Türk Telekom Second Quarter 2018 Financial Results Conference Call

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***Conductors*:**

Dr. Paul Doany, CEO

Kaan Aktan, CFO

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Ms. Gozde Cullas, Head of Investor Relations

OPERATOR: Ladies and Gentlemen, thank you for standing by. I am Gelly your Chorus Call operator.

Welcome and thank you for joining the Türk Telekom Conference Call for Q2 2018 Financial and Operational Results.

At this time, I would like to turn the conference over to Ms. Gozde Cullas, Head of Investor Relations, Dr. Paul Doany, CEO and Kaan Aktan, CFO of Türk Telekom

Lady and Gentlemen you may now proceed.

CULLAS G: Hello, welcome to 2018 Second Quarter Results Conference Call. Today's speakers are our CEO, Dr. Paul Doany and our CFO, Kaan Aktan. Before we start, I kindly remind you to review the notice on our earnings presentation. I will now hand over the call to Paul Doany. Thank you.

DOANY P: Thank you. Good afternoon and welcome to the call. I'd like to start with an update on our strategic priorities and how it's executed in the second quarter. I'll be spending a bit of time on this chart, but covering the direction we're taking. In relation to the commercial side of customer growth, up-sell, cross-sell opportunities, the broadband penetration increase, strategic to us, Home Pay TV penetration is very strategic; in addition to IT and new digital projects where we are focused mostly on commercial and monetization models.

But I would like to spend more time on this chart talking over the notion of infrastructure utilization through models of infrastructure leasing and models of you may call them sharing and what we call a facilities based competition model. This means operators on fixed line, who would like to roll out their own facilities to compete with Telekom, as opposed to service based competition, which are basically retail and you know conventional resale models where we make the bulk of the investments, and they are basically reselling on top of that.

So we have signed a landmark operation protocol as a sector-wide with Turkcell, Vodafone, Türksat and Telkoder. Telkoder have the smaller players under them. This relates to existing infrastructure on long-term leasing commitments, minimum of 5 years, preferential for 10 years. So it's a time commitment as opposed to a volume commitment. Therefore, the size is irrelevant.

In cases where new infrastructure is necessary and extending the existing network that we have to cover areas that the other operators would like to cover, so it involves use of some existing, but requiring additional rollouts outside where we currently exist, any incremental CAPEX requirements under this will be financed by the requesting operator. The underlying infrastructure that is rolled out from that will remain under the asset book value of Türk Telekom for preserving network integrity. They will have a right of use of that facility because, obviously, they have contributed to its rollout; they paid for it. And they would be leasing the remaining parts, which will allow them, therefore, to provide service at a lower cost than it would otherwise and maximizing use of what we have. And obviously, in return for this, we will, of course, have access to those and then these operators will be able to provide, more or less, call it, cost-effective facilities-based competition.

The terms are commercial. It means they're not regulated. They are nondiscriminatory. It means all operators will have the same terms. We have the first pilot project now in Ankara, in Sincan. And this one we've agreed it with Vodafone. I have to say that this is the second pilot. The second pilot that they brought to us in Istanbul didn't quite work because, let me say, what they wanted in relation to rollout, we only had around 20% of what they needed. In this location in Ankara, we have around half of what they need. So obviously, it becomes more viable.

So I can say now that the second pilot, we have an agreement in principle on this, so this is a major step forward. And of course, Vodafone are trying to plug the gap between them and the Superonline, because they also have an asymmetric agreement between each other on sharing what they both have. So therefore, in this catch-up mode, Vodafone will be able to provide to Superonline access on this facility as well. So I think that this is an interesting development in the sense that we have a model now that is agreed in principle.

This is very important to us as well, in the sense that we are able, therefore, to live with no burden on our CAPEX budgets for what any third-party would want from us. If they want something from us, they would have to provide CAPEX contribution as opposed to us having the burden of that cost carry out. And of course, the advantage to them is that they will be able to roll out that facility at a lower cost, with some leasing charges to us. If it doesn't work, they would then roll out themselves a 100%.

