TURK TELEKOMUNIKASYON A.S.

Moderator: Gozde Cullas
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Operator: This is conference # 961320.

Good afternoon, ladies and gentlemen. Thank you for standing by, and welcome to the Turk Telekom 2016 Year-end Conference Call. During the conference, you will be invited to ask questions by pressing star one on your telephone keypad. I must also advice you the conference is recorded today, Thursday, the February 9, 2017.

I would now like to hand over to your presenter today, Gozde. Please go ahead.

Gozde Cullas: Hello, everyone. Welcome to our 2016 year-end results call.

Today's speakers are our CEO, Paul Doany, and our CFO, Kaan Aktan. 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: Thanks Gozde. Hello, I'd like to welcome you all, we had an outstanding 2016 and eager to do discuss our results with you on this call, management team is here with me. I'll take you quickly through this presentation to allow more time for questions.

On slide three operational highlights, we see an exceptional year solidified by our integrated structure and reinforced by our pioneer sector-convergence play positioning in the market. Unification of the brands of the Company one-stop shops, which have shown record revenue growth. This integrated structure also allows us to offer across opportunities to solo sales and obviously a variety of the product offerings by the company groups that are now integrated into one.

In broadband, we have realized a record annual sales net of 698 thousand, which is the highest since 2008. Mobile subscriber additions gain momentum as well, expand the mobile based by TRY1.3 million in 2016, which is 40 percent higher than 2015. And TV business also recorded high net adds with to 293 thousand annual net home TV ads which is peak since 2011.

Slide four financial performance, we grew the topline by 10.9 percent excluding construction revenue adjustments. The growth is 10.6 percent, which exceeded the guidance. On EBITDA, fourth quarter last year growth was 1.3 percent year-on-year. However, excluding TRY67 million provisions in fourth quarter last year TRY146 million one-time gain in the fourth quarter 2015, and 2016, the adjusted EBITDA growth is 18 percent and Kaan Aktan will explain this to you in his presentation. In the full year, we delivered TRY5.5 billion in EBITDA with 34 percent margin. Our net income was negative at TRY724 million in 2016, and this is mainly due to steep appreciation of lira, also Kaan will explain to that.

For CapEx, we completed the year with TRY3 billion. Going forward we believe rationalizing mobile CapEx can be done by increased sharing among the operators, this is a particular target I would like to execute on to the maximum possible extent. We currently have passive sharing of around 2,000 towers with Vodafone each way, and some limited arrangements with Turkcell. Now we are keen on active radio access network sharing and exploring structural approaches for this, with the market players aiming to realize the maximum possible CapEx, OpEx saving in line with concessions, regulations and the encouragement of sharing under the law.

On slide 5, accelerated net additions. This shows the total number of Telecom group subscribers, reaching 38.9 million as of 2016 year-end. We achieved 1.5 million net adds across, which is the highest since the IPO. As you can see from the charts at the right, the overall net additions are clearly backed by acceleration in broadband, in mobile and TV net add. The lower decline of fixed voice subscribers, which is also noteworthy here when compared to the earlier numbers.

Moving on to slide 6. On the product portfolio, Turk Telekom is far ahead of it's competitors as you can see, we will continue focusing on up selling, cross-selling and providing value add to our customers. Additionally, we target specific under served home segments using a wide range of offerings, we will focus in particular on data and satellite TV in these home segments where we believe we can differentiate ourselves and offer unmatched value with the addition of specially designed mobile offerings in those segments. The target here is to grow the markets.

Next 7, value-added services. In the last decade we've seen spectacular growth of digital services, and this particular slide indicates the market position that we have with 200 value-added services and over 40 mobile applications, several of which are the most preferred category of customer needs. This also indicates, some of the names we have which is the Turk Telekom Muzik, which is most preferred, and also play store in the games, Web TV, which provides a broad range of national and exclusive channels with video on demand catch-up programs in HD quality through Tivibu GO and Tivibuspor, with the specialized content on sport news videos, the WiFi match broadcast and instant match video deliveries. We also proud to have Turkey's biggest online education platform Vitamin and also a product called Raunt for students, which is for university preparation and ProG for professionals.

Turk Telekom Security product, the same product as the Turkey's most comprehensive secure anti-virus and Family Protection Service and cloud storage solution Netdisk is exclusive for Turk Telekom broadband subscribers. Wirofon is our OTT messaging and voice platform enabling users of Turk Telekom PSTN minutes on mobile devices. This will be extended in specific segments in the security area, which we believe we are very well placed. We will be reporting on these in the next three months. Finally WiFi spots on these slide 5,000 locations will be extended. And of course, this has the advantage of WiFi free carriage for our customers.

