TÜRK TELEKOMÜNIKASYON A.S.

Moderator: Gozde Cullas
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Operator: This is Conference # 3157586

Operator: Good morning, ladies and gentlemen, and thank you for standing by. Welcome to today's Turk Telekom Group 2017 Year-End Conference Call. After this presentation, we will have a question-and-answer session. I must advise you that this webcast is recorded today, on Friday, 9 of February 2018.

Now, I would like to hand the conference over to your speaker today, Gozde Cullas. Over to you.

Gozde Cullas: Hello. Welcome to 2017 Results Conference call. Today's speakers are our CEO, Paul Doany; and our CFO, Kaan Aktan. Before we start, I once again remind you kindly to review our notice of our presentation.

I will now hand over the call to Paul Doany.

Paul Doany: Thank you, Gozde. Good afternoon, everyone. I'm very pleased to report strong operational performance and strong financial results delivered by our teams across all departments and all cities of the Turk Telekom Group.

We start on slide three, operational highlights, we have an outstanding year with record high subscriber growth. Number of telecom subscribers reached 41.7 million in 2017 with 1.1 million net additions in the fourth quarter and 2.8 million in the full year. In broadband, we added 368,000 net subscribers in the fourth quarter and 1.1 million in the year, the best net additions since

2008. Our increased focus on household penetration supported this performance.

In mobile, our net additions accelerated to 423,000 in the fourth quarter, total mobile subscribers increased to 19.6 million with 1 million net additions in the full year. Postpaid subscriber base grew more than the total base, now reaching 55 percent of mobile subscribers.

In home TV, our strong momentum continued in the fourth quarter. We added 139,000 net subscribers in the quarter and 490,000 during the full year with increased mobile cross selling activities in the latter period.

Finally in fixed voice, we have two sequential quarters with net subscriber gains. In the fourth quarter we had 118,000 net additions, in the full year of 2017, total fixed voice subscribers declined by only 65,000, a significant turnaround compared to 10 times that number in the year before.

Next slide, financial performance. As you know we revised our 2017 EBITDA guidance from 5.8 to TRY6 billion range upwards to a range of 6.3 to 6.4 billion in the mid-year. Our revenue and EBITDA actuals in 2017 were both at the high end of the upgraded guidance. Top line increased 12.9 percent year-on-year to TRY4.8 billion in the fourth quarter and 12.6 percent year-on-year to TRY18.1 billion.

EBITDA growth at 18 percent was faster than revenue growth in 2017. Revenue and EBITDA growth rates in 2017 indicated a significant breakthrough both being the highest rates in the company since 2008. Meanwhile, despite one-off expenses in Q4, EBITDA margin expanded 1.6 percentage points to 36 percent in 2017, leveraging on synergies and savings under our integrated and streamlined organizational structure. Our outstanding performance, operational performance and more docile FX environment led to a sharp recovery in terms of net income, recording TRY1.1 billion net income in the year following TRY724 million net loss in 2016.

Consolidated CapEx increased 6.4 percent to TRY3.2 billion in 2017 in line with our full-year guidance. CapEx to sales was at 18 percent as we continue to invest in our networks and IT infrastructure to further reinforce performance. LTE population coverage at 83 percent with 8 percentage points up year-on-year and our fiber network extended to 256,000 kilometers in 81 cities growing by 28,000 kilometers over the year before.

Now, let's turn to the broadband business on slide five. In 2017, we shifted our strategic focus in broadband towards increased penetration, being that Turkey at 50 percent household penetration is far behind its EU peers. We launched entry level Internet Bizden and No Home Without Internet campaigns with affordable prices for both retail and wholesale channels in the second half of the year. On top of this, we have recently expanded our penetration drive with regional discounted offers from our standard broadband product range targeting lesser penetrated districts around the country.

Combined with our ongoing efforts to attract and retain high-value fiber subscribers, this strategy has worked well resulting in record high subscriber additions and also providing for an increased upsell opportunity going forward.

In 2017, our broadband subscriber base reached 9.7 million in 2017 up 1.1 million from 2016 with an accelerated base growth of 368,000 in the fourth quarter. Fiber subscribers increased by 37 percent, being 737,000 year-on-year to 2.7 million. Fiber net additions accelerated especially in the fourth quarter, 246,000, making 67 percent of total broadband net additions in the quarter. At the same time, almost 30 percent of our net additions in the fourth quarter came from our cheap internet offer, Internet Bizden.

Even excluding the impact of this campaign, our total 2017 net broadband additions are over 20 percent higher than the previous year, which is an outstanding performance. Year-on-year, fourth quarter '17 broadband ARPU is stable, adjusting for high base prior to the port transmission price adjustments which we had reflected earlier and explained earlier, and some accounting adjustment and ARPU growth is robust. There was some dilutive impact of this Internet Bizden offer, the cheap internet offer, however it's a significant initiative enabling us to tap new homes which we wouldn't otherwise be able to and therefore provide an upsell opportunity going forward.

