

Türk Telekomünikasyon
Anonim Şirketi and Its Subsidiaries
31 March 2016
Interim Condensed Consolidated
Financial Statements As At and For
The Three Month Period
Ended 31 March 2016

20 April 2016

This report contains 41 pages of financial statements and explanatory notes.

(Convenience translation of a report and financial statements originally issued in Turkish)

TÜRK TELEKOMÜNİKASYON ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE THREE MONTH PERIOD ENDED 31 MONTH 2016

(Currency in thousands of Turkish Lira (“TL”) unless otherwise stated, all other currencies are also disclosed in thousands)

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TÜRK TELEKOMÜNİKASYON ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2016

(Currency in thousands of Turkish Lira (“TL”) unless otherwise stated, all other currencies are also disclosed in thousands)

		Current period	Prior period
		Unaudited	Audited
	Notes	31 March 2016	31 December 2015
Assets			
Current assets			
Cash and cash equivalents	6	4.640.405	2.837.786
Trade receivables			
- Due from related parties	8	10.059	6.504
- Trade receivables from third parties	9	3.881.637	3.794.474
Other receivables			
- Other receivables from third parties		91.015	83.144
Derivative financial instruments	16	311.544	388.767
Inventories		302.371	252.245
Prepaid expenses		494.247	286.791
Current tax related assets		49.546	50.468
Other current assets	12	656.570	741.421
Non-current assets			
Financial investments		11.840	11.840
Trade receivables			
- Trade receivables from third parties	9	67.938	49.135
Other receivables			
- Other receivables from third parties		30.525	31.537
Derivative financial instruments	16	49.032	45.002
Investment property		26.585	27.189
Property, plant and equipment		8.725.757	8.538.182
Intangible assets			
- Goodwill		44.944	44.944
- Other intangible assets		8.064.211	8.216.886
Prepaid expenses		61.162	46.454
Deferred tax assets		289.134	286.804
Other non-current assets	12	31.271	34.331
Total assets		27.839.793	25.773.904

The accompanying notes form an integral part of these consolidated financial statements.

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2016

(Currency in thousands of Turkish Lira (“TL”) unless otherwise stated, all other currencies are also disclosed in thousands)

		Current period	Prior period
		Unaudited	Audited
	Notes	31 March 2016	31 December 2015
Liabilities			
Current liabilities		8.992.014	8.552.927
Financial liabilities			
- Bank borrowings	7	122.804	242.091
Short term portion of long term financial liabilities			
- Bank borrowings	7	2.607.366	2.363.672
- Obligations under finance leases		1.128	8.034
- Bills, bonds and notes issued	7	40.991	9.963
Trade payables			
- Due to related parties	8	9.511	10.745
- Trade payables to third parties	9	4.320.696	4.225.532
Employee benefit obligations	12	100.454	115.205
Other payables			
- Other payables to third parties		792.403	628.116
Derivative financial instruments	16	108.607	104.673
Deferred revenue		150.288	131.035
Income tax payable		196.350	182.503
Short term provisions			
- Short term provisions for employee benefits	11	224.228	178.822
- Other short term provisions	11	256.723	296.674
Other current liabilities	12	60.465	55.862
Non-current liabilities		13.546.494	12.227.609
Financial liabilities			
- Bank borrowings	7	7.906.513	6.300.674
- Obligations under finance leases		1.355	997
- Bills, bonds and notes issued		2.803.870	2.877.296
Trade payables			
- Trade payables to third parties	9	903.991	962.258
Other payables			
- Other payables to third parties		450.938	617.453
Derivative financial instruments	16	265.606	160.911
Deferred revenue		268.029	267.564
Long term provisions			
- Provisions for employee termination benefits	11	578.815	635.366
- Long term provisions for employee benefits excluding employee termination benefits	11	84.531	79.677
- Other long-term provisions	11	7.755	7.711
Deferred tax liability		275.091	317.702
Equity		5.301.285	4.993.368
Total equity attributable to parent			
Paid-in share capital		3.500.000	3.500.000
Inflation adjustments to paid in capital (-)		(239.752)	(239.752)
Difference arising from the change in shareholding rate in a subsidiary		(1.320.942)	(1.320.942)
Share based payment reserve		9.528	9.528
Other comprehensive income / expense items not to be reclassified to profit or loss			
- Actuarial loss arising from employee benefits		(455.003)	(434.385)
Other comprehensive income/expense items to be reclassified to profit or loss			
- Hedging reserves		(291.766)	(208.646)
- Foreign currency translation reserve		48.415	44.430
Restricted reserves allocated from profits		2.289.384	2.289.384
Retained earnings		1.353.751	446.307
Net profit for the period		407.670	907.444
Total liabilities and equity		27.839.793	25.773.904

The accompanying notes form an integral part of these consolidated financial statements.

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TÜRK TELEKOMÜNİKASYON ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2016

(Currency in thousands of Turkish Lira (“TL”) unless otherwise stated, all other currencies are also disclosed in thousands)

		Current Period	Prior Period
		Unaudited	Unaudited
		1 January - 31	1 January - 31
	Notes	March 2016	March 2015
Sales	5	3.800.967	3.434.220
Cost of sales (-)	5	(2.082.132)	(1.734.909)
Gross profit		1.718.835	1.699.311
General administrative expenses (-)	5	(521.064)	(471.646)
Marketing, sales and distribution expenses (-)	5	(593.052)	(412.929)
Research and development expenses (-)	5	(24.242)	(13.541)
Other operating income	5	84.329	78.456
Other operating expense (-)	5	(90.681)	(113.508)
Operating profit		574.125	766.143
Income from investing activities	5	11.625	11.618
Expense from investing activities (-)	5	(39)	(416)
Operating profit before financial expenses		585.711	777.345
Financial income	5	884.627	487.513
Financial expense (-)	5	(896.912)	(1.196.982)
Profit before tax		573.426	67.876
Tax income/(expense)			
- Current tax expense		(185.795)	(48.849)
- Deferred tax income/(expense)		20.039	(14.181)
Profit for the year		407.670	4.846
Profit attributable to:			
Non-controlling interests		-	(21.870)
Attributable to equity holders of the parent		407.670	26.716
Earnings per shares attributable to equity holders of the parent from (in full Kuruş)	4	0,1165	0,0076
Earnings per diluted shares attributable to equity holders of the parent from (in full Kuruş)	4	0,1165	0,0076

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TÜRK TELEKOMÜNİKASYON ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2016

(Currency in thousands of Turkish Lira (“TL”) unless otherwise stated, all other currencies are also disclosed in thousands)

		Current Period	Prior Period
		Unaudited	Unaudited
	<i>Notes</i>	1 January - 31 March 2016	1 January - 31 March 2015
Profit for the period		407.670	4.846
Other comprehensive income items not to be reclassified to profit:			
Actuarial loss from employee benefits	11	(25.774)	(640)
Tax effect of actuarial loss from employee benefits		5.155	128
Other comprehensive income items to be reclassified to profit or loss:			
Change in foreign currency translation differences		3.985	(9.914)
Cash flow hedges-effective portion of changes in fair value	16	(99.931)	(60.498)
Tax effect of cash flow hedges-effective portion of changes in fair value	16	19.986	12.100
Hedge of net investment in a foreign operation	16	(3.969)	(743)
Tax effect of hedge of net investment in a foreign operation	16	794	148
Other comprehensive income, net of tax		(99.754)	(59.419)
Total comprehensive income		307.916	(54.573)
Appropriation of total comprehensive income:			
Non-controlling interest		–	(21.870)
Attributable to equity holders of the parent		307.916	(32.703)

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TÜRK TELEKOMÜNİKASYON ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

THE INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2016

(Currency in thousands of Turkish Lira (“TL”) unless otherwise stated, all other currencies are also disclosed in thousands)

	Other comprehensive income items not to be reclassified to profit or loss in subsequent periods					Other comprehensive income items to be reclassified to profit or loss in subsequent periods				Retained earnings		Total equity attributable to parent	Non-controlling interest	Total equity	
	Paid-in share capital	Inflation adjustment to paid in capital	Non controlling interest liability reserve	Share based payment reserve	Difference arising from the change in shareholding rate in a subsidiary	Actuarial loss arising from employee benefits	Reserve for hedge of net investment in a foreign operation	Cash flow hedge reserve	Foreign currency translation reserve	Restricted reserves allocated from profits	Retained earnings				Net profit for the period
Balance at 1 January 2015	3.500.000	(239.752)	(227.065)	9.528	(858.134)	(382.368)	(63.603)	(60.513)	48.703	2.122.798	446.307	2.007.439	6.303.340	-	6.303.340
Net profit for the period	-	-	-	-	-	-	-	-	-	-	-	26.716	26.716	(21.870)	4.846
Other comprehensive income	-	-	-	-	-	(512)	(595)	(48.398)	(9.914)	-	-	-	(59.419)	-	(59.419)
Total comprehensive income	-	-	-	-	-	(512)	(595)	(48.398)	(9.914)	-	-	26.716	(32.703)	(21.870)	(54.573)
Transfer to legal reserves	-	-	-	-	-	-	-	-	-	166.585	-	(166.585)	-	-	-
Non-controlling interest before reclassification to minority put option liability	-	-	-	-	-	-	-	-	-	-	-	-	-	212.598	212.598
Non-controlling interest put option liability	-	-	(33.405)	-	-	-	-	-	-	-	-	-	(33.405)	(190.728)	(224.133)
Dividend accrued	-	-	-	-	-	-	-	-	-	-	-	(1.840.854)	(1.840.854)	-	(1.840.854)
Balance at 31 March 2015	3.500.000	(239.752)	(260.470)	9.528	(858.134)	(382.880)	(64.198)	(108.911)	38.789	2.289.383	446.307	26.716	4.396.378	-	4.396.378
Balance at 1 January 2016	3.500.000	(239.752)	-	9.528	(1.320.942)	(434.385)	(89.537)	(119.109)	44.430	2.289.384	446.307	907.444	4.993.368	-	4.993.368
Net profit for the period	-	-	-	-	-	-	-	-	-	-	-	407.670	407.670	-	407.670
Other comprehensive income	-	-	-	-	-	(20.618)	(3.175)	(79.945)	3.985	-	-	-	(99.753)	-	(99.753)
Total comprehensive income	-	-	-	-	-	(20.618)	(3.175)	(79.945)	3.985	-	-	407.670	307.917	-	307.917
Transfer to legal reserves	-	-	-	-	-	-	-	-	-	-	907.444	(907.444)	-	-	-
Balance at 31 March 2016	3.500.000	(239.752)	-	9.528	(1.320.942)	(455.003)	(92.712)	(199.054)	48.415	2.289.384	1.353.751	407.670	5.301.285	-	5.301.285

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TÜRK TELEKOMÜNİKASYON ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE THREE MONTH PERIOD ENDED
31 MARCH 2016

(Currency in thousands of Turkish Lira (“TL”) unless otherwise stated, all other currencies are also disclosed in thousands)