Now in service competition model, of course, the commitments go up to 2 years on retail fixed broadband. This would be a minimum 5, and it works much better around the 10 years. And that's, actually, why this also will be an interesting development for the market going in the future, especially with 5G coming. And I believe that this is the way the sector, at least in this market, would be able to operate.

Now on the mobile side, we have done Zonguldak, totally completed. That took some time to do this thing. And what we learned from that is that for that active sharing, we will be now having a dedicated project team from both… from all operators involved in it. Because the biggest challenge there is actually aligning the grids of the network, and then of course, handling the site rentals, which frankly is the only complex part. So we found a solution relating to that.

Now in relation to passive mobile sharing, as you know, we have a total of 4,000 locations between us and Vodafone. We'll be extending this to Turkcell also on a cost-sharing basis. And we will be also offering to extend to Turkcell a leasing model for their mobile, similar to what I just outlined on the fixed, which means that, in the high density areas where the Zonguldak model doesn't work, that only works in the low population density areas, we will be able to extend this model of a CAPEX contribution coming from our side to

Turkcell, which will give us the right-of-use of that facility with our spectrum on it rather than sharing, because obviously, they have a larger network than we do. So they don't gain by sharing. We would have to pay for it. So this will be a pay model. So this, we'll call it, RAN Active Leasing. To the extent, of course, they would like to share; we're also open to that. And we will be starting discussions with them in this regard this week. And the team are engaged for next week on a model for that.

Vodafone will be open to this model, too. Where the 3 of us can do passive sharing all together, we will be also open to that. That has proven to be a bit complicated when all 3 are trying to make an understanding of that kind. So we will see how that goes. So I can say that we have made great progress in this regards.

Now on our strategic imperative of broadband penetration. You see here that the entry-level broadband has worked very well for us in relation to increasing the penetration. In the second quarter, around 50% of our total broadband net adds have come from this campaign.

And also, we have the Internet Festivali, which actually allows us in the areas of 30% broadband penetration, to provide positive discrimination. And there, things are also progressing quite well as Internet penetration is one of our strategic goals.

Next is on digital products and services. Now obviously, we have our TV platform, Tivibu Go. We have Muud our music.

We have our digital reading platform or magazine. Now these products are products that we engage with our existing customer base, in order, of course, to lower churn and do the normal things.

Let me mention now the keyboard, national keyboard project which actually is an example of a digital project that is a go-to-market, total market, regardless whether these are Turkcell or Vodafone customers. So this is not directed at Telekom customers.

We have now reached a total download of 6.6 million on Tambu. Our closest competitor in this market is Microsoft's SwiftKey, which is a company that Microsoft acquired, the Digital Keyboard who have a third of our base. Our active user base is 20%, which is excellent for this kind of product. So far we've had 10 billion on the keyboard; 10 billion access. On the content Emoji, 140 million have been shared. So these are interesting statistics on the Tambu development there. What we will be doing on Tambu now, going forward, in the next period, is to introduce some vertical uses of it, especially in the e-commerce space. We will be integrating a search feature onto it by using third-party products without any incremental cost to us. This will be more on a revenue share as opposed to a cost share basis. So I am very excited about this approach and reaching to these numbers.

And now, I would like to go on to Slide 4, on the net subscriber adds. Now, you can see here that the total Türk Telekom subscriber base of 43.5 million, growth of 10% year-on-year, the highest growth rate since 2008. Net additions in the second quarter is 937,000. In Broadband, we reached 10.3 million subscribers, Broadband net additions in the last 12 months, 1.2 million. Mobile 293,000 net adds. Last 12 months net additions in mobile increased 1.5 million.

Our Home TV net additions increased, very important for us, 175,000. We are now in a stronger #2 position, which we expand, we plan to expand further. We are on track also on our wireless home strategy which basically means extending this, let's call it, satellite entertainment access with more data access, using mobile rather than fixed, for homes that prefer to remain wireless. Fixed Voice, 60,000 new additions in the quarter.

Now financial performance on Slide 5. Revenue growth, excluding IFRIC12, 10.5% year-over-year. EBITDA margin 40% in the second quarter. Excluding IFRS 15 impact, margin was quite strong at 37%, supported by efficiency initiatives and also our segmented approach in the device business.