We have recently announced our first partnership with one of the major electricity companies and we will be preparing with further agreements with others. For example, this first partnership would target just in one location 1.5 million homes. We are initially starting the project with the emphasis on the cheap internet offer and this will be extending with targeted offers depending on their own customer base, obviously their electricity bills.

Electricity companies are among the most important channels for us and we'll be announcing a new agreement very soon as we are very progressed with all of that. In addition, I'd like to highlight that the energy vertical in itself is an important vertical for this company. In it, we will be looking at new projects in the field of energy management, energy savings, smart grid, smart metering and other applications to help our electricity company partners.

Moving to the next slide, I will provide some highlight on our upsell performance. Now, demand for higher speed and capacities remained high in the fourth quarter. We continued to meet subscriber needs with higher data offers. The share of above 75 gigabyte capacity usage in the retail broadband base reached 31 percent at the end of 2017, a substantial increase from last year by 19 percent. Additionally, 32 percent of our retail broadband subscribers received 24 megabit per second compared to 27 percent a year ago.

Now, moving on to slide seven on mobile, I discussed on our previous calls, in the first half, we wanted to focus more on our consolidated performance given our flexibility to shift focus between various segments as an integrated player, and we sought as well in that period to build a differentiation strategy. This allows us to be less dependent on just campaign and competitive value propositions, because obviously with differentiation, we are less price sensitive on our main core offering, being in this case mobile. For that, I'll explain shortly.

So in the second half of the year, we pushed a lot more on the mobile marketing. With successful execution, we attracted more new subscribers and migrated existing ones towards postpaid with higher data plans. Our differentiation strategy enabled us to accelerate mobile net adds to 423,000 carrying the total net adds for the full year to a million. Meanwhile postpaid ratio increased to 55 percent in our base, up from 53 percent in the year before. This positive evolution of the customer mix along with higher data consumption drove 7 percent year-on-year growth in mobile ARPU and this is slightly lower than the growth rates in the previous year, but still robust.

In the next slide eight, mobile data continued to be the main driver of our mobile results, benefiting from our higher data plans and other innovative value propositions. Average monthly mobile data usage among our smartphone users grew further this quarter, at 4 gigabyte per user up from 2.8 the year before. Additionally LTE-compatible devices among smartphone users continued to increase reaching 67 percent penetration from 53 percent the year before.

Our LTE base expanded by 78 percent year-on-year to 6.9 million, 35 percent of our total mobile subscriber base. This led to 60 percent year-on-year growth in the fourth quarter in data revenues which increased 55 percent of our mobile service revenues, up from 39 percent the year before.

We target a strong ARPU growth in 2018 with price increases and expected further growth in data usage and continued LTE adoption with larger data offerings. Clearly, the new special communication tax including the TRX scheme also puts us in a better position in comparison with competition and with the previous year, and this will provide for us a margin improvement in 2018 which we intend to enjoy, and of course this gives us some price retaliatory power should we face any price competition in any targeted segment that we are aiming for.

Turning to slide nine, here, we strengthened our position in TV markets. We already reached the second player in the Pay TV market and I would like to clarify when we refer to the Pay TV market, we are talking about a home television.

Now based on the Q3 data from the regulator, we have obviously surpassed D-Smart. We all know the situation of D-Smart in the sense that they are more captive in where they are and they are more defensive in their approach and Digiturk obviously being at the high end at the market and they are locked as well as where they are, this gives us a unique opportunity in what we call the Home TV market.

In many case, we ended last year with over 2.7 million in total and we added 226 thousand in the fourth quarter. The Home TV segment provided us net additions in the fourth quarter which for us is key when we bundle mobile with Tivibu. This is an important differentiation that I indicated earlier that allows us to connect what we call a wireless home.

Now, this current level of Pay TV, given that in Turkey, it's a low penetration with free to air around probably 15 million underpenetrated homes, we are well positioned to serve this mid-market as I indicated earlier, in relation to where Digiturk is at the moment and as well as where D-Smart is and frankly of course D-Smart is one of our wholesale customers, but in the satellite TV, it's difficult for them to grow further.

Now, this provides us a unique opportunity to bundle mobile into those homes, and these are the homes that we call wireless homes. What that means is that once we get a mobile customer with a home, home TV, their entertainment means are covered by satellite and in the future we hope that their home data needs will not be covered by that mobile device, but rather by a home wireless mobile data device that we can provide over various technologies including basic broadband, meaning over mobile, or other technologies that we are now also looking into.

