

TÜRK TELEKOMÜNİKASYON A.Ş.



**INTERIM ACTIVITY REPORT AS OF 31.03.2016
BASED ON NO:II-14.1 COMMUNIQUÉ OF CAPITAL MARKETS
BOARD**

April 20, 2016

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1. OVERVIEW OF TÜRK TELEKOM

Türk Telekom, with 175 years of history, is the first integrated telecommunications company in Turkey. In 2015, Türk Telekomünikasyon A.Ş. adopted a “customer-oriented” integrated structure in order to respond to the rapidly changing communication and technology needs of customers in the most powerful and accurate way, while maintaining the legal entities of Avea İletişim Hizmetleri A.Ş. and TTNET A.Ş. intact and adhering to the rules and regulations to which they are subject.

In January 2016, Türk Telekom unified its mobile, fixed voice, broadband and TV products and services under the single “Türk Telekom” brand.

As the “Multi play provider of Turkey,” Türk Telekom Group Companies offer a complete range of mobile, fixed voice, broadband and TV services. Türk Telekom Group Companies have a wide service network and product range in the fields of individual and corporate services. As of March 31, 2016, Türk Telekom has 13 million fixed access lines, 8.2 million broadband and 17.7 million mobile subscribers. Türk Telekom Group Companies provide services in all 81 cities of Turkey with 33,820 employees with the vision of introducing new technologies to Turkey and accelerating Turkey’s transformation into an information society.

Türk Telekomünikasyon A.Ş., providing PSTN and wholesale broadband services, owns 100% of mobile operator Avea İletişim Hizmetleri A.Ş., retail internet services, IPTV, satellite TV, Web TV, Mobile TV, Smart TV services provider TTNET A.Ş., TV Broadcasting and VOD services provider Net Ekran Companies, convergence technologies company Argela Yazılım ve Bilişim Teknolojileri A.Ş., IT solution provider Innova Bilişim Çözümleri A.Ş., online education software company Sebit Eğitim ve Bilgi Teknolojileri A.Ş., call center company AssisTT Rehberlik ve Müşteri Hizmetleri A.Ş., wholesale data and capacity service provider Türk Telekom International and its subsidiaries.

2. CORPORATE STRUCTURE

• Ownership Structure

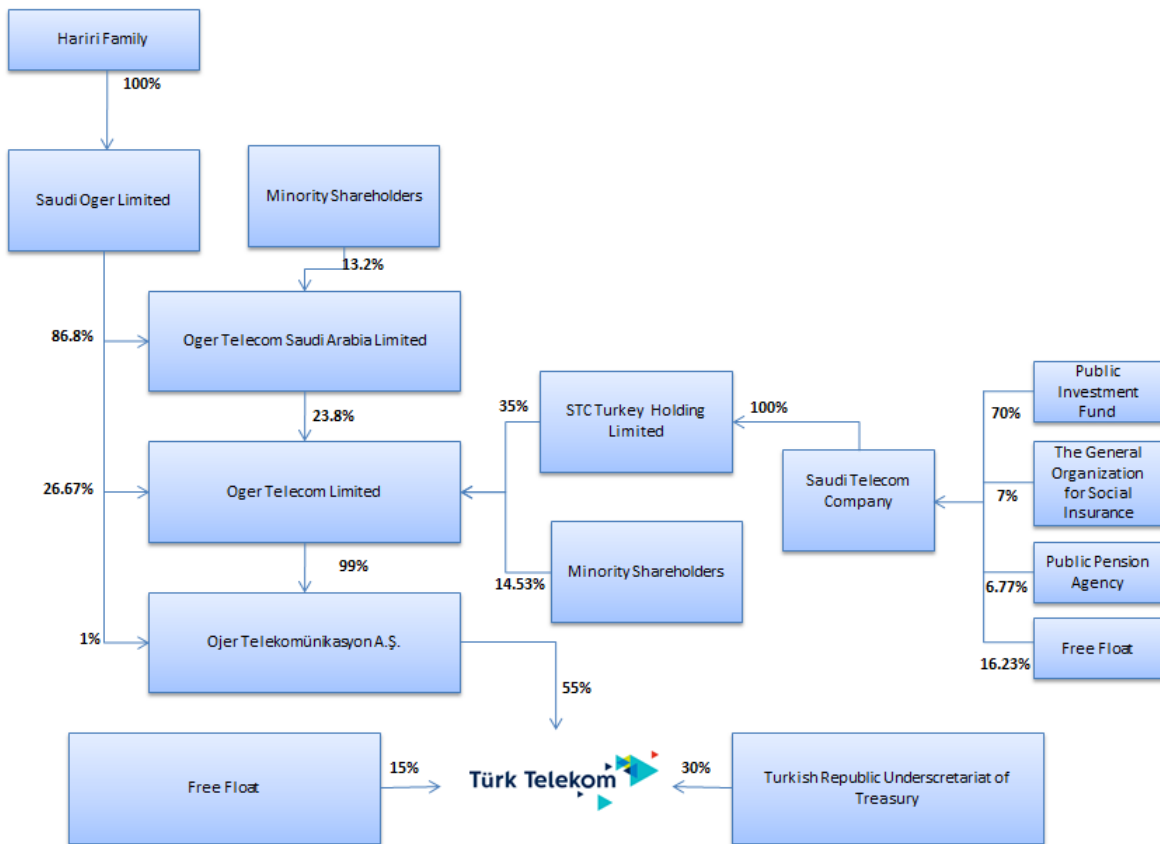
| Class | Shareholder | Share Capital (TL) | Share (%) |
|--------------|-----------------------------------|-------------------------|------------|
| A | Ojer Telekomünikasyon A.Ş. | 1,925,000,000.00 | 55 |
| B | T.R. Undersecretariat of Treasury | 1,049,999,999.99 | 30 |
| C | T.R. Undersecretariat of Treasury | 0.01 | |
| D | Free float | 525,000,000.00 | 15 |
| Total | | 3,500,000,000.00 | 100 |