Next is fixed broadband performance. Now this indicates the simplification of our offers with the all-inclusive price structure and cross-selling, which has led to this net adds 262 thousand subscribers in the quarter and in the full year net additions of 691 thousand which is the best net ads in nine years, at the end of 2016 broadband subscribers reached 8.7 million. The growth in subscriber base also came with an increase in ARPU 7 percent year-on-year and fiber subscribers exceeded 2 million with an accelerated net addition of 164 thousand per thousand in Q4. And the full year, the company added 547 thousand subscribers, which indicate 60 percent year-on-year improvement in fiber net, add outperformance.

Next upselling dynamics in fixed broadband slide nine, here we show that above 50 gigabytes packages increased to 49 percent from 32 percent previous year. While fiber based high-speed broadband packages reached 28 percent of the base with 6 percent year-on-year increase. It's encouraging to see a growing number of customers taking higher speed and capacity and fixed network offers the most efficient technology to deliver high capacity as the conversion player, we were obviously well equipped to do this and we will be continuing to do this trying to target a broader segment in order to grow the market.

In slide 10 nationwide fiber, we extended our fiber network by 15 thousand km in 2016, which reached two to 8 thousand km. We now cover 13.9 million homes with fiber in Turkey number of subscribers exceed 2 million. Superior network and wider coverage and higher capacity enable us to serve as the strongest fixed network operator meeting facilities based operator.

Obviously, we want to grow our wholesale revenues by sharing this capacity to deliver to other market players, which obviously the largest being Turkcell and Vodafone, but also not to underestimate the other players in the market that however their role is actually key to us as well and we can defer to them as service providers. We benefit from the full host of wholesale long distance transport network offering as well as access network, this is key to our growth in the future and we would like to look at this in terms of providing positive discrimination to the smaller players, and in addition, by permission with the regulator is to extend this by geography, non-urban areas where we can also offer positive discrimination. This is currently under discussion with the regulator, but this, we can provide to support the smaller players of the market as well.

Moving to slide 11, which is the mobile performance. We added 187 thousand subscribers in the fourth quarter, bringing the total to 18.6 million. Postpaid subscribers over 309 thousand net gain the blended ARPU 9.7 percent up year-on-year in the fourth quarter, driven by ARPU uplift in both prepaid and postpaid. As a result of higher data consumption, and commercial performance, improving the customer experience and obviously benefiting from the improved spectrum bands that the Company has acquired since the last LTE tender.

Through our offers, we provide a value proposition designed to encourage customers to use more data and value-added services. Clearly, this is what everybody is doing in the market and this is very much encouraged that this is the only obvious space that the Company can derive; all of us folks like Vodafone can derive additional revenue on the back of the big investments that have been made on license and network.

In the fourth quarter, we adopted a segmented approach, specifically for the youth and the premium segments, and on top of that we've signed sponsorship agreement with TV8 Channel for The Voice Turkey and Survivor Turkey, which supports us in these specific market segments. So this focus on specific market segments is the key to the way the Company would like to operate going forward. We're glad to report in particular that the churn rate has declined to 6.9 percent in the fourth quarter, which is the lowest it has ever been in the past eight years. All in all, the Company delivered 1.3 million mobile net ads which are 40 percent up from the previous year.

Slide 12 monetizing data, data revenues now represent 39 percent of the mobile service revenues of the Company, compared to 32 percent in the previous year, strong demand for LTE and ongoing 3G penetration are of course key metrics behind this.

I'd like to highlight that we are the leader in smartphone penetration at 75 percent with 9 percent year-on-year increase, and smartphone users' average monthly data increased by 70 percent year-on-year to 2.8 gigabyte. More importantly, 53 percent of our smartphone users are on LTE compatible devices, this is key actually on the growth going forward. But it's also important to indicate the 3G band being useful for carriage of data to our customers and this in the end increase the monthly mobile data for those subscribers the LTE top-end let's say 3.9 gigbayte. Not only, this is a good number but also we can see that this number will be growing and this again is a revenue opportunity for all the operators not to be given away.

TV performance slide 13 on television, critical drivers behind TV acquisition have an exclusive content such as UEFA, rich library of movies, nationwide TV access on both satellite and IPTV platforms and also the unified sales channel. So, in the fourth quarter, we've seen a growth on the Tivibu bundle also with our mobile package because that's the month obviously of high sports. At the same time, we continue to utilize Tivibu Go to support acquisition and retention obviously attracted by this value-added service proposition over multiple screen usage. We intend to extend this further this year and beyond.

With 90 percent quarter-on-quarter increase, Tivibu Home net subscriber growth accelerated to 87 thousand in the fourth quarter, last quarter the gain the segment is TRY19.2 we've seen in the ARPU, which is a healthy. Including Tivibu Go subscribers, our total number of TV subscribers has grown now to 2 million in total and going forward, we want to increase this number materially because we see this as a very key segment for us to offer cross-sell and potential upsell opportunities in the future.

