Türk Telekomünikasyon A.S.
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Chaired by Onur Oz

Onur Oz

Hello, good afternoon everybody and welcome to our year end call for 2013. Speakers today will be Mr Rami Aslan, CEO of Türk Telekom and Mr Murat Kirkgoz, CFO of Türk Telekom and he will be going over the financials. Before we start our presentation can I kindly invite you to read our notice , Safe Harbour Statement on the second page of our presentation. Without further ado, I will now hand the call over to Türk Telekom CEO Mr Rami Aslan.

Rami Aslan

Good afternoon everyone, this is my first session with you, I look forward to be working with you, to have many more sessions and also to meeting you soon. Let me start our presentation with the highlights of 2013 on slide 5.

Our consolidated revenues increased by 4% year-over-year. As you will recall, the ICTA decided to cut both the voice and sms mobile termination rates in 2013. Excluding the topline effect of this MTR cut, our revenues were up by 5.1% year-on-year. Our fixed line business grew 2% year-on-year and this was driven by the broadband, corporate data and ICT businesses. 2013 was a subscriber year for us in mobile and broadband businesses and this reflected positively on our revenue figures. We recorded double digit revenue growth in broadband business driven by 300,000 subscriber net additions and a 7% ARPU uplift. In our mobile business we also had a strong growth of 10% despite the MTR cut and this was backed by an over 1 million net additions figure year-on-year. Due to unfavourable foreign exchange rate conditions, especially in the Euro and the US Dollar, our net income was negatively affected.

Let's move on to the next slide, slide 6, to review our high level consolidated financials. Our revenue grew 4% year-on-year and when we exclude the MTR cut this growth is 5.1%. Our consolidated EBITDA was flat year-on-year excluding a couple of exceptional items, namely a personnel early retirement programme that we implemented which resulted in a 10% decline in our fixed line employee base. This will enable us to manage our OPEX down and will benefit our company in the coming periods. The other exceptional item is a few charges we had to incur in the last quarter of the year due to regulatory penalties. Our net income is down 51% year-on-year driven mostly by the unrealised FX loss we incurred on our mainly hard currency dominated debt.

Moving to slide 7, as our consolidated revenues grew, the composition of it evolved. From being a heavily fixed voice dependent business we are turning into a group that drives double digit growth from more than half of its revenues, namely broadband and mobile. Our share of fixed voice in total revenues is almost down to a quarter now while 55% of our revenues are generated from broadband and mobile. Each of these businesses brought double digit average annual growth in the past five years.

Let's move on to our fixed line business starting with high speed broadband on slide 9. This was a great quarter and a great year for our broadband business. We had almost 140,000 net additions in the last quarter and 300,000 in the full year of 2013. Moreover, we achieved this while we grew our ARPU by over 7% year-on-year. As a result our broadband revenues increased by 10% year-on-year, both in the last quarter and in 2013. Additionally, our fibre subscriber rate within our total base increased to 9% from 3% in the previous year.

Speaking of fibre, on slide 10, let me take you through our fibre transformation. We continue to invest in fibre and at the end of 2013 we increased our homepass fibre to the home and to the building to 2.5 million. In this respect we are by far ahead of the competition. Equally important, if not more, we are growing our fibre subscriber numbers faster than the homepass numbers and, as a result, increased our subscriber to homepass ratio from 11% a year ago to 25% this past year. The good news is we still have a great way to go and our 178,000 net additions in fibre in the last quarter suggest that we are moving fast and in the right direction.

Slide 11. Fibre is an important asset that supports our up-sell efforts in broadband, especially in a market where consumers' appetite for speed and capacity is ever increasing. On this slide we see that our average consumer consumed 38 gigabytes of data a month. This usage is predominantly driven by video consumption as you see in the bottom right hand side graph. Our subscribers who opt for unlimited data packages increased to 84% from 70% a year ago. Speed-wise we have a big portion of our consumers, 89% to be specific, in up to 8 megabits per second or higher speed plans. So 1 or 2 megabits per second introductory speeds are simply not enough to consumers any more.

Moving to slide 12. Another area we are going in our broadband business, is our IPTV and WebTV platforms. Our Tivibu brand now has 1.8 million subscribers of which almost 300,000 are in IPTV. Our IPTV subscribers are growing phenomenally, almost doubling in a year, and with our fibre transformation in full speed we expect IPTV businesses to continue growing. As you know, our IPTV product offers premium content with over 170 channels and 4,500 strong content archive and European football.

