

**TURK TELEKOM**

**Moderator: Gozde Cullas**  
**July 28, 2016**  
**3:00 p.m. ET**

Operator: This is conference # 2992708.

Operator: Ladies and gentlemen, thank you for standing by, and welcome to the Turk Telekom Q2 2016 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 this conference is being recorded today, Thursday July 28, 2016. I would now like to hand the conference over to your first speaker today, Gozde Cullas. Please go ahead.

Gozde Cullas: Good afternoon, everyone. Welcome to our 2016, second quarter results call. Today's speakers are our CEO, Rami Aslan, and our CFO, Murat Kirkgoz. 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 Rami Aslan.

Rami Aslan: Good afternoon, and good morning to those dialing from east to west coast. Welcome to our Q2 2016 results call. First of all, please accept my apologies for delaying the call one day, originally scheduled for yesterday. There was a personal emergency, due to loss of a family member, which required us to change the call time. And for that, we appreciate your support and understanding.

Before starting the presentation, I'm sure you all followed the recent developments in Turkey. We are pleased to see that the coup attempt in Turkey was foiled. The power of communication significantly contributed to ending this unfortunate event. We took all precautions immediately, and

prevented attempts of any intrusion to our network. We managed to ensure the security and the effectiveness of the entire telecommunication infrastructure in Turkey, without a single interruption across the entire country.

We unfortunately also lost a dear member of our family of Turk Telekom in the attempted attack, or in the attack of one of our critical buildings during the coup attempt. Currently, there is not a single sign of deterioration of the consumer behavior. Our teams are fully operational and our business continues as usual.

I must add that we also welcome all government initiatives and incentives that support and reinforce our economy and make it stronger. All corporates, led by companies, including Turk Telekom, are playing a fundamental role to support those initiatives as well.

Let's start to go over 2016 Q2 results. Starting from slide 3, here is an overview of our operational performance in the second quarter. After a strong set of results in the first quarter, we continued our excellent performance in the second quarter, in terms of subscriber net additions. We executed well under our integrated structure, and we delivered the best second quarter net adds in eight years, while our total subscriber base reached 38.3 million subscribers.

As you know, in broadband segment, first halves are usually low seasons, compared to second halves. This year, supported by our cross-sell initiatives, we added 310,000 subscribers in the first half alone. This is the best first half net adds since 2008.

We realized 310,000 mobile net additions in Q2, and 210,000 of our net adds came from MNP. The share of mobile acquisitions via synergy offers are increasing, which underscores that we are on the right track as an integrated player. With our enhanced quality and strong position in LTE, we are very confident about our mobile business prospects.

In TV business, we added 76,000 home TV subscribers with the support of our exclusive content and dual platform. We now have 544,000 home TV

subscribers, and we gained almost half of them over the past year alone. Our total TV subscribers reached now 2 million subscribers.

Moving to slide 4. In this slide we see the financial performance. We recorded TRY3.9 billion revenue in the second quarter, which is the record high quarterly revenue. Excluding non-operational construction adjustment, year-on-year top-line growth was 10 percent, which makes us very confident about our 2016 revenue guidance. Accelerated growth reaffirms our strategy of differentiation through quality, diversification, and convergence.

Our EBITDA in the second quarter was TRY1.32 billion. This is in line with our expectations for the first half. As you all followed closely, we went through a very successful transformation unifying our brands, and moving to an integrated structure. At the same time, we undertook a giant step on mobile side with the launch of LTE services in April. In line with these two significant developments, we intensified our marketing efforts which led to an increase in commercial expenses to above normalized levels. These investments are critical to enhance our brand equity and support our future growth and were within our plans.

We ended Q2 2016 with TRY248 million of net income.

On slide 5, our focus on high-growth areas continued. The total revenue share of high-growth areas, namely broadband, mobile, and corporate data was 70 percent. We sustained double-digit year-on-year growth in our mobile business at 16 percent, while we also successfully increased the growth rate in broadband business to double-digits.

Corporate data revenue is up by 5 percent year-on-year. However, excluding one-off revenue booking of last year, normalized growth in corporate data revenue is at 15 percent for the quarter. Additionally, we managed to reduce the decline rate in our fixed-voice segment, supported by our cross-sell efforts. Our fixed-voice revenues declined 7 percent year-on-year in the second quarter.