Fixed Broadband on Slide 6, penetration growth in the country now has reached 52%. We've always indicated that, that's a strategic thing to go into the 70% range. Total broadband subscribers increased to 10.3 million with an increase 13% year-on-year. This is driven by our Cheap Internet penetration campaign.

And meanwhile, our regional campaign for the districts that have below broadband penetration is now continuing. And we believe we will do better on a seasonal basis in the next quarter, next two quarters.

We had a slight decline in our broadband ARPU, and Kaan will explain this in his part. This relates to suspension fees, which is not a problem. And the effect of the Internet Bizden, the cheap internet, in fact, is not a factor in this. And that also will be explained in Kaan's section.

The average data usage of fixed broadband, as you know, in Turkey, is 87 gigabytes. So the cheap Internet is just offering up to 20. And therefore, we've seen already that 30% of the customers who took up the cheap internet, in fact, have up-sold or have upgraded their offering. So the strategy is working, and the execution of the team is excellent in that regard.

Another initiative is our partnerships with electricity companies. We have now, agreements with 5 companies, covering 20 cities. This is a strategic vertical for us, even though at the moment, they are selling broadband, and obviously, the uptake on that is taking a bit of time. But the team is working. We will be also working with them on energy saving and expanding also into their new energy business models. We will have more to say about that in time. But this is one of our strategic verticals and we've done quite well on that regard.

Fiber subscriber base continue to grow, now at 3.2 million, net additions 190,000. We implemented 9% increase on our uncommitted fixed broadband subscribers in July, with our focus on value creation and our target to reflect inflation to our prices in the most optimal way.

Next slide, up-selling dynamics in the Fixed Broadband, share of subscribers who prefer higher than 100 giga by capacity has now doubled to 14%.

On the next slide, on Mobile Performance, we've added 293,000 new subscribers. Postpaid performance showed a remarkable improvement to 369,000 net additions in the second quarter. We now have 20.2 million mobile subscribers, with 57% postpaid ratio, up from 54% second quarter last year. We have started seeing inflationary price adjustments generally in the market. We also made some price increases ourselves. Our ARPU growth in mobile, 7% year-on-year. Mobile revenue growth accelerated to 11%. Service revenue growth was 15%.

Mobile Data, next slide, we increased our LTE coverage to 88% from 77% last year. LTE compatible Smartphone share 73%. Share of LTE users and this is 41%, and average data for LTE is up now to 5.7 gigabytes. So Mobile Data revenue has grown 21% year-on-year, representing 56% of Mobile Service revenues in the second quarter.

TV performance on the next slide, we added 335,000 new TV subscribers in the quarter, out of 175,000 for Home TV. Total number of Home TV subscribers increased to 1.5 million, reinforcing our #2 player position, as I indicated earlier.

This also creates a future up-sell opportunity for our Wireless Homes, which we intend to do through Wireless Broadband.

One recent initiative, we have just launched into the market is, what we call, a Mobile Wi-Fi at Home campaign. And with this campaign, customers are able to enjoy Data-only SIMs with 10 gigabyte and 20 gigabyte packages, which they can share in the home and just putting that into any old device they have. And that will be their movable Wi-Fi access point.

Tivibu, with its more than 200 TV channels and 6,000 plus video-on-demand, clips, music, documentary, etc., is one of our most important content, if you like, over that particular segment. As you know, that we are growing this into the free-to-air segment primarily. This is not designed to compete, obviously, with the #1 player that has premium everything. The #2 player is somewhat similar to what… to the type of content we have. So we see here a good opportunity for us to continue to grow the market in this.

But we have, of course, tried to increase some form of premium content. So we are investing in Basketball, where we have some advantage in this segment. We won the basketball content rights, so we are excited about that.

Now, to the next slide on Fixed Voice, at the end of the second quarter, the number of fixed voice subscribers increased 9.7 million combined with Naked DSL. The total number is 14.1 million. In the second quarter, we implemented a 9% price increase in our fixed voice tariffs to our uncommitted subscribers, along with the higher prices in contract renewals.

