Mobile telephony and taxation in Turkey

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Telecommunications is good for the economy

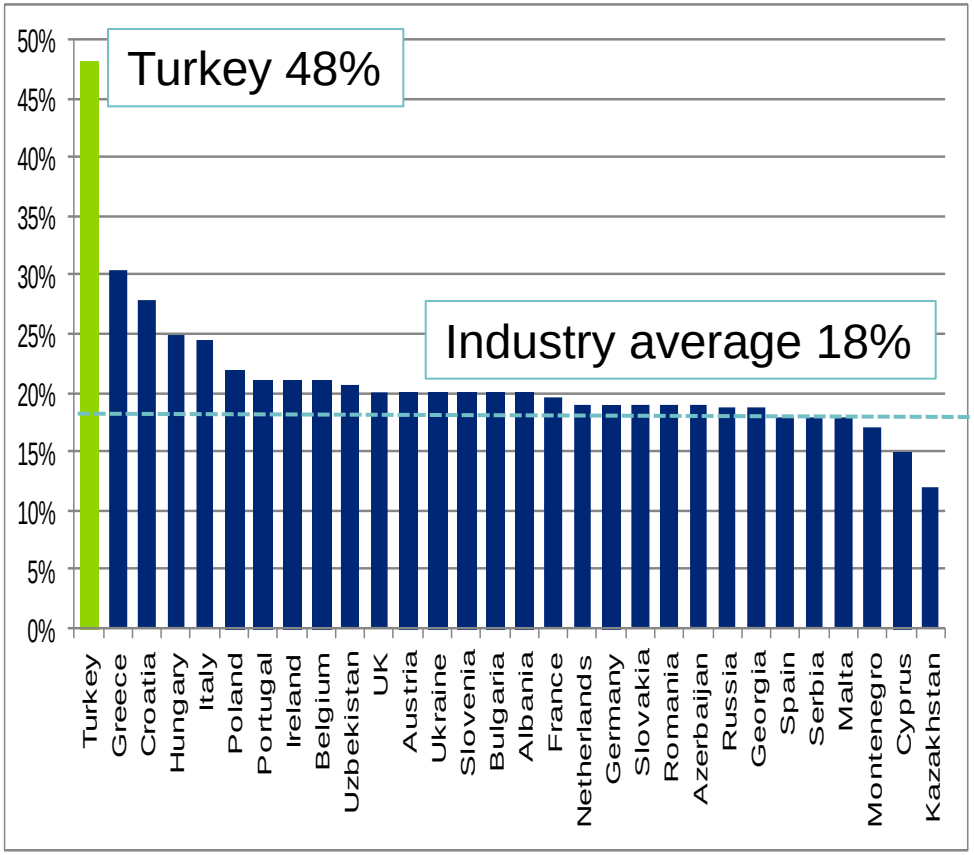
- In 2011 the mobile communications industry contributed TRY 28.8 billion to the Turkish economy, around 2.3% of GDP
  - Direct contribution of TRY 11.3 billion
  - indirect TRY 9.2 billion
  - multiplier effect of TRY 8.2 billion

- The industry directly employed nearly 150,000 Full Time Equivalents with an additional 55,800 employed indirectly

- The industry's economic contribution would be greater if Turkey adopted a more optimal taxation regime