	Current Period	Prior Period
	Unaudited	Unaudited
	1 January - 31	1 January - 31
<i>Notes</i>	March 2016	March 2015
Net profit	407.670	4.846
Adjustments to reconcile net profit to cash provided by operating activities:		
Depreciation and amortisation expenses	655.062	521.057
Impairment	3.025	2.999
Tax expense	165.755	63.031
Gain and loss on sale of property, plant and equipment, net	(11.586)	(11.203)
TFRS Interpretation 12 construction (revenue) / cost, net	(4.577)	(4.542)
Interest income and (expense), net	55.908	(6.132)
Foreign currency exchange differences	(177.234)	835.606
Reversal of doubtful receivables	(42.429)	(46.788)
Allowance for doubtful receivables	130.518	100.372
Provision for employee termination benefits	22.708	22.489
Provision for employee benefits, net	56.098	42.124
Change in litigation provision, net	4.168	35.230
Change in unused vacation provision	11.105	8.496
Loss on derivative financial instruments, net	138.171	77.564
Gain on derivative financial instruments, net	(41.750)	(234.055)
Obsolete inventory provision / (reversal), net	(863)	62
Other provisions	20.346	2.656
Other financial (expense) / income, net	15.594	1.174
Operating profit before working capital changes	1.407.689	1.414.986
Net working capital changes in:		
Increases in trade receivables	(196.616)	(119.449)
Increases in other current assets	(129.743)	(227.215)
(Increase)/decrease in inventories	(49.263)	15.194
Decrease in trade payables	(210.539)	(350.427)
Decrease/(increase) in other non-current assets	(10.623)	(5.995)
Decrease/(increase) in other current liabilities and provisions	16.990	(39.614)
Increases in other non-current liabilities	(1.979)	(8.363)
Increase in restricted cash	(16.052)	(38.122)
Cash flow from operating activities		
Payments of employee termination benefits	(104.950)	(6.600)
Payments of provisions	(61.857)	(1.455)
Payments of tax	(170.232)	(187.755)
Interest received	33.448	33.635
Net cash provided by operating activities	496.273	478.820
Investing activities		
Acquisition of non-controlling interests	(27.500)	-
Proceeds from sale of property, plant, equipment and intangible assets	36.397	14.176
Purchases of property, plant, equipment and intangible assets	(468.419)	(264.796)
Net cash used in investing activities	(459.522)	(250.620)
Cash flows from financing activities		
Proceeds from bank borrowings	3.377.076	295.728
Repayment of bank borrowings	(1.483.418)	(119.216)
Proceeds from finance leases	-	592
Repayment of obligations under finance leases	(7.243)	(2.658)
Interest paid	(45.889)	(29.939)
Derivative instrument payments	(14.529)	(10.037)
Interest received	34.122	58.710
Other financial payments	(15.594)	(1.174)
Net cash provided by financing activities	1.844.525	192.006
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS BEFORE CURRENCY TRANSLATION DIFFERENCES	1.881.276	420.206
CURRENCY TRANSLATION DIFFERENCES, NET	(94.709)	10.760
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	2.514.385	2.270.791
Cash and cash equivalents at the end of the period	4.300.952	2.701.757

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2016

(Currency in thousands of Turkish Lira (“TL”) unless otherwise stated, all other currencies are also disclosed in thousands)

1. REPORTING ENTITY

Türk Telekomünikasyon Anonim Şirketi (“Türk Telekom” or “the Company”) is a joint stock company incorporated in Turkey. The Company has its history in the Posthane – i Amirane (Department of Post Office) which was originally established as a Ministry on 23 October 1840. On 4 February 1924, under the Telephone and Telegraph Law No. 406, the authorization to install and operate telephone networks throughout Turkey was given to the General Directorate of Post, Telegraph and Telephone (“PTT”). The Company was founded on 24 April 1995 as a result of the split of the telecommunication and postal services formerly carried out by the PTT. All of the personnel, assets and obligations of the PTT pertaining to telecommunication services were transferred to the Company, the shares of which were fully owned by the Prime Ministry Under secretariat of Treasury (“the Treasury”).

On 24 August 2005, Oger Telekomünikasyon A.Ş. (“OTAŞ”), entered into a Share Sale Agreement with the Turkey’s Privatization Authority for the purchase of a 55% stake in the Company. A Shareholders Agreement and a Share Pledge Agreement for the block sale of the Company were signed on 14 November 2005 and then after, OTAŞ became the parent company of the Company.

Out of TL 3.500.000 nominal amount of capital, 15% of the Company’s shares owned by the Treasury corresponding to a nominal amount of TL 525.000 have been issued to the public through an initial public offering with the permission of Directorate of Istanbul Stock Exchange on 15 May 2008. Since then Company shares are traded in Borsa İstanbul with the name of TTKOM.

Oger Telecom Limited (“Oger Telecom”) owns 99% of the shares of OTAŞ, which in turn owns 55% of the Company. Oger Telecom is an entity incorporated in August 2005 as a limited liability company under the laws of the Dubai International Financial Centre.

As at 31 March 2016 and 31 December 2015, the ultimate parent and controlling party of the Company is Saudi Oger Ltd (“Saudi Oger”), because of its controlling ownership in Oger Telecom.

A concession agreement (“the Concession Agreement”) was signed by the Company and Turkish Telecommunication Authority (now named the Information and Communication Technologies Authority (“ICTA”) as at 14 November 2005. The Concession Agreement covers the provision of all kinds of telecommunication services, establishment of necessary telecommunications facilities and the use of such facilities by other licensed operators and the marketing and supply of telecommunication services for 25 years starting from 28 February 2001. The Concession Agreement will terminate on 28 February 2026 and the Company will transfer the entire infrastructure that has been used to provide telecommunication services to ICTA in working condition.

TÜRK TELEKOMÜNİKASYON ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2016

(Currency in thousands of Turkish Lira (“TL”) unless otherwise stated, all other currencies are also disclosed in thousands)

1. REPORTING ENTITY (CONTINUED)

The details of the Company’s subsidiaries as at 31 March 2016 and 31 December 2015 are as follows:

Name of Subsidiary	Place of incorporation and operation	Principal activity	Functional Currency	Effective ownership of the Company (%)	
				31 March 2016	31 December 2015
TTNet Anonim Şirketi (“TTNet”)	Turkey	Internet service provider	Turkish Lira	100	100
Avea İletişim Hizmetleri A.Ş.(“Avea”)	Turkey	GSM operator	Turkish Lira	100	100
Argela Yazılım ve Bilişim Teknolojileri Sanayi ve Ticaret Anonim Şirketi(“Argela”)	Turkey	Telecommunication solutions	Turkish Lira	100	100
Innova Bilişim Çözümleri Anonim Şirketi (“Innova”)	Turkey	Telecommunication solutions	Turkish Lira	100	100
Assist Rehberlik ve Müşteri Hizmetleri Anonim Şirketi (“AssisTT”)	Turkey	Call center and customer relations	Turkish Lira	100	100
Sebit Eğitim ve Bilgi Teknolojileri A.Ş.(“Sebit”)	Turkey	Web Based Learning	Turkish Lira	100	100
Argela - USA. Inc.	USA	Telecommunications solutions	U.S. Dollar	100	100
Sebit LLC	USA	Web based learning	U.S. Dollar	100	100
TT International Holding B.V.(“TT International”) (*)	Netherlands	Holding company	Euro	100	100
Türk Telekom International AG (“TTINT Austria”)(*)	Austria	Internet/data services, infrastructure and wholesale voice services provider	Euro	100	100
Türk Telekom International Hu Kft (TTINT Hungary)(*)	Hungary	Internet/data services, infrastructure and wholesale voice services provider	Euro	100	100
S.C. Euroweb Romania S.A.(“TTINT Romania”) (*)	Romania	Internet/data services, infrastructure and wholesale voice services provider	Euro	100	100
Türk Telekom International Bulgaria EODD (“TTINT Bulgaria”)(*)	Bulgaria	Internet/data services, infrastructure and wholesale voice services provider	Euro	100	100
Türk Telekom International CZ s.r.o (“TTINT Czech Republic”)(*)	Czech Republic	Internet/data services, infrastructure and wholesale voice services provider	Euro	100	100
TTINT Telcomd.o.o Beograd (“TTINT Serbia”) (*)	Serbia	Internet/data services, infrastructure and wholesale voice services provider	Euro	100	100
TTINT Telekomunikacijed.o.o (“TTINT Slovenia”) (*)	Slovenia	Internet/data services, infrastructure and wholesale voice services provider	Euro	100	100
Türk Telekom International SK s.r.o (“TTINT Slovakia”) (*)	Slovakia	Internet/data services, infrastructure and wholesale voice services provider	Euro	100	100
MTCTR Memorex Telekomunikasyon Sanayi ve Ticaret Limited Şirketi (“TTINT Turkey”)(*)	Turkey	Internet/data services, infrastructure and wholesale voice services provider	Turkish Lira	100	100
Türk Telekom International UA TOV (“TTINT Ukraine”) (*)	Ukraine	Internet/data services, infrastructure and wholesale voice services provider	Euro	100	100
Türk Telekom International Italy S.R.L. (TTINT Italy) (*)	Italy	Internet/data services, infrastructure and wholesale voice services provider	Euro	100	100
TTINT International DOOEL Skopje(“TTINT Macedonia”) (*)	Macedonia	Internet/data services, infrastructure and wholesale voice services provider	Euro	100	100
Türk Telekom International LLC (“TTINT Russia”) (*)	Russia	Internet/data services, infrastructure and wholesale voice services provider	Euro	100	100
Türk Telekomunikasyon Euro Gmbh. (“TT Euro”) (*)	Germany	Mobil service marketing	Euro	100	100
Türk Telekom International d.o.o.(*)	Croatia	Internet/data services, infrastructure and wholesale voice services provider	Euro	100	100
Türk Telekom International HK Limited (*)	Hong Kong	Internet/data services, infrastructure and wholesale voice services provider	H.K. Dollar	100	100
Net Ekran TV ve Medya Hiz. A.Ş. (“Net Ekran”)	Turkey	Television and radio broadcasting	Turkish Lira	100	100
TTES Elektrik Tedarik Satış A.Ş.(“TTES”)	Turkey	Electrical energy trading	Turkish Lira	100	100
TT Euro Belgium S.A. (*)	Belgium	Mobile service marketing	Euro	100	100
Fleksus Mobil Finans ve Dağıtım Telekomünikasyon Hizmetleri A.Ş. (“Fleksus”)	Turkey	Mobile finance	Turkish Lira	100	100
Net Ekran1 TV ve Medya Hiz. A.Ş. (“Net Ekran1”)	Turkey	Television and radio broadcasting	Turkish Lira	100	100
Net Ekran2 TV ve Medya Hiz. A.Ş. (“Net Ekran2”)	Turkey	Television and radio broadcasting	Turkish Lira	100	100
Net Ekran3 TV ve Medya Hiz. A.Ş. (“Net Ekran3”)	Turkey	Television and radio broadcasting	Turkish Lira	100	100
Net Ekran4 TV ve Medya Hiz. A.Ş. (“Net Ekran4”)	Turkey	Television and radio broadcasting	Turkish Lira	100	100
Net Ekran5 TV ve Medya Hiz. A.Ş. (“Net Ekran5”)	Turkey	Television and radio broadcasting	Turkish Lira	100	100
Net Ekran6 TV ve Medya Hiz. A.Ş. (“Net Ekran6”)	Turkey	Television and radio broadcasting	Turkish Lira	100	100
Net Ekran7 TV ve Medya Hiz. A.Ş. (“Net Ekran7”)	Turkey	Television and radio broadcasting	Turkish Lira	100	100
Net Ekran8 TV ve Medya Hiz. A.Ş. (“Net Ekran8”)	Turkey	Television and radio broadcasting	Turkish Lira	100	100
Net Ekran9 TV ve Medya Hiz. A.Ş. (“Net Ekran9”)	Turkey	Television and radio broadcasting	Turkish Lira	100	100
Net Ekran10 TV ve Medya Hiz. A.Ş. (“Net Ekran10”)	Turkey	Television and radio broadcasting	Turkish Lira	100	-
11818 Rehberlik ve Müşteri Hizmetleri A.Ş. (“11818”)	Turkey	Call center and customer relations	Turkish Lira	100	100

(*) Hereinafter, will be referred as TTINT Group.