Corporate data business, which we show on slide 13, is an area where we achieved double digit growth rates both in the last quarter and in the year 2013. A renewed focus, a push to regain our customers and retain our current ones, a revamped sales channel and heightened sales efforts continue to bring good results. Corporate data is a high margin business and it makes about 10% of our fixed line business.

On this last slide of fixed line section, page 14, we have our fixed voice business. Q4 was a quarter in which we achieved the lowest quarter-on-quarter total access line loss for a very long time. Our fixed voice line loss is pretty much offset by naked broadband gains. Tough challenges continue in fixed voice, but at the same time, we continue our efforts to control the revenue decline in this business where the decline rate is 12% year-on-year. In addition to our traditional minute benefits to our customers, we use non-traditional third party value offers to decrease the churn. In the Fourth Quarter we introduced an innovative android home phone which is exactly the same concept as the Smartphone except the phone feature is a PSTN line. With this device we target increased customer attention by providing it to our customers at low rates if they commit to a two year contract with us.

Moving on to the mobile business AVEA which is 90% owned by Türk Telekom. It was a tough year in mobile and as the challenger operator our focus of providing our customers with the best overall value paid off. In the past year we continued investing in our brands, our service quality, our network and our sales channel. We increased our 3G population coverage to 84% and transformed our sales channel into a much more efficient structure. Our brand image initiative with the lives changed with AVEA campaign, our youth programme Woops and our high value customer initiative AVEA Prime have resonated very, very well with our current and potential customers. In addition, we continued the successful partnerships with Bim, PTT and Petrol Ofisi through which we reached specific segments and achieved great results.

2013 was a year in which we sped up our subscriber gains and achieved an 8% increase in our base. Despite regulatory headwind on the MTR side, our topline grew with double digit rates and all these results came with an improvement in our EBITDA margin.

As you see on slide 16 despite the MTR cut effects we increased our revenues by 10% year-on-year in 2013. If we were able to exclude the MTR cut, our growth would have been 15%. The strong growth in the topline we achieved is even more meaningful when you look at our EBITDA figures and see how we managed to improve our profitability which reached 15% EBITDA margin in 2013, up from 13%. Our absolute EBITDA grew by 20% to TL 584 million in the same period. If we exclude the one-off effect of 2012 that would mean that we would have grown by 30%.

Moving on to slide 17, in the very challenging and competitive environment in the mobile business our team performed phenomenally well by adding 1 million net subscribers in 2013, an 8% increase year-on-year. 418,000 of these net additions came in Q4 alone. Furthermore, a larger part of these net additions was postpaid subscribers effectively increasing our postpaid ratio to 45%. Our leadership in postpaid subscriber ratio in the market is strengthened with these results. On the ARPU front our Q4 blended ARPU was TL 21.2. The MTR cut also affected our ARPUs, in this case TL 2. Excluding the MTR cut we have increased our blended ARPU by 3% year-on-year in the Fourth Quarter. Our MOU was also up 7% year-on-year reaching 369 minutes in Q4.

Moving to slide 18 we see that in the highly competitive mobile number portability area, AVEA clearly and overwhelmingly was the most successful operator. Almost 1 million subscribers each year since 2011 left the incumbent operator after trying and over 60% of them preferred AVEA. A similar favourable trend can also be observed in the net additions in which the bottom right graph shows the first nine months of the year for the whole market. AVEA finished the year with over 1 million net additions exceeding the 2012 results by 43%.

Finally on slide 19 a very important area for us is mobile data. In the last quarter of the year we increased our mobile data revenues by 50%. As of Q4 2013 pure data revenues, excluding sms and value-added services, constitute 18% of our total mobile service revenues. This is a 5 percentage points increase compared to last year. Our leadership positions in postpaid subscriber ratio and Smartphone penetration are two important drivers for our mobile data growth. In addition, our appealing and energetic brand together with our highly flexible and customisable tariff structure for the youth segment supports our mobile data sales.

At this point I'd like to pass on to our CFO, Murat Kirkgoz, for him to go over our financial figures and I will be back with you after Murat's part to announce our 2014 guidance and open the floor for our team to answer your questions.

Murat Kirkgoz

Thank you Rami, good afternoon everybody. I'm on page 21 Summary Income Statement. In 2013 our revenues grew by 4% to TL 13, 190 billion. Of course taking out the sms and voice MTR cut in the second half, this is an underlying 5.1% growth year-over-year. The EBITDA resulted as 4,986 billion and this is excluding the one-off effect coming from the unexpected penalties of 45 million and the additional incentive programme of employees; this rounds up to 5.1 billion. The financial expense line reads as 1.5 billion and that is negatively affected from the FX losses resulting from the devaluation of Turkish Lira throughout the year.