Finally, on this chart, seeing BeIN, the acquiring party of Digiturk, global strategy is focused very much on content delivery through third-parties. We believe that they will follow the same strategy in Turkey; therefore, we expect to be receiving sub packages for non-exclusive and non-discriminatory basis, meaning us and the others. If that happens, we plan to translate this as an add-on feature to our existing customers and to offer this on the basis of low cost of acquisition and passing the benefit on to Digiturk obviously have had to pay have a lead to acquire those rights.

On fixed voice next chart which is 14, here we see a clear commitment from the Company to try to improve the fix performance. Well design tariff structure and multiplayer synergy offers and ongoing third party home benefits have worked very well for acquisition and retention. Last year, this decelerated -- the fixed voice covered decelerated loss to 652 thousand which have been generally in the one million range. This is beginning to bottom out now at 12.9 million for six quarters and our fixed access lines including naked DSL has now increased to 13.1. So this is a very positive turn, which we intend to build upon. We will be focusing specifically on seeing how we can reverse this trend. We will be advising you of this in our next quarter results. So the ARPU level at 23.2 with a healthy level. And

I'll move on now to corporate data slide 16. Now clearly this is a strategic segment as well. Through our extensive range of data offerings mainly IPVPN metroethernet cloud datacenter, ensuring our corporate customers can connect easily and secured for access of their apps and the data that they have. We also hear would highlight that we would be supporting Innova in this particular segment with a new go to market partner, we will be saying more about this in the next three months, but we see this is a very key area for us to operate in not only as Turk Telekom, but also through our subsidiary Innova and targeting a potential upside, but this of course with require strong go-to-market partners, I will be speaking more about that shortly. Corporate data revenues, double-digit growth 10 percent and 11 percent respectively in the fourth quarter of 2016 and this accounted for 8 percent of our total revenues.

Now I'd like to go to group companies with slide 16, we will have a lot more to say about these Companies going forward just for the purpose of today, just to remind you about these companies. Innova is a turnkey IT solutions company. It works in the data center area. It now has hospital information management system contracts in place some examples are in Mersin and Ankara. Mersin was just opened last week and Ankara will be online soon. Innova also offers developed and customized products meaning off the shelf, and what they develop themselves with lots of business partners like SAP, HP, Cisco, IBM, Huawei, Microsoft, etc. They also have their Payflex payment system. Argela is a technology company more focused on specific technology verticals. For example, now they have, they are the key partner on the LTE base station project ULAK and also they have their ProgRan projects this will be opened next week in Ankara, which is their 5G Center of Excellence, and they also had the US patents and we are also expanding on that, this is a mirror image by the way in Ankara, what they have in the US. This could prove to be a very important development for us because of the local content obligations on mobile stations in the concessions in Turkey. So we intent obviously to leverage on Argela’s strength in this regard. This is an area that obviously will be specific to Turkey, but there could be other stuff that can be done in the US and also in other markets. But obviously for us we will be focusing initially on Turkey and benefiting from the regulations that we have in place here.

Sebit is the educational focused Company, initially they focused mostly on content they then extended into platform that have very, very strong platform that supports education at the level of teacher, school and potentially also parents, following up on their kids, especially for the introduction of private tuition. In Turkey the well-known night schools are shutting down this year or so called, Dershane here, and this is a huge opportunity for us. We will be focusing on this, this year where we see that this company will grow hugely in value.

Other company is Turk Telekom International. It has 40,000 kilometers and 40 countries; we will be launching the SEA-ME-WE-5 project in Turkey in

İstanbul. One the launch of that project in competition with Dubai, that will be announced shortly.

Finally, we have AssisTT which is our call center. This is also one of the largest in Turkey. This will prove to be a very important strength for us going forward given that AssisTT also serves third-party customers, specifically in the health and aviation area like Turkish Airline and we will be speaking, more about that going forward. So, we believe that this group companies will be adding very important value upside for the company.

On my last chart which is organizational chart, I'd like to provide this information and clarification. That since my journey into the Company you have been reading about the number of people resigning and leaving the Company at high level, it may not be clear for some of you as to how this all fits in the picture. So this is the picture here on this chart. On this chart what we have is, we have the wholesale as you can see is a very important part for me because I really want to grow this wholesale materially going forward and that means selling through third-parties and obviously our direct competitors are very important customers of ours in this regard.

Now going back -- step down to the actual organization, I want to clarify that what we've done here. We have put the structure of consumer and corporate or business, which was the primary structure done, when the companies were integrated has now been dropped below the level of one direct report Marketing, and one direct report Sales and Customer Care, under which two persons will now have Chief Officer of the Company, we have maintained the structure below that level. So what has changed is the direct reporting to myself. The working units under that are actually working in the same way as before.