So that covers my part. I'd like to hand over now to my friend here, Kaan Aktan.

AKTAN K: Thank you, Paul. Good afternoon, everyone. We are now on Slide 13 to review Key Financials. In the second quarter, we delivered 10% year-on-year revenue growth. Excluding IFRIC revenues, growth was 10.5%, which is in line with our targets for the quarter and the performance is supported by all business segments.

In Broadband, revenue growth was driven by strong growth in subscriber base. We are now serving to 10.3 million customers, after 13.5% year-over-year growth in the customer base. We have a slight decline in ARPU in this segment, which is partly due to the base impact of the same quarter of last year.

Moreover, our penetration focused campaigns have around 2% impact on our ARPU, broadband ARPU. But this is surely delivering incremental revenues. These are strategic initiatives enabling us to reach into new homes, having future up-sell potential and also securing sustainable revenue streams.

New line, suspension fee regulations had around 1% impact on ARPU of the fixed broadband business. However, we expect the impact to ease in the coming quarters, since the restriction on such fees applies only to first-time suspensions.

In Mobile, total revenues grew by 11% year-on-year, driven both by subscriber and ARPU growth. Our consolidated Mobile service revenue growth, however, was around 14% year-on-year. The difference is partly attributable to lower commissions on device sales. As discussed in previous calls, we adopted a new segmented approach in our device business that led to lower non-service mobile revenues, but also enabled us to have a much better receivable management process. This is now clearly visible in our net debt expense accounts.

Our Corporate Data segment continued its growth, its revenue growth at double-digits. Additionally, decline rates in fixed voice revenue now sloped further down as we continued to grow subscribers. Yearly decline rate in this quarter were only 1%, which is compared to 8% in the same quarter of last year. International revenues increased 55% year-on-year. This is due to higher volume as well as depreciation in Turkish lira or appreciation in Euro.

On the OPEX front, year-over-year growth in personnel expense was 16%. Only in this quarter, we implemented inflationary adjustments to employee wages. Despite that, our expense growth, excluding one-off impacts was 8.4%. In the full year, everything included, we hope to stay in a single-digit growth for that expense line.

We continued with our Efficiency Programs. We are now transferring a portion of our outsourced services into inhouse, in order to enhance customer satisfaction, increase effectiveness and enable a reduction in combined expenses, with personnel and outsourced included. Our bad debt expense declined 27% year-on-year, as a result of enhanced receivable management process in device sales.

Network Technology and Tech Expenses, combined together, increased 21% year-on-year. The new calculation of frequency fees leads to an increase of around 40 million lira here in this combined expense line. Without this change, overall increase will come down to 16%. The main drivers here are revenue increase for tax line and depreciation of Turkish lira for technology-related expenses.

As you already know, we adopted new standards with IFRS 9 and 15 as of the beginning of 2018. We had 24% year-on-year decline in commercial expenses, where the impact of IFRS accounting is most visible.

Consolidated EBITDA in this quarter increased by 15% and reached to 2 billion lira. This comes with a margin of 39.8%. Before IFRS 15 impact, the margin is still at just 36.8%. This is 1.2 percentage points above the full year margin of last year. This is a material improvement for us, especially when it's combined with double-digit revenue growth. 13% increase in our Operating Profit year-on-year was also strong, and this is on the back of revenue growth as well as partly on IFRS impact.

CAPEX was 836 million lira compared to 544 million of last year. Excluding the capitalization of subscriber acquisition costs, which is IFRS 15, as you know, underlying CAPEX will be 689 million lira.

On Adjusted Net Income, when excluding the FX and hedging impacts, was 676 million lira in this quarter. And this is up by 7% year-on-year.

On the other end, the increase of Dollar/Euro basket versus Turkish lira was 12% in this quarter. And this is actually the main reason behind the net loss in this quarter, which is at the level of…slightly below 900 million lira.

