TURK TELEKOMUNIKASYON A.S.

Moderator: Onur Oz
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Operator: Thank you for standing by, and welcome to the Türk Telekom Q4 Financial and Operational Results Conference Call.

At this time, all participants are in a listen only mode. There will be a presentation followed by a question and answer session at which time, if you wish to ask a question, you will need to press star one on your telephone. I must advise you that this conference is being recorded today, Friday, the 6th of February, 2015.

I would now like to turn the conference over to your speaker today, Onur Öz. Please go ahead.

Onur Öz: Thank you, (Laura). Good afternoon, everyone. Welcome to Türk Telekom Year-End 2014 Earnings Release Call. Today's presenters are Rami Aslan, Türk Telekom's CEO; and Murat Kirkgoz, Türk Telekom's CFO.

I would like to kindly remind you to read the notice we have on the second page of our presentation. I will now hand the call over to Rami.

Rami Aslan: Good afternoon, everyone. Thank you for being with us today. We are very pleased to announce a strong set of results for the full year 2014 as we embark upon a promising 2015.

Let's start with the year's highlights on Slide 3. This was a year in which we had a very strong subscriber growth, especially in our mobile business. We had 1.8 million net additions for the full year, of which 1.3 million was postpaid customers. The trend is a strong verification of our success in attracting high-value subscribers. This is supported by our smartphone penetration, which is the highest in the market by a large margin as well as our increasing postpaid ratio, also highest in the market. Our broadband balanced increase in subscribers, and ARPU brought a strong top line growth.

Our consolidated revenues increased 3.7 percent to TRY13.6 billion, meeting our full year guidance. EBITDA was up 1.2 percent reaching TRY5.05 billion; and net income increased 54 percent, reaching over TRY2 billion.

In 2014, we spent TRY2.15 billion in capital expenditures, which was in line with our guidance level. As a result of the 2014 financial summarized subject to general assembly approval, our Board of Directors decided to propose a dividend distribution of 53 Kurus per share at the end of May 2015.

Slide 4. Here we have our consolidated financial summary. I've already touched base on the annual figures. On the quarterly results, we increased our revenues by almost 10 percent in Q4 year-on-year, while our EBITDA fell about 4 percent. This was mainly driven by a few one-offs in our Q4 financials, and Murat will talk about these in more detail in the financial section.

We finished the year with a solid 37 percent EBITDA margin. Our net income increased close to 94 percent and exceeded TRY500 million amid more benign FX environment in the fourth quarter compared to last year.

In the next slide, Slide 5, we have our revenue breakdown. Our high-growth businesses continued to carry us to a consolidated growth. High single-digit or double-digit growth rates in mobile, broadband and corporate data businesses in the past few years resumed in 2014 as well. The share of fixed voice business in our mix is now down to almost 1/5 of our total revenues, and as we will mention in the following slides, decline rate in this business has improved in 2014. With our fixed line business, the decline in fixed voice is more than offset by growth in broadband, corporate data and other fixed line revenues, and this results with a slightly growing fixed line business with a strong EBITDA margin.

Let's look into our business line results in more detail starting with fixed broadband on Slide 6. As the strong leader in the business in Turkey, our strategy of being the premium player and continuing to provide our customers with the richest internet experience with our speed, reliability and unmatched value-added services continue to deliver high growth while holding on to our profitability. A healthy combination of subscriber and ARPU growth is achieved in 2014.

Our subscriber number reached 7.6 million, up about 300,000; while our ARPU grew 4 percent, reaching TRY41. As a result, our broadband revenues increased 8.5 percent year-on-year. We have increased the ratio of fiber-based subscribers to 15 percent of total customer base. Fiber is one of the key enablers of a premium Internet experience for our customers. At the same time, it helps us grow our ARPU through our up-selling on which we have more details in the next slide.

Slide 7. Together with our push in increasing fiber subscribers, we are upgrading our ADSL customer speeds. In mid-2014, through our doubling the speed content, we increased in productivity ADSL speeds up to 16 megabits per seconds from up to 8 megabits per second. As of the last quarter of 2014, almost half of our broadband subscribers are on 16 megabits per second or higher speed. On capacity, our unlimited package subscribers are getting close to 90 percent of our customer base. And on fair usage, we have increased to above 50 GB per usage subscribers to 24 percent, up from 18 percent last year. All these are signs of a healthy subscriber base that increasingly prefers higher speed and higher capacity packages in order to experience the internet to the fullest.

Slide 8. As Türk Telekom, we have the largest fiber network. And as of the last quarter of 2014, our Fiber to the Curb Homepass reached 7.2 million, while Fiber to the Home and Building Homepass became 2.9 million. Collectively, we have over 1.1 million subscribers in this network who are on either our fiber or hyper tariff. Subscribers to both of these tariffs can get speed starting from 24 megabits per second up to 100 megabits per second, and in Fiber to the Home case, up to 1,000 megabits per second. Our focus will continue to be utilizing this potential to increase our fiber and hyper customers on our network.

Slide 9. Our TV business, Tivibu, has been around for three years now. With the initiatives we have started towards the end of 2014, we are starting a new chapter in our TV business. Our first action was to acquire UEFA broadcasting rights for the Champions League and the Europa League for three years beginning in 2015-2016 season. We believe this exclusive content will attract many more subscribers to our platform.