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1. REPORTING ENTITY (CONTINUED)

Hereinafter, Türk Telekom and its subsidiaries together will be referred to as “the Group”.

The Group’s principal activities include the provision of local, national, international and mobile telecommunication services, internet products and services, as well as call centre and customer relationship management, technology and information management.

The Company’s registered office address is Turgut Özal Bulvarı, 06103 Aydınlıkevler, Ankara.

The average number of personnel subject to collective agreement as at 31 March 2016 is 12.386 (31 December 2015: 12.407) and the average number of personnel not subject to collective agreement as at 31 March 2016 is 21.770 (31 December 2015: 21.406). The total number of personnel as at 31 March 2016 and 31 December 2015 are 33.820 and 34.147, respectively.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

The main accounting policies used for preparing the Group’s consolidated financial statements are stated below:

2.1 Summary of basis of presentation of the interim condensed of consolidated financial statements

a) Statement of compliance with TAS

The accompanying consolidated financial statements are based in accordance with Turkish Accounting Standards (“TAS”) issued by Public Oversight Accounting and Auditing Standards Authority of Turkey (“POA”) as set out in the Communiqué serial II, No: 14.1 announcement of Capital Markets Board (“CMB”) dated 13 June 2013 related to “Capital Market Communiqué on Principles Regarding Financial Reporting” (“Communiqué”) which is published in official gazette, no 28676. TAS is composed of Turkish Accounting Standards, Turkish Financial Reporting Standards, appendixes and interpretations.

For the three month period ended 31 March 2016, the Group prepared its interim condensed consolidated financial statements in accordance with the Turkish Accounting Standard No.34 “Interim Financial Reporting”. Interim condensed consolidated financial statements of the Group do not include all the information and disclosures required in the annual financial statements, therefore should be read in conjunction with the Group’s annual financial statements, as at 31 December 2015.

b) Preparation of financial statements

The accompanying consolidated financial statements and notes are presented in accordance with the illustrative financial statements published by CMB on 7 June 2013.

The accompanying consolidated financial statements are approved by the Company’s Board of Directors on 20 April 2016. General Assembly and related legal institutions have the right to correct these financial statements and statutory financial statements.

c) Correction of financial statements during the hyperinflationary periods

CMB, with its resolution dated 17 March 2005, announced that all publicly traded entities operating in Turkey was not obliged to apply inflationary accounting effective from 1 January 2005. In accordance with this resolution, TAS 29 “Financial Reporting in Hyperinflationary Economies” is not applied to the consolidated financial statements since 1 January 2005.

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2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.1 Basis of presentation of the interim condensed consolidated financial statements (continued)

Basis of measurement

d) The consolidated financial statements have been prepared on the historical cost basis except for the property, plant and equipment and investment property acquisitions prior to 1 January 2000 for which the deemed cost method was applied in accordance with TAS 29 “Financial Reporting in Hyperinflationary Economies”, derivative financial instruments and non-controlling interest put option liability which have been reflected at their fair values. Investment properties and tangible assets which are recognized with deemed cost method are valued with fair values as of 1 January 2000, non-controlling interest put option liabilities and derivative financial liabilities are valued with fair values as of balance sheet date.

e) Functional and presentation currency

Excluding the subsidiaries incorporated outside of Turkey, functional currency of all entities’ included in consolidation is Turkish Lira (“TL”) and they maintain their books of account in TL in accordance with Turkish Commercial Code, Tax Legislation and the Uniform Chart of Accounts issued by the Ministry of Finance.

Functional currencies of the subsidiaries are presented in Note 1.

The consolidated financial statements are based on the statutory records, with adjustments and reclassifications for the purpose of fair presentation in accordance with the Turkish Accounting Standards published by the POA and are presented in TL.

f) Significant accounting assessments, estimates and assumptions

In order to prepare financial statements in accordance with TFRS, certain assumptions affecting notes to the financial statements and critical accounting estimations related to assets, liabilities, contingent assets and contingent liabilities are required to be used. Although these estimations are made upon the best afford of the management by interpreting the cyclical circumstances, actual results may differ from the forecasts. Issues that are complex and needs further interpretation, which might have a critical impact on financial statements. There is no change in judgments and critical accounting estimates compared to prior year used in interim condensed consolidated financial statements as 31 March 2016.

Determination of fair values

A number of the Group’s accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

i) Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows discounted at the market rate of interest at the reporting date. Short-term receivables with no stated interest rate are measured at the original invoice amount if the effect of discounting is immaterial. This fair value is determined at initial recognition and at the end of each reporting period for disclosure purposes.

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2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.1 Basis of presentation of the interim condensed consolidated financial statements (continued)

Determination of fair values (continued)

ii) Derivatives

The fair value of interest rate swaps and forward exchange contracts are based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and counterparty when appropriate.

iii) Bills, bonds and notes issued

The fair values of bills, bonds and notes issued are determined with reference to their quoted price at the measurement date. Subsequent to initial recognition, the fair values of bills, bonds and notes issued are determined for disclosure purposes only.

iv) Other non-derivative financial liabilities

Other non-derivative financial liabilities are measured at fair value, at initial recognition and for disclosure purposes, at each annual reporting date. Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the measurement date.

Standards issued but not yet effective and not early adopted

Standards, interpretations and amendments to existing standards that are issued but not yet effective up to the date of issuance of the consolidated financial statements are as follows. The Group will make the necessary changes if not indicated otherwise, which will be affecting the consolidated financial statements and disclosures, after the new standards and interpretations become in effect.

TFRS 9 - Financial Instruments – Classification and measurement

As amended in December 2012, the new standard is effective for annual periods beginning on or after 1 January 2018. Phase 1 of this new TFRS 9 introduces new requirements for classifying and measuring financial assets and liabilities. The amendments made to TFRS 9 will mainly affect the classification and measurement of financial assets and measurement of fair value option (FVO) liabilities and requires that the change in fair value of a FVO financial liability attributable to credit risk is presented under other comprehensive income. Early adoption is permitted. The Group is in the process of assessing the impact of the standard on financial position or performance of the Group.

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2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.2 Summary of significant accounting policies

Standards issued but not yet effective and not early adopted (continued)

The new standards, amendments and interpretations that are issued by the International Accounting Standards Board (IASB) but not issued by POA

The following standards, interpretations and amendments to existing IFRS standards are issued by the IASB but not yet effective up to the date of issuance of the financial statements. However, these standards, interpretations and amendments to existing IFRS standards are not yet adapted/issued to TFRS by the POA, thus they do not constitute part of TFRS. Such standards, interpretations and amendments that are issued by the IASB but not yet issued by the POA are referred to as IFRS or IAS. The Group will make the necessary changes to its consolidated financial statements after the new standards and interpretations are issued and become effective under TFRS.

IFRS 9 Financial Instruments – Hedge Accounting and amendments to TFRS 9, TFRS 7 and TAS 39 -IFRS 9 (2013)

In November 2013, the IASB issued a new version of IFRS 9, which includes the new hedge accounting requirements and some related amendments to IAS 39 and IFRS 7. Entities may make an accounting policy choice to continue to apply the hedge accounting requirements of IAS 39 for all of their hedging transactions. Further, the new standard removes the 1 January 2015 effective date of IFRS 9. The new version of IFRS 9 issued after IFRS 9 (2013) introduces the mandatory effective date of 1 January 2018 for IFRS 9, with early adoption permitted. The Group is in the process of assessing the impact of the standard on financial position or performance of the Group.

IFRS 9 Financial Instruments (2014)

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and de-recognition of financial instruments from TAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Group is in the process of assessing the impact of the standard on financial position or performance of the Group.

IFRS 15 Revenue from Contracts with Customers

The standard is the result of a joint project and IASB and FASB which replaces existing IFRS and US GAAP guidance and introduces a new control-based revenue recognition model for contracts with customers. In the new standard, total consideration measured will be the amount to which the Company expects to be entitled, rather than fair value and new guidance have been introduced on separating goods and services in a contract and recognizing revenue over time. The standard is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted under IFRS. The Group is in the process of assessing the impact of the amendment on financial position or performance of the Group.

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2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.2 Summary of significant accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

The new standards, amendments and interpretations that are issued by the International Accounting Standards Board (IASB) but not issued by POA (continued)

IFRS 16 Leases

On 13 January 2016, IASB published the new leasing standard which will replace IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC 15 Operating Leases – Incentives, and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease and consequently change IAS 40 Investment Properties. IFRS 16 eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice. The standard is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted provided that an entity also adopts IFRS 15-Revenue from Contracts with Customers. The Group is in the process of assessing the impact of the amendment on financial position or performance of the Group.

Amendments to IAS 7 – Disclosure Initiative

IAS 7 Statement of Cash Flows has been amended as part of the IASB’s broader disclosure initiative to improve presentation and disclosure in financial statements. The amendments will require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amendments are effective for periods beginning on or after 1 January 2017, with earlier application permitted. The Group is in the process of assessing the impact of the amendment on financial position or performance of the Group.

Amendments to IAS 12 – Recognition of Deferred Tax Assets for Unrealized Losses

The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments are effective for annual periods beginning on or after 1 January 2017. The Group is in the process of assessing the impact of the amendment on financial position or performance of the Group.

Classifications applied to financial statements for the three month period ended 31 March 2015

The reclassifications that are made at the Group’s consolidated balance sheet as at 31 March 2015 are:

Foreign exchange differences amounting to TL 22.592 which were previously presented as unrealized foreign exchange differences in the consolidated cash flow statement for the three month period ended 31 March 2015 are presented in foreign exchange differences and other financial payments which previously presented in net cash used in operating activities is presented as other finance expenses paid in net cash used in financing activities.

3. SEASONAL CHANGES IN THE OPERATIONS

The operations of the Group are not subject to seasonal fluctuations.

