

TÜRK TELEKOM GROUP 2017 FIRST QUARTER FINANCIAL AND OPERATIONAL RESULTS

April 25, 2017



STRONG START TO THE YEAR WITH RECORD HIGH REVENUE AND EBITDA

Türk Telekom Group announced solid financial and operational results for the first quarter of 2017. The Group revenues increased to TL 4.3 billion, representing an annual growth of 13%. Excluding construction revenue adjustment, revenue growth continued to be strong at 10%. EBITDA¹ margin for the quarter was 35.5% with more than 2 percentage point improvement compared to the same period of last year. Revenue growth combined with the margin improvement resulted in a record high EBITDA of TL 1.5 billion with 21% annual growth.

2017 Q1 OPERATIONAL HIGHLIGHTS

- ❖ Total broadband subscribers reached 8.9 million with 218K net addition in Q1'17 – the highest Q1 net additions since 2012. Upward trend in broadband ARPU growth continued at 9% – the highest annual growth since Q4'11.
- ❖ 164K net addition in fiber², which accounts for 75% of total Q1 broadband net addition, carried total fiber subscriber base to 2.2 million.
- ❖ Number of mobile subscribers increased to 18.7 million, up by 142K. ARPU growth in mobile segment was eye-catching at 11% – the highest year on year ARPU growth since Q2'11.
- ❖ Solid momentum in mobile data growth continued. Data revenues increased by 79% year on year, reaching 50% share of mobile service revenues.
- ❖ Fixed voice subscribers declined only by 141K in Q1'17, the lowest quarterly decline since Q3'10 while including naked DSL total fixed access lines increased to 13.2 million, up by 86K from previous quarter.
- ❖ Total TV subscribers reached 2.1 million, out of which 774K is home TV subscribers. Subscriber base growth in home TV accelerated to 97K in Q1 – the highest quarterly net gain the company registered in home TV segment so far.

¹EBITDA is a non-GAAP financial measure. The EBITDA definition used in this press release includes revenues, cost of sales, selling and marketing expenses, administrative expenses, other operating income/(expense), and income/(expense) from investing activities, but excludes depreciation and amortization expenses, 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 excluding financial borrowings), income on unconsolidated subsidiaries, and minority interest.

²Fiber subscribers include FTTH/B & FTTC subscriber

Türk Telekom CEO Dr. Paul (Boulos H.B.) Doany's comments on 2017 Q1 results:

Türk Telekom had an excellent start to 2017. In the first quarter of the year, our topline grew by 13% year on year to TL 4.3 billion. Excluding construction revenue adjustment, Group revenues increased by 10%. Our operational profitability was robust with an admirable annual growth of 21% in EBITDA, the highest pace of growth since 2010, to TL 1.5 billion and more than 2 percentage point year on year improvement in EBITDA margin to 35.5%.

We continue to realize the benefits of our integrated approach focusing on cross selling, upselling and value added services. Türk Telekom subscribers reached 39.2 million at the end of the first quarter, up by 1.3 million year on year, primarily driven by the growth in broadband and mobile segments. On top of that, we generated the highest year on year ARPU growth we had in our last 5 years in these segments, as more and more subscribers take LTE and fiber, while data consumption in both increase steadily. In the first quarter of 2017, penetration of LTE compatible devices among our smartphone users increased to 57%, up from 40% a year ago while the number of fiber subscribers reached 2.2 million which means 24% of our broadband base is now on fiber. Moreover, we continue to strengthen both our mobile and broadband offers with Tivibu Home and Tivibu Go, important pillars of our digital services. We have 2.1 million TV subscribers, supported by our exclusive UEFA content, rich library of movies, nationwide access on satellite, IPTV and OTT platforms. In addition to all these, we are also shifting our concentration to untapped households with particularly our broadband and satellite TV campaigns to increase penetration.