Secondly, we decided to supplement our IPTV platform with a satellite platform. Through satellite, our goal is to reach all households in Turkey and be able to offer our content enriched by Europa football to everyone in the country. These actions place us in a very strong competitive position on a stand-alone basis. However, uniqueness of our position comes from our intentions to leverage other components of Türk Telekom Group products and services portfolio in our TV offerings.

Slide 10. In corporate data business, we continue to grow our revenues at a very high rate. The growth in the last quarter of the year was 24 percent year-on-year, in most part, driven by metro ethernet services. Full year revenue was – the growth was 15 percent. In the reorganization of our business units, which I will talk about in more detail in a few minutes, refocusing on corporate revenues will enable us to reap even more value from our corporate segments.

Slide 11. Our initiatives to increase retention in fixed voice business together with our efforts to maintain ARPU were the two key drivers of improved decline rate in revenues. We limited the revenue decline rate in fixed voice to single digits in the fourth quarter of the year. This is an important progress since it leaves us more room when it comes to offsetting the decline in fixed voice with high-growth parts in fixed line business. On the access line side, there is also an improvement in the decline rates of 2014 compared to the previous two years.

Slide 12. 2014 has been a very good year for our mobile business. After recording a very high subscriber net additions in the first three quarters, our revenue increased 22 percent year-on-year and EBITDA increased 28 percent year-on-year in the last quarter, reaching highest quarterly EBITDA ever. Our Q4 EBITDA margin increased to 19 percent from 18 percent a year ago. We have stated that in our mobile business, given the market conditions, we would like to increase scale in order to improve profitability. 2014 was a year that we were able to demonstrate that this strategy works. If we look at the past four years, you will see an annual EBITDA margin consistently improving. As long as our scale brings improvement in profitability, we will follow through with our strategy.

Slide 13. In 2014, we have increased our subscriber base by 12 percent. This is driven by 1.3 million postpaid subscriber net additions, which turns out to be 19 percent year-on-year growth in our postpaid base. With these strong net gains, our postpaid ratio reached 48 percent of our total customer base as they are increasingly becoming the operator of choice among postpaid subscribers and the numbers demonstrate that. Our blended ARPU increased 6 percent year-on-year in the fourth quarter, which was a driver behind our strong top line growth.

Slide 14. In 2014, we started to see the benefits of our investments in our mobile business. In the past few years, we improved our network coverage and capacity significantly and enhanced the total customer experience as well as our brand value. We are very pleased to see the initial positive results in our numbers this year. We not only more than doubled our net additions in one year compared to two years ago but also considerably improved quarterly average churn from 12 percent to 9 percent levels, which is where the market churn rate is. This is a testament to the increase of our ability to satisfy our customers and keep them with us.

In mobile number portability, we are the clear winner in the first nine months with 1.3 million net additions compared to the market leader's 1.3 million net loss. Our subscribers growth rate in the first nine months is more than three times the market's growth rate.

Slide 15. Mobile data and smartphones are other areas that we outperformed the markets. We increased our mobile data revenues 77 percent year-on-year in the fourth quarter. As of Q4 2014, mobile data revenues, excluding SMS and value-added services, make up 27 percent of our mobile service revenues. Our attractive initiative in smartphones coupled with our large selection of data plans and strong position in news market ensure that we still are the leader in smartphone penetration. As of last quarter of 2014, 52 percent of our customer base used smartphones.

Last quarter, we introduced fourth vision – sorry, the fourth version of our own smartphone brand, Avea inTouch. This is a 5-inch screen handset with 4G data capability. Our own brand smartphone helps us convert feature phone users into smartphone users and increase mobile data subscriptions.

Slide 16. Before I hand over to Murat for a review of financials, I would like to say a few words on the organizational changes we have done in 2014. The organizational announcement we made at the end of December 2014 marks the completion of our functional integration. With this change, we aim to transform our company from a product-focused organization to a customer-focused organization. To achieve this, we created two brand-new business units – consumer business and corporate business. All commercial functions under – are now housed in those two business units while wholesale business is a separate department in Türk Telekom reporting directly to me.

As you know, earlier in the year, we have unified most of the key support functions. These functions will be supporting our commercial organizations, removing the redundancies in our previous legal entity-based organization. Our legal entities remain intact and comply with all the rules and regulations they work under. The key message with this organizational transformation is that we position ourselves as a true and unique convergent player in Turkish telecom market, which is geared to create more value for our customers, which in turn, will help us grow our business while further optimizing our cost base.

I will now hand over to Murat for a review of the financials.

Murat Kirkgoz: Thank you, Rami. Good morning, and good afternoon, everyone.

And on Page 17, the summary income statement. The 10 percent revenue growth in Q4, our earnings revenue increased by 3.72 – TRY13.6 billion. EBITDA has been on the north of TRY5 billion by TRY50 million, and that is in line with the guidance figures, while the margins would (leave at) 37 percent. With normalizing one-offs of the year, our EBITDA will leave at TRY5.150 billion, and our margins would be 38 percent.