We are now on Slide 14. We have 15 billion lira Net Debt at the end of the quarter, and now Net Debt-to-EBITDA ratio was just below 2 at 1.96 multiple. Our unlevered Free Cash flow was around 1 billion lira in the first half of the year, which is very, very significant improvement versus last year. Despite the improved cash flow, our Turkish lira-based net debt increased quarter-on-quarter, mostly due to depreciation of Turkish lira.

In order to reduce FX risks, we continue to hedge transactions during this quarter. We converted additional 45 million Euro loan to Turkish lira. Now all our $1 billion worth of Eurobonds, and additionally, 145 million Euro loan is converted to lira via cross-currency swaps.

Mark-to-market value of all those transactions, swap transactions, is recorded at 627 million lira, but the expected cash inflow on maturity is more than 1.1 billion. And out of this, 610 million will be received in… on June 2019, next year with the repayment of the Eurobonds. We started providing all such details as the current value and also the future cash flow impact of hedging constructing footnotes of our financial statements, so that we can provide a better view of FX's risk management activities in the company.

We continue to use cash as a tool to manage total FX exposure. The share of FX based cash flow is 69% at the end of the quarter, and we target to increase it further when we approach to the year-end. In net, our hedge ratio was 43% of the gross debt which was only… as a reminder, which was only 13% when we started the year back in 2017. We plan to increase this ratio up to around 50-60% before the end of this year.

We have a strong, very strong liquidity position. We have now 4.3 billion lira equivalent of cash. We also anticipate a strong cash flow generation over the next 18 months. This will enable us to service the debt without additional, external long-term funding. And regardless of this, we will continue with our prudent approach in the area of liquidity management.

We are now evaluating a potential Eurobond issue. But this will be mostly an opportunistic attempt and will be decided based on the developments in the bond market and overall economy.

So our current leverage level, with those figures, is lower than most of the major global telcos. And you will see a chart on this slide. Moreover, with strong cash flow we forecast our leverage to come down to 1.5 multiple in 1 to 3 years' time.

Regarding the outlook, strong first half gives us confidence that we will comfortably deliver the high end of our EBITDA guidance with some upside potential.

During this period, managing the inflation will be critical for us. In our segments we already carried some inflationary price adjustments.

Specifically, in Fixed Voice, we applied around 9% price increase to our uncommitted subscriber base. In Broadband, in January, we reflected the increase and in special communication tax to tariff prices. We implemented another 9% price increase for our uncommitted subscribers in July of this year. We also increased the prices of some distinct tariff components like line transfer fees.

In Mobile, the market was competitive in the second quarter. However, we started seeing some inflationary price adjustments towards the end of the quarter, especially. We also started increasing our tariff prices based on such developments. We will reassess our pricing going forward, based on inflation strength whenever necessary.

Now, I am handing over the call for the Q&A session.

CULLAS G: We can take the questions right now.

Q&A SESSION

OPERATOR: The first question is from Davids JP with JP Morgan. Please go ahead.

DAVIDS JP: Hi, there. This is JP Davids from JP Morgan. Thank you for the introductory remarks on the new infrastructure rental strategic initiatives. Maybe you could spend a little bit more time discussing some of the key benefits of this strategic initiative, specifically around what it would do to your regulatory risk outlook and also return on invested capital.
And then maybe balance that with what you see as the impact on competition in the market. When would you expect that, it could result in you know, in more competitive risks going forward? Thank you.

DOANY P: Thanks. Actually, this initiative is something that involves a CAPEX budget trigger. The main trigger for us, in fact, all operators, is that when a third party asks something of an incumbent fixed line operator, it should not be incumbent on me or forced on me that I should find the CAPEX for that. So that's like, if you like this one leg of the conventional approach, that the fixed operator makes all the investments and third parties provide you know, service based competition.

When they provide facilities based competition, obviously, they incur very high costs, and that is a more difficult thing to do for them in duplicating fixed line. I mean, mobile is a little bit, if you like, at least on the face of it, it looks a little bit easier. But I think I have the same problem with the mobile.

I don't want to duplicate mobile infrastructure either from my side. So this is a balanced approach. The balanced approach therefore, comes from what is their CAPEX budget for facilities' based competition. So let's say, they have a budget of x, 100 million lira, say.