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4. EARNINGS PER SHARE

	1 January - 31 March 2016	1 January - 31 March 2015
Weighted average number of ordinary shares outstanding during the year	350.000.000.000	350.000.000.000
Net profit for the year attributable to equity holders of the Company	407.670	26.716
Basic and earnings per share (in full kuruş)	0,1165	0,0076

5. SEGMENT REPORTING

The Group has two main segments: Fixed line and Mobile. Fixed line services are provided by Türk Telekom, TNet, Argela, Innova, Sebit, AssisTT and TTINT Group whereas Mobile service is provided by Avea. Group management assesses segment performance over earnings before interest, tax, depreciation and amortization (“EBITDA”). EBITDA is calculated by adjusting the operating income by i) adding income/expense from investing activities, depreciation, amortization and impairment expenses and ii) deducting exchange gains/losses, interest and rediscount income/expenses on current accounts presented in other operating income and expense. Group management uses EBITDA as it is comparable with other companies in the sector. As Group management does not monitor Group’s performance over geographical segments, geographical segment reporting is not presented. The segment results, balance sheet items are presented below:

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5. SEGMENT REPORTING (CONTINUED)

	Fixed Line		Mobile		Intra-group eliminations		Consolidated	
	1 January - 31 March 2016	1 January - 31 March 2015	1 January - 31 March 2016	1 January - 31 March 2015	1 January - 31 March 2016	1 January - 31 March 2015	1 January - 31 March 2016	1 January - 31 March 2015
Revenue								
Mobile	-	-	1.333.879	1.166.441	-	-	1.333.879	1.166.441
Fixed broadband and TV	1.041.775	952.462	-	-	-	-	1.041.775	952.462
Fixed voice	646.449	701.831	-	-	-	-	646.449	701.831
Data service and leased line revenue	428.898	317.860	-	-	-	-	428.898	317.860
International revenue	132.537	123.449	-	-	-	-	132.537	123.449
Domestic interconnection revenue	72.226	78.095	-	-	-	-	72.226	78.095
TFRS Interpretation 12 revenue	39.783	39.481	-	-	-	-	39.783	39.481
Rental income from GSM operators	29.748	21.565	-	-	-	-	29.748	21.565
Other	263.747	149.771	-	-	-	-	263.747	149.771
Eliminations	-	-	-	-	(188.075)	(116.735)	(188.075)	(116.735)
Total revenue	2.655.163	2.384.514	1.333.879	1.166.441	(188.075)	(116.735)	3.800.967	3.434.220
Cost of sales and operating expenses (excluding depreciation and amortization)	(1.546.109)	(1.270.248)	(1.199.698)	(954.105)	183.403	115.384	(2.562.404)	(2.108.969)
Other income/(expense) and income/(expense) from investing activities	(407)	(2.410)	(8.949)	(21.158)	14.591	(282)	5.235	(23.850)
Depreciation and amortization	(375.325)	(302.870)	(280.659)	(218.566)	923	379	(655.061)	(521.057)
Impairment on tangible and intangible assets	-	-	(3.025)	(2.999)	-	-	(3.025)	(2.999)
EBITDA	1.136.258	1.119.016	132.359	211.998	(6.881)	(1.632)	1.261.736	1.329.382
Doubtful receivable provision expense	(24.254)	(28.812)	(63.835)	(24.772)	-	-	(88.089)	(53.584)
Capital expenditure (*)	235.555	155.304	471.044	158.016	1.747	168	708.346	313.488

(*) Capital expenditures do not include TL 4.577 (31 March 2015: TL 4.542) amounted profit margin which is capitalized on intangible assets that are accounted within the scope of TFRS Interpretation 12.

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5. SEGMENT REPORTING (CONTINUED)

	1 January - 31 March 2016	1 January - 31 March 2015
Fixed line segment EBITDA	1.136.258	1.119.016
Mobile segment EBITDA	132.359	211.998
Inter-segment eliminations	(6.881)	(1.632)
Consolidated EBITDA	1.261.736	1.329.382
Foreign exchange gains, interest income, discount income on current accounts presented in other operating income	57.005	57.095
Foreign exchange losses, interest expense, discount expense on current accounts presented in other operating expense (-)	(74.943)	(85.076)
Financial income	884.627	487.513
Financial expenses (-)	(896.912)	(1.196.982)
Depreciation, amortisation and impairment	(658.087)	(524.056)
Consolidated profit before tax	573.426	67.876

31 March 2016	Fixed Line	Mobile	Eliminations	Consolidated
Total segment assets	19.469.892	10.967.826	(2.597.925)	27.839.793
Total segment liabilities	(17.988.715)	(7.142.933)	2.593.140	(22.538.508)

31 December 2015	Fixed Line	Mobile	Eliminations	Consolidated
Total segment assets	17.580.619	10.594.367	(2.401.082)	25.773.904
Total segment liabilities	(16.136.389)	(7.045.666)	2.401.519	(20.780.536)

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6. CASH AND CASH EQUIVALENTS

	31 March 2016	31 December 2015
Cash on hand	446	332
Cash at banks– demand deposit	686.786	420.361
Cash at banks– time deposit	3.949.928	2.410.835
Other	3.245	6.258
	4.640.405	2.837.786

As of 31 March 2016, time deposits are all short-term, maturing within one month and denominated in both foreign currencies and TL. The interest rates are between 5,00% - 14,00% for TL deposits, between 0,25% - 3,50% for US Dollar deposits and between 0,35% - 2,50% for Euro deposits (31 December 2015: for TL deposits between 5,00% and 14,00%, for US Dollar deposits between 0,10% and 3,50%, for Euro deposits between 0,20% and 2,65%).

Reconciliation of cash and cash equivalents to the statement of cash flows is as follows:

	31 March 2016	31 March 2015
Cash and cash equivalents	4.640.405	3.007.538
Less: restricted amounts		
- Collection protocols	(335.559)	(301.393)
- ATM collection	(3.593)	(3.630)
- Other	(301)	(758)
Unrestricted cash	4.300.952	2.701.757

As of 31 March 2016, demand deposits amounting to TL 335.559 (31 March 2015: TL 301.393) is restricted due to collection protocols signed with banks for receipts from the subscribers, under which proceeds are made available to the Group a certain number of days after the cash is collected. An additional amount of TL 3.593 arising from collections through automated teller machine (“ATM”) is not available for use at 31 March 2016 (31 March 2015: TL 3.630).

As of 31 March 2016, the Group has bank loans amounting to USD 93.268 and Euro 60.517 (31 December 2015: USD 386.595 and Euro 455.244) which have been committed to banks and have not been utilized yet, having a maturity date on 2 October 2017.

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7. FINANCIAL LIABILITIES

Bank borrowings

	31 March 2016			31 December 2015		
	Weighted average nominal interest rate (%)	Original amount	TL equivalent	Weighted average nominal interest rate (%)	Original amount	TL equivalent
Short-term borrowings:						
TL bank borrowings with fixed interest rates	11,59	121.434	121.434	9,27	237.582	237.582
TL bank borrowings with variable interest rates	–	–	–	–	1.553	1.553
Interest accruals:						
TL bank borrowings with fixed interest rates	–	1.370	1.370	–	2.956	2.956
Short-term borrowings		122.804				242.091
Short-term portion of long-term bank borrowings:						
USD bank borrowings with fixed interest rates	3,05	49.796	141.092	3,05	48.625	141.381
USD bank borrowings with variable interest rates	3,05	665.535	1.885.727	3,00	586.259	1.704.607
EUR bank borrowings with variable interest rates	1,51	163.225	523.642	1,52	152.531	484.683
Interest accruals of long-term bank borrowings:						
TL bank borrowings with fixed interest rates	–	–	–	–	7	7
USD bank borrowings with fixed interest rates	–	1.555	4.407	–	622	1.808
USD bank borrowings with variable interest rates (*)	–	13.570	38.449	–	9.220	26.809
EUR bank borrowings with variable interest rates (**)	–	4.379	14.049	–	1.377	4.377
Short-term portion of long-term bank borrowings		2.607.366				2.363.672
Total short-term borrowings		2.730.170				2.605.763
Long-term borrowings:						
TL bank borrowings with fixed interest rates	–	–	–	14,80	16.000	16.000
USD bank borrowings with fixed interest rates	3,05	109.147	309.257	3,05	112.259	326.404
USD bank borrowings with variable interest rates (*)	3,05	1.512.282	4.284.899	3,00	1.339.420	3.894.497
EUR bank borrowings with variable interest rates (**)	1,51	1.032.498	3.312.357	1,52	649.475	2.063.773
Total long-term borrowings		7.906.513				6.300.674
Total financial liabilities		10.636.683				8.906.437

(*) As at 31 March 2016, interest rate varies between Libor + 0,54% and 3,40% (31 December 2015: Libor + 0,54% and 3,40%)

(**) As at 31 March 2016, interest rate varies between Euribor + 0,25% and 3,00% (31 December 2015: Euribor + 0,25% and 3,00%)

As of 31 March 2016, guarantees amounting to USD 400.000 is for financial liabilities of Avea which are amounted to USD 230.000 and EUR 133.125, and guarantees amounting to EUR 300 is given for financial liabilities of TTINT Romania by Türk Telekom.

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7. FINANCIAL LIABILITIES (CONTINUED)

Bank borrowings (continued)

The contractual maturities of financial liabilities in equivalent of TL are as follows:

	31 March 2016					Total	31 December 2015					Total
	Up to 3 months	3 months to 1 year	1 year to 2 years	2 years to 5 years	More than 5 years		Up to 3 months	3 months to 1 year	1 year to 2 years	2 years to 5 years	More than 5 years	
TL bank borrowings with fixed interest rates	106.167	16.637	–	–	–	122.804	240.545	–	16.000	–	–	256.545
TRY bank borrowings with variable interest rates	–	–	–	–	–	–	1.553	–	–	–	–	1.553
USD bank borrowings with fixed interest rates	67.083	78.416	146.317	162.940	–	454.756	8.762	134.427	147.883	178.521	–	469.593
USD bank borrowings with variable interest rates	168.096	1.756.080	542.681	2.639.000	1.103.218	6.209.075	158.898	1.572.517	843.357	1.981.234	1.069.906	5.625.912
Euro bank borrowings with variable interest rates	221.867	315.824	480.795	2.445.186	386.376	3.850.048	9.615	479.446	443.875	1.399.170	220.728	2.552.834
	563.213	2.166.957	1.169.793	5.247.126	1.489.594	10.636.683	419.373	2.186.390	1.451.115	3.558.925	1.290.634	8.906.437

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7. FINANCIAL LIABILITIES (CONTINUED)

Bill, bonds and notes issued

	31 March 2016			31 December 2015		
	Weighted average nominal interest rate (%)	Original amount	TL equivalent	Weighted average nominal interest rate (%)	Original amount	TL equivalent
Bill, bonds and notes issued:						
USD bank borrowings with fixed interest rates	4,54	14.467	40.991	4,54	3.427	9.963
Short-term bills, bonds and notes issued		14.467	40.991		3.427	9.963
Long-term bills, bonds and notes issued:						
USD bank borrowings with fixed interest rates	4,54	989.578	2.803.870	4,54	989.578	2.877.296
Long-term bills, bonds and notes issued		989.578	2.803.870		989.578	2.877.296
Total financial liabilities		1.004.045	2.844.861		993.005	2.887.259

The sales process of the bond issuances amounted to USD 500.000 with 10 years of maturity, and 4,875% coupon rate based on 4,982% reoffer yield was completed on June 19th, 2014. The bonds are now quoted at Irish Stock Exchange.

The sales process of the bond issuances amounted to USD 500.000 with 5 years of maturity, and 3,75% coupon rate based on 3,836% reoffer yield was completed on June 19th, 2014. The bonds are now quoted at Irish Stock Exchange.

The contractual maturities of issued long term bills, bonds and notes in equivalent of TL are as follows:

	31 March 2016				31 December 2015			
	3 months to 1 year	1 year to 5 years	More than 5 years	Total	3 months to 1 year	1 year to 5 years	More than 5 years	Total
Issued long term bills, bonds and notes	40.991	1.405.102	1.398.768	2.844.861	9.963	1.441.897	1.435.399	2.887.259
	40.991	1.405.102	1.398.768	2.844.861	9.963	1.441.897	1.435.399	2.887.259

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8. DUE FROM AND DUE TO RELATED PARTIES

Institutions under state control are defined as related parties due to 30% ownership and the golden share of the Treasury. State controlled entities are defined as related parties but in accordance with the exemption given from the TAS 24 disclosure requirements, state controlled entities are excluded from general reporting requirements.

