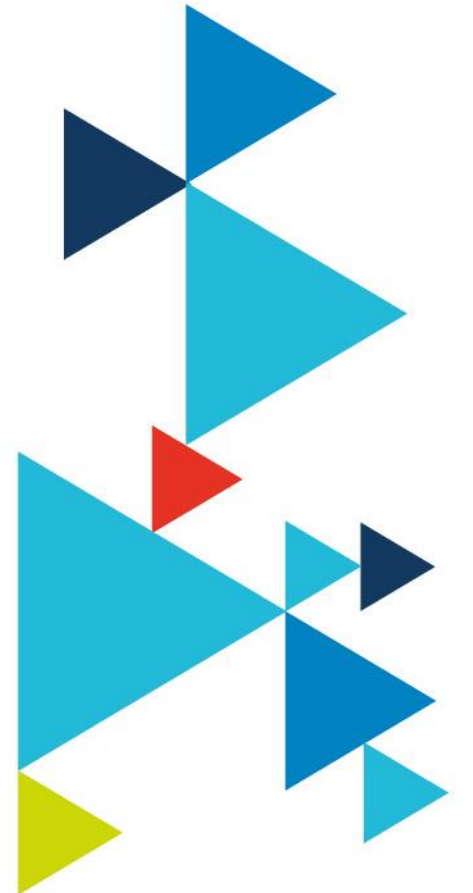


# TÜRK TELEKOM GROUP 2016 THIRD QUARTER FINANCIAL AND OPERATIONAL RESULTS

October 19, 2016



## STRONG TOPLINE GROWTH AND RECORD EBITDA

Türk Telekom Group recorded double digit revenue growth in the third quarter of 2016. Group revenues increased by 11.4% YoY to TL 4.1bn. Excluding construction revenue adjustment, revenues grew 8.7% compared to same quarter of last year. Group delivered record high quarterly EBITDA<sup>1</sup> of TL 1.45bn, with 14.5% YoY increase. EBITDA margin increased by 0.9 pp YoY to 35.3%. Net income was affected negatively from depreciation of TL against USD and EUR.

Türk Telekom Group recorded strong subscriber growth in Q3'16. Subscriber additions in high growth business segments namely mobile, broadband and home TV was 507K, and Group subscribers reached 38.5 million.

### Q3 2016 OPERATIONAL HIGHLIGHTS

- ❖ Broadband subscriber base increased by 119K QoQ bringing the year to date net additions to 429K, which is the highest 9M net addition since IPO
- ❖ Fiber subscriber base increased by 38% YoY to 1.85 million, while homepass number reached 13.1 million
- ❖ Türk Telekom's length of total fiber network in Turkey increased to 223K kilometers in Q3 from 219K in Q2'16
- ❖ Mobile subscribers was up by 342K in Q3 and total mobile subscribers reached 18.4mn. Year to date net additions exceeded 1 million.
- ❖ Smartphone data usage reached 2.3GB/month in Q3
- ❖ Total access lines were stable at 12.9 million level for the last six quarters
- ❖ Home TV subscribers reached 590K with a quarterly net addition of 46K. Year to date net addition in Home TV business was 206K.

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

<sup>2</sup>Fiber subscribers include FTTH/B & FTTC subscribers

## Türk Telekom CEO Dr. Paul (Boulos H.B.) Doany comments on 2016 Q3 results:

I am honored to be back to Türk Telekom family, among my friends and colleagues. It is a privilege to lead an organization that has a strong heritage, with presence in every city of this great country. I am excited about the opportunities lying ahead. Türk Telekom is well positioned to leverage its strengths for increased value creation. Following the successful operational merger across our products and services, we plan to accelerate streamlining our organizational structure and to improve performance through increased efficiency, to deliver the best value for our stakeholders.

We are pleased to report successful results of the service integration steps taken by management to date, translate into strong financial performance. Türk Telekom has continued its strong growth momentum in the third quarter of 2016. Compared to same period of last year, we increased our consolidated revenues excluding construction adjustments by 9% to TL 3.9bn with the support of all of our business segments. EBITDA increased by 14% year on year to TL 1.5bn, the highest quarterly EBITDA in our history.

As Turkey's leading integrated telecommunication company, we continued to deliver solid operational performance in the third quarter of the year. We added 280 thousand subscribers to our subscriber base and increased the total number of subscribers to 38.5 million. In high growth businesses namely broadband, mobile and TV, we added 450 thousand subscribers.