Moving to the next slide, slide 6, here you see that we have by far the most diversified subscriber base, as the real integrated operator in Turkey. Equally important, each product line has high ARPU contribution. Our diverse subscriber base puts us in the best position to lead convergence. We increased the total number of our subscribers to 38.3 million, delivering the best second quarter net adds again in eight years.

Our quarterly net adds were also broad based, underscoring the fact that our cross-selling initiatives are starting to deliver.

The number of our TV subscribers is also increasing at a fast pace, with our enhanced content and platform initiatives.

Slide 7, on our broadband performance, we added 113,000 subscribers in the second quarter. Albeit the low season, we recorded a remarkable net add in the first half of the year, as our commercial efforts resonated well with our customers. With 310,000 first half net adds, the number of our broadband subscribers increased to 8.3 million. 109,000, or in other words, 96 percent of our quarterly broadband net adds came from fiber, and the number of our fiber subscribers reached 1.7 million, the highest number by far in the market.

The demand for higher speed and capacity continued to drive ARPU, which reached TRY41.5. With the contribution of ARPU and subscriber growth, we recorded double-digit growth in the second quarter.

Moving to slide 8, we continue to focus on capacity and speed upsells. Share of above-50 GB fair usage subscriptions increased to 38 percent in the second quarter, a 10 percentage point increase year-on-year.

On the speed side, share of fiber or hipernet packages reached 25 percent of our base, as of Q2.

Consumers' appetite for data is set to grow, both on fixed and mobile sides. With years of investments and dedicated hard work, we are best positioned to harmonize fiber and LTE networks, and meet their ever-growing data demands.

Now to slide 9. You can see that the latest position of our fiber network, which is extremely crucial for delivering best-in-class telco services. Turk Telekom has by far the largest fiber network in the whole country. Our 219,000 kilometers of fiber network covers all 81 cities. We continue to grow our fiber homepass. We added 400,000 homepasses in Q2, reaching 12.8 million. We cover almost 60 percent households in the country with fiber, which is significantly ahead of the closest competitor. We increased our fiber subscriber base to 1.7 million, again almost 40 percent year-on-year increase, and by far the highest.

Next slide, our mobile performance. We gained 310,000 net adds during the quarter, carrying the year-to-date mobile net adds to 771,000. Total mobile subscriber base rose to 18 million, as of the end of Q2. Our market share continued to upward trend and reached 25 percent. The contribution of synergy offers to mobile acquisitions is increasing.

In the first quarter, we started to benefit from our new 900 megahertz frequency, eliminating our historical competitive disadvantage. There's a noticeable increase in our indoor coverage. In the second quarter, our subscribers started to enjoy the real LTE experience, with the support of our fiber network and optimum frequencies.

While gaining subscribers, we also increased mobile ARPU, leveraging on data demand growth. Our ARPU increased by 8 percent year-on-year in Q2, driven by both prepaid and postpaid segments.

Next slide, slide 11. As of April 1, LTE services provided by Türk Telekom, empowered with our extensive fiber network opened a new frontier in Turkish mobile telecommunications sector. We have been investing for top quality for a long time, and built by far the largest fiber network in the country. Now our fiber power will enable us to be the leading operator in LTE. At Türk Telekom, the ratio of fiber-powered LTE base stations is 70 percent, which is more than triple the European averages.

Our LTE population coverage, even when calculated with a conservative methodology, reached 68 percent in the second quarter, 44 percent of our

smartphone users own LTE supported devices. We will continue to leverage on our strength in data offers and our fiber powered LTE network as well.

On slide 12, another important trend is the rapidly increasing mobile data consumption after LTE launch. In the second quarter, 33 percent of our service revenues came from mobile data.

Prior to LTE, we introduced enriched data packages for both postpaid and prepaid subscribers. In April we launched LTE trial offers to drive LTE migration. Data usage amongst smartphone users accelerated during the quarter, and reached 1.9 GB. We will continue our focus on data plans to drive ARPU higher as well.

Smartphone penetration is among the primary drivers of mobile data demand. Our smartphone penetration hit 71 percent in Q2. This is the highest figure amongst all operators in Turkey.

The level of postpaid subscribers is another driver of data growth, as they are heavy data users. And as you may have followed, in the first quarter, we focused on prepaid acquisitions to enable subscribers to experience our network quality. And in the second quarter, we continued our strategy of migrating our subscribers to postpaid.

All our mobile net adds came from postpaid segments. And the share of postpaid subscribers was 51 percent in the second quarter.