Details of balances between the Group and other related parties as at 31 March 2016 and 31 December 2015 are disclosed below:

	31 March 2016	31 December 2015
Due from related parties		
Parent company		
Saudi Telecom Company ("STC") (2)	8.971	5.730
Other related parties		
Oger Telekom Yönetim Hizmetleri Limited Şirketi ("OTYH") (1)	5	3
Oger Systems Company Ltd. (1)	1.083	771
	10.059	6.504
Due to related parties		
Parent company		
STC (2)	654	682
Other related parties		
OTYH (1)	8.748	9.879
OGER Systems Company Ltd. (1)	49	123
Oger Telecom Ltd.	43	44
Oger Telecom South Africa (Proprietary) Limited (1)	17	17
	9.511	10.745

(1) a subsidiary of Oger Telecom

(2) shareholder of Oger Telecom

Transactions with shareholders:

Avea is required under the terms of the Avea Concession Agreement, to pay 15% share to the Treasury (the Treasury Share) of its monthly gross revenue. Besides, the Company and its other subsidiaries that are operating in the telecommunications sector are required to pay universal service fund at 1% of revenues and ICTA share at 0,35% of revenues to the Ministry of Transport and Communications under the law Global Service Act numbered 5369.

As of 31 March 2016, unpaid portion of Treasury Share, universal service fund and ICTA share are recorded under other short-term liabilities and these expenses are accounted at cost of sales account.

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8. DUE FROM AND DUE TO RELATED PARTIES (CONTINUED)

Guarantees provided to related parties:

The guarantees given by the Company to support the long term financing of related parties are explained in Note 7.

Transactions with other related parties:

Postage services have been rendered by PTT to the Company.

Operational lease expense to PTT by the Company as part of the lease agreement amounts to TL 5.098 for the three month period ended 31 March 2016 (31 March 2015: TL 23.097).

The Company is rendering and receiving international traffic carriage services and data line rent services to and from STC. Total revenues and expenses incurred in relation to these services amounted to TL 2.685 and TL 72, respectively, as of 31 March 2016 (31 March 2015: TL 5.114 revenues and TL 249 expenses).

Compensation of key management personnel

The remuneration of directors and other members of key management were as follows:

	1 January - 31 March 2016	1 January - 31 March 2015
Short-term benefits	17.699	12.416
Wage and wage equivalents	15.422	9.146
Attendace fees	2.277	2.438
Post employment benefits to key management	–	832
Long-term defined benefit plans	596	573
Social Security Institution premimums (SSI)	596	573
	18.295	12.989

Furthermore, OTMSC charged to the Company a consultancy fee amounting to TL 8.500 (31 March 2015: TL 7.831) and an expense fee for an amount of TL 90 (31 March 2015: TL 26), for the three month period ended 31 March 2016. OTMSC’s ultimate shareholder is Saudi Oger. Based on the contract between OTMSC and the Company significant portion of this payment represents salaries of key management personnel. On 12 May 2015 a new protocol is signed. According to this, the contract is renewed for two years by amounting to USD 12.000 (prior contract value: USD 12.000) and will be terminated on 15 May 2017.

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9. TRADE RECEIVABLES FROM AND PAYABLES TO THIRD PARTIES

Trade receivables

	31 March 2016	31 December 2015
Short-term		
Trade receivables	5.252.735	5.097.900
Other trade receivables	138.671	139.001
Income accruals	579.617	559.719
Allowance for doubtful receivables (-)	(2.089.386)	(2.002.146)
Total short-term trade receivables	3.881.637	3.794.474
Long-term		
Trade receivables	67.938	49.135
Total long-term trade receivables	67.938	49.135

Trade receivables generally have a maturity term of 60 days on average (31 December 2015: 60 days).

The movement of the allowance for doubtful receivables is as follows:

	1 January 2016 - 31 March 2016	1 January 2015 - 31 March 2015
At January 1	(2.002.146)	(1.732.493)
Provision for the year	(129.509)	(100.227)
Reversal of provision - collections	42.112	46.692
Write off of doubtful receivables	216	509
Change in currency translation differences	(59)	(96)
At 31 March	(2.089.386)	(1.785.615)

The Group waits up to 90 days before initiating legal action for overdue receivables. Based on its previous collection performance from overdue receivables, the Company expects to make significant collections from its overdue receivables. As of 31 March 2016 and 31 December 2015, the analysis of trade receivables that were neither past nor due and past due but not impaired is as follows:

	Total	Neither past due nor impaired	< 30 days	30-60 days	60-90 days	90-120 days	120-360 days	>360 days
31 March 2016	3.949.575	2.788.755	363.426	148.696	95.089	158.346	182.691	212.572
31 December 2015	3.843.609	2.710.560	358.632	125.149	88.815	81.394	178.573	300.486

Receivables guaranteed of the Group are amounted to TL 27.495 (31 December 2015: TL 29.831).

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9. TRADE RECEIVABLES FROM AND PAYABLES TO THIRD PARTIES (CONTINUED)

Trade payables

	31 March 2016	31 December 2015
Short-term		
Trade payables	3.401.627	3.819.843
Expense accruals	912.447	395.092
Other trade payables	6.622	10.597
Total short-term trade payables	4.320.696	4.225.532
Long-term		
Trade payables	903.991	962.191
Other trade payables	–	67
Total long-term trade payables	903.991	962.258

As of 31 March 2016, short term trade payables include Avea 4.5G license payment amounting to TL 1.548.509 (31 December 2015: TL 1.523.839), payables within scope of supplier finance that amounting TL 617.284 (31 December 2015: TL 625.477), TV broadcasting and licence rights and other short term trade payables.

The average maturity term of trade payables is between 30 and 150 days (31 December 2015: 30 and 150 days).

As of 31 March 2016, long term trade payables which have a maturity of more than 1 year include Avea 4.5G licence payable amounting to TL 759.270 (31 December 2015: 747.174) TV broadcasting and license rights.

10. TANGIBLE, INTANGIBLE ASSETS

The amount of tangible and intangible assets purchased during the three month period ended 31 March 2016 is TL 708.346 (31 March 2015: TL 313.488).

Net book value of tangible and intangible assets sold during the three month period ended 31 March 2016 amounted to TL 24.810 (31 March 2015: TL 2.974).

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11. PROVISIONS

Other short-term provisions

	31 March 2016	31 December 2015
Litigation, ICTA penalty and customer return provisions	256.723	296.674
	256.723	296.674

The movement of provisions is as follows:

	1 January - 31 March 2016	1 January - 31 March 2015
As at January 1	296.674	241.259
Provisions for the period	6.258	37.345
Settled provisions	(44.191)	(177)
Reversals	(2.090)	(2.115)
Foreign currency translation difference	72	13
As at 31 March	256.723	276.325

Short-term provisions for employee benefits

	31 March 2016	31 December 2015
Short term provisions for employee benefits		
Personnel bonus provision	224.228	178.822
	224.228	178.822

The movement of provisions is as follows:

	1 January - 31 March 2016	1 January - 31 March 2015
As at January 1	178.822	160.050
Provision for the period	60.707	42.124
Provisions paid	(11.404)	(872)
Reversals	(3.841)	–
Foreign currency translation difference	(56)	37
As at 31 March	224.228	201.339

	31 March 2016	31 December 2015
Long term provisions for employee benefits		
Unused vacation provisions	84.531	79.677
	84.531	79.677

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11. PROVISIONS (CONTINUED)

Long term employee benefits excluding defined benefit obligation

The movement of provisions is as follows:

	1 January - 31 March 2016	1 January - 31 March 2015
As at January 1	79.677	68.907
Provision for the period	29.354	15.389
Provisions paid	(6.262)	(406)
Reversals	(18.249)	(6.893)
Foreign currency translation difference	11	12
As at 31 March	84.531	77.009
<i>Other long-term provisions</i>		
	31 March 2016	31 December 2015
Provision for the investments under the scope of TFRS Interpretation 12	7.755	7.711
	7.755	7.711

Defined benefit obligation

In accordance with existing social legislation in Turkey, companies are required to make lump-sum payments to employees whose employment is ended due to retirement or for reasons other than resignation or misconduct. The liability is not funded and accordingly there are no plan assets for the defined benefits as there is no funding requirement.

The retirement pay liability as at 31 March 2016 is subject to a ceiling of full TL 4.092,53 (31 Aralık 2015: full TL 3.828,37) per monthly salary for each service year.

In addition to retirement benefits, the Group is liable for certain other long-term employment benefits such as business, service, representation indemnity and jubilee.

	1 January - 31 March 2016	1 January - 31 March 2015
Defined benefit obligation at January 1	635.368	555.595
Service cost	10.739	10.320
Interest cost	11.969	12.169
Actuarial loss (*)	25.774	640
Benefits paid	(104.950)	(6.600)
Foreign currency translation difference	(85)	(14)
As at 31 March	578.815	572.110

(*) As at 31 March 2016, actuarial loss amounting to TL 25.774 (31 March 2015: TL 640) is recognized in other comprehensive income.

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11. PROVISIONS (CONTINUED)

Total expense recognized in the consolidated income statement:

	1 January - 31 March 2016	1 January - 31 March 2015
Service cost	10.739	10.320
Interest cost	11.969	12.169
Total net cost recognized in the consolidated statement of income	22.708	22.489

Principal actuarial assumptions used:

	31 March 2016	31 December 2015
Interest rate	9,5%	9,5%
Expected rate of ceiling increases	5,5%	5,5%

For the years ahead, overall voluntary employee withdrawal of the Group is 2,36% (31 December 2015: 2,36%).

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12. OTHER ASSETS, OTHER LIABILITIES AND EMPLOYEE BENEFIT OBLIGATIONS

Other current assets

	31 March 2016	31 December 2015
Value Added Tax ("VAT") and Special Communication Tax ("SCT")(*)	436.555	541.486
Intermediary services for collection (**)	112.343	123.783
Advances given (***)	58.185	27.906
TAFICS projects	47.454	46.364
Other current assets	2.033	1.882
	656.570	741.421

(*) Includes "VAT" of payments made to ICTA for IMT Services and Infrastructures Authorization, also known as 4.5G tender in public.

(**) Intermediary services for collections consist of advances given by Avea to its distributors.

(***) Advances given mainly consists of advances given to suppliers.

Other non-current assets

	31 March 2016	31 December 2015
Intermediary services for collection	31.266	34.324
Other non-current assets	5	7
	31.271	34.331

Other current liabilities

	31 March 2016	31 December 2015
Advances received	45.693	44.917
Other liabilities	14.772	10.945
	60.465	55.862

The Company acts as an intermediary of TAFICS projects by transferring advances received to the contractors and supports the management of the projects. Expenditures arising from the projects are deducted from the advances received at the date of the expenditure. Advances not used are held as time deposits and the interest earned is credited to the advances received in accordance with the agreement between the parties.