Now how are they going to make that investment? If they were to make that investment themselves, then obviously they would go ahead and do it. Now, what I am trying to do is that to say that, let me test the model at which point would they accept what I am offering. What I am offering is that, if I have of what they need, let's say, around half in terms of ducts and what they need extra, I don't have any ducts in that location. If they were to make the investment, then they can go ahead and do it. But if they were to do it through me and give me that CAPEX budget on a right of use for the new parts, yes, they will be competing more with us, but we will also have access to that infrastructure. They will be investing less, and I welcome the fixed line, facilities based competition, because I prefer to have someone competing with me that is making investment, I am not just relying on service based competition. So I welcome facilities' based competition.

For a second, I wouldn't want them to duplicate and waste money either. So then, let them invest half the money or if they want to do double they can do double as well. So they would pay rental fees on the part that they are using. So this approach, I think, will…in the longer term, be good for competition for everybody. And I intend to do the same exactly in mobile by the way. That is also an important parameter from my side. I would be willing to do the same to the other side. I will give a CAPEX contribution to the base stations where I cannot do a sharing one-for-one. So I'll do exactly the same. And then I'll pay a rental, a 10-year committed rental on the other side of it. And this will become even more critical with 5G coming with small cell.

So we need to have innovative ways of paying each other money or doing a one-for-one sharing. I don't believe we can do one-for-one sharing with everybody in the market. So this pay model works well for me on fixed, and I think it will work for somebody in mobile. I think Turkcell, if I were Turkcell…that's where I'm going to them with actually, on the mobile. So this means more competition, don't get me wrong. But everybody will be able to compete more cost-effectively. And that's very critical for me.

DAVIDS JP: Very clear, thank you for that.

DOANY P: Thanks.

OPERATOR: The next question comes from Degtyarev, Slava from the line of Goldman Sachs. Please go ahead

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DEGTYAREV, S.: Yes, thanks for the presentation. Do you assume any challenges in passing through inflation trends to consumer? As inflation stays higher or probably even accelerating, do you feel you're limited towards price increases in broadband and mobile? So basically, do you see any consumer price elasticity when you increase prices?

And also, separately, as lira keeps weakening, do you feel pressure on your capital expenditure as a significant part of the CAPEX is hard currency denominated. Thank you.

DURSUN H: This is Hakan Dursun speaking, the Chief Marketing Officer. Basically, to answer your question for the inflation part, we have already implemented some inflationary price adjustments in our businesses. And of course, we will reassess our pricing, basing on the inflation trends in the country. And whenever necessary, we are going to make also future actions without any delay.

On fixed voice, as Kaan explained, we applied around 9% price increase to our uncommitted base, in the second quarter actually, in line with our general practice, because every year, we are doing inflationary price readjustments.

And similarly, in broadband market, in January, we reflected the increase in SCT, from 5% to 7.5%, to tariff prices immediately. Because as the price setter in the broadband business with our focus on value creation, we've also implemented 9% price increase for our uncommitted fixed broadband subscribers in July 2018.

Also, we increased the price of some distinct tariff components, such as transfer price and transport fees in fixed broadband segment. And we will be very disciplined to continue our price adjustment actions according to developments in the market and inflation.

On the mobile side, the mobile market was competitive in the second quarter. But we have seen some initial signs of disciplined pricing from the competition. If it is so, we will definitely follow and adjust our prices accordingly.

On the TV part, our main strategy is to penetrate our TV services for every household and to make synergies and bundled offers with other services going forward. So this is our competitive edge, and we will continue focusing on penetrating our TV strategy. So this is as far as the pricing part is concerned. I think you had also a question on whether inflation will have impact on our CAPEX discipline, maybe Kaan will answer it.

AKTAN K: Well, for this year, for the current year, I wouldn't expect any increase, any change to our CAPEX guidance unless we see a significant upside in the EBITDA in terms of the guidance. But the coming years, naturally, you should see the CAPEX as a percentage of the revenues, meaning price increases and better revenue performances will give us more room for increasing our spending CAPEX in terms of absolute value, but keeping the percentage stable. So this is what we see for the time being. And we, as Hakan mentioned, we are very carefully following the inflation trend, so that we take the right action in terms of the revenue performance.