In terms of content and feature sets, we aim to maintain differentiation at a certain level and that's why we are building our sports, cinema, discovery, kids, video on demand content and so on with also interesting user interfaces and driving Tivibu, Tivibu Go which is our mobile offer, meaning over the mobile device. So therefore this is mostly targeted at large screen with some limited small screen and mobile screen growth that spins off from this activity. The rest of it is not high value.

In relation to fixed voice, slide 10, our synergy continued to drive in relation to protecting our fixed voice base to the extent we can. Number of fixed voice subscribers increased by 118,000 in the fourth quarter. We reached now 9.6 million. This is a phenomenal success considering voice substitutes and this performance highlights the importance of an integrated player.

Overall, our penetration focused Internet Bizden campaign, the cheap internet, contributed to this both the broadband growth and fixed voice protection and as well combined with NDSL, total access lines now reached 13.7 million from 251,000 net adds in the fourth quarter which is another record performance for the company.

We believe also that the special communication tax reduction on fixed voice of 15 percent to 7.5 percent should provide further opportunity this year to add weight to this strategy which is more of a defensive strategy. Now meanwhile on the ARPU level obviously, it eased to TRY22.3 in the fourth quarter, but this is more than offset by the subscriber growth that have been realized.

I'll hand over now to Kaan Aktan in case you are mixed up to discuss our financials.

Kaan Aktan: Well, thank you, Paul. Good afternoon, everyone. Let's review our financial performance for the year with some more details, we are now on slide 12. Revenue increased by almost 13 percent to TRY4.8 billion in the fourth quarter and the full-year increase was 12.6. This is the highest topline growth that the company achieved since the IPO.

In 2017, broadband and mobile businesses continued to be the largest contributors of topline growth with plus-15 percent annual growth in each. On a quarterly basis, year-over-year growth in these two businesses was 12 percent. Let me also add that both these businesses had high base in the fourth quarter of the prior year. This was driven mainly by LTE impact in mobile and there was a different wholesale pricing model in broadband.

Now, probably you will remember, we proactively shifted to the new port transmission model which is the pricing change for the wholesale broadband

and that happened in the second quarter of 2017 and that was for ensuring a healthier wholesale domain with more predictable cost structure for ISPs.

The other point to mention for the last quarter revenues, we had stronger contribution from our subsidiaries, thanks to ICT projects such as healthcare campuses. Our revenue mix is changing with high growth businesses increasing their share in total group revenues. Mobile and broadband revenues now constitute 64 percent of total revenue, while the share of fixed voice segment declined to 14 percent.

The successful continued decline in fixed voice over the past years and an annual decline in this segment is down to 6 percent if you look at the last quarter of 2017 and that's coming from double-digit levels just two years ago. Operating expenses increased by 9.9 percent for the full year. When we exclude IFRIC 12 adjustments, annual growth in the expense base was 7.7 percent.

Increase in personnel expenses was only 3.1 percent for the full year and it was 8.6 percent in the fourth quarter.The increase in this item in the last quarter especially was due to the initiation of voluntary leave program. This comes with 2.8 percentage points impact on the increase for the last quarter and there is also a shift of outsourced personnel to the company's payroll which is almost 1 percentage impact increase in the expense base growth. Naturally the last one is obviously not impacting the total cost since it's an offset. In net, share of personnel expense in total OpEx declined to 24 percent which was 26 a year ago. This is the result for our ongoing efforts for streamlining the organizational structure. Our accelerated top line growth and cost initiatives led to a record high annual EBITDA growth 18 percent. EBITDA exceeded this time TRY6.4 billion. This is slightly above the higher end of our guidance. Let me also remind that we revised the guidance from 5.8 to 6 billion to 6.3 to 6.4, that was in the mid-year.

Our EBITDA margin with those numbers for the full year is now at 35.6 and there is an improvement of 1.6 percentage points compared to 2016. The last quarter, we had some additional provisions related to the treasury share disputes that we discussed many times in the past in these calls, and we obviously decided to settle on those disputes. This had TRY144 million impact on EBITDA that came in the last quarter and TRY48 million impact on interest expense. All in all, close to 200 million impact after deducting the reserves that we already set in the prior periods.

If we adjust this one and the IFRIC, last quarter margin is at 35.8 percent. At the bottom line, capital increase of Avea had a one-time positive impact on net income as we recorded more than 350 million deferred tax in this quarter. The capital increase will also normalize the tax rate of the group going forward.

FX was also accelerated especially in the fourth quarter which was minimized with the impact from strong operating performance. We had around 100 million net loss in this quarter, but please also consider that the treasury share settlement had approximately TRY200 million negative impact at the net income level. With this, net income for the year is 1.1 billion.

Finally, CapEx, as expected and as mentioned in the previous calls, is accelerated in the fourth quarter and reached to TRY3.2 billion. This is in line with our guidance and representing 18 percent of revenues.