Operating profit declined by 5 percent to TRY3.45 billion. Let me note, we had a TRY49 million impairment from our assets in the last quarter of the year. The biggest difference have been in the financial expenses, which reduced from – by more than TRY1 billion from TRY1.5 billion to TRY470 million, mostly related with the FX losses and hedging gains that we incurred throughout the year.

Our net income had resulted as TRY2.7 billion, which is affecting the 15 percent margin for the whole year.

Moving to Page 18, the balance sheet. We have maintained a robust and very healthy balance sheet with increased current ratio and low leverage. On the asset side, you may notice that the cash increased by TRY1.5 billion, and that is mostly resulting from our cash – strong cash flows from our operations. And on the liabilities, the interest-bearing liabilities increased by a fraction of the FX losses throughout the year.

Moving to the cash flows, Page 19. The cash flow from operating activities increased by 14 percent to TRY4.4 billion while the investment had been pretty much in line with last year's, declining by 6 percent. The cash flow from – our net free cash flow from operating activities increased from TRY1.8 billion to TRY2.5 billion in result of all of the above, and the cash had increased to TRY2.5 billion at the year end.

Moving to Page 20. We had increased our leverage – decreased our leverage to 1.25 levels while improving the term of the loans to 3.9 years at the middle of the year, as you would recall. And by the year end, we continued to enhance this maturity to 4.1 years. The mix of the currency after that is 76 percent in dollars before the U.S. currency swap operations, and we had also added another $500 million, from dollars to euros, in the form of cost currency swaps. The maturity of our debt is in a very comfortable end, and we are maintaining a very comfortable 1.5 current ratio at the year end as well as a very low current ratio of 1.25.

And moving to Page 21. As Rami has highlighted, our board has recommended to our general assembly TRY1,841,000,000 dividends, which translates to 53 Kurus per share of dividends. This is a 7.3 percent yield based on the latest stock price.

I'll pass to our CEO for 2015 guidance.

Rami Aslan: Thank you, Murat. Our 2015 guidance is as follows – revenue growth of 5 percent to 7 percent, and this excludes the non-operation IFRIC 12 accounting adjustments; EBITDA between TRY5.1 billion to TRY5.2 billion; CapEx of around TRY2.3 billion, excluding any upcoming spectrum license fees.

Thank you, and we are now ready to move on for the Q&A session.

Operator: Thank you. Once again, if you wish to ask a question, please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press the hash key.

Your first question comes from JP Davids of Barclays. Please ask your question.

John-Paul Davids: Hi, good afternoon. I've got two questions, please. The first question touches on – I see you mentioned in your reorganization of the organization, which is convergence, particularly, can you talk about any other successes or challenges you're having in terms of bolting on mobile in the corporate segment as an avenue for growth?

And then separate question would be around inflation and the cost base. Can you provide us any sort of sensitivity around your cost base to the inflation falling into 2015 relative to 2014? Or at least that's the current expectations, i.e., do you expect to save any incremental costs because of lower inflation?

Rami Aslan: Thank you. I'll pass you to – we'll start with the second question, maybe. Murat, you can answer the – our CFO, Murat Kirkgoz, will answer the second question. We'll come back to the first.

Murat Kirkgoz: So our cost base is mostly dependent on to the personnel cost, as you would recall, and that is driven by the inflation increases. Usually, the inflation of the 2014 is translated to 2015's cost base. But this is a year that we will see – and the salary adjustment period is usually on April period. So we will see these implications starting from this period onwards.

However, we have the efficiency measures and metrics to go against the inflationary price increases and inflationary cost increases in the form of energy in areas of passing out cost and also in the commissions to the channels we managed to implement the efficiencies in order to cope with the cost pressures coming from inflation.

For the personnel, at the year end, we had ran an employee incentive program for the retirement – retired employees that – and that had yield to 1,500 employees reduction in numbers, which will be partially compensating for the inflationary cost pressures.

Rami Aslan: Thank you, Murat. And the first question, maybe, Mehmet Ali Akarca, CEO of our Corporate Units, will handle it.

Mehmet Ali Akarca: Hi, good afternoon, good morning. I'll try to be brief. Regarding the mobile inclusion to our corporate portfolio, we believe here is room for growth on that aspect. On the fixed side, we do enjoy from a large customer base, and we believe that introducing the mobile into that will enable us to offer the full value to our customers. Previously, we had separate divisions trying to offer the combined value to our customers. With the new era, basically, we will be in a better position to offer the full spectrum of services. This is clearly have been the case for a while now. We have similar requests coming from the market and from our customers. And hopefully, we will be in a position to address all these needs. So basically, we see a good potential in increasing our market share regarding the corporate side in the mobile.

John-Paul Davids: OK. And just one quick follow-up. I mean, do you have any sort of big enterprise feedback in terms of now you're moving into an increasingly converged space. Are you getting feedback from your enterprise customers that this is something they want and something they want to buy from you, i.e., bolting on mobile?

Mehmet Ali Akarca: We have very good feedback from the market and from our customers. Basically, for them, it makes life easier because rather than having separate telecom operators addressing their needs, they will have a single point of contact. And also, as you know, the whole market is moving towards the converged services. So it will also enable us to address those needs.

John-Paul Davids: Thank you.

Mehmet Ali Akarca: Thank you.