Slide 13, another encouraging business segment, which is the TV segment. Our pay TV business continued to evolve rapidly. Despite the low season, we had 76,000 home TV net adds in Q2, bringing the number of home TV subscribers to 544,000. Net adds in the last 12 months account for almost half of our total home TV subscriber base. The number of total TV subscribers reached today 2.0 million subscribers.

However, home TV ARPU continues to be robust, at TRY19 in the second quarter. And we see TV as an important component of our integrated offer, under the single Türk Telekom brand. We are thrilled about our progress so

far, and we are confident about further opportunities in this area. We expect a strong start to second half, and we can now leverage on our integrated structure during the high season, and further enhance our cross-selling initiatives.

On slide 14, on fixed voice dynamics, over the past five quarters, the number of our total access lines remained stable, at 12.9 million. With the support of multi-play synergy offers and third-party benefits, we reduced annual revenue decline to 7 percent in the second quarter. Meanwhile, fixed-voice ARPU was also strong, at TRY23.7.

On slide 15, corporate data. In the second quarter, corporate data revenues increased by 5 percent year-on-year. However, as I mentioned earlier, underlying growth remained strong, as the demand for advanced data solutions continued to increase. Excluding a one-off booking from a project last year in second quarter, normalized growth in corporate data revenue was 15 percent.

I will now hand the call to Murat, CFO, for the review on the financials.  
Murat.

Murat Kirkgoz: Thank you, Rami. Good morning and good afternoon, everyone. On slide 17, I will talk about our revenue and EBITDA performance. We had an outstanding growth performance of double-digit continuing in the second quarter as well. Top line exceeded TRY3.9 billion in Q2, jumped 11.8 percent year over year.

Excluding construction revenue adjustments, our consolidated revenue was up by 10.3 percent. And this is the highest year-on-year organic growth since the IPO.

Mobile and broadband revenues were the main pillars of the top-line performance, that grew respectively in 16 percent and 11 percent, year-on-year, while the decline in the fixed-voice revenues was limited to 7 percent.

Corporate data business recorded 5 percent growth in the second quarter, a slower pace than the previous quarters, due to the one-off effects of last year.

If this is eliminated, the underlying corporate data segment revenue growth was 15 percent.

TV revenues surged 54 percent, contributing TRY15 million to the topline growth. The growth in the rest of the business was also strong, on the back of increasing equipment sales, which is driven by the accelerated subscriber growth, and as well the subsidy performances.

On the same slide, below chart explains the main movements of EBITDA versus prior year, same quarter. Our EBITDA remained flat, compared to same period of last year, and our EBITDA margin was 34 percent in the second quarter of 2016.

Looking into the changes, we had a contribution of TRY356 million of revenue growth, but on the bottom line, bringing TRY186 million, after deducting the change in variable costs.

On the commercial expenses we have an increase of TRY67 million and there are a few reasons for that. First, there is a base impact. As you would recall, in 2016 our commercial expenses was quite low in the second quarter, while in the first half of 2016, we had major initiatives, such as brand unification and LTE launch. These intensified our commercial activity.

And the second reason, we recorded a substantial increase in gross additions and net additions of subscribers, versus last year, in this quarter, which resulted in the increase of SAC and commission costs. As you know, we incur these costs directly to P&L, without any capitalizations. Therefore, the cost of growth hits the quarter, while the benefits will be realized over the lifetime of the customers.

All in all, we completed the quarter with TRY248 million net income, versus a TRY335 million in last year, second quarter. The increase in depreciation and amortization, and the tax expenses were the main drivers of this decline in net income. The depreciation and amortization expenses increased by TRY163 million year-on-year. And this is due to the growth in the asset base, as well as investments in new spectrums.

In Q2, we start fully amortizing all the spectrum fees. And this is the peak of the amortization line for the license fees.

The increase in tax expenses is mostly due to solid improvement in the fixed-line business, and we did not recognize a major deferred tax asset in the second quarter, since we are making such assessment in the second half, on revised business plans of the Company every year. Therefore, it's a delay of timing on recognition of the deferred tax assets.

Moving to slide 18, here I'd like to highlight the changes on our unlevered free cash flow during the last 12 months. We recorded close to TRY5.3 billion EBITDA in the last 12 months, TRY25 million higher versus prior period.

