong brand in the market, which has been built up initially coming from the Web TV side and then coming from the IPTV side and now has also a DTH component. Now being a strong brand however, the content delivery over DTH is not exactly the same as it is over the broadband, meaning IPTV or over the Web TV. So the first step taken is to actually equalize these, especially with what is perceived to be quality content in the market.

And that also we believe is going to push forward DTH sales in fact we can grow other business on top of it. That is a direction that we have now agreed with management, we're moving in this direction to basically benefit from the investments made so far as opposed to trying to realize any spend on that investment. It's actually to utilize it where it can -- we can feed from that say, for things like mobile or broadband as we have seen so far mostly on the broadband side.

And the Web TV in itself is a very important segment for homes that have perhaps one main screen and other smaller screens and therefore equalizing the content, which is the first now we are taking, will mean that this segment will be very promising for us in the future. Thank you.

Herve Drouet: Thank you. That's very clear. Thank you.

Operator: Thank you. Your next question comes from the line of Ksenia Mishankina.

Ksenia Mishankina: Hi, this is Ksenia Mishankina from UBS. Thank you for the presentation. I have a couple of questions. Can you please tell us how much you have remaining to pay under your license and what is your CapEx guidance for 2017? Thank you.

Murat Kirkgoz: So we had made the first two installments and the VAT of the license on our back. And in October and in April 2017, October 2016 and April 2017 we have two additional instruments, which are like EUR245 million. For CapEx

guidance, you will need to wait for the year-end results and where we give the guidance as well.

Ksenia Mishankina: Thank you.

Operator: Thank you. Your next question comes from the line of Walid Bellaha.

Walid Bellaha: Hi, good afternoon. Thank you very much for your presentation. I just would like to confirm with you the current Company dividend policy and whether there was any plan in the future or whether it would be possible to change the dividend policy such as the Company that could pay more than what it records as net income?

Murat Kirkgoz: The Company pays the dividends, the payout is per CMB decisions and at the maximum of its net income. We don't have any plans. The management doesn't have any, the Company doesn't have any plans to change this policy.

Paul Doany: Any follow-on? That's the answer.

Walid Bellaha: No, thank you very much. That's helpful. Thanks.

Operator: Thank you. The next question comes from the line of Dalibor Vavruska.

Dalibor Vavruska: Good afternoon. Just two questions, if I may quickly. I don't know if you can give any guidance in terms of growth next year. It seems that maybe the economy is experiencing some headwinds, but obviously your growth has been quite good. So I just wondering if you can maybe either indicate some range or just talk about how you see the growth evolving given the economic and competitive situation?

And second, and apologies if you're already commenting us on these things, did I understand correctly that you're expecting some regulator announcement around the fiber and I'm just wondering what sort of options you are considering or what would be the ideal outcome for you on that front. Thank you.

Murat Kirkgoz: So let we get to the point on the revenue guidance. We have actually demonstrated a very solid Q3 growth and it's a continuation of the H1

performance. The next year guidance, we will be announcing it with our year-end results in 2017, early 2017.

Paul Doany: First of all look, let me just make a general statement about the regulator, general and specific to the market. Now, we all know for example that the regulator took what I consider personally anyway, I am speaking on this particular point as a personal opinion, to competitive measure on voice on Turkcell's voice, after which has now been released. This was for example very much a correct decision made by the regulator in favor of Turkcell because that punitive measure really has no meaning at this time and in fact it began to become unfair in that sense.

So one, we approached regulatory decisions, some are of course decisions that relate to principles, so those can be spoken about but other relate to obligations that have principles already set out, for example a basis for defining the cost, how you calculate out cost, and that can be ordered and measured and therefore that is the cost that should apply. Okay?

So there it's just a question, which I think you know we've made major progress in this short period with them in approaching the regulator in regards to say if you missed the regulator would like to have, for example, a port transmission approach, which is what they've already decided and they've been discussing this for a year and a half. We said, you know, there's no point in debating this any further, if that's your decision, then let's work on that basis and proceed. That's the approach we are taking.