The positive point about FX losses is that most of this FX loss has been () due to the rollover of the hard currency debt and sources throughout the year. The tax expenses has resulted as a result of this FX loss and the net income has resulted as 1.3 billion.

Moving to page 22, the summary balance sheet, the balance sheet has grown by 6% to TL 18.2 billion. The main points here are the increase of the assets by TL 500 million net and other assets by TL 450 million to TL 4.3 billion. We had recognised an increase in the working capital due to a move from prepaid to postpaid in our broadband products and that's one-off hit to our cashflow this year. The cash and cash () improved throughout the year by 11% and the liabilities have grown by another TL 2.3 billion. The TL 2.3 billion has resulted from TL 900 million of new borrowings and TL 1.3 billion of FX losses.

Moving to the cashflow statement on page 23, the cashflow from operating activities has improved by another TL 145 million and the strong cashflows remain throughout the year. The investing activities has reduced by TL 119 million, the bottom line improving by TL 335 million, the cashflow from operative activities. On the bottom line, the cash at hand increased by TL 250 million throughout the year.

Turning to page 24 the revenue and sales are presented in this slide. The domestic PSTN declined by 12% and has been broadly covered by other revenue streams which grew by double digits in other area; broadband, corporate data, international revenue and domestic interconnection, while other revenues increased substantially by 79%. The construction revenues which declined by 20% year-over-year as a result of the lower investment realised throughout the year to the fibre rollout. The revenues excluding the IFRIC 12 effect on fixed line has resulted as 3.3%. Mobile had a double digit growth throughout the year, reaching TL 3.8 billion. The total revenues of the group as previously communicated is TL 13.2 billion with 4% growth year-over-year.

The next page is about OPEX. A big chunk of the OPEX on the personnel has been at a growth of single digit, around 4% on a consolidated level. The main point in the doubtful receivables is one-off gains that we had realised last year was not repeated this year and therefore the reversals of last year is showing a negative effect against this year, while the underlying net-debt provision is pretty much in line with our expectations. Total OPEX growth was limited to 6% throughout the year.

On page 26 we have the debt profile of the company. So the company continues to diversify its source of funding and expanding the maturity of its facilities. The average maturity of our debt has reached 2.7 years following 2.2 years of the September 2013 figures. We have a very healthy balance sheet of TL 1.46 to net of EBITDA although this was negatively affected with the recent devaluation of the Turkish Lira.

On page 27 we have the dividend and shareholder remuneration figures. The board has recommended distributing TL 1.2 billion maximum amount of dividends based on the TL 1.3 billion net income. That translates to 34 kurus per share of dividends and is subject to general assembly approval. I'm now passing back to Rami.

Rami Aslan

Thank you Murat, now to guidance. I'd like to announce the guidance for 2014. Our revenue growth guidance is 4-5%. EBITDA guidance range is between TL 5 billion to TL 5.2 billion and 2014 Capex guidance will be around TL 2.1 billion, down approximately TL 1.1 million compared to 2013. I now hand over the call to the operator to open up the Q&A session. Thank you.

Questions and Answers

San Dhillon - Barclays

Hi guys just two questions; does your EBITDA assume any costs related to personnel incentives, and if so, how large are these and when will they be incurred? And secondly in mobile, mobile revenues make up about 29% of group revenues in 2013, but only 12% of group EBITDA. Will you attempt to materially increase mobile EBITDA as a proportion of total Group and what will you specifically do in order to increase that? Thank you.

Thank you, the first question related to EBITDA guidance. We have embarked on a programme last year which we believe will reap the effort of that in the upcoming period, so that is basically what we are expecting. We do not expect to plan or do another similar programme this year, however we always can look at our efficiencies and see how best we can manage that, but to answer your question, we don't have that in the plan. The second question, first of all I'd like to emphasise that we have done a significant stride here in basically achieving a strong transformation of our revenues and the mobile business is doing well, it was not a very easy year, but AVEA has done a fantastic result in terms of growing our subscriber base and we continue to focus on that strategy to grow our subscriber base. For us, of course, this is one of the growth engines - AVEA has done a phenomenal performance in 2013. They have added two brand new initiatives to its product portfolio in Q4 and through Woops and Prime they had a very successful brand image programme, as well as through partnerships with Bim, PTT and PO have done phenomenally well for us and grew our business. They managed to increase the subscriber base by more than 1 million subscribers. In Q4 alone we have done 418,000 subscribers net additions in that single quarter and we continue to focus on that strategy. This is of course our biggest growth engine and one of the biggest growth engines and we will continue to focus on that to achieve our results.