Employee benefit obligations

	31 March 2016	31 December 2015
Social security premiums payable	49.300	44.908
Employee's income tax payables	26.345	44.413
Payables to personnel	24.809	25.884
	100.454	115.205

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13. COMMITMENTS AND CONTINGENCIES

Guarantees received and given by the Group are summarized below:

		31 March 2016		31 December 2015	
		Original currency	TL	Original currency	TL
Guarantees received	USD	190.721	540.389	202.191	587.891
	TL	847.021	847.021	875.268	875.268
	Euro	58.965	189.167	59.095	187.780
		1.576.577		1.650.939	
Guarantees given (*)	USD	162.017	459.060	162.049	471.173
	TL	207.851	207.851	202.530	202.530
	Euro	239.763	769.184	239.686	761.625
	Other	52	37	87	60
		1.436.132		1.435.388	

(*) Guarantees given amounting to US Dollar 151.500 (31 December 2015: US Dollar 151.500) is related to the guarantee provided to the ICTA by Avea with respect to the Avea Concession Agreement, guarantees given amounting to Euro 12.840 (31 December 2015: Euro 12.840) is related with the guarantee provided for 3G license and guarantees given amounting to Euro 57.281 is related with the guarantee provided for 4.5G license.

The Company’s guarantee, pledge and mortgage (GPM) position as at 31 March 2016 and 31 December 2015 is as follows:

	31 March 2016	31 December 2015
A. GPMs given on behalf of the Company’s legal personality	1.436.132	1.435.388
B. GPMs given in favor of subsidiaries included in full consolidation	1.078.800	1.092.791
C. GPMS given by the Company for the liabilities of 3rd parties in order to run ordinary course of business	2.000.693	1.735.813
D. Other GPMs	–	–
i. GPMs given in favor of parent company	–	–
ii. GPMs given in favor of Company companies not in the scope of B and C above	–	–
iii. GPMs given in favor of third party companies not in the scope of C above	–	–
Total	4.515.625	4.263.992

Based on law 128/1 of Turkish Code of Obligations, Avea has given guarantee to distributors amounting to TL 2.000.693 for the financial obligation that would arise during the purchase of devices that will be sold as commitment sales by Avea (31 December 2015: TL 1.735.813).

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13. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Other commitments

The Group has purchase commitments for sponsorships and advertising services at the amounting to USD 26.459, TL 102 and Euro 67 equivalent to TL 75.286 (31 December 2015: TL 75.684) as at 31 March 2016. Payments for these commitments are going to be made in a 5-year period.

The Group has purchase commitments for fixed assets amounting to US Dollar 164.734, Euro 50.866, CHF 1 and TL 235.238, equivalent to TL 865.178 (31 December 2015: TL 936.296) as at 31 March 2016.

Legal proceedings of Türk Telekom

Disputes between the Company and its former personnel

Within the scope of the ongoing restructuring of the personnel organization of the Company in order to achieve the number of personnel identified, the contracts of the employees who are entitled for retirement and whose service are not needed have been terminated based on the Board of Directors Decision. Accordingly, certain number of those employees has filed re-employment lawsuits against the Company. Some of the lawsuits terminated against the Company while the remaining cases are still ongoing. Provision amounting to TL 13.027 (31 December 2015: TL 13.590) is provided as of 31 March 2016 for the ongoing cases.

Disputes between the Company and Municipalities

For contribution to the infrastructure investment and municipality share, municipalities filed against the Company and as at 31 March 2016, total provision including the nominal amount and legal interest charge which is amounting to TL 47.424 (31 December 2015: TL 47.021) is recognized.

Disputes between the Group and the ICTA

The Company has filed various lawsuits against ICTA. These lawsuits are related with the sector-specific and tariff legislations and legislations with respect to the other operators in the market. The sector-specific disputes generally stem from the objections with respect to the provisions of interconnection legislation, legislation with respect to telecommunication services and infrastructure. As of 31 March 2016, TL 88.903 provision provided for ICTA penalties and amounts to be repaid to customers due to ICTA resolutions (31 December 2015: TL 102.459).

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13. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Disputes related to Avea’s SCT

General Directorate of Revenue Administration has started a tax investigation about practice for computation of Special Communication Tax (“SCT”) based on the revenue generated from prepaid cards to distributors and dealers.

As of 31 March 2016, a provision amounting to TL 71.442 is recognized (31 December 2015: TL 69.729).

Avea’s Treasury share investigation

Undersecretariat of Treasury has performed an audit at Avea over gross sales for the period 2010 and 2011 and calculated additional charges amounting to TL 2.500 regarding 2G Concession Agreement and TL 15.700 regarding 3G Concession Agreement on the allegation that Treasury Share and Universal Service Participation Fee was not fully paid over “sales discounts, subscriber commitment penalties, advertisement charge outs, discount over roaming and exchange rate differences arising from roaming services” based on the ground that such amounts constitutes the base for treasury share.

The Company paid TL 27.795 in January 2016 including interest for amounts resulting from 3G sales.

Meanwhile, the Company has taken the following actions for the claimed amounts:

- Preliminary injunction is requested regarding the amount over 2G Concession Agreement, an arbitration case has been initiated
- Stay of execution is requested and cancellation case initiated regarding the claimed amount over 3G Concession Agreement.

In addition, ICTA sent a notification requesting TL 44.940 penalty over 3G Concession Agreement and TL 7.021 penalty over 2G Concession Agreement which is calculated as three times of the principal amount.

Management has taken the following actions to stop the execution of the payment order.

- A cancellation case initiated and stay of execution requested regarding the claimed amount over 3G Concession Agreement.
- Preliminary injunction received regarding the accrual over 2G Concession Agreement and arbitration process has been initiated.

The litigation process is continuing as at 31 March 2016. As at 31 March 2016, a provision amounting to TL 4.457 is recognized in the financial statements for the principal and interest.

Based on the management opinion, the probability of an outflow of resources embodying economic benefits to settle the obligation is not probable, thus, no additional provision for the penalty charge is recognized in the consolidated financial statements as at and for the period ended 31 March 2016.

Other issues

Provision has been provided in the consolidated financial statements for the probable court cases against the Group based on the lawyers’ assessments. The provision for such court cases is amounting to TL 31.471 as at 31 March 2016 (31 December 2015: TL 31.900). For the rest of the cases, Group lawyers commented that basis of those cases are not realistic and should be appealed. Therefore, no provision has been provided for these cases.

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14. FINANCIAL RISK MANAGEMENT AND POLICIES

Market risk

Foreign currency risk

	31 March 2016					31 December 2015				
	TL Equivalent	US Dollar	Euro	GBP	Other	TL Equivalent	USD	Euro	GBP	Other
1. Trade receivables	121.616	18.994	20.396	–	3.130	141.338	16.822	28.505	–	2.387
2a. Monetary financial assets (Cash and banks accounts included)	3.816.321	735.713	539.806	–	–	1.935.008	374.424	266.343	–	–
2b. Non-monetary financial assets	–	–	–	–	–	–	–	–	–	–
3. Other	49.196	2.796	12.865	–	–	62.369	2.793	17.072	–	–
4. Current assets (1+2+3)	3.987.133	757.503	573.067	–	3.130	2.138.715	394.039	311.920	–	2.387
5. Trade receivables	–	–	–	–	–	1	–	–	–	–
6a. Monetary financial assets	54.876	12.804	5.797	–	–	50.792	11.685	5.292	–	–
6b. Non-monetary financial assets	–	–	–	–	–	–	–	–	–	–
7. Other	414	4	125	–	–	399	–	126	–	–
8. Non-current assets (5+6+7)	55.290	12.808	5.922	–	–	51.192	11.685	5.418	–	–
9. Total assets (4+8)	4.042.423	770.311	578.989	–	3.130	2.189.907	405.723	317.338	–	2.387
10. Trade payables	2.931.456	315.565	634.748	200	242	3.928.748	357.052	908.998	499	3
11. Financial liabilities	2.647.882	744.713	167.604	30	–	2.381.870	649.720	162.404	132	–
12a. Monetary other liabilities	337.140	71.181	42.223	–	–	23.197	2.454	5.055	–	–
12b. Non-monetary other liabilities	–	–	–	–	–	–	–	–	–	–
13. Short-term liabilities (10+11+12)	5.916.478	1.131.459	844.575	230	242	6.333.815	1.009.226	1.076.457	631	3
14. Trade payables	759.672	61	236.744	–	–	747.580	58	235.213	–	–
15. Financial liabilities	10.975.989	2.683.463	1.051.297	–	–	9.322.821	2.483.376	661.555	–	–
16 a. Monetary other liabilities	82.522	–	25.723	–	–	87.060	–	27.398	–	–
16 b. Non-monetary other liabilities	–	–	–	–	–	–	–	–	–	–
17. Long-term liabilities (14+15+16)	11.818.183	2.683.524	1.313.764	–	–	10.157.461	2.483.434	924.166	–	–
18. Total liabilities (13+17)	17.734.661	3.814.983	2.158.339	230	242	16.491.276	3.492.660	2.000.623	631	3
19. Net asset/(liability) position of off balance sheet derivative instruments (19a-19b)	1.932.765	1.555.000	(770.915)	–	–	1.532.716	1.000.000	(432.680)	–	–
19a. Total asset amount hedged	–	–	–	–	–	–	–	–	–	–
19b. Total liability amount hedged	(1.932.765)	(1.555.000)	770.915	–	–	(1.532.716)	(1.000.000)	432.680	–	–
20. Net foreign currency asset/(liability) position (9-18+19)	(11.759.473)	(1.489.672)	(2.350.265)	(230)	2.888	(12.768.653)	(2.086.937)	(2.115.965)	(631)	2.384
21. Net asset/(liability) position of foreign currency monetary items (IFRS 7.B23) (=1+2a+5+6a-10-11-12a-14-15-16a)	(13.741.848)	(3.047.472)	(1.592.340)	(230)	2.888	(14.364.137)	(3.089.730)	(1.700.483)	(631)	2.384
22. Fair value of FX swap financial instruments	202.938	74.185	(2.262)	–	–	284.094	89.052	7.920	–	–
23. Hedged amount of foreign currency assets	–	–	–	–	–	–	–	–	–	–
24. Hedged amount of foreign currency liabilities	(1.932.765)	(1.555.000)	770.915	–	–	(1.532.716)	(1.000.000)	432.680	–	–

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14. FINANCIAL RISK MANAGEMENT AND POLICIES (CONTINUED)

Market risk (continued)

Foreign currency risk (continued)

The Group has transactional currency exposures mainly with respect to the financial liabilities and trade payables. Foreign currency denominated borrowings are stated in Note 7.