So when the regulator makes a decision what we would like to do, or at least what I would like to do is not to keep on extending it, which leads to further uncertainty. Accept that and move on, in the end that he's working within his authority limits to do so. Obviously, when a regulator goes beyond their authority, then people seek legal remedy in relation to what we have done in the past as well. And that's the approach that we would be taking.

In relation to fiber or anything in fact even duct access, everything, we had very healthy discussions, we agreed the basis that they would like to proceed. And the only thing that I cannot move on is the determination of what is the

separation, meaning what goes into the cost calculation, a cost separation and the other one how we measure that cost, those very clear and measurable and doesn't leave room for opinion. You see that's the approach that we are taking.

Dalibor Vavruska: Okay. That's very clear. Thank you.

Operator: Thank you. Your next question comes from the line of Ivan Kim.

Ivan Kim: Hi, yes, good Afternoon. Two questions from my side. You mentioned that there are no cross default clauses with Otas that. But can you please let us whether the stake in Turk Telekom is pledged by Otas or what's the arrangement there? Thank you.

Murat Kirkgoz: Sorry, can you repeat last part of your question?

Paul Doany: Can you repeat the question let him hear you say it again, sir.

Ivan Kim: Yes, of course. The question is simple whether the stake in Turk Telekom is pledged by your shareholder?

Murat Kirkgoz: Well, we don't have information on the parent level debt loan agreement terms, but we are pretty sure on the terms of our loan agreements signed by Turk Telekom. So the clause that they have announced public was referring to the Turk Telekom agreement signed with its lenders.

Ivan Kim: Okay. Thank you.

Operator: And your next question comes from the line of Vyacheslav Degtyarev

Vyacheslav Degtyarev: Yes, hello. Thank you much for the presentation. Quick question, how should we look at effective income tax rate going forward? It seems like your effective income tax rate is pretty high this year. So how do you think it will evolve going forward in 2017, and when will it normalize? Thank you.

Murat Kirkgoz: So thank you for this question. So the tax rate so far entities in Turkey paid on a standalone basis. So the companies that are in a consolidated financials

making loss cannot enjoy deferred tax asset unless you see a clear recovery of those assets. So we are -- our Q4 result deferred tax asset is period for our losses in subsidies if we're making loss, so we will be checking some figures on those and we will be reflecting those figures onto our financials.

But in practice, the reason of the effective high tax rate is due to the loss-making and profit making entities and the losses cannot be transferred between that companies. So we see for a reasonable future that the mobile business units will carry on with these losses due to the heavy license and new investments that we have made that builds up on to the amortization which has partially covered with EBITDA and revenue growth and this situation continue for a while in high effective tax rate.

Vyacheslav Degtyarev: Okay. Thank you.

Operator: Thank you. Your next question comes from the line of Walid Bellaha.

Walid Bellaha: Hi, good afternoon, again. Just a follow-up question on my side regarding the fiber. So if I understand well, if your approach based on cost is validated by the regulator, would you expect more competition on the fiber-to-home in Turkey, whether it's price or content, and whether it is visible to see some possible loss of customer related to this new competition if there is one?

Paul Doany: Actually these movements that are expected going forward are mostly relating to an attempt to achieve broadband growth overall in the market. Now, to do this, one approach for example, and this is a proposal that the Company made for example, would be to provide for some positive discrimination in areas that have already low penetration.

I mean, this was the logic that the Company used to use in the past and it's in fact being used now because that actually helps the people who would like to grow in areas where perhaps their affordability levels are less than other areas and you wouldn't get the growth any other way. So this is a positive discrimination in favor of, for example, an area, which is of lower income than others, which basically means, outside main cities and so on.