The Türk Telekom Shareholders’ Agreement and the Articles of Association further state that the Turkish Treasury owns a “golden share” (Class C share). The “golden share” is entitled to nominate a Board Member and has the below rights as per article 6 of the Articles of Association;

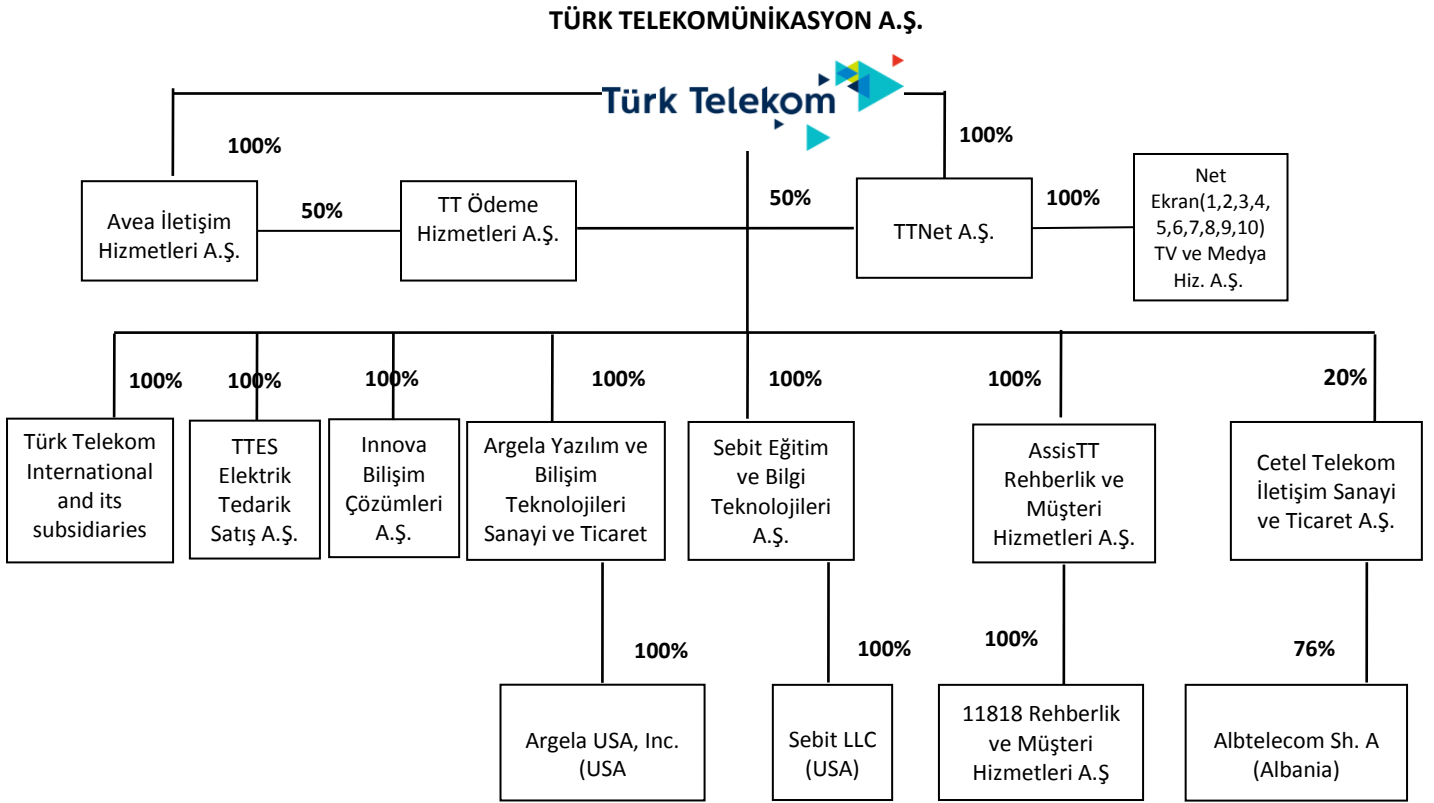
“In order to protect Turkey’s national interests relating to national security and the economy, the Class C share’s positive vote is required for the following matters regardless of the voting result in the Board or General Assembly, otherwise accepted as null and void;