The following table demonstrates the sensitivity to a reasonably possible change in the US Dollar and Euro exchange rate, with all other variables held constant, of the Group’s net profit for the year (due to changes in the fair value of monetary assets and liabilities):

31 March 2016	Profit/Loss		Other comprehensive income	
	Appreciation of foreign currency	Depreciation of foreign currency	Appreciation of foreign currency	Depreciation of foreign currency
Appreciation of USD against TL by 10%:				
1- USD net asset/liability	(862.677)	862.677	–	–
2- Hedged portion of USD risk (-)	440.594	(440.594)	–	–
3- USD net effect (1+2)	(422.083)	422.083	–	–
Appreciation of Euro against TL by 10%:				
4- Euro net asset/liability	(506.671)	506.671	(33.521)	33.521
5- Hedged portion of Euro risk (-)	(247.317)	247.317	–	–
6- Euro net effect (4+5)	(753.988)	753.988	(33.521)	33.521
Appreciation of other foreign currencies against TL by 10%:				
7- Other foreign currency net asset/liability	125	(125)	–	–
8- Hedged portion of other foreign currency (-)	–	–	–	–
9- Other foreign currency net effect (7+8)	125	(125)	–	–
Total (3+6+9)	(1.175.946)	1.175.946	(33.521)	33.521
31 December 2015	Profit/Loss		Other comprehensive income	
	Appreciation of foreign currency	Depreciation of foreign currency	Appreciation of foreign currency	Depreciation of foreign currency
Appreciation of USD against TL by 10%:				
1- USD net asset/liability	(897.221)	897.221	–	–
2- Hedged portion of USD risk (-)	290.760	(290.760)	–	–
3- USD net effect (1+2)	(606.461)	606.461	–	–
Appreciation of Euro against TL by 10%:				
4- Euro net asset/liability	(532.829)	532.829	(23.090)	23.090
5- Hedged portion of Euro risk (-)	(137.488)	137.488	–	–
6- Euro net effect (4+5)	(670.317)	670.317	(23.090)	23.090
Appreciation of other foreign currencies against TL by 10%:				
7- Other foreign currency net asset/liability	(78)	78	–	–
8- Hedged portion of other foreign currency (-)	–	–	–	–
9- Other foreign currency net effect (7+8)	(78)	78	–	–
Total (3+6+9)	(1.276.856)	1.276.856	(23.090)	23.090

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14. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Explanation on the presentation of financial assets and liabilities at their fair values

The below table summarizes the carrying amounts and fair values of financial asset and liabilities.

Due to their short-term nature, the fair value of trade and other receivables represents their book value. The fair value of borrowings with fixed interests is obtained by calculating their discounted cash flows using the market interest rate effective at the reporting date. The fair value of foreign currency denominated borrowings with variable interests is obtained by discounting the projected cash flows using estimated market interest rates.

	Carrying amount		Fair value	
	31 March 2016	31 December 2015	31 March 2016	31 December 2015
Financial assets				
Cash and cash equivalents	4.640.405	2.837.786	4.640.405	2.837.786
Trade and other receivables (including related parties)	4.081.553	3.964.794	4.081.553	3.964.794
Other financial investments (*)	11.840	11.480	(*)	(*)
Derivative financial assets	360.576	433.769	360.576	433.769
Financial liabilities				
Bank borrowings	10.636.683	8.906.437	10.636.010	8.905.625
Bills, bonds and notes issued	2.844.861	2.887.259	2.790.929	2.793.917
Financial leasing liabilities	2.483	9.031	2.483	9.031
Trade and other payables (including related parties)	6.577.993	6.559.309	6.577.993	6.559.309
Derivative financial liabilities	374.213	265.584	374.213	265.584

(*) Group’s share in Cetel is carried at cost. Information on fair value of share in Cetel is not available.

Fair value hierarchy table

The group classifies the fair value measurement of each class of financial instruments according to the source, using the three-level hierarchy, as follows:

Level 1: Market price valuation techniques for the determined financial instruments traded in markets (unadjusted)

Level 2: Other valuation techniques includes direct or indirect observable inputs

Level 3: Valuation techniques does not contains observable market inputs

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14. FINANCIAL RISK MANAGEMENT AND POLICIES (CONTINUED)

Explanation on the presentation of financial assets and liabilities at their fair values (continued)

Fair value hierarchy table as at 31 March 2016 is as follows:

	Date of Valuation	Total	Fair Value Measurement		
			Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets measured at fair value:					
<u>Derivative Financial Assets:</u>					
Cross currency swaps	31 March 2016	311.544	–	311.544	–
Interest rate swaps	31 March 2016	49.032	–	49.032	–
Financial liabilities measured at fair value:					
<u>Derivative Financial Liabilities:</u>					
Interest rate swaps	31 March 2016	265.606	–	265.606	–
Cross currency swaps	31 March 2016	108.607	–	108.607	–
Other financial liabilities not measured at fair value					
Bank loans	31 March 2016	10.636.683	–	10.636.683	–
Bills, bonds and notes issued	31 March 2016	2.844.861	2.844.861	–	–

Fair value hierarchy table as at 31 December 2015 is as follows:

	Date of Valuation	Total	Fair Value Measurement		
			Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets measured at fair value:					
<u>Derivative Financial Assets:</u>					
Cross currency swaps	31 December 2015	388.767	–	388.767	–
Interest rate swaps	31 December 2015	45.002	–	45.002	–
Financial liabilities measured at fair value:					
<u>Derivative Financial Liabilities:</u>					
Interest rate swaps	31 December 2015	160.911	–	160.911	–
<u>Other financial liabilities:</u>					
Non-controlling interest put option liability	31 December 2015	104.673	–	104.673	–
Other financial liabilities not measured at fair value					
Bank loans	31 December 2015	8.905.625	–	8.905.625	–
Bills, bonds and notes issued	31 December 2015	2.793.917	2.793.917	–	–

Capital management policies

The primary objective of the Group’s capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions.

To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or return capital to shareholders. No changes were made in the objectives, policies or processes during the years 2016 and 2015.

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15. PAID IN CAPITAL, RESERVES AND RETAINED EARNINGS

Dividends

The Company's 2015 consolidated net income has been compared with its statutory net income and TL 907.444 was determined as an amount available for dividend distribution.

During the year ended 31 December 2015, remaining balance of 2014 distributable profit after assigning first and second legal reserves, which amounted to TL 1.840.853 (a dividend of full kuruş 0,5260 per share) has been distributed in cash to the shareholders.

16. DERIVATIVE FINANCIAL INSTRUMENTS

Cash flow hedges and derivative financial instruments

Interest rate swaps

The Company has entered into an eight-part interest rate swap transaction between 11 April 2012 and 30 April 2012 with a maturity date on 21 March 2022 and a total notional amount of US Dollar 400.000. In addition, the Company has also entered into a four-part interest rate swap transaction between 8 April 2013 and 17 April 2013 with a maturity date on 21 August 2023 and a total notional amount of US Dollar 200.000.

The Company has also entered into a six-part interest rate swap transaction between 29 April -20 May 2014 with a maturity date on 19 June 2024 and a total notional amount of US Dollar 300.000. The Company has also entered into a five-part interest rate swap transaction between 15 - 16 May 2014 with a maturity date on 12 August 2024 and a total notional amount of US Dollar 150.000.

As of 31 March 2016 fair value of interest rate derivative transactions amounting to TL 265.606 has been recognized under long term financial liabilities (31 December 2015: TL 160.911). Unrealized loss on these derivatives amounting to TL 99.931 (31 December 2015: TL 73.245 loss) is recognized in other comprehensive income. Unrealized loss on these derivatives' time value amounting to TL 4.764 (31 March 2015: TL 5.348 loss) is recognized in statement of profit or loss.

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16. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Cash flow hedges and derivative financial instruments (continued)

Interest rate swaps (continued)

Company	Notional Amount (US Dollar)	Trade Date	Maturity Date	Terms	Fair Value Amount as at 31 March 2016 (TL)
Türk Telekom	400.000	11 April 2012 – 30 April 2012	21 March 2022	Pay fixed rates and receive floating rates between March 2014 and March 2022	(74.375)
Türk Telekom	200.000	8 April 2013 – 17 April 2013	21 August 2023	Pay fixed rates and receive floating rates between 19 August 2015 and 21 August 2023	(38.656)
Türk Telekom	300.000	29 April – 20 May 2014	19 June 2024	Pay fixed rates and receive floating rates between June 2016 and June 2024	(118.857)
Türk Telekom	150.000	15-16 May 2014	26 June 2024 - 12 August 2024	Pay fixed rates and receive rates between June 2016, and June 2024 and August 2016, and August 2024	(33.718)
					(265.606)

Company	Notional Amount (US Dollar)	Trade Date	Maturity Date	Terms	Fair Value Amount as at 31 December 2015 (TL)
Türk Telekom	400.000	11 April 2012 – 30 April 2012	21 March 2022	Pay fixed rates between March 2014 and March 2022, and receive floating rates	(45.853)
Türk Telekom	200.000	8 April 2013 – 17 April 2013	21 August 2023	Pay fixed rates between 19 August 2015 and 21 August 2023, and receive floating rates	(20.409)
Türk Telekom	300.000	29 April – 20 May 2014	19 June 2024	Pay fixed rates between June 2016 and June 2024, and receive floating rates	(76.824)
Türk Telekom	150.000	15-16 May 2014	26 June 2024 - 12 August 2024	Pay floating price between June 2016, August 2016 June 2024 and August 2024 and receive fixed premium in certain interest rate corridors through interest option strategies	(17.825)
					(160.911)

Hedge of net investment in a foreign operation

The Company utilized a loan amounting to Euro 150.000 in order to hedge its net investment in a foreign operation with a Euro functional currency. Foreign exchange gain and/or loss resulting from the subsidiary’s net investment portion of this loan is reclassified to reserve for hedge of net investment in a foreign operation under equity.

Other derivative instruments which are not designated as hedge

As of 31 March 2016 fair value of the interest rate swap transactions which are not designated as hedge and amounting to TL 49.032 is recognized under long term financial assets (31 December 2015: TL 45.002 assets). Unrealized gain on these derivatives amounting to TL 4.029 (31 March 2015: TL 7.241 gain) is recognized in profit or loss.

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16. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Other derivative instruments which are not designated as hedge (continued)

Company	Notional Amount (US Dollar)	Trade Date	Maturity Date	Terms	Fair Value Amount as at 31 March 2016 (TL)
Türk Telekom	400.000	11 April 2012 – 30 April 2012	21 March 2022	Pay the difference between floating rate and 6% if floating rate exceeds 6%, between 19 March 2014 and 21 March 2022, and receive fixed premium (0,24%-0,27%)	15.419
Türk Telekom	200.000	8 April 2013 – 17 April 2013	21 August 2023	Pay the difference between floating rate and 6% if floating rate exceeds 6%, between 21 August 2015 and 21 August 2023, and receive fixed premium (0,24%-0,27%)	8.145
Türk Telekom	300.000	29 April – 20 May 2014	19 June 2024	Pay the difference between floating rate and 4% if floating rate exceeds 4%, between June 2016 and June 2021, and receive fixed premium (0,44%-0,575%) Pay the difference between floating rate and 6% if floating rate exceeds 6%, between June 2021 and June 2024, and receive fixed premium (0,39%-0,45%)	25.468
					49.032

Company	Notional Amount (US Dollar)	Trade Date	Maturity Date	Terms	Fair Value Amount as at 31 December 2015 (TL)
Türk Telekom	400.000	11 April 2012 – 30 April 2012	21 March 2022	Pay the difference between floating rate and 6% if floating rate exceeds 6%, between 19 March 2014 and 21 March 2022, and receive fixed premium (0,24%-0,27%)	15.315
Türk Telekom	200.000	8 April 2013 – 17 April 2013	21 August 2023	Pay the difference between floating rate and 6% if floating rate exceeds 6%, between August 2015 and August 2023, and receive fixed premium (0,24%-0,27%)	7.195
Türk Telekom	300.000	29 April – 20 May 2014	19 June 2024	Pay the difference between floating rate and 4% if floating rate exceeds 4%, between June 2016 and June 2021, and receive fixed premium (0,44%-0,575%) Pay the difference between floating rate and 6% if floating rate exceeds 6%, between June 2021 and June 2024, and receive fixed premium (0,39%-0,45%)	22.492
					45.002

The Company has entered into three-part USD cross currency transactions on 6 January 2015 and 18 June 2015 with maturity dates on 19 June 2024 with a total notional amount of USD 500.000. The Company converted USD 500.000 debt into EUR debt with this transaction.