Along with our strong operational performance, we continued to advance our strategic priorities through collaborations. In addition to our five years of engagement on PTTCell in the mobile segment, we recently signed a protocol with PTT to evaluate the most rational use of our jointly owned or used real estate portfolio and maximize financial benefits from underutilized real estates. Moreover, we submitted a joint offer with Vodafone for the Universal Service Tender for the establishment and operation of mobile infrastructure in 1,472 locations in Turkey. I believe the tender will pave the way for the best in class services in rural areas, while preventing duplicate investments, and this cooperation initiative will enable a paradigm shift regarding mobile network sharing. We will continue to extend our efforts for capital efficiency through joint actions and cooperations going forward.

Our motivation to lead the future telecommunication technologies continues with full force. In Q1'17, we relaunched an upgraded version of Wirofon services, developed by Argela, our wholly owned R&D company. While providing a new generation instant messaging, voice and HD video calling to all mobile customers in Turkey, Wirofon also enables Türk Telekom PSTN subscribers to use their fixed voice minutes via their mobile devices. We are also developing a special version of Wirofon, to be enhanced with special features for Public Institutions.

Separately, I am proud to state that Argela carried its efforts to the next level and opened 5G Center of Excellence. In this center, we will continue our R&D efforts with universities, research institutions and strategic partners from industry to build the future for next generation mobile technologies. We are no longer merely a tech user, but also a developer. We are no longer merely a tech user, but also a developer. We are extending Argela's products and services from pure R&D to serving other operators worldwide, specifically for consumer segment. We started by relaunching Wirofon and will be releasing new products in that direction. In this regard, we will continue to strengthen collaboration between not only group companies, but also within the ICT ecosystem.

I would like to take this opportunity to extend my sincere gratitude to our employees for all their efforts to deliver greater value for our stakeholders.

Financial Review

(TL mn)	Q1'16	Q4'16	Q1'17	QoQ Change	YoY Change
Revenue	3,801	4,250	4,307	1.4%	13.3%
Revenue (exc. Construction adjustment)	3,761	4,171	4,138	(0.8)%	10.0%
EBITDA	1,262	1,434	1,528	6.5%	21.1%
Margin	33.2%	33.8%	35.5%		
Depreciation and Amortisation	(658)	(776)	(721)	(7.2)%	9.5%
Operating Profit	604	658	807	22.7%	33.7%
Margin	15.9%	15.5%	18.7%		
Financial Income / (Expense)	(30)	(2,180)	(622)	(71.5)%	1960.0%
FX & Hedging Gain / (Loss)	76	(2,007)	(509)	(74.6)%	n.m.
Interest Income / (Expense)	(75)	(90)	(76)	(15.4)%	1.0%
Other Financial Income / (Expense)	(31)	(84)	(37)	(55.3)%	19.6%
Tax Expense	(166)	134	(119)	n.m.	(28.3)%
Net Income	408	(1,388)	66	n.m.	(83.9)%
Margin	10.7%	n.m.	1.5%		
CAPEX	708	963	400	(58.4)%	(43.5)%

Revenues

Consolidated revenues increased by 13.3% YoY (up by TL 507 mn) to TL 4,307 mn in Q1'17. Excluding non-operational construction revenue adjustment, top line growth was 10.0% YoY (up by TL 377 mn) with 17.7% increase in mobile (up by TL 236 mn) and 18.8% increase in broadband (up by TL 188 mn) revenues.

Operating Expenses Excluding Depreciation and Amortization (OPEX)

Operating expenses increased by 9.5% YoY (up by TL 240 mn) to TL 2,780 mn in Q1'17. Excluding non-operational construction cost adjustment, growth in opex was 5.0% YoY (up by TL 125 mn). Personnel expenses increased by 6.5% YoY (up by TL 45 mn), network and technology expenses increased by 21.2% YoY (up by TL 77 mn), while commercial expenses declined by 13.8% YoY (down by 62 mn).

In Q1'17, the Group implemented an early retirement incentive program that had a TL 34 mn impact on personnel expenses (Q1'16 impact: TL 35 mn). On the other hand, commercial expenses in Q1'17 was lower YoY mainly due to high base in Q1'16 driven by increased advertising and marketing activities associated with brand unification and LTE launch.