So the next slide is slide 13 and this is the debt profile. Our net debt declined to 12.4 billion in this quarter and our leverage came down gradually from 2.23 multiple, this was in the first quarter, and came down to 1.87 in the last quarter. This is on the back of record high EBITDA growth and very, very strong cash generation, especially in the last quarter. If we include the positive mark to market value from the dollar to lira cross currency swap, we also have an adjusted net debt to EBITDA ratio of 1.79.

Total gross debt was 16.5 billion at the end of the year and we have an average maturity on our debt of 3.1 years. Our funding sources remained diverse as always, and our funding cost remained low as always. As an example to that, in December we signed a new loan of EUR200 million with Bank of China and the maturity on that loan was eight years with three years grace and an interest rate of EURIBOR plus 200 basis points.

As of year-end, we have TRY4.1 billion cash on hand, this is 1.6 times higher than what we have to pay as debt service in the full year of 2018. In this last quarter, we have executed an additional $50 million of dollar to lira participating swap transaction. This is attached to our 2024 euro bonds. Now our bonds both tranches of TRY1 billion in total are 100 percent swapped to Turkish lira with those participating swap structures.

We have plans for executing further the dollar to Turkish lira and also euro to Turkish lira hedging transactions in the coming period. This is in addition to restructuring some of the existing hedge transactions in order to enable higher protection. Our strategy to use cash as a tool to manage total FX exposure continued throughout the year as we generated and accumulated more cash.

We also converted a bigger part of that cash to hard currency, so our cash -- our 50 percent of the cash at the year-end is FX based now. This was 24 percent a year ago. We still target to increase this ratio from its current level. And when you calculate our hedge ratio on our gross debt by including the derivatives and FX base cash, we are now hedging towards 35 percent of the gross debt as of the year-end.

So all in all, I believe we had a very well managed balanced sheet during the year despite the FX headwinds and high CapEx payments including last installment of license. Our leverage level is at the low end compared to global peers. In December S&P global ratings have reiterated our investment grade rating as part of its routing interim review process.

For this year, for 2018, we decided to be more proactive on our balance sheet management. Apart from our targets to increase the hedge ratio, we also made the proposal to our board for a no dividend payment related to our 2017 net income. So the board of directors supported our approach. They made a prompt and timely decision for advising the general assembly in that direction. So this decision will obviously contribute to our leverage and FX risk management efforts.

So if you go to the next slide which is the guidance, slide 14, under current circumstances, we are expecting consolidated revenue growth excluding

IFRIC 12 adjustments to be at around 11 percent for the year. EBITDA to be at TRY7 billion to TRY7.2 billion range and finally the CapEx to be around TRY2.5 billion which comes to 17 percent implied to CapEx to revenue ratio.

In terms of topline, mobile, broadband corporate data and ICT projects such as healthcare campuses as I mentioned will be the main pillars of the growth. We will remain focused on cross sells and synergy offers under our integrated structure. Moreover, the decelerated pace of decline in fixed voice revenues will also contribute consolidated revenue growth.

Regarding the margin story, our guidance implies 35 to 36 percent EBITDA margin, this is broadly unchanged versus 2017, there will be small dilutive impact of the new taxation regime on margin. It will be neutral on absolute EBITDA term.

On the OpEx side, we will continue our focus on optimization. In 2018, we expect to see benefits coming from our customer experience initiatives and disciplined cost management plans. To name a few, we recently integrated our proactive which is called door to door channel both in consumer and corporate segments. The main target is to create a more effective enterprise sales channel and also optimize subscriber acquisition cost. We have projects to further increase efficiencies in our exclusive dealer channels and also to use roughly 250 Telekom offices more effectively for customer acquisition.

We are enhancing our receivable management process via device-focused risk management policy and also a segmented approach. We are also working on a partial shift to a consumer financing model where the credit risks will be carried by the banks rather than to Türk Telekom itself.

Overall, we expect another strong year in 2018 as we are well positioned with significant momentum from 2017 and also a range of opportunities ahead of us. Well, thank you very much for your patience and I'm handling the call to Paul.

Paul Doany: OK, I'll just do a very quick -- from slide 15, like a strategy outlook. And the first thing I'd like to say is that on the change of the management, one of the first steps that we tried to look into opportunistic moves that could be made. One of these key moves that I focused on frankly was relating on a utilization plan, meaning that deriving as much value as we can out of what's already here and you know already that Internet Bizden of the cheap internet offers is an example of that. The other one was seeking opportunistic moves that the company can make in order to increase its mobile market share.

Now, these were tactical and therefore these were opportunistic based on what's available. Now, in the meantime we have developed a five-year strategic outlook. Now, this is more of a strategic assessment, but we need to put a five-year strategic outlook in a sector where we know that 5G licensing will be coming within that five-year period.

Now, therefore it's very, very strategic and competitive. I believe that for telcos, to look beyond what they are doing at their current stage of development, what will 5G be and become is therefore to be considered within this 5Y program and within it is a cost effective approach to what 5G will be, and secondly a revenue generation potential that is well understood in order to match the cost to achieve that growth.