Excluding the license fees, our cash CapEx was TRY700 million higher than the same period of last year. There is a timing element to consider, as the CapEx is front loaded and accelerated this year due to the LTE rollout, the cash payments were higher than the previous year's first half.

The change in working capital was stable, despite the growing revenues, and we paid about TRY116 million in taxes.

Following this, our unlevered free cash flow has been recorded as TRY1.953 billion, which was almost in line with the license fee payments that we had recognized, of TRY2.1 billion.

Moving to slide 19, I will talk about the debt profile. In this quarter, our net debt was TRY10.5 billion. Due to the LTE spectrum fee and CapEx requirements, our leverage peaked around two times EBITDA, in line with our expectations in this quarter.

We see these levels as temporary and expect that they will deleverage to levels before LTE license fee payments in the midterm. Nevertheless, our leverage is quite lower than our global peers.

Following our bond issues in 2014, in the last two years we have made significant steps to reduce our net FX exposure. We utilize cross currency

swaps to manage FX risks. In addition to previous transactions, in April, we had an additional \$175 million swapped to Turkish lira. Post this transaction, \$850 million of our debt was converted to Turkish lira.

Following the risk management initiatives, 20 percent of our debt is Turkish lira, one-third is in dollars, and about 47 percent is in euro. We observed quite effective protection from these transactions in the second quarter, while almost half of the FX loss in the quarter was covered with the value increase of the hedges in the second quarter.

In order to match currency or short-term liabilities, also we shifted our cash position from Turkish lira to hard currency. As of second quarter, more than 81 percent of our cash position was in hard currency, substantially higher than the levels of the second quarter in 2015.

This resulted in a lower interest income, compared to prior year, while the Company has sufficient hard currency assets and committed facilities to sustain the short-term hard currency liabilities.

Our average maturity of debt is around 3.4 years in the second quarter. And this is an optimized level from a cost perspective and tenor of the debt. Now I'll pass the call back to Gozde.

Gozde Cullas: OK. We can take the questions now. You can open the session. Thank you.

Operator: Thank you, as a reminder if you would like to ask a question please press star one on your telephone and wait for your name to be announced. If you'd like to cancel your request press the hash key. Your first question comes from Ivan Kim of VTB Capital.

Ivan Kim: Yes, good afternoon. Two questions from my side, please. Firstly, can you elaborate on the reasons for acceleration of broadband growth because you didn't increase the prices, right? But the growth is pretty steady, even sequentially, despite the fact that there is negative seasonality in the second quarter, versus the first quarter.

And maybe if you can give some color on the competitive environment in broadband, please. That's viable or it's business as usual?

And the second question is on LTE launch. We saw a bunch of promotional packages, quite a bit of promotional activity around LTE launch. So I was just wondering, is this price action in line with your expectations on LTE monetization, or it could have been better? Thank you.

Rami Aslan: Thank you, Ivan. I believe both questions can be handled by our CMO, Hakan. So Hakan can take both questions, the first one related to broadband growth, as well as the competitive environment, and second one whether the LTE promotions and promotional packages are in line with our expectations. Both will be handled by Hakan. Hakan, can you handle that question?

Hakan Dursun: Hello, everyone. Hakan speaking. Let me start with the first question from the broadband market. Actually, in broadband market there was formidable competition, but the market is growing in a very healthy manner. This quarter was an excellent quarter for us, with 113,000 net additions. And the net additions over the last 12 months are actually 631,000, which is the highest annual net add since 2009.

Basically we differentiate ourselves through a couple of dimensions. The first dimension is we focus on speed and capacity. If you look at our year-on-year performance, fibernet and hipernet sales are up, from 20 percent to 25 percent. Up to 16 megabit per second speed are up from 46 percent to 53 percent, and above 50 gigabytes is up from 28 percent, in terms of capacity, to 38 percent. So this is one dimension we are focusing on, in terms of speed and capacity.

The second dimension we are focusing on is definitely multi-play offers. The third dimension that we are differentiating ourselves is through our single brand that we had introduced this year, and also unified sales channels that we have almost completed the transformation for.

We have also positioned our popular value-added services into our packages, in terms of education content, in terms of music content, digital books, digital space, and Playstore, which is the digital games content. So this is also differentiating us very strongly.

Last, but not least, of course our Wi-Fi hotspots that spread throughout our country, as well as our TV offers, with differentiated football content in it, is giving us a differentiating edge.