Operating Profit before Depreciation and Amortization (EBITDA)

Consolidated EBITDA in Q1'17 increased by 21.1% (up by TL 266 mn) YoY, leading to a record level of 1.5 billion TL. EBITDA margin increased to 35.5%, 2.3 percentage points up from last year.

Depreciation and Amortization Expense

Depreciation and amortization expense increased by 9.5% YoY (up by TL 63 mn) to TL 721 mn in Q1'17.

Operating Profit

Operating profit³ increased 33.7% YoY (up by TL 203 mn) to TL 807 mn in Q1'17 on the back of the stronger growth in EBITDA.

³Operating 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.

Net Financial Income / Expense⁴

Group recorded TL 622 mn net financial expense in Q1'17 due to FX losses on Turkish Lira's depreciation against US Dollar and Euro. (March'17 – USD/TL: 3.6386; EUR/TL: 3.9083, December'16 – USD/TL: 3.5192; EUR/TL: 3.7099).

Tax Expense

Tax expense declined by 28.3% YoY (down by TL 47 mn) to TL 119 mn in Q1'17 due to lower profit before tax mainly due to FX losses.

Net Income/Loss

Group realized a net income of TL 66 mn in Q1'17 versus TL 408 mn net income in Q1'16 due to FX losses driven by TL depreciation against USD and EUR compared to last year. However, on quarterly basis, net income increased substantially in Q1'17 compared to Q4'16 as TL depreciation eased down.

Capital Expenditures (CAPEX)

Group invested TL 400 mn in Q1'17 corresponding to 9% capex to sales.

⁴Net 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.

Operational Highlights

	Q1'16	Q4'16	Q1'17	QoQ Change	YoY Change
Total Access Lines (mn) ¹	12.9	13.1	13.2	0.7%	1.9%
<i>Fixed Voice Subscribers (mn)</i>	10.1	9.6	9.5	(1.5)%	(6.1)%
<i>Naked Broadband Subscribers (mn)</i>	2.8	3.4	3.7	6.6%	30.7%
Fixed Voice ARPU (TL)	23.5	23.2	23.1	(0.5)%	(1.9)%
Total Broadband Subscribers (mn)	8.2	8.7	8.9	2.5%	8.7%
Total Fiber Subscribers ('000)	1,632	2,011	2,175	8.1%	33.3%
<i>FTTH/B ('000)</i>	795	869	902	3.9%	13.6%
<i>FTTC ('000)</i>	838	1,143	1,273	11.4%	51.9%
Broadband ARPU (TL)	41.1	44.7	45.0	0.7%	9.3%
Total TV Subscribers (mn) ²	1.9	2.0	2.1	6.0%	10.6%
<i>Tivibu Home (IPTV + DTH) Subscribers('000)</i>	468	677	774	14.3%	65.5%
TV ARPU (TL)	21.9	19.2	17.9	(6.8)%	(18.3)%
Mobile Total Subscribers (mn)	17.7	18.6	18.7	0.8%	5.5%
<i>Mobile Postpaid Subscribers (mn)</i>	8.9	9.8	10.0	1.9%	12.1%
<i>Mobile Prepaid Subscribers (mn)</i>	8.8	8.8	8.7	(0.5)%	(1.1)%
Mobile Blended ARPU (TL)	24.0	26.1	26.7	2.2%	11.3%
<i>Mobile Postpaid ARPU (TL)</i>	32.1	34.0	35.0	2.9%	9.2%
<i>Mobile Prepaid ARPU (TL)</i>	15.4	17.1	16.9	(0.9)%	9.9%

(1) Naked DSL Lines and Fixed Voice Lines

(2) Tivibu Home (IPTV, DTH) and Tivibu Go (Web TV+ Mobile TV +Smart TV subscribers)

Conference Call & Webcast Invitation
2017 Q1 Financial & Operational Results
Date: Wednesday, April 26, 2017
Time: 2:30 pm Turkish Time – GMT +3.

Türk Telekom Group senior management chaired by Dr. Paul Doany will present 2017 Q1 financial and operational results. The presentation will be followed by a Q&A session.