For example, like this is one approach, therefore it will have an impact on the current base. The other approach is that having the growth requiring the third-party, the competition to actually make more investments. So this is more of a facilities based competition.

The level of investment that the competitor would have to make on an incremental basis to get a customer is very, very high because the cost of doing things in fixed are generally high unless they're very heavily concentrated. This is why competition tends to focus their facilities based into a specific geography and then they try to limit access of other parties into a development area, let's say, which has a large number of residences.

And that's how people compete here basically. The early mover advantage, make some investment, tries to recuperate it and block the others from it. That's mostly how they do it.

In relation to utilizing the infrastructure of Turk Telekom, the most effective way for the competition to actually benefit from what the Company has to provide, in fact, would be to do a form of utilizing any unbundling that we are providing which is regulated, the price of which is regulated because that's the lowest cost to them. So their approach is do it yourself is cheaper or do it through us if it is not, you see? That's what they do. That's what they should do.

And with that approach the market will grow. It should not be at the expense of cannibalizing us because we are reasonably at the kind of like -- a reasonable level in relation to the access cost of doing things. Meaning reaching the customers like last mile and remember, the Company is actually sharing fiber in that sense.

This is not a country where the dominant fixed operator is not -- let me use the old language, wholesaling-over-fiber. Okay? So when we roll out fiber, the other parties are welcome to actually use that from us as well, which is a little bit different from other markets, that's why the language of fiber holiday doesn't really apply here in Turkey in the same sense of meaning.

So if you work it off from a competitor's perspective, using us would be the -- they use us in order to be in the house and then send something else. So Vodafone can do it to sell mobile, Turkcell can do it to sell mobile, now they have TV, et cetera. Each operator, also D-Smart uses us when they sell their satellite services.

And in fact this is mostly driven by the pricing that they put, the most aggressive pricing with unlimited offerings, for example initially we're starting from D-Smart and it went on to the others, you see. And that sets the benchmark. That number can't really drop that much, in fact because that is roughly around the cost.

Now, in terms of regulated items where we have an access deficit which is the -- what is material to your question, that is where we are negotiating with the regulators that we cannot have an active deficit and that is where we need to make some remedy. These are not large, but we are working on those because on those we cannot compromise, you see. So that's where we give and take and we lead ultimately to a point where the market grows and where we can artificially make it grow that is where we can do with below-cost or at a lower definition of cost, than what we say is we say them let's proceed with some positive discrimination.

And the last point I can also mention to you that when we are doing these costs, there is also the concession agreement periods because what that does is that it creates an artificial increase in that price, they indicated that and now what we were working on with them, which I think will be very favorable to the market is that we don't have that artificial impact, which is starting to impact us now because now we divide by 10 and our filing now goes on to nine.

This by the way hurts the competition, because this is artificial, but on our books this is how it's calculated. So in order to go for pro-competition, which is just for your answer, we are pro- competition, we want to promote growth in the broadband segments. The basis of how that costing is done has to be defined, it cannot be negotiated, it has to be based on a determination that is not opinion based and that is where we are at the moment.

The regulator actually likes this approach because we have followed what they wish to do and how they say they want support and they want transmission. Okay? If you ask my opinion for example, I wouldn't do it that way but instead of wasting time, they prefer to have certainty of what he wants. And we work around numbers. So I don't believe that the risk of cannibalization is high. I believe that the possibility of growing the market is high and this incentivizes the other people, for example, to use our duct where they can.

We can work with that metric to grow their access to the home by paying us what is that price and growing. I mean, our wholesale revenue, growing my wholesale revenue is a very important target for me, actually. So I look at the total revenue of this Company as opposed to how much of it is retail, how much of it non-retail.

Walid Bellaha: Okay. That's clear. Thank you very much.

Operator: We have no further questions at this time, if you wish to continue.

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

Operator: Thank you. Ladies and gentlemen, that does conclude your conference for today. Thank you all for participating and you may now disconnect.

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