Actually, the main reason of increasing our subscribers was we were focusing on sustainable revenue growth by accepting solo offers, as well as soft bundles. And I mean, by soft bundles, internet plus TV offers.

So our entry level acquisitions were supported with very competitive offers, while our upscale packs were also promoted with TV communications and channel incentives. And this field has thus grown broadband subscribers, as well as revenue.

In terms of competitive landscape looking forward, there was very intense competition in the first two quarters. But as you know, as of July, we have adjusted our prices for the uncontracted base we made the price increase for the uncontracted base. And we increased our entry-level prices. And we are happy to see in the market that the competition is also starting to follow us in this manner, so we are looking forward to a much healthier pricing and value environment for the broadband market for the remainder of the year. So this is briefly for the broadband side.

For the mobile side actually, all the operators after the introduction of LTE were focusing on making our subscribers taste LTE. So there were the LTE penetration with free data offers as well as very advantageous high-volume data offers, just to enable the subscriber base and their experience, and give them a taste of LTE.

So when we look at the market, in the initial period unit data prices might decrease. However, we expect the usage to increase, to offset this impact. And again, when we look at the third quarter, which is different than the first two quarters, there is also -- we are seeing initial signs of rationalization in the market. Therefore, probably we are going to see much higher quality pricing, in terms of data, going forward for the remainder of the year.

Ivan Kim: That's great. Thank you very much.

Operator: Thank you your next question comes from the line of Walid Falaha, please ask your question.

Walid Falaha: Hi. Good afternoon. Thank you very much for your presentations. I have three questions of mine. The first one is regarding the agreement on the fiber infrastructure network. I heard there was an agreement with Vodafone and Turkcell, at least based on some headlines that were on Bloomberg. If you could just please comment on that, and the impact that you could see also on your revenues.

My second question is regarding the debt that you have -- the short-term debt that you have in your balance sheet over the next 12 months. And my question is whether any of these loans are to be refinanced or paid from existing cash of the Company?

My last question. I think you mentioned the percentage of cash held in hard currency, in your balance sheet. Could you please just remind us of that number?

Rami Aslan: Thank you, Walid. I'll take the first question on fiber and maybe for short term, and the percentage of cash and hard currency, I'll leave them to Murat, following my first question -- my first answer.

With regards to the fiber joint infrastructure company, I must say that we do welcome smaller operators to follow our steps, given that we have been the predominant player and the predominant investor for fiber all over the country. As you know, I mean we have more than 219,000 kilometers, out of 270,000 kilometers, thanks to all the investments, and the steady and relentless investment program that we have done over the past four and a half, five years for infrastructure.

So our infrastructure is fully open as well. It is really worth highlighting that our infrastructure is today fully open to all competition, and it is available to them under rules and prices that are set by the regulators. They are set by the BTK, and they are available to all the players.

So we do welcome the players to declare their intention to start investing. And they will do that sometime in the future. But in the meantime, we continue and we'll always need investments in fiber, day in and day out, without any impact whatsoever. Impact on revenues, we don't see any major issues there. And we do believe that we will remain the largest and most impactful player in this domain.

Second question, on short term and percentage of cash and hard currency, I'll pass you to Murat for both questions.

**Murat Kirkgoz:** So the cash holding at end of Q2 in hard currency is 81 percent of our total cash. And for the refinancing of our short-term debt, we have signed our club loan agreement last year, November. And there will be utilization in the first half. However, this loan purpose is to repay the existing facilities. And we keep the cash to pay the maturing debt in the second half. Most of this debt that is becoming mature in the next 12 months is coming due in the next six months. And we anticipate paying with the existing cash at hand.

For new financing and new money, we are going with the financing of our CapEx, at 50 percent of the CapEx, through ECA programs, IFIs. And this is the plan for the moment, and we stick to the plan.

**Walid Falaha:** Thank you. And just a follow-on question on the fiber infrastructure. I believe there was sort of a regulatory holiday that will be finishing soon. So I would just want to understand if there are going to be any changes on how you provide competitors with your infrastructure?

**Rami Aslan:** Thanks, Walid. I mean fiber holiday supports really the infrastructure-based competition and nationwide fiber rollout, including in rural areas. So what we see there, there's a widespread confusion between the fiber holiday and the infrastructure sharing. Except for the last-mile fiber access, we are ready sharing our infrastructure, as per the regulations. Again, as I said, we are forced to share. We are sharing all our infrastructure at rules and prices that are set by BTK, our regulator. And also, if anyone requests, we can provide fiber services in the last mile as well.

