

## PRICE CAP COMMUNIQUÉ

### Purpose and Scope

**Article 1** – The purpose of this Communiqué is to set out the principles governing the approval of some tariffs of the services supplied to users by Türk Telekomünikasyon A.S. according to “Price Cap Method” within the framework of Article 7 (a) (2) of Tariff Ordinance published in Official Gazette dated on August 28, 2001 No: 24507.

### Price Cap Formula

**Article 2** – Telecommunications Board (Board) approves the tariffs for each service baskets stated in Article 3 of this Communiqué if they fulfill the following formula.

$$\sum_{i=1}^n w_{i,t} \left[ \frac{p_{i,t} - p_{i,t-1}}{p_{i,t-1}} \right] \leq I_t - X_t + \Delta$$

In this formula,

- t : Time period for which the maximum price level is fixed,  
i : Services in the basket (i = 1, 2, ..., n),  
n : The number of services in the basket,  
p<sub>i,t</sub> : Unit price of service i in period t (including VAT),  
p<sub>i,t-1</sub> : Unit price of service i at the end of the period immediately preceding period t (including VAT),  
w<sub>i,t</sub> : The ratio of 6 (six) month sales of the service i to the (6) months total sales volume of the basket on the date of 6 (six) months backward from the current date or the ratio of 9 (nine) months sales of service i to the nine (9) months total sales volume of the basket on the date of 3 (three) months backward from the current date.  
X<sub>t</sub> : Productivity factor for period t,  
I<sub>t</sub> : The ratio of Consumer Price Index (CPI) realized at the period immediately preceding t period,  
Δ : The factor for the non-used portions of allowable average price changes during the preceding periods in the same calendar year.

### Service Baskets

**Article 3** – Board determines the following service baskets for telecommunications services supplied by Türk Telekomünikasyon A.S. to users.

Basket A: The services offered over fixed lines

Basket B: Digital leased lines

The services in Baskets A and B as follows:

### Services in Basket A:

|               |  |
|---------------|--|
| Connection    | - Installation and bringing into service of fixed telephone lines (PSTN and ISDN)  |
| Transfer      | - The transfer of fixed line (PSTN and ISDN) services taken by user from one location to another.  |
| Fixed price   | - The monthly fee for the use of fixed telephone (PSTN and ISDN) services  |
| Call services | These services includes the following calls made over a PSTN or ISDN line or over a payphone:<br>- Local calls, including calls to internet service providers<br>- Within the city calls<br>- Intercity calls<br>- International calls |

### Services in Basket B

|                     |  |
|---------------------|--|
| Digital leased line | Includes<br>- ≤ 64 Kbps<br>- 128 Kbps<br>- 256 Kbps<br>- 512 Kbps<br>- 1024 Kbps<br>- 2048 Kbps<br>- 4 Mbps<br>- 8 Mbps<br>- 16 Mbps<br>- 34 Mbps<br>- 155 Mbps digital leased lines |
| Connection          | The installation and bringing into service of digital leased lines   |
| Monthly fee         | The monthly fee for the use of digital leased lines  |

### Price Cap Period

**Article 4** – Price cap regulation will last for a term of two years starting at January 1, 2002 ending on December 31, 2003 for Basket A. The term of two years shall include 8 (eight) periods, each has a duration of three months. Within a period, the maximum price level allowed by the price cap shall be constant. As a result of the price cap implementation after the two-year term, the Board is free to change all of the parameters of the price cap determined in this Communiqué.

Price cap regulation will last for a term of one year starting at January 1, 2002 ending on December 31, 2002 for Basket B. The term of one year shall include 4 (four) periods, each has a duration of three months. Within a period the maximum price level allowed by the price cap shall be constant.

The Board shall approve the tariffs of the services in Basket B based on “Cost of Efficient Service Provision Method” according to Article 7 (a) (1) of Tariff Ordinance starting at January 1, 2003. The necessary preparations for approval of tariffs based on this method will be completed by Türk Telekomünikasyon A.S. until January 1, 2003.

### **Initial Price Level**

**Article 5** - For each service in each price cap basket, the initial price, relative to which the change for the first period of the term is calculated, is the price level prevailing on the last day before that period. In case Türk Telekomünikasyon A.S. assure the true cost of services submitted on the base of this Communiqué until the date of December 31, 2002, the Telecommunications Authority (Authority) may determine the initial price level for the next period based on “Cost of Efficient Service Provision Method”.

### **Determining the Productivity (X) Factor**

**Article 6** – The Board shall determine the factor X for three-month periods by taking into account the productivity factors in telecommunications sector and international practices. The factor X shall have the same value for each period over the term of two years price cap determination for Basket A and over the term of one year for Basket B. In case Türk Telekomünikasyon A.S. assure the cost of services submitted on the base of this Communiqué and the initial price level is determined again, the Board may change the productivity (X) factor for the next period.

### **Determining the Inflation Rate**

**Article 7** – Inflation rate shall be calculated based on “Consumer Price Index (CPI)” published by the State Statistics Institute.

The inflation rate for period t is the inflation rate in the past period immediately preceding present price cap period. In case CPI monthly augmentation rate is greater than 10% (ten percent), the Board may change the three-month periods as one-month periods.

### **Calculating the Weights to be used in the Price Cap Formula**

**Article 8** – On the calculation of service weights ( $W_{i,t}$ ) for specific period, 6 (six) month sales revenue of that service on the date of 6 (six) months backward from the current date or 9 (nine) months sales revenue of that service on the date of 3 (three) months backward from the current date shall be taken into account.

### **Calculation of Correction Factor**

**Article 9** – Correction factor means that the non-used portions of allowable price changes for each service basket during the preceding periods in the same calendar year.

### **New Services**

**Article 10** – The tariffs for new services or new combinations of elements of old services or services modified significantly by quality changes deemed to fall within the definition of services named in Basket A and Basket B in Article 3 shall,

- a. Be approved according to Article 7 (a) (1) of the Tariff Ordinance based on “Cost of Efficient Service Provision Method”
- b. Have sales volumes over a period of six (6) months which allow to determine the weights in the basket  
before they can be made part of this Communiqué.

If for some reason the tariffs of new services cannot be included in this Communiqué, they will continue to be approved according to Article 7 (a) (1) of Tariff Ordinance based on the “Cost of Efficient Service Provision Method”.

### **Allowed Number of Tariff Changes**

**Article 11** - Türk Telekomünikasyon A.S. is not limited in the frequency of tariff changes allowed to submit for approval.

### **Mandatory Tariff Proposal in Case of Negative Value of (I – X)**

**Article 12** – In periods for which the difference between the index I and the factor X (I-X) is negative, average prices need to decrease to fulfill the Price Cap Formula. In such a case, Türk Telekomünikasyon A.S. is required to submit a tariff proposal that reflects this fact to the approval of the Authority.

### **Information Requirements**

**Article 13-** The Authority shall request all the information needed to verify that a submitted tariff proposal fulfills the conditions of the Price Cap Formula from Türk Telekomünikasyon A.S.

### **Predatory Pricing, Cross Subsidies and Price Discrimination**

**Article 14** – This Communiqué is not designed to prevent predatory pricing, cross subsidization and/or discriminatory pricing. If such competition violation pricing policies by Türk Telekomünikasyon A.S. become apparent, the Authority will address these issues with applicable laws.

### **Effective Date**

**Article 15** – This Communiqué shall enter into force by being valid from January 1, 2002.

### **Execution**

**Article 16** - The provisions of this Communiqué shall be executed by the President of Telecommunications Board.