In relation to the remaining of the departments, have also guided to how the number of Directors have also dropped which is not something that is done in our disclosure. So our disclosures have been at chief level where we've seen major reduction in the number of direct reports. At Director level, we've also done a major reduction by around 40 percent and this is done in order to increase efficiency, really it's not a downsizing efforts as such what may result from it is some level of downsizing, but that's not the intention here. The intention is to be able to operate in a agile way to have fewer number of people without duplication that are responsible for very specific things in the Company, and what we've also done was to align all the KPIs of all of these departments under the new direct reports, also at regional level.

So this means that performance related pay, which means the bonus is tied to KPIs from the top level, meaning the directly report to the level below which is director now to working unit which is Group Manager and Manager. This will be touching one-third of the number of people working here, which is approximately 9,000 people, so that everybody working here will be working on a performance related pay, which actually is the case to a large extent, but it would be moved in this KPI directions. I'll move on to Kaan now, thank you.

Kaan Aktan: Well thank you very much. Hello, everyone this is Kaan Aktan, as CFO of the company. This will be my first investor call, and I am also looking forward meeting you in person in the coming weeks.

In terms of the high level financials, we recorded 10.9 percent year-on-year revenue growth, which is the highest since IPO, even after excluding non-operational construction. The pillars and enablers of our strategy namely, cross selling, synergy office, unified brands, one stopshop, stronger position in mobile with the new spectrum, TV initiatives, they all contribute to the growth momentum. Additionally project based revenues in the fourth quarter were higher than expected and supported the revenue performance as we approach the year end. These revenues are drive through or incorporation with our ICT subsidiaries and provide potential for future growth. At mobile, we completed 2016 with 16 percent year-on-year revenue increase and with almost 20 percent growth in the last quarter. Similarly, year-on-year broadband revenue growth was 13 whereas last quarter came at 16 percent, which is the highest in 2011. We delivered double-digit growth rate for corporate data business and at the same time, we continue to reduce the decline of the fixed voice revenue this year down to 8 percent, which is well below double-digit decline rates experienced in the previous years. Group EBITDA increased to TRY5.5 billion with a margin of 34 percent. There was some contraction in the reported EBITDA margin in the first half of the year, partly driven by increase in personnel and commercial expenses. We've recall that we had higher pace of growth in commercial expenses due to brand unification on LTE launch. Besides in first quarter there was only retirement program leading to higher year-on-year increase in people related costs.

In the second half of the year we contained the growth of these expenses excellent. With a specific event to Q4, we made a provision of TRY67 million related to treasury share notifications. Project base revenues that I just mentioned, since they come at lower margins combine with treasury share provision put some pressure on the EBITDA margin. Just by excluding the provision impacted Q4 underlying EBITDA margin is 35.3 percent and underlying EBITDA growth is 18 percent. Excluding license fees, we made 3 billion of CAPEX, its 19 percent CapEx to sales ratio. The main driver was network investment in both fixed and mobile segments mainly in fiber and LTE. In net income shut depreciation of Turkish Lira against US dollar and Euro hit our P&L, with the loss of TRY2.5 billion, all combined, we ended the year with a net loss of TRY700 plus million.

So we move to next page, which is page 20. I will take you through the debt profile. This quarter, our net debt increased to TRY12 billion with the leverage ratio of 2.17 to 17, FX being the main driver and partly due to license fee payments. The average maturity of our total debt increased to 2.5 years, which refinancing made with longer repayment terms with a fairly relaxed repayment schedule for next year meaning 2017 and also for 2018. We have TRY3 billion in cash as of the year-end very easy to access to loan markets, both domestic and international. Despite the volatility in the markets, our long-term funding costs in 2016, including those deals signed towards year-end, the cost remained stable compared to the prior year. We continue keeping our funding sources as diverse as possible 23 percent of total debt of Eurobonds, 45 percent is loans from ECAs and IFIs, which we have long-term and strategic relationship. Despite tough FX environment, we remained well below our global peers in terms of net debt to EBITDA ratio and regarding the strategy in managing the currency risk.

The company historically defines this strategy based on the observation that borrowing in dollar or euro yields lower risk cost compared to local currency funding, but at the same time, we also realized the volatility at the net income level caused by the fluctuations in the FX rates, which is the result of this strategy. This is why we made certain derivative transactions that we've previously mentioned in 2015 and 2016. For partially converting our FX based loans to Turkish lira, but also at the same time for balancing our dollar and euro exposure. For dollar to lira conversion, we used the instruments called participating swaps, which is a combination of regular cross currency swap and auctions.

Given the current dynamics, we are evaluating our financing strategy and FX borrowing, but at the same time, closely following the market conditions. For further conversion talk to local currency we need to find the right time and right market conditions. Our current view is that Turkish lira is historically undervalued against dollar and euro, and we should really understand if there is any recovery potential from that level.