So fiber holiday, it incentivizes our investments. Extension of fiber holiday and advancing its scope would build up an investment-friendly environment. So far, in the last four and a half years, we are the ones who took this holiday more at heart, and we invested the most, in anticipation of the needs of our industry, and the needs of our customers and consumers. And we believe that that was the right strategy, and a steady strategy. And therefore, we are not in any mode of panic that we haven't done what we should have done in the past. And therefore, we are very comfortable with all the investments that we have done to date.

And still, we don't expect a major impact on our existing operations, if fiber holiday is or is not extended beyond its deadline, which is October.

Walid Falaha: Thank you very much.

Operator: If you wish to ask a question press star one on your telephone. Your next question comes from Alper Ozdemir, please ask your question.

Alper Ozdemir: Hi. Just a quick question from my side. Can you please give us some details about ARPU levels of subscribers that you gained through MNP? Thank you.

Rami Aslan: Thank you, Alper. I will pass you to CMO, Hakan. Normally we don't disclose, but I'm not sure if there is a dynamic that we can share here. Or I'll ask the IR team on this. OK, so we don't break down the ARPU. OK. We don't normally provide that level of detail, Alper. Apologies. We don't discuss the breakdown.

Alper Ozdemir: OK, thank you.

Rami Aslan: I can see my IR team is not allowing me to speak.

Operator: Your next question comes from Alexi Siracca. Please ask your question

Alexi Siracca: Yes, good afternoon. I just wonder if you anticipate any operational difficulties or disruptions, following the events of the previous 10 days, and whether it has -- will have any implications for the Company, for the team, et cetera?

Rami Aslan: Thank you, Alexi. The quick answer is no, but let me just maybe give you a little bit of a background. First of all, I want to reemphasize that we are extremely pleased to see the coup attempt in Turkey was foiled successfully. The power of the communication, which we lead of course -- we are the backhaul and we are the infrastructure that is most critical in such incidents.

And the power of our infrastructure and communications overall significantly contributed to ending this unfortunate event. As you know, not a single site was down during this critical time anywhere across the entire 81 cities, thanks to all the efforts that were done and led by the Turk Telekom network and infrastructure teams.

We also took all the precautions immediately and prevented attempts of any intrusion to our network. As you may have heard, there were attempts to intrude in our buildings and infrastructure. And there was a very successful defense and plan. And we ensured that all our redundancies are effective. And there was no impact whatsoever on communication.

We also managed to secure the security, the effectiveness of the entire infrastructure all over Turkey throughout the entire event. Currently, there are no signs of any deterioration whatsoever, whether in the commercial side or whether on our determination, or abilities, or capabilities to defend the networks. And our teams are fully operational, and they operate as business as usual, are upbeat, and they are very happy with -- and I am personally very happy with all the progress that we have made, and all the vote of confidence that we got out of this horrible attempt that was successfully foiled, allowing us to defend the democracy in the country.

Alexi Siracca: OK. Thank you.

Operator: Your next question comes from Mehmet Agyuz. Please ask your question.

Mehmet Agyuz: Hi. Thank you for the presentation. I was wondering if you could elaborate on the pricing actions in the broadband side, and if you could share with us the percentage of contracted subscribers in broadband. And also, it would be great if you give us more color on the LTE pricing trends in third quarter that you mentioned, if you can elaborate on a percentage basis. Thank you.

Rami Aslan: Thank you Mehmet. CMO, Hakan Dursun, will address this. Hakan.

Hakan Dursun: Yes. Let me start with the broadband price increases. Actually in July we applied a tariff rebalances for our uncontracted subscriber base. So we have also increased our tariffs for the acquisition market. Basically our acquisition tariff, as you know, was for a long time TRY49. So we increased that, TRY49.90 to TRY66.90. And we introduced two other packages, at the price levels of TRY52.90 and TRY69.90.

So not only we increased the prices of the entry packages, but also we are going to focus on higher value packages in the market, going forward, with our sales force and integrated channels. And this is going to make us focus on a value play, going forward, for the rest of the year. Then we look at competition, actually, the competition is also taking validation actions in this manner. So then we also have the market, the most aggressive offers are being taken off of the market. So they are being stopped.