DEGTYAREV, S.: Okay, thank you very much. But just to clarify, so you don't see any major impact on the consumer demand from the price increases that you make, right?

DURSUN H: No, because this is our regular practice. And every year, we have been doing inflationary price adjustments and other reconstructing and actually, prices adjustments, this is our regular way of doing business. And we will continue to do so.

DEGTYAREV, S.: Okay, thank you very much

OPERATOR: The next question is from the line of Drouet Herve with HSBC. Please go ahead.

DROUET H: Yes, good afternoon. Two questions on my side. The first one is, again, back to these questions of passing the inflation to your tariff. Could there be any barrier either in your view, politically or from the regulations, where there is a threshold where it will be difficult to get over certain increase, in your view?

And the second question is regarding your RAN Active Leasing, so your rental strategic initiative, I was wondering as well, in the way you calculate on… you make those calculations with your partners. And, let's say, you know, Vodafone, how do you take into account any currency movement or any inflation, especially in your rental fees payments? Thank you.

DOANY P: On the second question, the bulk of these fixed line costs, in fact, to be clear, are very much lira because this is mostly passive infrastructure, by the way. So that's a lot easier, let me say, than what we would have to do on the mobile part. On the mobile part, we actually did an active one-for-one. So what that really means is that each side would make their investments, and the other one uses their spectrum on top of what you've got. So you wouldn't be investing any more than you would if you were on your own. But you would get, let me say, double the value of it. So that's why the sharing model would work that way. If it's a pay model and it involves an exposure to FX, it would have to be priced in. So we haven't had that situation yet. I think it will come up now when we discuss the mobile part. But I don't think it's going to be that difficult to work something along that because it will be based upon you borrowing the money to do it. And that would be the most straightforward way of doing that.

On the inflation question that you're asking, I mean, the practice in this country, all along, has been that inflationary costs are generally passed by all manner of providers of you know, selling anything almost in the market. And what mostly impacts that is competition more than any level of interference or regulation. So on regulations, there are no limitations. You're asking if politically or something like that… well, I mean, that hasn't happened in any historical context in this country. It's market practice, so we don't see any issue on that regard. But clearly, it doesn't mean that, you know, if you are a dominant player with an abusive practice, and you are increasing a tariff, you have the government kind interfere.
Because we've seen that in the electricity sector, for example, where you have a single provider and they will be defining terms. Yes, but in a competitive sector like this one, we don't expect any intervention.

DROUET H: All right, thank you very much.

OPERATOR: The next question comes from Kim Ivan with VTB Capital. Please go ahead.

KIM I: Good afternoon. Two questions, please. Firstly, on the fixed network operation. So I was just wondering, how widespread do you expect this cooperation to be, because I would expect Türk Telekom's network to be rolled out in the most liked areas already. And for the likes of Vodafone or Turkcell, I wouldn't expect too many places where, let's say, Türk Telekom already have 50% of the ducts, but not the remaining, let's say, 50% for the area where they would want to go. So I would expect very limited number of such sharers, maybe I am wrong. But please, any views on this would be appreciated?

And secondly, on the cost of debt, so can you estimate what will be the cost of debt, including the cost of hedge once the hedge ratio reaches 60%. Thank you.

DOANY P: Thanks. You know, it's a very interesting how most people believe that the incumbent fixed operator has infrastructure everywhere. That's why when people ask the fixed operator, why don't you cover this part? If it is not in your budget, you are going to cover it when you know… when you are going to cover it. So what rules all of this is actually a CAPEX budget. For a second there is new construction, new roads, areas where demand gets picking up because like, a new neighborhood starts to roll out. And in those locations usually the infrastructure is not available.

Now, when I am talking not available, it doesn't mean that Türk Telekom couldn't do it. It's just that it's not in our budget and we wouldn't be planning to do it. So the other operators tend to seize on those types of locations to roll out their facilities into new developments. And that's, in fact, how it works. So they also are obviously smart. I mean, they are careful where they are investing. They don't want to duplicate too much and they want to compete with us. It's not that these areas are not viable.