In order to participate in our investor call, you may;

1. **JOIN THE CONFERENCE CALL (961760):** You may choose to dial-in and listen to the conference call on your telephone. In order to participate, please register at the provided link below. Upon registration, each participant will be allocated the conference call number, a participant user pin, conference pin and instructions on how to join the conference call. This gives you direct access to the conference without having to speak to an operator.

You may also dial-in below numbers to join the conference call should you have no access to internet at your convenience to register. However, we suggest you to obtain your telephone details by pre-registering as this will ensure you will be connected to the call automatically and will not be held up in any potential queues.

You may test the audio via <http://event.on24.com/view/help/index.html> to check whether your system meets the minimum requirements for the webcast stream. If you have issues with the webcast, please dial into the operator assisted audio call via your telephone.

BACK-UP NUMBERS FOR CONFERENCE CALL PARTICIPANTS	
PARTICIPANTS MUST PROVIDE “961760”	
Description	Phone Number
Participant - UK:	+44 (0)20 7162 0077
Participant - US:	+1 646 851 2407

2. **JOIN THE WEBCAST:** You may join our webcast by simply registering at the provided link below. Webcast will allow participants to see/download slides and listen to the streaming audio without dialing-in.

IMPORTANT NOTE: Q&A session will only be available for conference call participants. In order to ask questions during the Q&A session you should connect via telephone and join the conference call.

We recommend you to start dialing in 5-10 minutes prior to the call to ensure a timely start to the conference.

Please click the link to register:

[REGISTRATION LINK FOR CONFERENCE CALL AND WEBCAST](#)

About Türk Telekom Group

Türk Telekom, with 176 years of history, is the first integrated telecommunications operator in Turkey. In 2015, Türk Telekomünikasyon A.Ş. adopted a “customer-oriented” and 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. Having a wide service network and product range in the fields of individual and corporate services, Türk Telekom unified its mobile, internet, phone and TV products and services under the single “Türk Telekom” brand as of January 2016.

“Turkey’s Multiplay Provider” Türk Telekom has 13.2 million fixed access lines, 8.9 million broadband and 18.7 million mobile subscribers as of March 31, 2017. Türk Telekom Group Companies provide services in all 81 cities of Turkey with 34,147 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.

DISCLAIMER

The information contained herein has been prepared by Türk Telekomünikasyon A.Ş. (the Company) in connection with the operations of Türk Telekom Group companies. The opinions presented herein are based on general information gathered at the time of writing and are subject to change without notice. The Company relies on the information gathered from the reliable sources however does not guarantee completeness and accuracy of such information.

These materials contain statements about future events and expectations that are forward-looking statements. Any statement in these materials that is not a statement of historical fact is a forward-looking statement that involves known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Except to the extent required by law, we assume no obligations to update the forward-looking statements contained herein to reflect actual results, changes in assumptions or changes in factors affecting these statements. This press release does not constitute an offer or invitation to sell, or any solicitation of any offer to subscribe for or purchase any securities and nothing contained herein shall form the basis of any contract or commitment whatsoever. No reliance may be placed for any purposes whatsoever on the information contained in this press release or on its completeness, accuracy or fairness. The information contained in this press release may be required to be confirmed, completed and amended. Therefore, no declaration or commitment has been given or implied on the name of the Company or its shareholders, directors, employers or other third persons depending on the authenticity, completeness and accuracy of the information. None of the Company nor any of its shareholders, directors or employees nor any other person accepts any liability whatsoever for any loss howsoever arising from any use of this press release or its contents or otherwise arising in connection therewith.

The PSTN services and wholesale broadband services are provided by Türk Telekomünikasyon A.Ş., the retail internet services are provided by TTNET A.Ş. and the mobile services – are provided by Avea İletişim Hizmetleri A.Ş. Türk Telekom® brand used in this press release is the joint brand of Türk Telekom Group companies. All group companies' legal entities remain intact.

There may be differences between the data provided in this press release and ICTA's market reports. These discrepancies are due differences in basis of financial reporting (standalone vs. consolidated) and differences in ARPU calculation methodologies.

Türk Telekom Group Consolidated Financial Statements are available on <http://www.ttinvestorrelations.com/financial-operational-information/quarterly-results.aspx>