- Any proposed amendments to the Articles of Association;
- The transfer of any of the Company’s registered shares which would result in a change in management control;
- The registration of any transfer of the Company’s registered shares in the shareholder ledger.

Natural and legal persons owning shares of our Company, directly or indirectly are stated below:



- Subsidiaries and financial investments:



- Management and Organization

Board of Directors

Mohammed Hariri

Abdullah Tivnikli

Cenk Serdar

Hakam Kanafani

Nasser Sulaiman A Al Nasser

Mazen Abou Chakra

Rami Aslan

Suat Hayri Aka

Fahri Kasirga

İbrahim Eren

Kemal Madenoğlu

Yiğit Bulut

Chairman of the Board of Directors

Member of the Board of Directors

Member of the Board of Directors

Member of the Board of Directors

Member of the Board of Directors

Member of the Board of Directors

CEO and Member of the Board of Directors

Member of the Board of Directors

Independent Member of the Board of Directors

Independent Member of the Board of Directors

Independent Member and Vice Chairman of the Board of Directors

Independent Member of the Board of Directors

Statutory Audit Board

Lütfi Aydın

Ali Polat

Mustafa Koç

Member of the Statutory Audit Board

Member of the Statutory Audit Board

Member of the Statutory Audit Board

Senior Management

Rami Aslan

Erkan Akdemir

Mehmet Ali Akarca

Kaan Aktan

CEO and Member of Board of Directors

CEO, Avea

CEO of the Consumer Business Unit, TTNET

CEO of the Corporate Business Unit, TTNET

Chief Consumer Finance Officer, TTNET

| | |
|-------------------------|--|
| Bahattin Aydın | Chief Human Resources Officer |
| Hüseyin Balcı | Chief Consumer Sales Officer, TTNET |
| Necdet Mert Başar | Chief Corporate Marketing Officer, TTNET |
| Kadir Boysan | Chief Corporate Sales Officer, TTNET |
| Dr. Nazif Burca | Head of Internal Audit |
| Doğın Coşgun | Chief Legal Officer |
| Dr. Ramazan Demir | Chief Regulation Officer |
| Çağrı Dönmez | Chief TV Officer, TTNET |
| Hakan Dursun | Chief Consumer Marketing Officer, TTNET |
| Fırat Yaman Er | Chief Business Planning Officer |
| Metin Erhan | Acting Chief Strategy and Business Development Officer |
| Abdurrahman Güvenliođlu | Chief Procurement and Vendor Management Officer |
| Nimet Güventepe | Chief Support Services Officer |
| | Chief Corporate Customer Care Officer, TTNET |
| Murat Kırkgöz | Chief Financial Officer |
| Orçun Onat | Chief Consumer Care Officer, TTNET |
| Kaan Sümer | Chief Corporate Financial Officer, TTNET |
| Dr. Coşkun Şahin | Chief Technology Officer |
| Cemil Yıldırım | Chief Administrative Affairs Officer, Avea |
| Yavuz Yıldırım | President of Wholesale Clients Unit, Türk Telekom |

3. SIGNIFICANT BOARD RESOLUTIONS

Significant Board Resolutions taken during the period are presented under Material Issues During the Period section.

