

HEADLINE: Turk Telekom Boss Doany Beats Vodafone With Swine Flu Classes **PUBLICATION: BUSINESS WEEK AND BLOOMBERGS**

By Ercan Ersoy and Ben Holland

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The unplanned test of Turk Telekom's interactive education service embodied Chief Executive Officer Paul Doany's strategy five years after the late Lebanese Prime Minister Rafiq Hariri's family bought a 55 percent stake. He's turning the former state-owned monopoly, which once took years to install a phone, into a provider of data and entertainment over the Internet.

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Doany has been CEO since 2005, when he persuaded the Hariris to invest \$6.6 billion in Turk Telekom, ignoring a mobile phone company eventually snapped up by Vodafone Plc. Since then Doany has laid 128,000 kilometers (79,550 miles) of fiberoptic cable, extending high-speed Internet to every province in Turkey. Now he's adding content, from online classes to soccer highlights, to attract subscribers from the burgeoning middle class of Europe's fastest-growing economy, and says he wants to buy an additional 10 percent stake from the government.

Turk Telekom's revenue rose 40 percent to 10.6 billion liras (\$7.2 billion) in 2009 from 7.53 billion liras in 2006. Net income fell to 1.83 billion liras from 2.21 billion liras.

Driving Demand

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The company's expansion ratifies Prime Minister Recep Tayyip Erdogan's drive to bring Turkey, a country of 72 million people, into the European Union despite criticism of his party's Islamist roots. Turk Telekom, which controls 97 percent of Turkey's fixed-line market, was the biggest single item in a program of state asset sales that has raised \$44.3 billion since Erdogan took office in 2003. That's five times the total in the previous 17 years.

"Money has no religion, nationality, or race," Erdogan told business leaders Feb. 27 in Istanbul.

Doany's vision for Turk Telekom wasn't always obvious as fixed-line use in Turkey stagnated and the number of mobile-phone subscribers almost tripled from 2001 through 2007.

Taking a Chance

Vodafone paid \$4.6 billion for Telsim, Turkey's second-biggest mobile phone company, to expand in faster growing markets. The world's biggest mobile phone provider, based in Newbury, England, paid a 20 percent premium based on Telsim's subscriber base and even more considering the Turkish company's poor brand image and a history of underinvestment, said Toygun Onaran, an analyst at KBC Financial Products in London.

“Mobile was the attractive business at the time, but it was at a very high premium,” said Doany, a Jordanian of Palestinian descent who became CEO of the Hariri’s Oger Telecom in 2002 and retains the post. “Turk Telekom looked like at least something which could be bought at fair value.”

Analysts now reckon Turk Telekom is a better investment than Turkcell Iletisim Hizmetleri AS, the country’s biggest mobile provider. Sixteen of 28 analysts tracked by Bloomberg rate Turk Telekom a buy, compared with 5 of 24 for Turkcell.

Bedtime Sudoku

A Sudoku addict who says he can’t sleep unless he’s solved one of the Japanese number puzzles, Doany has been obsessed with merging fixed-line, mobile and data services since he joined Oger Telecom in the mid-1990s, according to Joe Haj Ali, his friend and marketing officer at the Dubai-based company.

“Paul always liked complex things,” Ali said. “He always wanted to make this fat pipe going into homes not only a voice provider but also data, education, entertainment, security and other services.”

By the time the government put Turk Telekom up for sale, Doany had studied BT Group Plc’s struggles to boost revenue after the former U.K. fixed-line monopoly spun off its mobile phone unit, stripping the company of growth opportunities.

BT had to pay Vodafone to provide mobile services when it offered a combined product. By contrast, Doany was convinced Turk Telekom could profit by bundling landline products with mobile services offered by Avea, in which the company had a 40 percent stake. Less than a year after Oger Telecom took over, Turk Telekom paid \$500 million to more than double its holding in Turkey’s third-biggest mobile phone company.

Learning From BT

“BT pushed for convergence because they had sold their mobile company,” Doany said. “We all knew this was BT’s biggest mistake. We had to learn those lessons.”