So within this plan, we have focused on a sustained customer and revenue growth which I've explained the home penetration being key, whether that home is wired or whether that home is wireless. Now, as many homes to be connected as possible is a strategic imperative of this company, and within it are the upsell opportunities that I indicated earlier. That's for the home aspect.

For the personal mobile, it means now we're counting mobile customers, the more overlap there is, the higher is the upsell opportunity. So within that, the key target for us is to do this thing cost effectively to improve the margin and also improve the customer experience. Now, these are strategic imperatives.

Additionally, to unlock subsidiary value, the subsidiaries that are part of this group we believe contain a lot of value. So my focus going forward as of now is to drive directly from the TT, from Turk Telekom itself with the use of subsidiaries a top team that will focus on what we call business transformation development.

This actually will drive digital transformation products and services to the enterprise market as well as digital transformation of Turk Telekom operation itself over the next two to three years. So this plan, I believe to be strategic in terms of what it will serve to the market which I call business transformation which includes digital and any type of service that is needed, because we have subsidiaries who can deliver those.

And within that plan, of course, is the digital transformation of the telecom operation itself. Now, we have to focus on some verticals when we do that and the verticals we want to focus on are the verticals I indicated, which is basically health, energy, and education.

So these digital products and services, some of which will be horizontal, one example of these, which is one of the first products that we developed when we started working on this approach is the Tambu product development, which is the national keyboard.

Now, within that approach is what I will explain going forward, and I'm sure you'll be having questions about it, how these new products going forward will be tackling the market. Now, therefore, the first pillar of this strategy is growth. I've explained how that growth will come.

The second one is operational efficiency. On that one, I will just recall that active network sharing is key to this especially in the mobile area. We have in now passive sharing with Vodafone and we have received passive sharing offers from Turk's global power company.

This global power company have also offered to us jointly even in the context of us having a shared network with Vodafone. So we progressed actually quite well on the Zonguldak area where we have now in place a full active share plan between two mobile operators. And that is very detailed work that shows a very healthy payback.

So now going to the next slide, which is our strategic initiatives. Now, here what is critical to present in this context is that to unlock value of our subsidiaries, has to be in the context of what Turk Telekom itself goes to market with.

For example, I've indicated the value of Innova being a very strong 1200-person company that when it signs contracts that are delivered in the name of Turk Telekom, that is building equity value in that underlying asset.

So health is one of the key areas that they are in. Smart cities is an important area that they are in. They are now extending into the energy field and they've now done one first project with one of the energy companies, which we will be announcing in our next first quarter of this year.

And also, of course, education that you know that they were in the FATIH project. So we've been extending this therefore into these three pillars. Argela, of course, is another very important part of our group even though mostly on the R&D part.

Now, we have housed Tambu under that. Tambu has been housed under that in order to increase the value of Argela going forward as a managed services to other operators. So Tambu has been developed here benefiting from an existing product, tailored and designed and transferring the code source into the company that we think it over, and just in three months, we have had four and a half million downloads with 40 percent monthly active percentage.

Now, this is, I believe, a very important indication of what can be done when a product is designed for the market but is also designed for being used by third party operators. Deliberately inside it, we've allowed for the managed service formula that would allow Argela to provide an operator with exactly the same thing with their own localizations at whatever it is that they need.

But within this product is a very important potential in that in this product, the customer is in permanent use of a keyboard. Extending forward from this will be a lot of additional things we can do.

In the education area, I'd like to highlight that our Sebit subsidiary have actually signed after a lot of hard work in the course of the year to prove its product, Sebit has signed with one of the largest group schools in here with a hundred campuses in the country.

And what is included in this is in a content and platform, it's called VCloud from its Vitamin product where the V derives from. And also Round, Round is the product that is a university preparation program, because you may know that the so-called Dersanes are now no longer operational in Turkey. And this provides a unique opportunity for Sebit, which is also uniquely placed already in the public education as you know from the FATIH project.

Hence, our strategy is built upon not just normal Telecom business but subsidiaries that grow in segments that provide the end service, not as a subcontract, but as an owned subsidiary. I believe this is a very important differentiator.

In relation to optimizing our networks as well is Argela's work on SDN and virtualization. So both Argela and Turk Telekom are now working together on this which can extend into point-to-point 5G formulations that are very, very cost effective while we retain our investments in 4G.

And in this sense, Argela have already signed three integration contracts which include Verizon, Telefonica, and Orange. So therefore, this is another form of expansion where Argela will be forming joint ventures with other operators in order to get into the next generation of products especially small cell that will be fully developed from here. So our work on the open network forum and the ONAP is also an indication of this.