Operator: Your next question comes from Ranjan Sharma. Please ask your question.

Ranjan Sharma: Hi, good afternoon. Thank you for the call and congratulations on your results. Two questions from my side. Firstly, as a follow-up to the earlier question. Have you been targeting your customer base as a converged operator on the consumer and on the curb in addition to the corporate side? And if you can share any feedback from the consumer side as well. And the second question is on the fixed line side. The fourth quarter margin appears slightly light compared to the previous quarters. If you can share what drove that trend. Thank you.

Rami Aslan: Thank you, Ranjan, appreciate your comment. Maybe Murat, you want to discuss the fixed line quickly while we will handle the market.

Murat Kirkgoz: Sure. Hi, Ranjan. The Q4 margins were somehow diluted with a few one-off items, which we list through our books. Actually, we are pretty comfortable with our 2014 fixed line margins excluding the full year margins, excluding the one-off items, is around 47 percent and the reported figures are around 45 percent. If you're looking to the last quarter, eliminating the one-off items and IFRC12 seasonality, you would see 43 percent of EBITDA margin.

As you would notice, I mentioned, we have many items and many expenses that comes throughout the quarters and Q4 is a pretty commercially active season for us where we spend a lot into commission costs and to the one-off items. The most visible and the most straightforward spending that we had in the last quarter was, in these one-offs was the TRY44 million exceptional cost of the incentive for terminations and that will result into a saving in the upcoming years, apparently.

Therefore, I'm not worried about last quarter margins for the fixed line business. It's a temporary one-off element. And we are seeing really robust and mid-40s margins in the fixed line business going forward. Thank you.

Ranjan Sharma: Thank you, Murat.

Operator: Your next question comes from Ivan Kim. Please ask your question.

Ivan Kim: Two questions, please. Firstly, on the fiber growth, so the fiber customers and your – as percentage of your total base, increased by about 1 percentage point to 9.5 percent in 2014, which is a slower progress than before. So do you think that there will be an acceleration in 2015? And what do you have in mind to stimulate higher fiber sales?

And secondly, for mobile business – and there is an upcoming LTE license auction, which we don't know, obviously, the cost of, but given where the licenses were sold in Europe and where 3G licenses were sold, what prices 3G license were sold in Turkey, the cost of LTE license will likely push the leverage above 1 – I mean, net leverage above 1.5x for you. So do you think it could impact the dividend flow? Or you think you can sort of sustain leverage of more than 1.5 times?

Rami Aslan: OK. Thank you, Ivan. Let me take the second question, the LTE question. Thank you. It's a very, of course, pertinent question. First of all, according to the Ministry of Transportation and Communication, we understand that there's a possibility that a tender will take place in Q1 or Q2. There hasn't been any official announcement regarding the details of the frequency of the tender.

Murat Kirkgoz: There was a license fee to be charged.

Rami Aslan: And having our fiber network and the largest fiber network, we remain at an advantageous position compared to our competitors. And of course, as a very (inaudible) we started all the preparations required, and we are making our plans according to this announcement. And if all the tenders are complete within the first half, we expect that 4G can become operational by year end or very early next year.

Now with that, of course, I'd like to emphasize that our business is growing very well. We see good growth and – driven mainly by, of course, corporate data and, of course, the mobile business. And we are very comfortable that our business will continue to generate very strong cash flows that will cater for any requirements that we may have. At the same time, we believe that our margins will continue to be healthy. And despite Q4 being slightly lower than expected, we are very confident that the margins in our business will continue to be stable and will continue to be strong, and we're confident that 2015 will demonstrate that.

With that, we do believe that our profitability will be quite strong and our leverage will not be significantly above our target, which remains hovering around the 1.5 times so despite the expectations. But of course, we don't know where the licensees will be, and that will probably get clearer after the auction. But we are comfortable that if there's anybody who has sufficient capacity and strength in doing that, it will be Türk Telekom.

First question? Yes, I'll pass you to Mert Basar, our Corporate CMO.

Mert Basar: Thank you for the question. So from the fiber side, we have different dynamics compared to competition in terms of our investments. With our investments, we are mostly addressing our current customer base. So what we are doing is we are focusing on the speed, and the speed – the internet speed of our customer base. As you may remember that we have doubled the speed last year from 8 megabit per second to 16 megabit per second. And also, we have a very important concentration focus on increasing the base speed. In 2013, only 15 percent of our customers' base was 16-megabit per second or higher. In just one year, we moved to 50 percent of our customers to speeds

16 megabit per second or higher. We will continue focusing on that – in this year as well in 2015, and you will see the results within this year as well.

Ivan Kim: Ok. Thank you.

Operator: Your next question comes from Herve Drouet. Please ask your question.

Herve Drouet: Yes, good afternoon. Two questions as well on my side. The first one is on the fixed line revenue. Just want to check with you, I mean, following some of the change of the regulations we've seen during the summer, I thought some of the increase of tariffs were passed through. It looks like in Q4, we don't have seen yet this effect on average revenue per line on the fixed line. I know there were some discounts. I was wondering are those discounts to gradually phase away? And could we be in a position to where we may see on the fixed line side some better revenue stream looking forwards? Or do you think it's still too premature?