Doany inherited a state enterprise with 57,000 workers. The company used copper lines in all but Turkey’s largest cities, and customers crowded around desks manned by cigarette-smoking bureaucrats. There was no sales and marketing department.

After taking over, Doany slashed the workforce to 27,000 and moved top executives from Ankara, the capital, to Istanbul, Turkey’s business and financial hub. The Turkish offices of Oger Telecom are in Istanbul’s Kanyon tower, home to international banks such as UBS AG and Bank of America Corp.

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Golden Share

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Not everything has changed.

The government retains a so-called golden share in Turk Telekom, giving it the right to block some initiatives.

“Turk Telekom management may need the government’s go-ahead in hiring staff and acquisitions,” said Timur Sirt, co-owner of the Turkish technology Web site televideon.com. “The involvement of the state may mean that Turk Telekom’s policies are not always commercial. This gives the company a difficult position in the market.”

Expectations that the government may sell some or all of its remaining 30 percent stake to the public has also capped the share price, Sirt said. The government is still reviewing its options, Transport Minister Binali Yildirim said Jan. 6.

Hartnett Pick

Turk Telekom has risen 18 percent this year, compared with a 10 percent gain on Turkey’s National ISE-100 Index. The stock has returned 17 percent since the company’s record \$1.8 billion IPO in 2008, compared with a 24 percent decline in the MSCI World Telecommunication Services Index.

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Turk Telekom has grown as the average income in Turkey tripled in the past decade to about \$8,500 a year.

Erdogan, elected after a currency crisis plunged Turkey into its worst recession since World War II, has tamed inflation, reined in spending and sold state companies to attract investment. Turk Telekom has also benefited from the government’s effort to make technology a pillar of economic growth, partly by cutting the tax on Internet services to 5 percent from as much as 25 percent to help link Turkish homes and businesses to the global economy.

‘International Player’

“There are a number of reasons why Turk Telekom could and should become an international player,” said Jonathan Liebenau, a professor of technology management at the London School of Economics. “For example, it fits the government’s policy of deepening relations with neighboring countries.”

Turk Telekom has 16.5 million fixed-line subscribers, contributing about half of the company’s sales, as well as 11.8 million customers at Avea and 6.2 million for broadband.

Oger has invested \$5 billion since the takeover. That includes setting up a call center which also serves the Health Ministry and Turkish Airlines, buying software companies that produce content, and investing in research and development.

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Spiderman, Incredible Hulk

Acquisitions included Sebit AS, which helped develop Vitamin, the educational software used in Diyarbakir; Sobee AS, which is teaming up with Walt Disney Co.’s Marvel Entertainment LLC to create games using characters including Spiderman and The Incredible Hulk; and Argela AS, which lets users make calls from

laptop computers when away from home.

“We don’t want to be stigmatized as being just a telecom operator,” Doany said. “The future is about providing cheap connectivity with all devices.”

Doany, who has a Turkish wife, studied electrical engineering at the American University in Beirut and earned a Ph.D. from the U.K.’s Manchester University.

His ambitions for Turk Telekom match his international background. Vitamin, which provides lessons in physics, chemistry, biology and mathematics to students in the fourth through eighth grades, has signed up 95 schools in the U.S. and gets half of its 2 million subscribers from outside Turkey. Customers in Turkey pay 7 to 36 liras annually for the classes.

Award-Winning Software

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Turkey is “almost on par with developed countries,” said Sebastian Kahlfeld, who manages the 85 million-euro (\$115 million) Turkey Fund at DWS Investment GmbH in Frankfurt and holds Turk Telekom shares. “Growth has to come from new services and not subscribers.”

--With assistance from Matthew Campbell in London and Steve Bryant in Ankara. Editors: Mark Bentley, Willy Morris

To contact the reporter on this story: Ercan Ersoy in Istanbul at ersoy@bloomberg.net Ben Holland in Istanbul at bholland1@bloomberg.net

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April 19, 2010, 1:26 AM EDT

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To contact the editor responsible for this story: Mark Bentley at mbentley3@bloomberg.net

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