We are particularly glad to report successful results for the first six months of LTE services. By the end of September, our smartphone penetration increased to 73% with 48% of our smartphone users carrying an LTE device. We have also observed a substantial increase in data usage levels of our subscribers with the launch of LTE. While average monthly data usage of smartphone subscribers was 2.3 GB in the third quarter of 2016, LTE subscribers' average usage was 3.5 GB – a clear signal of how LTE will enhance wireless data service going forward.

After the unification of our brands, we took another step this quarter and rebranded our youth mobile sub-brand as Selfy. With Selfy, we target to strengthen our position in youth segment. Selfy aims to empower youth by providing innovative offers and services.

On the fixed side, we continued to build on our strength. While we extended our fiber footprint to 223K km countrywide, the total number of homepass reached 13.1mn. This quarter, we recorded the highest third quarter broadband net addition since 2008, and 90% of our broadband net additions came from fiber side. Our fiber subscriber base grew 38% year on year, while share of subscribers using above 50 GB increased to 45%.

Our dedication to investing in Turkey and providing people with state-of-the-art technologies will continue. Myself and the full staff of this great company will do our best to serve all stakeholders by enabling every member of this company to fulfill their full potential to make a difference, drive growth and cut costs; and collectively create greater value altogether as one big team of 33,000 people.

## Financial Highlights

(TL mn)	Q3'15	Q2'16	Q3'16	QoQ Change	YoY Change
Revenue	3,696	3,940	4,118	4.5%	11.4%
Revenue (exc. Construction adjustment)	3,627	3,820	3,943	3.2%	8.7%
EBITDA	1,269	1,322	1,452	9.8%	14.5%
<b>Margin</b>	<b>34.3%</b>	<b>33.6%</b>	<b>35.3%</b>		
Depreciation and Amortisation	(600)	(695)	(719)	3.4%	19.8%
Operating Profit	669	627	733	16.9%	9.7%
<b>Margin</b>	<b>18.1%</b>	<b>15.9%</b>	<b>17.8%</b>		
Financial Income / (Expense)	(1,195)	(212)	(595)	181.3%	(50.2)%
FX & Hedging Gain / (Loss)	(1,106)	(88)	(498)	462.8%	(55.0)%
Interest Income / (Expense)	(72)	(93)	(103)	10.8%	43.3%
Other Financial Income / (Expense)	(17)	(31)	5	n.m	n.m.
Tax Expense	22	(168)	(129)	(23.0)%	n.m.
Net Income	(493)	248	9	(96.5)%	n.m.
<b>Margin</b>	<b>n.m</b>	<b>6.3%</b>	<b>0.2%</b>		
CAPEX	992	689	666	(3.4)%	(32.9)%

### Revenues

Consolidated revenues increased by 11.4% YoY (up by TL 422 mn) to TL 4.1 bn in Q3'16, mainly due to 14.7% increase in mobile (up by TL 190 mn), 14.0% increase in broadband (up by TL 131 mn), and TL 106 mn increase in construction revenue adjustment. Excluding non-operational construction revenue adjustment, top line growth was 8.7% YoY (up by TL 317 mn) in Q3'16.

### Operating Expenses Excluding Depreciation and Amortization (OPEX)

Operating expenses increased by 9.9% YoY (up by TL 239 mn) in Q3'16, mainly due to increase in construction revenue adjustment (up by TL 93 mn), personnel expenses (up by TL 58 mn) and tax expenses (up by TL 58 mn). Excluding non-operational

construction revenue adjustment, opex increased by 6.2% YoY (up by TL 146 mn) in Q3'16.

### **Operating Profit before Depreciation and Amortization (EBITDA)**

Consolidated EBITDA increased by 14.5 % YoY (up by TL 183 mn) to TL 1,452 mn with the positive impact of strong topline growth. Q3'16 EBITDA margin was 35.3%, up 0.9 pp YoY.

### **Depreciation and Amortization Expense**

Depreciation and amortization expense increased by 19.8% YoY to TL 719 mn in Q3'16, mainly due to amortization of new spectrums and accelerated investments.

### **Operating Profit**

Operating profit<sup>3</sup> increased by 9.7% YoY (up by TL 65 mn) to TL 733 mn.

### **Net Financial Income / Expense<sup>4</sup>**

Group recorded TL 595 mn net financial expense in Q3'16. The quarter on quarter increase in net financial expenses was due to unfavorable FX environment compared to Q2'16.