The second question is regarding the margin, and especially looking towards 2015 and what is implied by your guidance is still while you still guide for mid-single-digit growth, 5 percent to 7 percent on the revenue side, you don't – you are much more cautious on the EBITDA growth. I was wondering if you can give a bit more clarity why you are more cautious and in which business do you see margins more potentially under pressure.

Rami Aslan: Let me take the second, and maybe Murat will take the first question. Thank you, Herve.

You are right, I mean, first of all, you see a little bit of changes in dynamics of our – on the mix of our revenue mix. So as you know very well, our mobile business is really growing at a significant higher growth than the rest of the business, and that's driving also our revenues and revenue growth. But the mix comes from this lower margin. Now the mobile business is lower margin than the corporate margin, but it is a margin that is growing consistently, and we hope to continue to grow it, and we are confident that it will continue to grow with – under our current strategy.

At the same time, you will notice that the pressures on the fixed line is easing off a little bit, so we are able to reduce the deceleration in that area. And at the same time, we are very confident that the efficiencies that we are extracting from our integration process will actually overcompensate for any pressure that the fixed business is facing. At the same time, you will notice that the fixed decline is really continuing to improve as we have witnessed already in the last quarter.

So all in all, we do expect a decent growth of 5 percent to 7 percent, and we believe that this is higher, too, and we are confident that we will be able to meet those expectations. At the same time, it's the revenue mix that might put some pressure on the net margin. But at the same time, we are very confident that it will be stable year-on-year given the efficiencies that I talked about and, these are, to name a few, OpEx efficiencies, personnel management and many other other efficiencies as well and network improvements that we will capture this year.

And on the EBITDA side, we are confident that we will meet this guidance. We have – we are embarking, as you know, on major transformation and would like to provide a conservative estimate. And we are very happy to demonstrate that with this growth and with this mix, we will continue to provide an improvement in the EBITDA and the profitability. And actually if you grow the revenues, maintaining your net margins, you should expect profitability to increase.

Herve Drouet: My question was more about we've seen some quite significant one-off, I mean, that – especially in the first quarter, that affected the margins. So I thought maybe on the EBITDA, I mean, if we exclude those one-off as a margin profile will have been a bit better off, and maybe the EBITDA guidance will still imply there is a bit still some pressure even if you exclude this one-off?

Rami Aslan: Yes, I think that's a fair comment. I mean, there's some buffer here for an upside, and we'd like to remain a conservative outlook.

Herve Drouet: OK, all right. Thank you very much.

Rami Aslan: The first question was on fixed revenue. Do you want to take that, Murat?

Murat Kirkgoz: Yes, sure. Herve, thank you for this question. We have, for the broadband, an increasing trend in the second half while (at flat) fixed was up. And I think your question refers to what happened after the price inflationary adjustments of June with the PSTN voice. Is it correct?

Herve Drouet: Yes, correct, yes.

Murat Kirkgoz: So we have few elements there. So one of them is that we increased the inflationary prices, but there is the dilutive effect of lower package entries to this product segment, i.e., the wholesale line rental. And as well, we are offering retention services to our customers to sustain these customers' impact from churn. Therefore, the ARPU doesn't 100 percent increase in line with the inflation. But both for broadband and for the fixed voice, we had introduced price adjustments of inflation at the beginning of this year, for which we will see some positive impact going to the 2015.

Herve Drouet: And then are you keeping some of those retentions over 2015 as well? Or is it being gradually setting away?

Murat Kirkgoz: It is – as customers' contracts expire, we keep them with some new contracts or we turn to 4 months, 12 months contracts, and that is a protraction of our customer base.

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

Murat Kirkgoz: Yes. Thank you.

Operator: Your next question comes from Bayina Bashtaeva. Please ask your question.

Bayina Bashtaeva: Hi. Hi, good evening. Just the two very quick questions for me. So it looks like that your free cash flow will be negative this year just looking at what the EBITDA level is and the CapEx guidance and the dividends. And you said that you also expect that net leverage will be a little bit higher than 1.5 times of net leverage target. So the question is how and when do you expect to come back to below 1.5 times target level? And how you will do it given that lira is depreciating and that will put pressure on the debt side while EBITDA growth looks a little bit meager for this year? And the second question was on the litigation cases if you just can provide some update on this.

Rami Aslan: OK. I'll let Murat comment on the free cash flow, but I can assure you that it's not going to be negative. I'm not sure why you came to that conclusion, and maybe Murat can walk you through our free cash flow. I also want to emphasize that we have not indicated that leverage will be higher than 1.5 times. As you know, leverage to the extent of 1.25x, it's a fairly robust level, I mean, compared to our international peers or our peers in the industry. So we continue to enjoy a very, very good and strong leverage, and that is our policy. So you can be sure that we have a very prudent approach here that we don't anticipate to have leverage exceed 1.5 levels, even that is not our policy.

We, of course, maintain that policy to remain around it because that's a comfort zone that we're happy with. So just to be clear, we have not said that we will exceed it. Of course, there are FX considerations here. But at the end of the day, we have a very good buffer to the starting point that we have today.

Murat, maybe you want to comment on the free cash flow why it's not negative?