Okay thank you very much

Torsten Achtmann – JPM

Good afternoon, the first question will be on the fixed line business; fixed line business despite very good KPIs on the broadband side seems to be slowing down, so first of all, what do you think can accelerate growth in 2014, and secondly, do you see room for further price increases on the fixed business to further drive revenues and profitability? Thank you.

Thank you let me start with the second question actually on the price increase, we don't count on price increases, we've had clearly our fixed line business is slowly reducing as a composition of our total revue - it's now nearly one quarter of our revenue - so clearly this remains under pressure and decreasing, but you know we had 12% decrease in the last year. However, this is always an option, but we haven't really made plans to increase the prices on the fixed line. Now on the broadband, broadband revenues increased 12% Year-on-year since 2009. 2013 was a record year in terms of net broadband additions. Net additions in 2013 were 300,000, Q4 alone was 138,000 and with the continuous fibre transformation 2013 net fibre subscriber gains were 404,000 or 184% year-on-year increase. For us, we continue to have a multi-play offer, as well as value-added services to ensure that we continue a very strong growth going forward and our investments in fibre will continue on that basis.

Ivan Kim – VTB Capital

Yes good afternoon, one question on the margins in mobile business; your revenues from the fourth quarter declined in mobile business sequentially in the fourth quarter '13 compared to third quarter '13, but at the same time the EBITDA profitability improved. Can you comment on that and what was behind that please? Secondly, your 2014 Capex looks fairly high, similar to what you invested in 2013. Can you please provide the breakdown of areas where the investment will be going in mobile and fixed? Thank you.

Thank you. I think on the Q4 just to be clear, if you exclude the MTR cut actually the revenues have grown, so I'll give you the figures in a second, but we covered them in the presentation. With regards to Capex, as we have promised in the past and my predecessors have been quite adamant that we continue to manage Capex, we will continue the same policy. We are really working on managing our Capex more efficiently and we focus on high return on investment strategy here. So for us clearly we are slowly reducing the Capex. We still need to invest in certain areas, but one thing that we will be very focused on in 2014 is to create a very disciplined approach in our Capex standing and investment decisions and be better and very well aligned with the strategy of the company and where we want to be in the next three years. Basically, we don't really announce business by business the breakdown, but we give you the total guidance, but I assure you that there'll be a lot more discipline this year on the returns and on the alignment with strategy.

Thank you very much for this. What I meant with the first question is basically you had the sequential decline in mobile revenue and at the same time, increase on profitability which is a bit counterintuitive; probably you had the cut back on margin expenses or something?

Basically if you take into consideration the interconnect revenue and interconnect cost, basically that's the differential and improvement there. That's the real effect, nothing else.

So there was a difference in interconnect balance in the fourth quarter compared to the third quarter?

That is correct.

Koray Pamir - DB

Thanks for the presentation gentleman, two quick questions; first of all, are you absorbing any negative impact from the recent deterioration in the consumer sentiment, in the way that the existing subscribers behave in terms of MOU and ARPU, and does it impact in any way in the mobile or broadband businesses regarding the pace of acquisitions? Are you seeing lower appetite in any way at those businesses? My second question is how do you competition in the fibre broadband market evolving? Your expansion is quite fast and do you see any near term pickup in competition in the broadband business versus maybe Turkcell and other businesses at that front, thank you.

Thank you. We are fortunate as a fixed mobile broadband business that we're quite resilient to negative sentiments, we're probably less prone than other industries and certainly than one segment industries. We have been there, we've tested our resilience before and we believe that we will continue that resilience, of course there will be sometimes short term impact, bit for us we have not seen an impact on our usage or any KPIs that lead for us to be concerned whatsoever. In terms of the fibre, we remain very focused on the fibre strategy for us. This is extremely important for us to up-sell; it's extremely important for us to increase our hit rate and continue to improve access to reduce churn and to improve the ARPUs. And for us also fibre is extremely important because it continues to position us for the 4G and also the resilience of the company, the speed, the security, the redundancy of course are always proportional with our fibre network, so we continue to focus on that. In terms of competition, we are challenged, but you know, basically we continue to lead by example and to protect value, and we continue to differentiate ourselves with very high quality and value-added services and excellent speed.

Thank you.

Mehmet Agyuz - Yapi Kredi

Thanks for the presentation. In fourth quarter it looks like your fixed line margins has shown some sort of stabilization. Since you no longer provider the details of this Opex breakdown, could you give us some colour about what role that stabilization please?