4. PERSONNEL MOVEMENTS

Consolidated headcount as of the first quarter of 2016 and the 2015 year end are 33,820 and 34,147 respectively.

5. FINANCIAL RISK MANAGEMENT

Main financial instruments of the Company are forward market transactions, bank loans and cash and short-term deposits. They are being used with the aim of raising funds for the Group's operations and hedging interest rate risk. The risks stemming from these instruments are liquidity risk, foreign exchange risk, interest rate risk, and credit risk.

6. MATERIAL ISSUES DURING THE PERIOD

As we have disclosed on January 4, 2016,

Our company signed a long term loan agreement with ING and Mizuho under the insurance coverage of Export Development Canada, in order to finance our company's and its affiliates' capital expenditures. The amount of the facility is Euro equivalent of USD 150 million, the maturity is 10-year and interest rate is EURIBOR + 0.45% p.a.

As we have disclosed on January 15, 2016,

Our Chief Field Management Officer Tevfik Fikret Karaman decided to retire. Regional Directorates who used to report to Chief Field Management Officer, will directly report to Türk Telekom CEO.

As we have disclosed on January 21, 2016,

Our indirect shareholder Saudi Telecom Company (STC) announced its Q4 2015 unaudited financial results on the Saudi Stock Exchange's website (<http://www.tadawul.com.sa>). Turk Telekom financial data are included in the STC financial results as part of the consolidation. However, the financial data Turk Telekom provided to STC for the preparation of its consolidated financial tables is not prepared within the frame of the Capital Markets Board of Turkey regulations and are not audited. Moreover, the data Turk Telekom provided to STC is only included in consolidated financial accounts and it is not possible to be analyzed separately apart from these accounts. Our 2015 year-end financial tables which will be prepared and audited in line with Capital Markets Board of Turkey regulations are planned to be announced on February 3, 2016 at Public Disclosure Platform of Turkey

As we have disclosed on January 26, 2016,

As of today, we are unifying our mobile, fixed voice, fixed broadband and TV brands under single "Türk Telekom" brand, while keeping Türk Telekomünikasyon A.Ş., TTNET A.Ş., and Avea İletişim Hizmetleri A.Ş. legal entities intact. We aim to strengthen our multi-play offer by delivering all our products and services under single "Türk Telekom" brand from our integrated sales channels to serve the evolving telecommunication needs in Turkey in the most effective way.

As we have disclosed on January 29, 2016,

Our 2015 year-end financial tables, which will be prepared and audited in line with Capital Markets Board of Turkey regulations, are planned to be announced on February 11, 2016 at Public Disclosure Platform of Turkey.

As we have disclosed on February 3, 2016,

Our subsidiary TTES Elektrik Tedarik Satış A.Ş., obtained the Procurement Licence from Energy Markets Regulatory Authority.

As we have disclosed on February 11, 2016,

Our Company's 2015 year-end consolidated financial and operational results press release is attached.

More detailed investor presentation will be available on our investor relations website (<http://www.ttinvestorrelations.com/>) on February 12, 2016.

As we have disclosed on February 11, 2016,

Dividend Distribution Table, Dividend per share Table and Board Resolution regarding Dividend Distribution is attached.

As we have disclosed on February 11, 2016,

Our Board of Directors has resolved that our Company's Ordinary General Assembly Meeting for the year 2015 shall be held at the address of Türk Telekomünikasyon A.Ş. Head Quarters The Cultural Center, Turgut Özal Bulvarı 06103 Aydınlıkevler, Ankara and by electronic means on 31.03.2016 at 10:30 a.m. and in order to discuss the attached agenda items.

As we have disclosed on February 12, 2016,

Under normal circumstances, our guidance for 2016 is as below:

Consolidated revenue growth (excluding construction revenue adjustment) to be 7% to 9% over 2015

Consolidated EBITDA to be between TL 5.5 billion and TL 5.7 billion
Consolidated CAPEX to be around TL 3.2 billion

As we have disclosed on March 11, 2016,

As of today, our Chief Consumer Marketing Officer Dehşan Ertürk resigned from his position at Türk Telekom Group. Hakan Dursun is appointed as the Chief Consumer Marketing Officer with immediate effect.