Turkish consumers pay the highest tax rates globally

Tax as a percentage of TCMO*



Source: Deloitte/GSMA Global Mobile Tax Review 2011

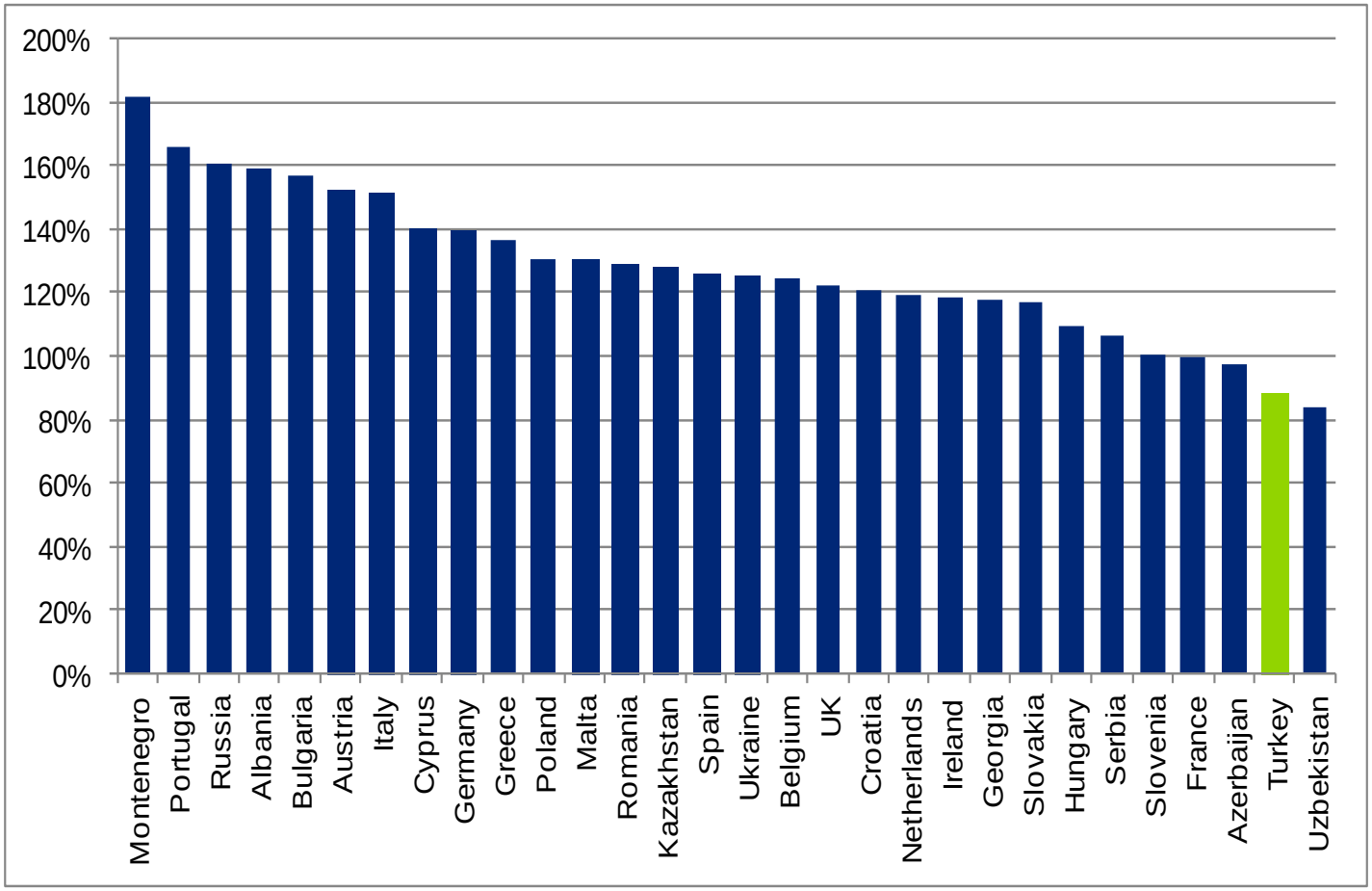
Consumer Taxation

- Voice/ SMS: **43%**
- Data: **23%**
- Handsets: **49%**
- Activation: **TRY 51.56**
- Annual fee: **TRY 14.56**

** The Total Cost of Mobile Ownership is derived from handset costs, connection costs, rental costs (typically for post-pay services) and call and SMS usage costs. Handset and connection costs in Turkey are amortised over a three year period*