Murat Kirkgoz

So last quarter is characterized mostly by an increase of the maintenance costs, and higher commercial spend and this was the same and similar for this quarter. However, we started to see the benefit of the incentive programme in the last quarter as in terms of saving from the personnel costs and thus the increase of the commercial spend was somehow compensated by savings in other areas. So we had delivered actually slightly lower EBITDA than the third quarter on a consolidated basis which is a result of the seasonality of the topline initiatives and topline revenues.

So there is no such thing as reversal of doubtful receivables or nay other things that we had seen in the fourth quarter?

We have done a collection campaign which has some positive impact and positive return to the overdue receivables, but that is not a reversal; that's hardcore collection in cash.

Okay and regarding your personnel expense, just to clarify. I understand that your retirement programme resulted in additional 70 million, so which probably adds for this quarter another additional TL50 million in restructuring costs I suppose. Are you referring to the earlier terminated personnel savings or for fourth quarter particularly; what drew that personnel expense?

That is correct, so throughout the year, we have a reduction of 10% of the employee of the network business units and that has been mostly recognised as a return in the last quarter. However, we had not only made incentive payments, but also the employee termination benefits to the employees, thus had a substantial amount of cash out throughout the year which is now over for the year end.

Got it and one last question regarding your revenue growth outlook. Do you incorporate any construction; how do you expect construction revenue for next year? Do you expect to continue to phase down or do you expect a similar one given the similar Capex level?

The Capex is actually 5% declining and the amount of the IFRIC 12 eligible Capex is decreasing therefore we will see a moderate decline in that line as well.

Okay, thanks.

Torsten Achtmann – JPM

Just one more question on mobile please. The first quarter you typically see an increase in the competitive environment and if you compare this quarter to any of the past quarters, there are similar patterns or is it less competitive, more competitive; what do you see in mobile happening so far in Q1? Thank you.

Dehşan Ertürk

This is Dehşan, Chief Marketing Officer AVEA. Actually about the competitiveness of this quarter and last quarter, maybe to extensively address your question we should go back to September 2013 where AVEA's net addition performance starts to increase significantly. 13 September 2013, AVEA accomplished an impressive subscriber performance with 418,000 net add thanks to three major developments; first, as Rami Bey mentioned, our investment on brand and repositioning the brand in accordance with differentiated value propositions paid off. Second, we introduced an effective segment approach specifically to white collar customers, youth and high value customer, including launch of two new sub-brands, and thirdly, improve our churn performance significantly with the impressive increase in networks, face-to-face channel and call centre performances. They bring us the highest customer satisfaction rates ever. In addition to these three developments, our partnerships with Bimcell, PTTcell and Pocell continue to make noteworthy contributions to subscriber performance. So all these combined resulted in impressive mobile number for performance for AVEA. AVEA actually became the only operator with positive netters in the mobile number portable to market. Eventually we observed initiatives taken by Vodafone to get to a balance in mobile number portable to market, starting in September 2nd. Between the beginning of September and the end of September, Vodafone launched more than 10 new offers to become mobile number portable to positive, so we were expecting that aggression from Vodafone following AVEA's outperformance in mobile number portability. So we were prepared and really stunted almost every offer Vodafone launched in a very decisive and timely manner. So at the point where we come, if we compare this quarter's acquisition price level, I would say this is not as aggressive as it was in quarter 2 last year. So we are in a little bit hotter place than where we used to be, a couple of months ago, but not as bad as quarter 2 of 2013. As a result we will continue to grow our business investing on efficient competitive levers as required. Thank you.

Closing Comments

Rami Aslan

Thank you all for being with us. So maybe just I will conclude with a few statements given that I'm new here and of course, working very hard to make sure that this year is yet another excellent year for Türk Telekom.

Last year was a year of subscriber growth and revenue transformation. We have the highest subscriber growth achieved since a very long time. Of course this not an easy talk or achievement for an incumbent and it came at a negligible cost or impact on EBITDA, especially if you compare to any other fixed incumbent whether in the region or globally. We will continue the path to focus on subscriber growth and continue improving our revenue transformation making sure that we have a very strong EBITDA generation. We will focus a lot, one of the priorities is to focus a lot on the operational efficiencies and ensure that the non-operational Opex is much more efficient than it is today and there's a lot of room for us to improve in that area, and we will continue to work closely as a group on a lot of cross sell and up sell initiatives, as well as Group churn and Group sales initiatives to make sure that we achieve this result and hopefully exceed them. With that, I'd like to close and thank you very much and look forward to meeting you all and to seeing you soon.