And finally, I'm glad to see that our efforts are appreciated by the credit agencies. In their recent review last week bought S&P and Fitch affirmed our investment grade ratings.

Now we move to the next slide, which is the guidance as we just recently announced our revenue growth guidance for next year for 2017 excluding non-operational construction adjustment is 8 percent to 9 percent. EBITDA is in the range of TRY5.8 billion to TRY6 billion and the CapEx will be around TRY3 billion.

Now I hand over the call to Gozde.

Gozde Cullas: Thanks. We can take the questions now.

Operator: Thank you. Ladies and gentlemen, if you would like to ask a question today, please press star one on your telephone keypad, and wait for your name to be announced. To cancel this request, please use the hash key. Once again, that is star one if you wish to ask a question, and you can use the hash key to cancel your request. And you first question today comes from the line of – my apologies for any mispronunciation here – from the line of Can Oztoprak, from Unlu. Please go ahead, your line is open.

Can Oztoprak: Thank you for the comprehensive presentation. I'd like to ask two questions please. Is there any update you can provide regarding your current solvency issue that's my first question? And my second question is regarding your guidance. To me it seems quite conservative following 11 percent growth you achieved last year. Do you see any competitive pressures, or what the main reasons behind this rather conservative guidance are? Thank you.

Paul Doany: Thanks Can, on the first question we have no comment as this doesn't concern us.

On the second one, Kaan would you like to say something?

Kaan Aktan: Please go ahead.

Paul Doany: Well, look, I mean if you take the fourth quarter as a reference and that seems to be for you can take that like the offer level because that is more or less the upper range of our guidance. I think we are being quite reasonable in terms of our guidance on the margin level. So, what we are trying to guide to be that it is bottoming out and not going up again. So our target is to increase EBITDA, that's why we're guiding to the upper-end of around mid-30 percent to 35 percent that's where we are heading, and want to actually increase that, that's our target.

Operator: And your next question comes from Mitch Reznick, with Hermes. Please go ahead.

Mitch Reznick: Thank you. Got a couple questions. The first is in when you looking forward in 2017. Can you provide a little bit color on what the priorities are for residual free cash flow, because you've got the spectrum payments are coming down, and I guess going away altogether, by the end of the year and then maybe you got some statutory limitations on your ability to pay dividends as well. And with the EBITDA moving up and that implies decent cash flow, so -- you talk to the priorities on that particularly in the context of the FX impact on your leverage.

And then second question is on, you did closed two credit facilities come off entirely in the back half of last year versus the first part of this year, but can you talk about what you supposed to do with these facilities are?

Kaan Aktan: Yes, for the big ticket items actually dividend is function of the net income since we have a loss, we don't plan the dividend payment for 2017. So we got our CapEx at the level of TRY3 billion, which is very similar to what we had in 2016. Tax payment will be lower since we had a loss last year that will ease our tax burden for next year up to a certain point. So we expect the strong cash inflow but naturally, what we expect is to have a deleveraging impact on our financials. Can I get the question on the credit facilities?

Mitch Reznick: Sure. If I can sneak in a follow-up on that, when you say deleveraging is that on a gross debt basis -- cash building on the balance sheet and net debt effect.

Paul Doany: For the time being, we don't plan deleveraging at the gross debt basis.

Mitch Reznick: OK, the follow up question was just a little bit color on that two credit facilities that you closed recently if that's just adding liquidity if there is a specific use of those proceeds.

Paul Doany: No, we are using those facilities for refinancing of our existing loans.

Mitch Reznick: Right, OK. Great, thank you very much.

Operator: Thank you. As a reminder ladies and gentlemen, it is star one to ask a question or make a comment today. And your next request comes from the line of Herve Drouet, from HSBC. Please go ahead your line is open.

Herve Drouet: Yes, good afternoon. Thanks very much for the presentation. Couple of questions as well on my side. The first one on your guidance on CapEx, I was a bit surprised that you're guiding for a stable CapEx, what FX assumptions you are taking for 2017? Do you expect average FX to decline on 2017 than 2016? Or do expect some kind of recovery on the Turkish lira FX versus US dollar? The second question is regarding the payment on treasury tax. So, I mean you've taken a one-off for Q4 for the year 2013 was a treasury tax adjustment. Do you expect the potential for the one-off for all the years that may be booked later and specifically for the year 2010 and 2011? And maybe just finally on the FX loss of TRY2 billion with a little bit of problems to reconcile versus the FX change the amount TRY2 billion. I was wondering did you get any significant losses when coming from swap, in the sense that potentially some of this may have been outside the band range and which may have incur additional cost. Thank you.