The Company has also entered into four-part USD cross currency transactions on 21 April- 9 July 2015 with maturity dates on 19 June 2019 with a total notional amount of USD 500.000. The company converted USD 500.000 debt into TL debt with this transaction.

The Company has also entered into three-part USD cross currency transactions on 10 March – 17 March 2016 with maturity dates between 20 November 2018 and 20 November 2020 with a total notional amount of USD 380.000. The company converted USD 380.000 debt into EUR debt with this transaction.

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16. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Other derivative instruments which are not designated as hedge (continued)

As of 31 March 2016, fair value of derivative transactions amounting to TL 311.544 (31 December 2015: TL 388.767) is recognized under short term financial assets. Unrealized loss of these derivatives amounting to TL 77.223 (31 March 2015: TL 226.048) is recognized in profit or loss.

The Company has also entered into transactions with maturity dates between 31 March 2016 and 19 June 2024 with a total notional amount of USD 175.000. The company converted USD 175.000 debt into TL debt with this transaction.

As of 31 March 2016, fair value of derivative transactions amounting to TL 292 (31 December 2015: Nil) is recognized under short term financial liabilities. Unrealized loss of these derivatives amounting to TL 292 (31 March 2015: Nil) is recognized in profit or loss

Company	Notional Amount (US Dollar)	Trade Date	Maturity Date	Terms	Fair Value Amount as at 31 March 2016 (TL)
Türk Telekom	175.000	6 January 2015	19 June 2024	Pay EUR and receive USD at maturity date ¹	35.527
Türk Telekom	175.000	30 April 2015	19 June 2024	Pay EUR and receive USD at a maturity date ²	3.759
Türk Telekom	150.000	18 June 2015	19 June 2024	Pay EUR and receive USD at maturity date ³	8.301
Türk Telekom	125.000	21 April 2015	19 June 2019	Pay TL and receive USD at maturity date ⁴	82.211
Türk Telekom	125.000	17 June 2015	19 June 2019	Pay TL and receive USD at maturity date ⁵	55.226
Türk Telekom	125.000	23 June 2015	19 June 2019	Pay TL and receive USD at maturity date ⁶	53.481
Türk Telekom	125.000	9 July 2015	19 June 2019	Pay TL and receive USD at maturity date ⁷	58.614
Türk Telekom	114.000	10 March 2016	20 November 2020	Pay EUR and receive USD at maturity date ⁸	1.849
Türk Telekom	133.000	11 March 2016	20 November 2020	Pay EUR and receive USD at maturity date ⁹	7.689
Türk Telekom	133.000	17 March 2016	20 November 2020	Pay EUR and receive USD at maturity date ¹⁰	4.887
					311.544
Türk Telekom	175.000	31 March 2016	19 June 2024	Pay TL and receive USD at maturity date ¹¹	(292)
					(292)

Company	Notional Amount (US Dollar)	Trade Date	Maturity Date	Terms	Fair Value Amount as at 31 December 2015 (TL)
Türk Telekom	175.000	6 January 2015	19 June 2024	Pay EUR and receive USD at maturity date ¹	58.970
Türk Telekom	175.000	30 April 2015	19 June 2024	Pay EUR and receive USD at a maturity date ²	31.538
Türk Telekom	150.000	18 June 2015	19 June 2024	Pay EUR and receive USD at maturity date ³	29.596
Türk Telekom	125.000	21 April 2015	19 June 2019	Pay TL and receive USD at maturity date ⁴	86.625
Türk Telekom	125.000	17 June 2015	19 June 2019	Pay TL and receive USD at maturity date ⁵	60.139
Türk Telekom	125.000	23 June 2015	19 June 2019	Pay TL and receive USD at maturity date ⁶	58.417
Türk Telekom	125.000	9 July 2015	19 June 2019	Pay TL and receive USD at maturity date ⁷	63.482
					388.767

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16. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Other derivative instruments which are not designated as hedge (continued)

¹ Payment of 3,11% interest on EUR 143.443 in exchange for 4,875% interest on USD 175.000, on the interest payment dates of ten-year bond between 19 December 2014 and 19 June 2024.

-Payment of EUR 143.443 in exchange for USD 175.000 at the maturity date of ten-year bond.

² Payment of 2,495 % interest on EUR 157.658 in exchange for 4,875% interest on USD 175.000, on the interest payment dates of ten-year bond between 19 December 2014 and 19 June 2024.

-Payment of EUR 157.658 in exchange for USD 175.000 at the maturity date of ten-year bond.

³ Payment of 2,76 % interest on EUR 131.579 in exchange for 4,875% interest on USD 150.000, on the interest payment dates of ten-year bond between 19 June 2015 and 19 June 2024.

-Payment of EUR 131.579 in exchange for USD 150.000 at the maturity date of ten-year bond.

⁴ On the interest payment dates of the five year bond between 19 December 2014 and 19 June 2019, in exchange for receiving 3,75% interest for 125.000 US Dollar; the Company will pay 5,45 % interest on notional amount using the foreign exchange rates;

-If US Dollar / TL rate is below 2,32; TL amount which is calculated by market exchange rate at transaction date

-If US Dollar / TL rate is between 2,32 and 3,75; TL amount which is calculated by 2,32 exchange rate

-If US Dollar / TL rate is above 3,75; TL amount which is calculated by extracting 1,43 from market exchange rate

- For capital payments, the Company will pay TL amount which is calculated with exchange rate option strategy indicated above for interest payments in exchange for receiving 125.000 US Dollar on maturity date.

⁵ On the interest payment dates of the five year bond between 19 December 2014 and 19 June 2019, in exchange for receiving 3,75% interest for 125.000 US Dollar; the Company will pay 4,95 % interest on notional amount using the foreign exchange rates;

-If US Dollar / TL rate is below 2,60; TL amount which is calculated by effective exchange rate at transaction date

-If US Dollar / TL rate is between 2,60 and 3,75; TL amount which is calculated by 2,60 exchange rate

-If US Dollar / TL rate is above 3,75; TL amount which is calculated by extracting 1,15 from market exchange rate

-For principal payments, the Company will pay TL amount which is calculated with exchange rate option strategy indicated above for interest payments in exchange for receiving 125.000 US Dollar on maturity date.

⁶ On the interest payment dates of the five year bond between 19 June 2015 and 19 June 2019, in exchange for receiving 3,75% interest for 125.000 US Dollar; the Company will pay 5,12 % interest on notional amount using the foreign exchange rates;

-If US Dollar / TL rate is below 2,60; TL amount which is calculated by effective exchange rate at transaction date

-If US Dollar / TL rate is between 2,60 and 3,75; TL amount which is calculated by 2,60 exchange rate

-If US Dollar / TL rate is above 3,75; TL amount which is calculated by extracting 1,15 from market exchange rate

-For principal payments, the Company will pay TL amount which is calculated with exchange rate option strategy indicated above for interest payments in exchange for receiving 125.000 US Dollar on maturity date.

⁷ On the interest payment dates of the five year bond between 19 June 2015 and 19 June 2019, in exchange for receiving 3,75% interest for 125.000 US Dollar; the Company will pay 4,62 % interest on notional amount using the foreign exchange rates;

-If US Dollar / TL rate is below 2,60; TL amount which is calculated by market exchange rate at transaction date

-If US Dollar / TL rate is between 2,60 and 3,75; TL amount which is calculated by 2,60 exchange rate

-If US Dollar / TL rate is above 3,75; TL amount which is calculated by extracting 1,15 from market exchange rate

- For capital payments, the Company will pay TL amount which is calculated with exchange rate option strategy indicated above for interest payments in exchange for receiving 125.000 US Dollar on maturity date.

⁸ Payment of 0,78% interest on EUR 101.785 (amortized credit) in exchange for 6 M USLibor +1,8% interest on USD 114.000 (amortized credit), on the interest payment dates of five-year credit between 30 December 2015 and 20 November 2020.

-Payment of EUR 20.357 in exchange for USD 22.800 with five equal instalment, since 20 November 2018 until 20 November 2020 in six-month period

⁹ Payment of 0,79% interest on EUR 118.750 (amortized credit) in exchange for 6 M USLibor +1,8% interest on USD 133.000 (amortized credit), on the interest payment dates of five-year credit between 22 February 2016 and 20 November 2020.

-Payment of EUR 23.750 in exchange for USD 26.600 with five equal instalment, since 20 November 2018 until 20 November 2020 in six-month period

¹⁰ Payment of 0,77% interest on EUR 117.699 (amortized credit) in exchange for 6 M USLibor +1,8% interest on USD 133.000 (amortized credit), on the interest payment dates of five-year credit between 22 February 2016 and 20 November 2020.

-Payment of EUR 23.540 in exchange for USD 26.600 with five equal instalment, since 20 November 2018 until 20 November 2020 in six-month period

¹¹ On the interest payment dates of the 10 year bond between 19 December 2015 and 19 June 2024, in exchange for receiving 4,875% interest for 175.000 US Dollar; the Company will pay 6,40% interest on notional amount using the foreign exchange rates stated below (determined level for the year 2024):

Low Level: [2016: 3,00 – 2017: 3,10 – 2018: 3,20 – 2019: 3,30 – 2020: 3,45 – 2021: 3,55 – 2022: 3,70 – 2023: 3,80 – 2024: 3,95]

High Level: [2016: 3,60 – 2017: 3,75 – 2018: 3,85 – 2019: 4,00 – 2020: 4,15 – 2021: 4,30 – 2022: 4,45 – 2023: 4,60 – 2024: 4,75]

-If US Dollar/TL rate is below Low Level rate stated above; TL amount which is calculated by market exchange rate at transaction date

-If US Dollar/TL rate is between Low Level and High Level rates stated above; TL amount which is calculated by Low Level exchange rate

-If US Dollar/TL rate is above High Level rate stated above; TL amount which is calculated by extracting difference between High and Low Level rates from market exchange rate

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16. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Other derivative instruments which are not designated as hedge (continued)

The Company has also entered into foreign exchange option transactions on 6 January and 18 June 2015 with maturity dates on 18 June 2019 and 2024 with a total notional amount of EUR 906.296.

In addition, The Company has also entered into foreign exchange option transactions on 10 March and 17 March 2016 with maturity dates on 20 November 2018 and 2020 with a total notional amount of EUR 380.000

As of 31 March 2016, fair value of derivative transactions amounting to TL 108.315 (31 December 2015: TL 104.673) is recognized under short term financial liabilities. Unrealized loss on these derivatives amounting to TL 3.642 (31 Mart 2015: TL 61.352) is recognized in profit or loss.

Company	Notional Amount (EUR)	Trade Date	Maturity Date	Terms	Fair Value Amount as at 31 March 2016 (TL)
Türk Telekom	906.296	6 January 2015- 18 June 2015	18 June 2019- 19 June 2024	Foreign exchange option transactions	(82.045)
Türk Telekom	380.000	10 March 2016- 17 March 2016	20 November 2020	Foreign exchange option transactions	(26.270)
					(108.315)

Company	Notional Amount (EUR)	Trade Date	Maturity Date	Terms	Fair Value Amount as at 31 December 2015 (TL)
Türk Telekom	906.296	6 January 2015- 18 June 2015	18 June 2019- 19 June 2024	Foreign exchange option transactions	(104.673)
					(104.673)

17. SUBSEQUENT EVENTS

None.