High tax rates negatively impact market development

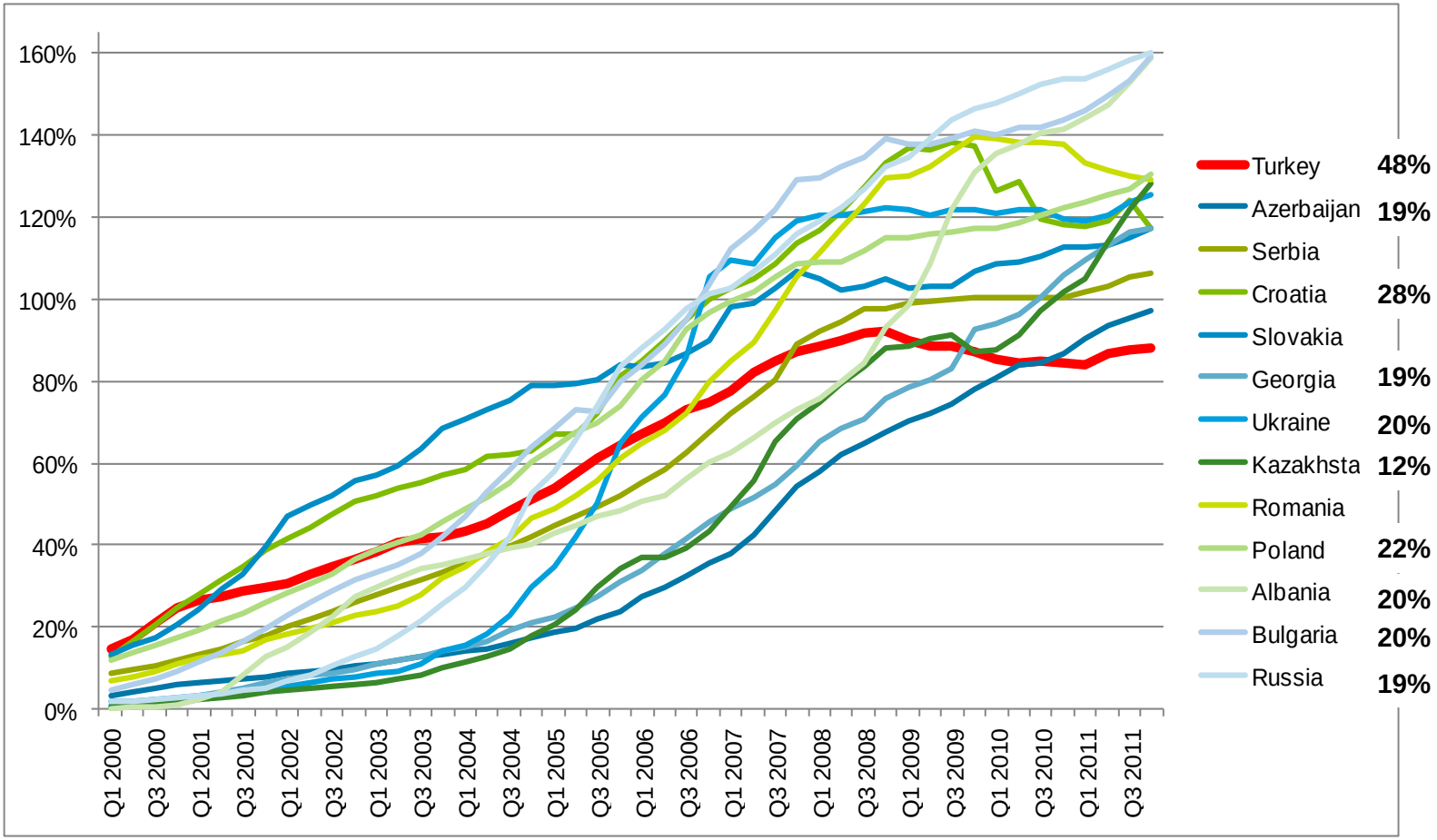
Mobile penetration in a sample of countries, 2011