Kaan Aktan: Yes. The first question with the CapEx, so 2016 was heavy year in terms of investment in mobile after LTE launch, and on the fixed line we continue our investment business as usual and fiber being the biggest item. So nationally 2017 will be more relaxed in the investments in mobile, and we know that there may be some impact due to the FX, since some of the CapEx items are in FX base. But we will be managing, and we are guiding a TRY3 billion we think that we will be managing the overall CapEx by strict prioritization.

And the second question was for the treasury share? This is our life; they are audit by the tax Office by treasury, so by time-to-time we received those audit differences. So there are different ways of handling those differences through in legal terms. So whenever we see that there is a high chance of cash outflow such a provision, can we receive anything similar in the future. So whatever we know it's already disclosed in our financial statements and as of the year-end that's how we foresee the potential risk.

And the third question was there about the swaps, for the time being we are not setting the upper limits of our swaps. I mean, when I say swaps, it's the auction part that's we may trigger. So for the time being, we are still below that level. But we will see how it works with the FX movement in the future and you will clearly see in our financial statements --the impact of the FX on the auctions.

Paul Doany: Perhaps I can add something in relation to this treasury shares matter, is that the company has taken legal action. In fact, in relation to this there are some pending earlier cases, which have been won by Avea in the past, and I think Turkcell have had such similar successes in the past of challenging these. So we believe that we are in a strong position to reverse this, but like Kaan indicated, to the extent we feel, we have to pay something we have been careful.

Herve Drouet: Just a follow-up just on this treasury tax adjustment. The provision, you have taken is for the year 2012 and 2013 isn't it. I was wondering as you taken already for 2010 and 2011 or is it something at the moment, you are not considering?

Kaan Aktan: We received based on contract license contracts, there is 3G part, and it is 2G parts, for us from a legal perspective they have different meanings so this is why we had different treatments for them, so up to 2013 we had received everything in 2G and 3G.

Paul Doany: To be very precise Herve on this point, is that we believe obviously all the other operators have a similar view, is that there is no merit to any of these claims, because they are being applied to a zero revenue to a discount. Now the matter has been complicated, because of the way revenues were reported, in the sense you are offering a fake gross revenue with a real net revenue and then you were trying to tax difference, but that was just a discount, that's why we expect going forward that this number should come down to zero in any case, this problem will be resolved once and for all, and for anything pending we are going to court.

And also us and Turkcell have had earlier successes on this matter in relation to challenging this and I think Vodafone are also in the same vein, but us and Turkcell have had success in this, so we don't see a big problem going forward on this, how we settled the past will be I think the way Kaan indicated, I think we have to be prudent on that.

Operator: Thank you. And your next question today comes from the line of Ondrej Cabejsek from Berenberg, please go ahead.

Ondrej: A couple of questions from me please. On depreciation this has increased by 25 percent year-over-year and you're saying that this is partly due to new spectrum. So I'd like to ask what part of this growth, if any at all of course is attributable to accelerated depreciation your fixed network investments given the concession agreement ending 2026, and related to that of course it's whether there have been any developments on that front in your talks with regulator? And what depreciation trends we are to expect going forward at this might have significant impact on dividend expectations. Second question, I'd like to follow up Herve's CapEx a bit, so previously you said there was a figure mentioned around TRY10 billion is the plan for 2016 to 2018. And looking at what you're guiding for 2017 you are quite below that so, and this is even despite deliver depreciation, so like to understand, where we are in terms of this and sort of related is you mentioned previously in this presentation that you are now looking at active sharing in Turkey. So the question here is whether this active sharing will have any implications for the frequency fees, frequency costs that you're paying and if so, to what extent? And last question, please, is on mobile data, so we've seen some regulatory changes in the past quarters, I'm looking at your competition. They've had a boost from being able to attribute more ARPU to the lower tax data services. So given that there is no quite a difference between what you and Turkcell report as percentage of service mobile revenues. And you are quite below them. My question is, what assumptions here are used when you guide for 2017 growth? Thank you very much.

Paul Doany: Let me start myself, I think I will fill in the financial numbers. Let me take this in reverse. OK. So the first in diverse. I mean the first point and diverse is this matter of mobile data and treatment and so on. Now to present this thing brutally basically so where we are the future treatment of service -- of special communication tax on service revenues coming between data and voice is under study now by the regulator. In order to see how the whole sector should be looking that going forward where there will be a lot more data less voice and so on. So, during this period, we are following the current approach, we have and of course, it may appear that Turkcell may have a short-term advantage out of this, and this is fine because they got that perhaps out of the removal of the regulations on voice and I think we very much supported that, by the way. Because Turkcell, we're being unfairly regulated in that regard. So we are very happy for them that they have had this. So this is the first step out of the way in relation to how the regulator would be dealing with this in the future, we will see it's can't be any higher than it is right now. So if it can get better then that's welcome. Of course, we are now guiding based on what we know, what we know is what we have for now.