And the last thing I'd like to indicate here is relating to our corporate venture capital approach, that the first agreement has now been signed, will be announced shortly. It is in the health vertical. This is an investment in a scale up type operation. The target here, of course, after our success in the pilot program is now to extend this into scale up companies. We'll have more to say about that going forward. I think at this point I will stop to take questions. Thank you very much.

Operator: Thank you very much. Ladies and gentlemen, for all your questions, you need to press star one on the telephone keypad and wait for your name to be announced.

And the first question comes from the line of Can Öztoprak. Ask your question, Can.

Can Öztoprak: Hi. Can Öztoprak from Unlu & Co. Thank you for the presentation. I'd like to ask two questions, please. Actually you already mentioned these but maybe it will be helpful if you elaborate more.

First question is on Tambu. What are your strategies for this product really and how could you monetize Tambu going forward? As far as I know currently, it's just a product that people are using but from the value point of view, you are not really getting much from it. Correct me if I'm wrong. And my second question is on your venture capital investment. What sort of a strategy should we expect to see here? How would that impact your core telecom operations? Thank you.

Paul Doany: Thank you. OK. Starting with the last question on venture capital, the intention actually is to take shares in companies that have a scale-up potential in something synergetic especially in the verticals that I mentioned.

So, for example, health is a very important vertical for us, so the first company is in fact in that. It is something that has a very high growth potential, especially in lowering the cost of insurance. This is a service approach and therefore that would be something that we believe will build high equity value.

You know, these type of investments are in companies that we want to build up so that they are in a scale-up stage, meaning that they are already healthy but have a potential that they need money, or they need service, they need marketing, they need something that we can provide.

It is synergetic being in a sector that we believe in. And it has to have an exit plan, which is not generally to sell but hopefully to list. That means that the entrepreneur that built the company wants to build it up and list it and run it. That's the kind, of course, if they end up selling it for a high price, we're not going to complain, but that's not, you know, the target.

That means we will have shares in companies that will be listed here and therefore that will provide, you know, we look obviously at returns typically in the range of five times to ten times up on the higher risk side as you would in any of these types of investments that you would know.

Now, in relation to Tambu, I think that, you know, Tambu, after three months of reaching this number indicates its potential. Now in terms of monetization, our plan of starting monetization is going to be more towards the end of this year, because the target with the keyboard, that is differentiated here, I would like to highlight, is that the keyboard operates within every application that the user is using on the phone.

Most of the time, if you're not talking on your phone, you're texting. And if you're texting, for example, in WhatsApp, which is the largest market share or even if you're texting in Bip or you're texting in Wirofon or you're texting in anything, the keyboard will be there.

Within the keyboard, as you may notice, we have touch features that allows us to introduce services in it. Now, we haven't introduced those services but within those, will be a much higher value proposition on like, let me say, a local search or a value add to the person if they have a specific query. That's how it will be. So it will be location-based service. You see what I mean?

So you will not be in a web search environment, but rather you would be within your keyboard and that opens up that little key when you press it and you see Tivibu, it's in that screen that we will be adding a lot of additional features where monetization is possible.

Our targets right now is not to monetize. Our target now is to build market share, prove the product, and build a managed service portfolio that allows us to open into other operators even as is. You see? Because this operates, I believe, more efficiently than a web search mode or any semantic search modes that people would like to use.

Can Öztoprak: Thank you.

Operator: Thank you. And your next question comes from the line of Hervé Drouet of HSBC. Please ask your question.

Hervé Drouet: Yes. Thank you. And thank you very much for the presentation. My first question is, I just wanted to see if you can elaborate on what was the main reason or rationale being taken by the management for the decision of the no dividend payment.

I mean it looks like you're on the back of your financials you reported, your balance sheet is strong and then the net debt to EBITDA below this average sector, you know, you are at 1.9 times. I mean the cash flow generation is strong if we looked at, you know, you reported a positive net profit, even though over two years cumulatively, you know, you would have a positive reported net profit.

So I was wondering what were the main reasons for you to say, well, we still need to be cautious, you know, on you the dividend side and we need to strengthen further the balance sheet and either a particular gearing ratio for the management were to feel more comfortable that you have in mind. So that's really the first question.

And the second question is maybe on the guidance on the capital expenditure, I mean it looks like you are guiding for CapEx going up while the revenue growth is potentially a bit lower, you know, year-on-year compared with 2017.

So I was wondering, what is driving as well in your point of view, you know, some cautiousness on the CapEx. Do you expect some currency weakness or is there other reason that drives your point in that direction? Thank you.

Kaan Aktan: Thank you. Well, let me start with the dividend part. So it's nothing more than what we mentioned during the call. So we believe that we needed more flexibility and more tools in order to reduce the volatility in the P&L and that's coming from the FX exposure.