Source: Wireless Intelligence

Turkey now lags countries it used to lead

Mobile penetration growth 2000 – 2011 and tax levels



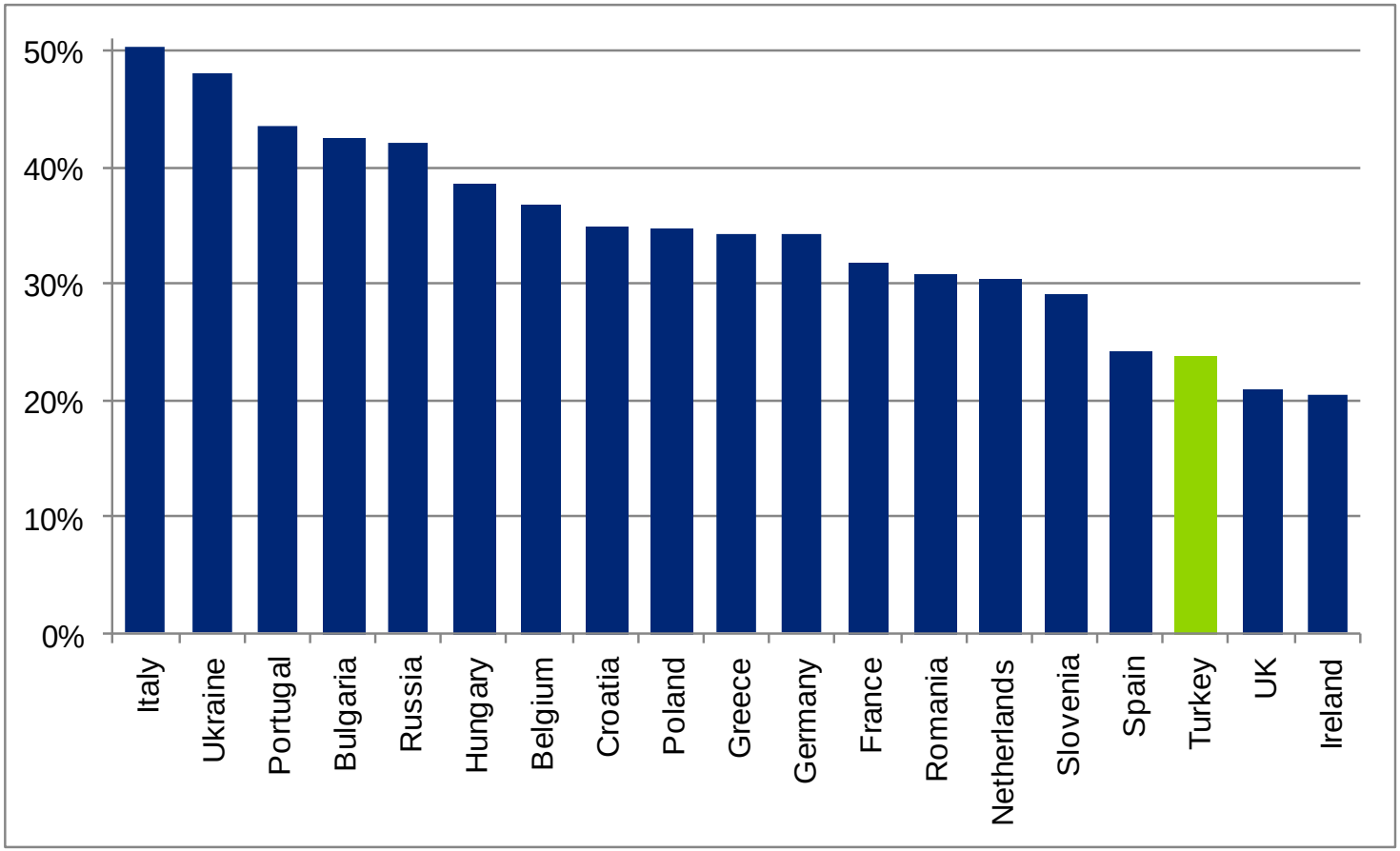
Source: Wireless Intelligence, Deloitte

Business taxation: discriminatory and distortionary

- In addition to 20% corporate tax, mobile operators pay a 15.35% treasury share and contribution fee. Its implementation raises a number of concerns:
  - Unlike taxes collected from consumers by operators on behalf of the government, the fee is levied on operators directly and is not transparent to consumers
  - The fee discriminates against mobile operators relative to other industries and as such is distortionary
  - Whereas Turkey is introducing regulation consistent with the European Union (EU) framework in a number of areas, e.g. Mobile Termination Rates, no country in the EU applies a similar fee and this is not aligned with the EUs telecommunications framework
- Operators need to provide substantive subsidies to customers in order to compete in the market (e.g. activation and annual charges)