Now the question of their viability is something that they would compare, whether they do it through us or they do it themselves. And that's where this 50%...around 50% rule works. It means that, if they were, let's say, to invest 10 million lira themselves for the full CAPEX, but I have already half of it, they would provide 5 million to us, which they were had to do anyway, and for the other 5 million they will be paying it in rental fees. You see how it works? So it is very much on a spotty, specific location. And where it doesn't work, like the first thing they brought to us didn't work because we only had 20% of what they wanted. The second one worked because it had around half.

So we are not exactly everywhere, but we are in most locations. And that's how the rule works. So in many cases they would continue to do it themselves. You may pose that question to them like, why are you rolling out in an area where Türk Telekom isn't rolling out, you know, so they would better answer that question.

KIM I: Sure. Thank you very much. This is very clear. So but that's why the question, so how widespread do you expect this to be. So will it be pretty much confined to the new neighborhoods?

DOANY P: Yes, I think so, I mean, if I were on the other side of this, this is what I would do. And this is what we are doing and these types of new neighborhoods or could be even projects that we were planning to do next year, they want do it this year, so we say okay and in that case contribute the money. So, because they feel very comfortable about that location, because, remember when they sell fixed, they do door-to-door type selling because they are focused in certain developments. That's how they do it. So they study the area, they make a rough calculation on a per homes passed of a certain number that they have in mind, I mean, I know what that number is the way they see it, because I need to know that number to see how I can help them make those numbers work.

And also, remember, I mean, we invest a lot more than they do. So these persons are making limited investments. Also, remember that the Superonline has actually a very good network and a large coverage point and Vodafone have much less. So Vodafone are sharing unto theirs, they can have a right of resale in their facility, but they have to give them a one-for-one. So they also benefit more by investing through us to plug that gap. So this is how it somehow works better than not doing it.

I mean, don't get the impression that this is a very high return business. But to us it's better that they do it through us than not through them, if they do it through us it's also better. And if not, they do it themselves. That's what it is.

KIM I: Very clear. Thank you.

AKTAN K: Yes, for the cost of hedging part of your question. I think it will be difficult to give you an average, because since we started acquiring you know, separate contracts the interest rates moved up. So I mean, like six to nine months ago, it was around low teens, the cost of the …when you convert it to lira, the cost structure was around…it was low teens, it is now moving to mid-teens.

Obviously, these are lower than the Turkish lira…pure Turkish lira interest rates, because we are including cheapener factors, like we are selling options for the upper thresholds. So this is how we formulate the structures.

But I see your interest and the reason behind it. We may try to give more details in our footnotes in the coming periods because we really want to show to the investor community what type of protection…what level of protection we are getting from those contracts, and in turn how much costs we are incurring additionally.

KIM I: Thank you.

OPERATOR: The next question is from the line of Bintcliff, Jordan with Reorg Research. Please go ahead.

BINTCLIFF J: Hi, there. I was just hoping if you could give us an update on Otaş and the debt restructuring.

DOANY P: Debt restructuring? So you mean the 55% Otaş, right?

BINTCLIFF J: Yes.

DOANY P: I think from what is…has been publicly disclosed, it's quite clear that the banks have managed to get the voting required to take this to the next step on that lot, because I think they needed unanimity and they got it. So therefore, they are simply now in execution mode because of the SPV establishment and some technicalities around what they would be plugging as a new loan or you know, issues of that kind. So we expect that they should be able to complete execution probably within about four weeks from now, maximum six weeks.

I mean, these are the rough dates that, at least, I am aware of, because this is a process that you know, we are not following, and we are just waiting for them to do it. But there are no impediments that we see.

And at that point, they will be taking over or shifting the shares into their own SPV and a structure, I don't know, whether…they would probably have to make that public at that time, because many of them are public.

We don't know any more than this. But we know that there are no problems, there are no impediments along the way.

BINTCLIFF J: Thank you.

DOANY P: Thank you.

CULLAS G: If there are no further questions, we can end the call. Thank you for participating.

DOANY P: Thank you.