Murat Kirkgoz: Sure, the way that I would read it would be TRY5.1 billion to TRY5.2 billion of EBITDA, less TRY2.3 billion CapEx, less TRY1.8 billion of dividends. That will take us to about TRY1.1 billion of cash left for interest payments, which will be at the range of TRY100 million; tax payments, which was anticipated to TRY550 million to TRY600 million; and TRY400 million to TRY500 million of excess cash from post fees that can be further used for additional working capital requirements or it can be used to solve the reduction of debt.

Rami Aslan: Bayina, maybe you want to just clarify what's your question on the litigation cases? We are not sure we got …

Bayina Bashtaeva: I just wanted to get an update. Just before we go there, may I just ask on the free cash flow calculation, or maybe I just missed it, because the guidance said it's TRY2.3 billion but not including the license. And if you were to apply for the license, which when would you pay for it. So is it basically means that it's not a good year of business? I'm sorry if I missed that.

Murat Kirkgoz: If the license fees come, it will come on top of the guidance, that is correct. And that will translate to some cash that will be cash outflow but the leverage would not be dramatically affected from such – that depends, of course, the amount of license fees. But the guidance that we're giving is – and excluding the license fees, we should end up at TRY400 million to TRY500 million of excess cash.

Bayina Bashtaeva: I see, I see. So I was just including the license fee in that. OK. I see. And on the litigation cases, as you know, there have been some headlines over the last two quarters, I believe, one regarding the fixed line business and another one was regarding fixed broadband, I believe, in terms of one of the tariffs in the fixed broadband business.

Rami Aslan: I mean, there's nothing material here. I'm not really sure which case you're referring to, but there's nothing that's out of the ordinary that's providing any undue risk on Türk Telekom group, and it's normal course of business, and we're comfortable with our existing provisions and existing – and managing those risks. There's no reason of concern, whatsoever. You want to add anything, Murat?

Murat Kirkgoz: Sure. In the last quarter, we added about TRY42 million of additional provisions to our P&L for the fee risk that we see as our series, and the balance sheet case was sufficient amount of provisions. And in most of the cases, the BTK kind of penalties, we had paid these provisions – and to benefit from 25 percent of discount, which is applicable in Turkey for government-related penalties. So if we win the court case against those, it will be actually a positive spin for our cash inflows.

Bayina Bashtaeva: OK. I see. Thank you so much.

Rami Aslan: Thank you.

Operator: Your next question comes from Vibhor Kumar of Citigroup. Please ask your question.

Vibhor Kumar: Thank you so much for the opportunity. Most of my questions are answered. Just one question on the mobile competition. Probably if you could give some update on how the mobile competition is shaping in the first quarter and what are your expectations for first half or maybe for the full year, especially when we had some stability in the fourth quarter. So your comment would be really, really helpful.

Rami Aslan: I think the person for this question will be Dehsan Ertürk, our Consumer CMO. Dehsan, would you like to answer that question?

Dehsan Ertürk: Thank you. As you mentioned actually, we observed some cooling off in the fourth quarter of last year. And as of now, we are observing some fluctuations, ups and downs, but nothing as hot as it used to be. From the competitive point of view, I think we are not in an acquisition market as of end of first month of this year. But the signals from the market, I think, we have to observe cautiously. Yes, and on top of that, with the integration and the bundle abilities, we are well rounded and we are ready and actually waiting to see what's going to happen in the market.

Vibhor Kumar: OK. Can I ask you that – do you still see that – do you still target market share – do you have a number in terms of market share target, which is a comfortable level for you and that which will help you to maintain the EBITDA margin improvement as well?

Dehsan Ertürk: Actually, I have faced this very question a couple of times before so I'm going to give you the exact same answer again. What we've been trying to establish is a scalable business for a sustainable profitability. So our first concentration has never been gaining market share. What we were after was bringing up the skill, bringing up the number of subscribers, more revenues, more ARPU and sustainable profitability, that's all about it. Thank you.

Vibhor Kumar: OK, thank you so much.

Rami Aslan: Thank you.

Operator: Once again, if you wish to ask a question, please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press the hash key. Once again, that's star one if you wish to ask a question.

Your next question comes from Ranjan Sharma. Please ask your question.

Ranjan Sharma: Thank you. Two follow-ups from my side. Actually the first question was unanswered regarding your integration program. Now that you have transformed the company, are you targeting – have you already started targeting your customer base as a convert operator, and if you can share any feedback from the consumer segment?

And secondly, on the mobile side, now that Turkey is moving closer towards 4G services, if you can share at what stage of the network in terms of providing those 4G services do you have to upgrade the network? Or like some operations and some operators in the world have introduced single (brand) kind of technologies. Is that in the case for you as well?

Rami Aslan: Dehsan will take the first question. I'll take the second.

Dehsan Ertürk: OK. Thank you. Actually, I was well aware that we didn't answer your question, sorry about that, but right after that, there were a couple of questions more. We couldn't interfere with that.

About the – how the consumers would receive or would perceive a bundled approach or an integrated approach of our market engagement, I think the consumers in the Turkish market are far ahead of where we are now. In our focused groups, in our surveys, they are already asking about single-bill options, triple play, quadruple play, stuff like that. And in our previous experience, I think we observed a couple of times when as three separate entities, we executed some campaigns, and the response was very good. So I think after the reorganization, we didn't do anything new as of now, but I'm very hopeful that that's reception, and that a good response will continue. Thank you.