So cash is a very effective tool to reduce that, and we keep it in hard currencies especially -- it's very flexible, it's very effective. And we want to use that for that purpose, but it will not be enough naturally regarding the size of the gross debt, but we will be using all sorts of other tools to cope with this challenge.

I mean there's a very capable team in our treasury so we can analyze and also execute all sorts of different derivative transactions, and we will be open to any opportunity because it will also be dependent on the market conditions.

So as the management, then we make that proposal I think that's also same logic with our boards and it was approved. Anything you will add?

Paul Doany: Actually maybe I can add something here that I mean clearly, the story of this company is a dividend yield story. So that obviously cannot change. So this is like consider this to be like an interim that we've had one year and we'd like to have one more year that would spell out where this target price where investors can see a picture that has a meaningful target price on the basis of a dividend.

That, of course, will mean that next year, there should be a healthy dividend and that let me say, the small sacrifice of not having one this year given also that the quantum of it was not material in my personal opinion.

So we thought that in this case coming from a non-financial outlook, if you like, is to say well, you know, we're trading below our value for now, so let us aim for a very good one year forward with a good target price with a dividend.

So that generally takes us back to a dividend yield and takes us back to valuations of the all-time high. And it has to move into that direction. So the management recommendation was very much in line like we need one more year to now add in the course of this year some of these strategic steps that will start to show the value, because last year it was more opportunistic moves.

This year, the moves will be more strategic. In it, by the way, is also an answer to your CapEx, for example, because some of the opportunistic moves that we need to be moving into here requires, for example, getting into a lot more homes.

And that actually is a CapEx, by the way. The way we are counting set top boxes in homes is a CapEx. So it may not be in the form of CapEx that you are imagining and that's why, this being strategic for us, we also need one more year for that.

In the term that CapEx to revenue will start to come down, of course, I hasten to add that when 5G will come, I'm wondering what, you know, what all telcos are going to be responding to questions like yours when 5G will come, because that's going to be another CapEx.

That's the reason why we are trying to design a 5G approach to protect this CapEx number going forward and to know exactly, for example, like on a point-to-point, if a customer pays X, how do we do it in three years?

This, by the way, technologically is not that difficult to imagine for a company in our situation, especially that we are, our teams, are working, you know, we are benchmarking what we're doing with other very large telcos by the way who are part let's say of open network forum and we are sharing a lot in that sense, you see.

So when we look at the future of CapEx, we really need to have that five-year outlook. That's why the number we are giving you I think next year increase partly includes the direct answer to your question, it includes more investment in the home for next year.

Hervé Drouet: OK. And for you when you more investment in the home, is it more through the fixed broadband or other type of things, application?

Paul Doany: Actually it's a wireless box. It's a wireless box.

Hervé Drouet: The wireless box, OK.

Paul Doany: Yes, yes.

Hervé Drouet: OK. All right. OK. And just maybe a follow-up in terms of gearing level, where will you feel available to really resume this dividend? Where will you feel reasonably comfortable in terms of FX exposure? Is there any particular gearing level you can communicate or what type of criteria will make you more comfortable?

Paul Doany: Actually you know very well that companies can afford easily to pay dividends in the range we are right now, which is below two.

Hervé Drouet: Yes.

Paul Doany: Ideally, if you are in the range of 1.5, that's a very ideal, good place to go but, of course, we have FX issues. And the 2.5 is the declared upper limit that we are at and so we are actually in a healthy level.

So an answer directly to your question is that we feel that if we have this extra year, it will be better for the company to have a very solid foundation going forward and the amount of this year was not that material in this sense. So we have made this recommendation. The board accepted it. Even OTAS accepted it because they understood that - I'm sure your next question is going to come - on the 55 percent so we made that recommendation in that spirit.

Hervé Drouet: OK. All right. Thank you. Thank you very much.

Operator: Thank you. And your next question comes from the line of Vyacheslav Degtyarev of Goldman Sachs. Please ask your question.

Vyacheslav Degtyarev: Yes. Thanks for the presentation. So you're guiding for flattish margins for 2018 despite almost two percentage points margin improvement the last year. So where do you see acceleration for growth? I know you mentioned some these tax changes as one factor, is there anything else? Thanks.

Paul Doany: EBITDA margin, right? So you're asking about EBITDA margin? Because we couldn't hear you very well.

Vyacheslav Degtyarev: Yes, correct. I'm asking with regards to the EBITDA margin, yes.

Kaan Aktan: OK. So what we are guiding is, as I mentioned, is a flat or slightly growing margin compared to 2017. So at the beginning of last year, we said, OK, there will be an upturn in our margin story. We will first stabilize the margin, then it starts improving throughout the year. This is what happened in 2017.

So you should also consider for 2018 that we are still guiding a healthy double-digit revenue growth. So flat margin is still delivering a solid EBITDA increase in absolute terms. So we have decided to start the year by guiding that.