Hakan Dursun's prior role and responsibilities, as Türk Telekom's Chief Strategy and Business Development Officer, will be assumed by Fırat Yaman Er who will be the acting Chief Strategy and Business Development Officer in addition to his current role and responsibilities.

As we have disclosed on March 15, 2016,

Our member of Board of Directors, Talat Aydın has resigned.

As we have disclosed on March 29, 2016,

Our Company's Board of Directors has resolved that Suat Hayri Aka shall be appointed as board member, in the capacity of real person board member, to the vacant board member position representing the C Group Privileged Share for the remaining term of office of the Board of Directors in accordance with Article 363 of Turkish Commercial Code as to be submitted to the approval of the General Assembly of our Company at the first upcoming General Assembly Meeting to be held.

Suat Hayri AKA was born in Tatvan in 1960. He was graduated from Istanbul Technical University, Maritime Faculty with a BSc Degree in Nautical Sciences in 1982. He has got his MSc. Degree in the field of Shipping & Port Administration between 1989 and 1990 at the World Maritime University (WMU) - Malmoe / Sweden. Suat Hayri AKA, who started his career at Turkish Cargo Lines as a captain, left his Office at the public sector in 1991 and worked at various managerial levels in private sector until 2006 in a diverse array of maritime sector branches such as operating ships, brokerage, international marine shipping, marine insurance services, sale and purchase of ships, training and consultancy services and engineering services on ship-building, salvage etc. As from 1994, he has lectured at the Faculty of Naval Architecture and Maritime Engineering at Istanbul Technical University on Ship Management and Maritime Economics for 12 years. He was appointed as the Deputy Undersecretary of the Ministry of Transport and Communications of the Republic of Turkey in 2006 and held office until June 2014. As Deputy Undersecretary, he was responsible for aviation, maritime sector (since 2012) and related institutions and the foreign relations and EU affairs of the Ministry between 2006 and 2014. During his term of office, he was also the EU permanent contact point of the Ministry. Furthermore, he carried out the Presidency of IPA Operational Program managing EU financial aids. Besides, as the representative of the Ministry, he took charge in Management and Executive Boards of İzmir EXPO 2020 Project and Transport Management Board of the International Transport Forum. While taking office as Ministerial Consultant between June 2014 and January 2016, he was appointed as Acting Deputy Undersecretary in January 2016. He is married with 2 children and has good command of English. He was awarded with Honorary Outstanding Alumnus award by World Maritime University in Malmoe in 2015.

As we have disclosed on March 31, 2016,

In order to make the necessary evaluations and preparations, it is decided to adjourn the General Assembly meeting to a future date to be determined by the Board of Directors.

7. MATERIAL ISSUES AFTER THE END OF THE PERIOD

As we have disclosed on April 15, 2016,

Conclusion of the Related Party Transactions Report prepared by our Board of Directors are as follows;

Common and recurring asset, service and liability transfer transactions between TTNET A.Ş. and Türk Telekomünikasyon A.Ş. in 01.01.2015 - 31.12.2015 financial year exceeded 10% of the reported gross sales revenue of Türk Telekom as stated under its 2015 year-end financial tables and projected to exceed in 2016. These transactions are considered to be made on arm's length basis as fair, non-discriminative, reasonable by taking into consideration the negative discrimination on TTNET A.Ş. due to current pricing regulations.

Apart from those there are no asset, service and liability transfer transactions exceeding the threshold with the related parties and is not projected to be done in 2016.

In addition, there is no non-recurring asset, service and liability transfers which reached or exceeded or projected to reach or exceed 5% of the publicly announced gross sales revenue, total assets or average of the adjusted daily weighted average market capitalization for 6 months period prior to the related Board Resolution date, as defined by the Article 9 of the Communique.

As we have disclosed on April 18, 2016,

A loan agreement in amount of USD 100 million or EUR equivalent is signed between our Company and the EBRD (The European Bank for Reconstruction and Development) to finance our capital expenditures. The loan has a maturity of 9 years with 2-year grace period. Interest rate is LIBOR/EURIBOR + 200 bps per annum.