Rami Aslan: And Ranjan, just to elaborate on the second question. As you know, we have been expecting LTE. It's not a surprise to us. So we have been – and we are really fortunate to be the largest fiber network and the main player in that area. So we are extremely well positioned, and we have – and really have advantageous position compared to our competitors. And our investments in the last couple of years have been really focused on that. So we make sure that we are LTE-ready, and we have been preparing for that by being ready for a single-line technology as well. So any investments we've done in the last one and a half years, two, have been catering for that. So we are ready for LTE.

And Avea has already started also in the preparations for 4G in the areas where investments can be made at the stage like building up LTE-compatible base stations, acquiring LTE-compatible hardware, including 4G specifications, agreements made, etc.etc.. So we are making our plans accordingly.

Operator: Your next question comes from Ksenia Mishankina. Please ask your question.

Ksenia Mishankina: Could you just comment on your planned borrowings this year?

Rami Aslan: Sorry, can you say the question again? We couldn't hear it.

Ksenia Mishankina: Could you please comment on your planned borrowing this year?

Rami Aslan: Planned borrowing, yes, sure. Murat, would you like to comment?

Murat Kirkgoz: Sure. We have a very comfortable debt redemption scheduled for this year. We have the intentions to have some new ECA borrowings for the financing of the CapEx. Our initial thought to have this funding around $350 million for this year.

Rami Aslan: Maybe I'll add to that as well. I mean, just maybe it's worth mentioning that …

Operator: We're now back in the conference. Please continue.

Rami Aslan: Thank you. We're not sure where you lost us. So we can continue from that point. Where did you lose us?

Ksenia Mishankina: The $350 million.

Rami Aslan: Yes, I mean, Ksenia, I think we answered your question, but I wanted to add to Murat. Did you hear Murat's answer?

Ksenia Mishankina: No, not really. I think the line got cut off.

Rami Aslan: OK, so, Murat.

Murat Kirkgoz: OK, sorry for this. We had – for 2015, we have a pretty relaxed debt redemption schedule, and our main funding initiative for this year planned and approved by the board is about $350 million of ECA. However, our CEO has a few points to add on to that.

Rami Aslan: Yes. I wanted to add, and I'll add my comments again. I was adding to Murat that back in June, as you know, we have embarked on raising – tapping the bond capital markets, and we raised two bonds. We intended to tap the market for $500 million to $1 billion bond. It was our debute bond and it was – the market was closed for our corporate Turkey for more than nine months. We were able to (affect) more close to $8 billion of appetite, and that actually allowed us to raise two tranches of 500 million each, 5 years and 10 years, at very appealing rates, well below any rates that we see in our peers, corporate score banks in Turkey, and that we opened the market for Turkey.

But the relevance here is that we were able to actually reduce our cost of borrowing significantly on the back of this bond because we were able to also go to the bank market and repay the expensive or more expensive debt that we had and also enhance our amortization profile as well as renegotiate some of the pricings on the bank debt as well. So that gave us a lot of ammunition and also a lot of mileage in terms of our ability to manage our costs significantly lower than previous years as well.

Ksenia Mishankina: Thank you very much.

Operator: Your next question comes from Ondrej Cabejsek. Please ask your question.

Ondrej Cabejšek: Hi. Thanks for taking the question. Again, it pertains to the LTE rollout. We're about to see the acquisition of the frequencies quite soon, and I was just wondering if you could share what your strategy for monetization of this is because I believe that we've seen quite a big spillover into data as of recently with you and Vodafone offering quite generous packages. So if perhaps you see the trend in Turkey being one price for 3G data, more expensive for 4G data or so.

And second question, again, what strategy you have for monetizing your UEFA Champions League rights, if that's somehow supported by your satellite TV rollout? So these are the two questions. Thanks.

Rami Aslan: Thank you, Ondrej. Let me take the second question first on the UEFA rights. As you know, our commitment to the TV business growth is really important to us, and we have embarked on this UEFA broadcasting rights, which is really the second most attractive exclusive content in Turkey. And we are one of the top two players or – sorry, one of the top two players in the TV business today previously owned this right probably will be under pressure and losing significant edge here. And this places us in a very attractive, competitive position in the pay TV business.

Now the UEFA content will drive up our TV subscriber acquisitions, there's no doubt, and this will provide us with a competitive edge when it comes to building our TT or Turkish Telekom group other services. And on top of that, we plan to supplement our IPTV platform with a satellite TV, to your question, which is satellite TV platform in order to increase our reach.

We also are building our own DTH platform, which will give us reach to over 20 million or up to 21 million households in that area. So we will continue to, of course, our main platform today is still the IPTV, which is enjoying the technology superiority over satellite. But satellite platform will provide us with a complete coverage of the country and enable us to reach the customers who are outside the IPTV coverage. This said, this will really position us really well for the next three years while we continue to build our own platforms, as I said, in satellite and DTH.

Ondrej Cabejšek: So can I make just a quick follow-up before you answer the LTE question? Is there any – because I assume that these rights are pretty expensive. Is there any breakeven in terms of what – what the growth in subscriber numbers you have to achieve to make this a stand-alone product?