The tax regime negative impacts net earnings…

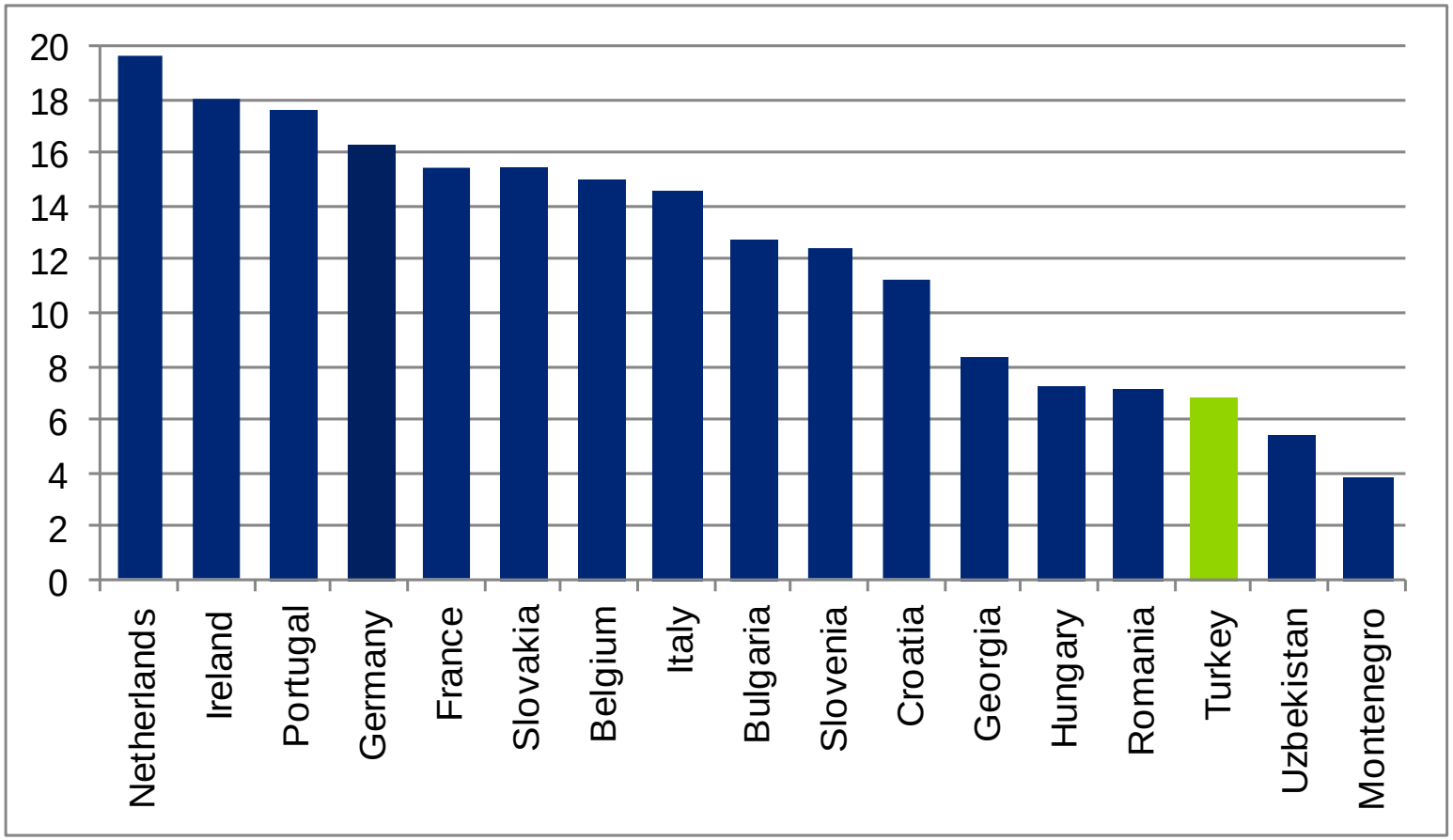
EBITDA margins, 2011



Source: Wireless Intelligence

…and the ability of the industry to invest, medium to long term

Capital Expenditure per capita, 2010, US$



Source: Wireless Intelligence

Reducing tax: a win win scenario

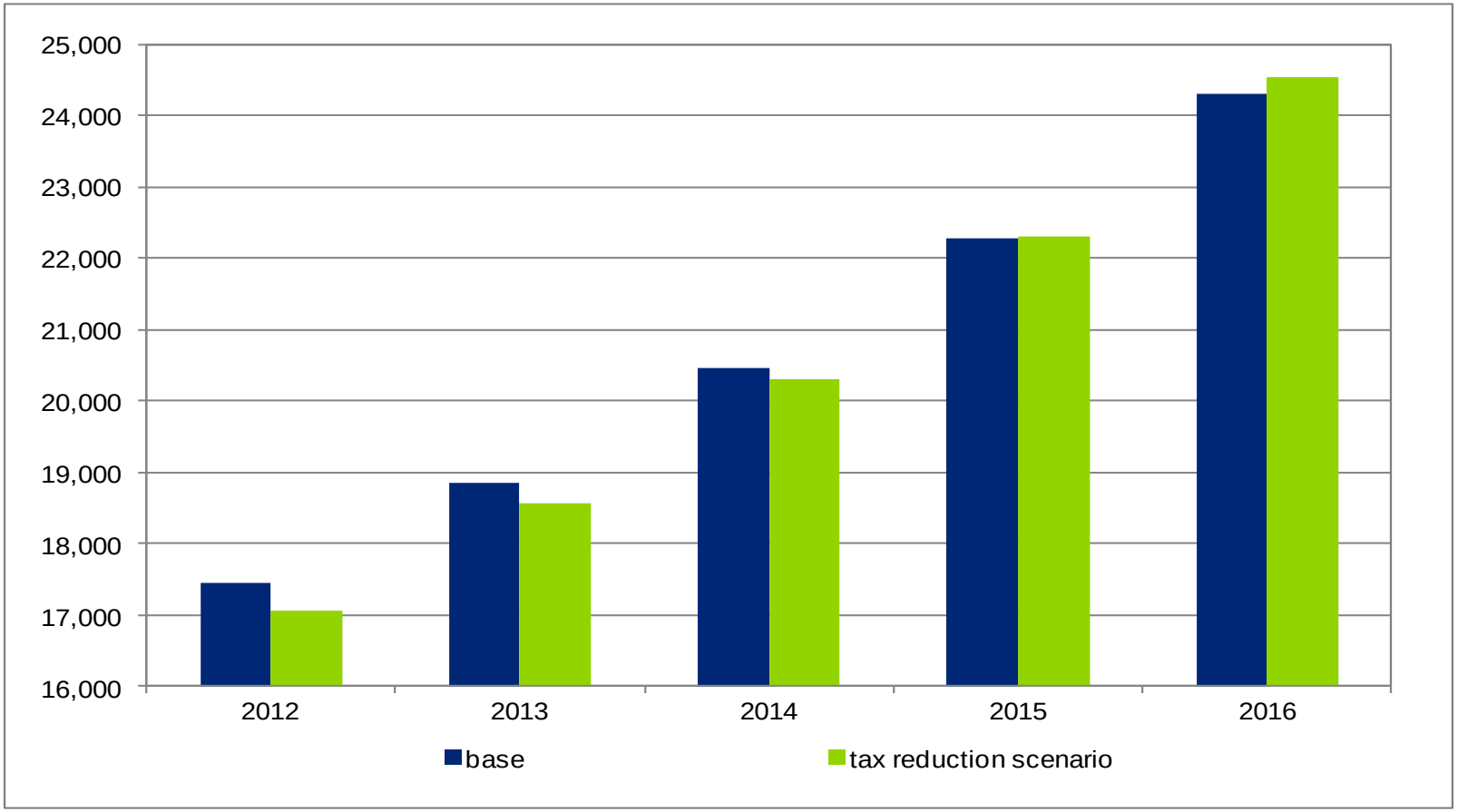
- In countries where tax is high, reducing tax can provide more positive effects than in countries where tax is lower

- A more lenient taxation regime in Turkey would increase mobile penetration and usage, expand the market and improve profitability and would also be revenue positive for the government

- If a reduction of Special Communication Tax from 25% to 15% coupled with the optimisation of acquisition taxes applied on SIM cards took place:
  - Mobile penetration would reach 104% in 2016 as opposed to 98%
  - 3G penetration would reach 72% in 2016 as opposed to 68%
  - Data only SIM card sales would almost be double
  - Total minutes of use and SMS would be 8% higher each year
  - And….

In 2015, tax receipts would be higher

Government tax revenues, 2012-2016, TRY millions



Source: Deloitte analysis

Conclusion

- The Turkish tax regime for mobile consumers is not efficient
- The government should urgently review and amend the tax structure, reducing the tax burden on consumers
- Doing so will be good for consumers, good for business and good for the government