So let's see on the double digits revenue growth, but at least keep the margin flat and still and still get another jump in our absolute EBITDA term. This is how we see it for the moment. So depending on the outcome, you know, in the first quarter, second quarter, especially based on the subscriber performance, so we may have another review in the mid-year but for the time being we feel it's the right level.

Hervé Drouet: OK. Thank you.

Operator: Thank you. And your next question comes from the line of Ivan Kim of VTB Capital. Please ask your question.

Ivan Kim: Hi, good afternoon. I just wanted to ask about your subsidiaries and the planned IPOs of them, because I think you mentioned Paul before IPO for Argela, for example. So what is the timing ballpark of this? Can we expect anything to happen in 2019 or longer term? And what is the target value where you think those subsidiaries have enough scale to be sold in the public markets? That's question number one.

And the question number two, just on mobile revenue outlook. So do you expect a healthy growth in mobile in 2018 as there was in 2017 or do you expect some slow down? What's your view on that? Thank you.

Paul Doany: Thanks. OK. On the listings, actually I was slightly misquoted in relation to Argela being listed on that particular one, but it was not material because I was saying that as a target. I mean definitely Innova would be a better candidate to be listing in the shorter term.

I don't think they should be listed, you know, before two years. The overall purpose of this in these companies, by the way, is to make them a lot more transparent on their value as a standalone because we believe that, you know, when you get into this future of serving the enterprise primarily, if telcos do the work, the value is not really clear what that is.

So we separate that value into two components, if you like. One component is the pure telecom aspect, which obviously we will provide. And the other one is going to be that was called the non-telco, call it IT, if you like because I'm not sure even that terminology will be valid by that time. But that is where those companies should be going and those verticals that they're in.

So I would say that Innova probably a couple of years maybe, Argela definitely longer because Argela are still in investment mode, they will be establishing JVs -- product JVs I think, for example, like the small cell technology will be ready in two years from now, so let's say in the third year, it will start to show value, but that also would be in partnership with others. So Argela probably are a bit further away from -- I was slightly misquoted. I was referring more to Innova than Argela when that first meeting happened.

Hakan Dursun: Hello. This is Hakan, Chief Marketing Officer. The very short answer to your question is basically yes, we are expecting a solid mobile revenue growth in 2018 both on ARPU front and on subscriber front.

Then we'll look at the dynamics in the market in our position. We are not a mobile-only player anyways, we are a multi-play operator so we have the opportunity to focus on revenues or subscriber growth as per our plans.

What we did in 2017 first half was to focus on revenue growth on mobile which was a very strong revenue growth. Also on the second half of 2017, we had the double digit revenue growth still very strong at the same time gaining a significant number of subscribers.

When we look at our 2018 figures, we are very comfortable to say that there will be another strong growth in terms of mobile revenues. First, there is a strong room for growth in the LTE business because share of LTE customers with compatible devices and SIMs as of today is at 35 percent, which shows that there is a lot of opportunity in the coming years to monetize from the LTE space.

And basically we will be focusing on upsells and postpaidization efforts also going forward. We are increasing our prices to monetize from the existing subscriber base. And if we see an opportunity and rationalization in the market in terms of acquisition prices, we will also follow that.

Also, we have other tools to play with. We have bundling opportunity, we have the opportunity to bring together other propositions, for example, TV and mobile together so that we don't need to be aggressive on mobile-only. So taking all these dimensions into consideration, we are very confident that we will have a strong mobile revenue in 2018.

Ivan Kim: This is very helpful. Thank you.

Operator: Thank you. There are no further questions. Please continue.

Paul Doany: OK. I mean I can elaborate on just one point as we're getting to this close is that when you are getting a mobile customer that buys into your home TV and you invest that CapEx of the box in the home, just imagine what that means.

It means you're making the investment at the point where the customer is actually being captured and their future based on these, of course, will be serviced through a mobile network but we already bought the mobile to qualify for that cheap setup box.

What this means, again, this is an opportunistic approach since we have satellite and we have a high fixed cost in it just to clarify one point for those who see how these numbers work out. That means that's the best CapEx to spend to get that mobile customer.

If you don't treat it this way and you treat it as a general mobile CapEx, it gets submerged into providing general coverage, which puts us back into just competing with anybody else. It takes away the differentiation and frankly any mobile CapEx you invest, the guys will be very happy to spend it because there's always a need for mobile CapEx and I think that's the discipline that we're trying here to do.

The same thing on the fixed, if we have an existing cable which is there in the home, we're trying to utilize it, then I think that's the approach, the opportunistic, you'll be hearing more on the next call about what will be happening in this year. If there are no more questions, we can close.

Gozde Cullas: Yes, if there are no further questions, we can close the call. Operator?

Operator: Thank you, ladies and gentlemen. That does conclude our conference for today. Thank you all for participating. You may now disconnect.

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