Rami Aslan: Yes. I mean, look, we don't usually give numbers, but I can tell you that the requirements in CapEx for this initiative, which is now becoming a core business for us, is certainly – can easily be absorbed within our more than TRY2.3 billion consolidated CapEx amount. On top of that, the UEFA rights acquisition itself will not be incremental burden for us, given – from an OpEx point of view because we ended our football sponsorships. So we do believe that this will have a positive impact all along on the revenue and on the cost side.

Ondrej Cabejšek: OK, thank you.

Rami Aslan: The first question – you want to take that? Dehsan, our CMO Consumer.

Dehsan Ertürk: Hello, again. About how we are going to – what kind of pricing strategy or approach we're going to use, that's naturally – I cannot share that, it's a commercial secret. However, on what we have seen in the Turkish market and what we have seen as Türk Telekom will probably monetize data is actually, we have never engaged in all-you-can-eat offers, that was never the case for the Turkish market, neither for us. And Avea strategy during the monetization of 3G network was mostly providing attractive bundles to only subscribers with high values. So there is not much actually data only packages that you could see around that is very attractive. So if you want to engage in high-data usage, as a Avea consumer or as a Türk Telekom Group consumer, you have to be a bundle consumer. I think that will be pretty much the case during the next couple of years for us and for most of the Turkish market. Thank you.

Ondrej Cabejšek: OK, thank you very much.

Operator: The last question comes from Vibhor Kumar. Please ask your question.

Vibhor Kumar: Yes, I have a follow-up on LTE network advantage. I believe the fiber could be available to all operators. Even Turkcell could also use your fiber as – in a backhaul. And in fact, Turkcell have had a number of towers and BTS. So in fact, they are in an advantageous position when the LTE lines are awarded. So it looks like Turkcell could be, in fact, could be in an advantageous position versus Avea. Could you comment on this, please?

Rami Aslan: Thank you, Vibhor. I mean, first of all, you're the only one who asked one question. So we were very impressed that you're the only one who asked one question, but you came for a second one.

It's a good question. A couple of things. First of all, let me emphasize, we have been really carefully investing across the country giving ourselves, I mean, a fantastic reach for the entire geography of Turkey. So we are certainly enjoying a much more advantageous position here because we will be operating in 81 cities. We are already operating in 81 cities given our 187,000-kilometer investment in fiber.

This said, I think our competitors, the highest number of cities covered is around 16 or 17 cities, if I'm not mistaken. So if you want cities across the entire geography, it's a totally different reach. Of course, we are providing this on a whole basis, and at the end of the day, this will end up being a wholesale revenue for us. But this is a network that we built, and that we are planning around as well, and that is definitely going to give us an edge versus competition.

Vibhor Kumar: OK. But my question still remains that the disadvantage which we are discussing the fiber backhaul is available to the competitor as well. And the other way around that the incumbent has a higher number of mobile towers and BTS. So they in fact can cover the market faster than Avea.

Rami Aslan: First of all, to the first point, it certainly comes at a cost. We've invested this, so it's not at a cost to us. But if anyone wants to use our fiber network, it will be at a wholesale cost. So certainly, it will be – I mean, there is access, but it will be at a cost, so that is not necessarily an equal comparison, if you will. What was the second point? There was a second – sorry.

Vibhor Kumar: My second point – yes, we've seen that they have a higher number of towers. I mean, they can, in fact, roll out faster than Avea.

Rami Aslan: OK. Let me tell you, I mean, at the end of the day in the new spectrum, which is expected to be an 800 spectrum as we understand from the announcements of the Ministry and because of the large spectrum with the new license required, the number of base stations will not be high, so basically given that we are operating now under a high spectrum moving into a lower spectrum, certainly, the number of stations required will not be added over – like an edge over what Avea has built. I mean, we have over more than 21,000 base stations today, and certainly, that should be sufficient under the new spectrum. So certainly, that will not be an edge, and I can assure you that we will be definitely the operator that can provide the lower – the lowest cost amongst the main players in this market.

Vibhor Kumar: OK. Understood. Just one last breakdown. I believe that last year around, when the management was in the Citi conference, there are a lot of emphasis on LTE sharing, and it's already in discussion in Poland as well. Do you believe that, that could be possible in Turkey? And is there any update or any discussions with the regulator or the government?

Rami Aslan: Now they became three questions. Look, I mean, certainly this is a possibility. I mean, we don't know where the decision – what the decision makers will end up doing, but there are really very key advantages of LTE sharing, and we would welcome that. As and when the decision comes, we are ready. So whether it is on LTE sharing base or is it a base or is it independent LTE for each operator, we are ready for both, and we will be more than happy to embark under both regimes.

Vibhor Kumar: OK. Thank you so much for answering my questions.

Rami Aslan: Pleasure.

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

Onur Öz: We would like to thank everyone for joining our conference call tonight. This is the end of our conference call. Again, thanks a lot for joining. And if you have any follow-up questions, please get in touch with the Investor Relations team. Thank you, and have a good evening.

Operator: That does conclude the conference for today. Thank you for participating. You may all disconnect.

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