And also competition has started to launch a higher price acquisition tariffs in the broadband market. So we are following the developments very closely on the market and competition front. But it looks like the remainder of the year will be a more rational and value focused market going forward.

There is a similar story, actually, on the mobile side. As you know, first two quarters were very highly competitive in terms of price wars, especially in the prepaid segment. There was even more price difference among competition, so there was very a harsh competition. With the start of the third quarter, the competition has started to change their acquisition offers to higher prices. And also there is a rationalization in terms of benefits that are offered in the packages.

We also stopped a couple of our aggressive offers in the market, like the TRY15 prepaid offers. And we are also following the developments very closely. As you know, we have still cheap and aggressive offers, especially on the postpaid front. But if this trend continues, we will definitely continue to be rational players, as we always are.

Mehmet Agyuz: Thank you.

Rami Aslan: Thank you.

Operator: Again if you wish to ask a question press star one on your telephone. Your next question comes from Berk Ozbek. Please ask your question.

Berk Ozbek: Hello. Thank you for the presentation. Also, I would like to represent my condolences for you. Actually, I would like to ask the commercial expenses side. Your commercial expenses seems to still high to me. I would like to ask a question about your subscriber acquisition cost. Could you compare the additions of your subscriber acquisition cost this year, compared to the last year? And what do we expect from the second half, considering the commercial expenses?

And also, you have very strong net subscriber games. Could you share the percentage comes from the multi-play offers, considering the net subscriber gains? Thank you.

Rami Aslan: Thank you, Berk. Appreciate it. Let me just start and maybe, again, pass it to Hakan for the SAC question and the percentage on the subscriber gains. I think it would be good to give you a general outlook on the commercial expense first, just to give you comfort and maybe the big picture.

If you look at 2016 first half, we witnessed really major initiatives, such as the brand unification in Q1, as well as and the LTE launch in Q2, which really increased the advertising expense. And these expenses were as planned within our budgets and guidance as well.

The substantial increase in gross adds was really a driver of increasing commercial expenses as well, as you have seen how gross add numbers have been quite strong, and we're very happy to see a great momentum there. So while the benefits will be realized over the lifetime of the customers, again, we are incurring some costs on the SAC side as well.

So again, there's also an important point, which is related to the base effect. So last year commercial expense was really skewed towards the second half,

while in our plan and our guidance, we anticipated that our commercial expense will be skewed in 2016 towards the first half.

But this said, if you look at commercial expenses from Q1 to Q2, they have reduced by close to 11 percent reduction in Q2 alone. And we anticipate that the improvement on the commercial expenses will continue in Q3 and Q4. And we remain confident that this will be meeting our plan and guidance, as we have expected.

So again, single brand, LTE, major SAC... But definitely, with a single brand, we expect to be saving gradually. And certainly that the decline in commercial cost to sales ratio continued to improve and we've seen that again in Q2, and we expect it to improve in the future.

Back to SAC, I think Hakan can give you a little bit more color about the sub-SAC, and the percentage of gains.

Hakan Dursun: So basically, let me very briefly answer the SAC part. Our SAC expense is around the same level as last year. But if you look at the volume of our gross adds it has increased significantly. So if you divide these two numbers to each other, you are going see that per gross add that our commercial expense has come down significantly, so that's a very brief answer.

In terms of share of synergy offers in our new subscriptions, actually the share of synergy offers in new gross adds is increasing, but we are not disclosing numbers at this stage. As you have seen on all fronts, we have done an outstanding performance, in terms of subscriber gains. And this is as Rami Bey very well explained; this is thanks to integration, thanks to convergence, and thanks to being able to position one product or two products next to one or two existing products. And we will continue to focus on our convergent offers, in any shape and form.

Berk Ozbek: Thank you very much.

Rami Aslan: Maybe just to clarify, just to make sure that the wording is clear, the SAC remains at the same levels of last year. So this is really a volume impact, not a

SAC number impact. So the SAC itself is unchanged, but it's just the volume of the gross adds is what we're emphasizing here.

Berk Ozbek: Thank you.

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

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

Operator: Thank you. That does conclude our conference for today.

Rami Aslan: Thank you very much. Really appreciate it. And hopefully we'll be in touch with everyone after another strong momentum hopefully, in Q3. Thank you very much, and wish you a great morning and afternoon.

Operator: Thank you. That does conclude our conference for today. Thank you all for participating. You may now all disconnect. Speakers, please stand by.

END