On CapEx. It is correct that TRY10 billion had been given previously. We have managed to live with TRY3 billion last year, we will be living within our guidance this year. I have to say it this way, regardless what the exchange rate is going to be. So in other words, we are going to live within this number. Why, because we believe that we can, we can afford to live within this number. If we have to face something different during the year we will be obviously updating investors in that sense.

We believe it is quite easy for us based on existing contracts that we have, many of which actually are not that sensitive to lira to the extent you are you are seeing. So we believe therefore we will be able to easily to live within this and obviously all of this guidance is based upon exchange rates within what we are now seeing.

So we feel confident enough that we will be able to do this. This by the way, guidance given to you is not assuming an aggressive active sharing within the immediate term, because it takes time to do that. What we will be doing and this is a stepped approach going towards full active-sharing. So we would like to do something that takes us to an end-destination as aggressive as well because that gives us clarity going forward. Hence what we have, we think we will be fine.

On the matter of the concession agreement, I will leave to Kaan to add a few things and then the matter of depreciation particular 25 percent.

In relation to the concession agreement, which applies really to all mobile and fixed, the situation obviously is now that the regulator and the government meaning the Ministry on Policy should be looking at how they see the factor going forward both mobile and fixed, since we are now reaching to the level of the service life of what is being installed. This means that you install something that extends beyond the service life or rather the concession period, and this creates artificial cost and therefore has an artificial effect which is not correct. So, we are confident that we will be able to progress on this, we have nothing to update you on other than that we are working on it, and we are confident that we will be able to come up with a good result for the sector both fixed and mobile. Kaan?

Kaan Aktan: Yes, just one thing that I want to add to the depreciation, the discussion we had a (TRY60 million) impairment charge in the last quarter, which goes to the depreciation line, so it adds like 3 percentage points growth to the depreciation year-over-year.

In terms of the concession accounting naturally, it's a simple mathematics since you have to deplete --- as we approach so the end of concession and technically, have to have higher depreciation and amortization. On the other that, you would only see that there is no change during the next ten year. We would only see the major impact towards we approach to the 2026.

Ondrej: If I can follow-up on this, I don't think I quite understood that so you did say there was an increase in depreciation because of -- you have been through depreciate more rapidly, but then you see that there is no immediate impact or rather there is no impact before you approach 2026. I don't think I understood that if you could please clarify.

Kaan Aktan: I just mentioned, there was a one-off charge impairment of TRY60 million for the last quarter, which increased the growth which amplify the growth in that specific line like 3 percent percentage points. The other thing, what I said there will be theoretically acceleration, but you want to see in the next many years. That's what I said.

Ondrej: OK, just to confirm in terms of your fiber rollout there has been no accelerated depreciation of this for the 10-year period and there will be no depreciation accelerated one and in the near term before you try to fix this with the regulator.

Paul Doany: OK. Let me explain where we are in relation to this concession again. Now, how we are compelled to treat our costs is limited by the concession period. So the answer to that is that currently yes, we are reporting that way it will begin to hurt as we go on from here. This year there will be a smaller impact the next year, and this impact will increase over time. That's the argument that we are presenting to the regulator just to be clear, we are not presenting this argument obviously to them on the basis that it impacts our dividend payout with ability under IFRS. This is not the argument we are opposing which is not helpful argument to put them. The argument we are putting is that we are using current cost accounting as a basis for cost separated pricing. So when we split out for example what they will have to pay for us for duct what they have to pay for us for use of our network that cost calculation on current cost accounting is artificially something the service life of what we are asking someone to pay us for. So we are saying this is unfairly going up. We don't want to price to go up because the real price should be going down. That's the argument that we put into them, therefore it is being presented in the interests of competition and any fair competition on the one hand, but more importantly, by the way for also growing the market and besides as you correctly indicate if we end up with the surplus cash in the Company, we can't even take it out. So obviously the impact this year would be lower, but over time it will increase. So what we're trying to do now both by the way for mobile and for fixed we are putting the argument that it is in the public interest and in the fair competition interest that that the regulator fixes this year. That's what we're working towards, but as kind of the case that the impact will not be so high this year, but obviously now is the year to get this thing done. We are very optimistic that we will be able to fix this as I indicated in the public interest and in fair competition, affects both mobile obviously and also affects the fixed by the way, and I have seen by the way that they have made some progress on the mobile side, at least on the accounting treatment, not necessarily into what happens beyond the service life. So that's why we are very optimistic that we will be able to resolve this thing in the course of this year.

Ondrej: If you could please just confirm the active sharing question around frequency fees for their synergies for those from active sharing?