8. SUMMARY FINANCIAL RESULTS

• Summary Türk Telekom Consolidated Balance Sheet as of 2016 Q1 and 2015 YE

| TL millions | 2016 Q1 | 2015 YE |
|---|---------------|---------------|
| Intangible Assets ^(a) | 8,064 | 8,262 |
| Tangible Assets ^(b) | 8,752 | 8,565 |
| Other Assets ^(c) | 6,383 | 6,109 |
| Cash and Equivalents | 4,640 | 2,838 |
| Total Assets | 27,840 | 25,774 |
| Share capital | 3,260 | 3,260 |
| Reserves and Retained Earnings | 2,041 | 1,733 |
| Interest Bearing Liabilities ^(d) | 13,484 | 11,803 |
| Provision for Employee Termination Benefits | 579 | 635 |
| Other Liabilities ^{(e) (f)} | 8,476 | 8,342 |
| Total Equity and Liabilities | 27,840 | 25,774 |

(a) Intangible assets excluding goodwill

(b) Tangible assets include property, plant and equipment and investment property.

(c) Major items within Other Assets are Trade Receivables, Due from Related Parties, Other Current Assets and Deferred Tax Asset.

(d) Includes short-term and long-term borrowing and short-term and long-term obligations under finance leases

(e) Major items within Other Liabilities are Deferred Tax Liability, Trade Payables, Provisions, Income Tax Payable, Due to Related Parties, Other Current Liabilities, Provisions for Employee Termination Benefits and Minority Put Option Liability

(f) As of Q3'15, minority put option liability was terminated due to the acquisition of minority shares (10%) of Avea.

• **Summary Türk Telekom Consolidated Income Statement for the periods of 2016 Q1 and 2015 Q1**

| TL millions | 2016 Q1 | 2015 Q1 |
|---|----------------|----------------|
| Revenues | 3,801 | 3,434 |
| EBITDA | 1,262 | 1,329 |
| <i>Margin</i> | <i>33%</i> | <i>39%</i> |
| Operating Profit ^(a) | 604 | 805 |
| <i>Margin</i> | <i>16%</i> | <i>23%</i> |
| Financial Income/Expense, net ^(b) | -30 | -737 |
| FX & Hedging Gain/Loss, net | 76 | -714 |
| Interest Income/Expense, net | -75 | 7 |
| Other Financial Income/Expense, net | -31 | -31 |
| Tax Expense | 166 | -63 |
| Profit | 408 | 27 |
| <i>Margin</i> | <i>11%</i> | <i>1%</i> |

(a) Operating profit includes revenues, cost of sales, depreciation and amortization, selling and marketing expenses, administrative expenses, other operating income/(expense), and income/(expense) from investing activities, but excludes financial income/(expenses) presented in other operating income/(expenses) (i.e. FX gain/(loss), interest income /(expenses), and discount income/(expense) on receivables and payables), income on unconsolidated subsidiaries, and minority interest. Reported operating profit on CMB financial statements is different due to reclassification requirements of the POA/CMB since 2013 Q3 financial statements. Further explanations are available on notes 2.1 and 5 on financial statements.

(b) Net financial income/(expense) includes financial income/(expense) and FX gain/(loss), interest income /(expenses), discount income/(expense) on receivables and payables excluding financial borrowings which are presented in other operating income/(expenses). Net financial income/(expense) on CMB financial statements is different due to reclassification requirements of the POA/CMB since 2013 Q3 financial statements. Further explanations are available on notes 2.1 and 5 on financial statements.

(c) After minority interest

(a) Operating profit includes revenues, cost of sales, depreciation and amortization, selling and marketing expenses, administrative expenses, other operating income/(expense), and income/(expense) from investing activities, but excludes financial income/(expenses) presented in other operating income/(expenses) (i.e. FX gain/(loss), interest income /(expenses), and discount income/(expense) on receivables and payables), income on unconsolidated subsidiaries, and minority interest. Reported operating profit on CMB financial statements is different due to reclassification requirements of the POA/CMB since 2013 Q3 financial statements. Further explanations are available on note 3 on financial statements.

(b) Net financial income/(expense) includes financial income/(expense) and FX gain/(loss), interest income /(expenses), discount income/(expense) on receivables and payables excluding financial borrowings which are presented in other operating income/(expenses). Net financial income/(expense) on CMB financial statements is different due to reclassification requirements of the POA/CMB since 2013 Q3 financial statements. Further explanations are available on note 3 on financial statements.