Paul Doany: These spectrum fees I mean this is a very detailed question, which relates to the TRx and all of that. We are in discussions with the government, by the way, I mean with better correlation to all these types of fees and I believe that we can report something on this in due course. In any case, as you know this number is quite small, and the scale of what we are paying. If you take the government proceeds coming from special communication tax, treasury tax, VAT and all of these things you would appreciate that. This is quite a small, let me say negotiable item between us and them. So it's not material.

Operator: Thank you. As a reminder ladies and gentlemen, it is star one should you wish to ask a question today. Your next request comes from the line of Ivan Kim, from VTB Capital. Please go ahead, your line is open.

Ivan Kim: Good afternoon. Can you please tell us whether there is any timeline on that regulatory study of special communication tax that's the first question? The second question is about the growth in broadband, which was very healthy, especially in the second half of 2016. So for 2017 do you expect the similar price upward price adjustments further upsell at fiber as in 2017? Do you feel that maybe there is a bit of a situation of what you can do on the fiber upsell or we're still up for healthy growth same as 2016. Thank you very much.

Paul Doany: Yes. I'll take reverse, now broadband growth for us is going to come from what we call doing the same as we were doing before, which is in the -- let me we say the upper level segments and the other one is we are trying to do more things in the bottom segment in order to realize real growth but by providing something that the customers can offered without impacting the rest of the customer base. So here we have the matter of geographical, let me say discrimination which we are in discussions with the regulator on and we have not finalized this, but we are moving -- And the other one would be more nationwide that we are planning, which is a lot more opportunistic from our side, again that requires regulatory concerns and will be available on the service providers including our direct competitors obviously. And we believe that will be the way provide broadband growth. Now to provide real broadband growth of this kind is going to be at the lower ARPU on the additional customers. The importance of doing that, is that -- this is a lower cost of provision to that base that ultimately will have higher data needs and therefore in time that ARPU will have a natural growth directly over the broadband or and-or over some mobile additive on to that customer base. That's why; this is a very, very important area for us.

Where you mentioned about pricing. Our target is to increase price generally where we are allowed to do so that practice will continue obviously. The practice of up-selling and cross-selling will also continue but as I indicated to you earlier, it is very, very important for us to grow the wholesale revenue base and that these actually growing our direct competitors and also the smaller ones that actually considered quite a percentage.

In relation to what will happen with SCT this is very early days to give any meaningful guidance on that. Because in the end today we are all paying what we have to pay, the issue is that on voice, we pay 25 percent in mobile and later, we pay 5 percent and on the fix we have 15 and 5. And there are discussions of the regulator and with the government, in order to have clarity around what the future will be. Because they also see that on some level, they will be losing some proceeds revenue and obviously from our side, we are also continue to pay more than others. That's the area that we will be talking about and it's very premature to go beyond what I just told you, we have given guidance in relation to what we expected to be for this year.

Ivan Kim: Great, thank you very much.

Operator: Thank you. And your next request today comes from the line of Walid Bellaha, from Barclays Capital. Please go ahead, your line is open.

Walid Bellaha: Good afternoon and thank you very much for your presentation. I have two questions. My first question is on the EBITDA growth, so I understand that for Q4. The reason why the EBITDA growth was relatively limit is because of the one-off, partly because of the one-off gain that you had in Q4 2015. But when I look at the growth quarter-on-quarter, it's still a relatively flat over the past two quarters, so I just wanted to understand why the EBITDA growth seems to flat over the past two quarters. And I also understand also what would drive improvement in the EBITDA for next year, I understand this will come from better ARPU in broadband, do you expect something similar for Mobile segment as well. And can you remind us also what's the percentage of LTE compatible devices that you have among your subscribers.

And lastly, could you just confirm the amount of FX cash holdings that you hold in your balance sheet as a percentage of total cash?

Kaan Aktan: Yes, thank you very much. Yes, you're right we have a rather flat EBITDA performance in the second half of the year, but it also means that we made quite improvement compared to the first half, so all-in-all there is an improvement from quarter-to-quarter from the beginning of the year towards the end of the year. Actually, we are guiding it at a stable level, but when we take the reference is the second half the EBITDA performance.

Hakan Dursun: So virtual penetration in 75 percent. So we have the higher smartphone penetration mobile sector and penetration of LTE in the smartphones and on the smartphone basis more than 50 percent to be exact 53 percent.

Kaan Aktan: And the ratio our currency cash in our balance sheet is at negligible level at the year-end.

Walid Bellaha: I couldn't hear the response on the ratio of cash.

Kaan Aktan: It's at negligible level.

Walid Bellaha: Negligible. OK. Thank you very much.

Operator: Thank you. We have no further questions at this time, please continue.

Gozde Cullas: If there are no further questions, we can close the call. Thank you.

Operator: Thank you, ladies and gentlemen; this concludes your presentation for today. Thank you all for participating. You may now disconnect.

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