### **Tax Expense**

Tax expense was TL 129 mn in Q3 '16.

### **Net Income**

Group recorded TL 9 mn net income in Q3'16 compared to TL 493 mn loss realized in Q3'15.

### **Capital Expenditures (CAPEX)**

Capex was TL 666 mn bringing the year to date consolidated CAPEX TL 2.1 bn.

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

<sup>4</sup>Net financial income/(expense) includes financial income/(expense) and FX gain/(loss), interest income /(expenses), discount income/(expense) on receivables and payables excluding financial borrowings which are presented in other operating income/(expenses). Net financial income/(expense) on CMB financial statements is different due to reclassification requirements of the POA/CMB since 2013 Q3 financial statements.

## Operational Highlights

	Q3'15	Q2'16	Q3'16	QoQ Change	YoY Change
<b>Total Access Lines (mn) <sup>1</sup></b>	12.9	12.9	<b>12.9</b>	0.1%	0.5%
<i>Fixed Voice Subscribers (mn)</i>	10.6	10.0	<b>9.8</b>	(1.7)%	(7.4)%
<i>Naked Broadband Subscribers (mn)</i>	2.3	3.0	<b>3.1</b>	6.2%	37.1%
<b>Fixed Voice ARPU (TL)</b>	23.4	23.7	<b>23.3</b>	(1.6)%	(0.5)%
<b>Total Broadband Subscribers (mn)</b>	7.8	8.3	<b>8.4</b>	1.4%	8.4%
<b>Total Fiber Subscribers ('000)</b>	1,340	1,742	<b>1,848</b>	6.1%	37.9%
<i>FTTH/B ('000)</i>	740	809	<b>828</b>	2.3%	11.8%
<i>FTTC ('000)</i>	600	933	<b>1,020</b>	9.4%	70.0%
<b>Broadband ARPU (TL)</b>	40.5	41.5	<b>42.6</b>	2.7%	5.3%
<b>Total TV Subscribers (mn) <sup>2</sup></b>	1.8	2.0	<b>1.9</b>	(0.5)%	7.4%
<i>Tivibu Home Subscribers('000) (IPTV + DTH)</i>	347	544	<b>590</b>	8.5%	70.0%
<b>TV ARPU (TL)</b>	17.2	19.0	<b>18.7</b>	(1.5)%	8.9%
<b>Mobile Total Subscribers (mn)</b>	17.0	18.0	<b>18.4</b>	1.9%	8.2%
<i>Mobile Postpaid Subscribers (mn)</i>	8.5	9.3	<b>9.5</b>	2.5%	11.7%
<i>Mobile Prepaid Subscribers (mn)</i>	8.5	8.8	<b>8.9</b>	1.3%	4.7%
<b>Mobile Blended ARPU (TL)</b>	24.6	25.1	<b>26.0</b>	3.5%	5.6%
<i>Mobile Postpaid ARPU (TL)</i>	31.9	33.1	<b>33.9</b>	2.4%	6.2%
<i>Mobile Prepaid ARPU (TL)</i>	15.8	16.4	<b>16.8</b>	2.8%	6.4%

(1) Naked DSL Lines and Fixed Voice Lines

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

## About Türk Telekom Group

Türk Telekom, with 175 years of history, is the first integrated telecommunications company in Turkey. In 2015, Türk Telekomünikasyon A.Ş. adopted a “customer-oriented” integrated structure in order to respond to the rapidly changing communication and technology needs of customers in the most powerful and accurate way, while maintaining the legal entities of Avea İletişim Hizmetleri A.Ş. and TTNET A.Ş. intact and adhering to the rules and regulations to which they are subject. In January 2016, Türk Telekom unified its mobile, fixed voice, broadband and TV products and services under the single “Türk Telekom” brand.

As the “Multiplay Provider of Turkey,” Türk Telekom Group Companies offer a complete range of mobile, fixed voice, broadband and TV services. Türk Telekom Group Companies have a wide service network and product range in the fields of individual and corporate services. As of September 30, 2016, Türk Telekom has 12.9 million fixed access lines, 8.4 million broadband and 18.4 million mobile subscribers. Türk Telekom Group Companies provide services in all 81 cities of Turkey with 32,769 employees with the vision of introducing new technologies to Turkey and accelerating Turkey’s transformation into an information society.

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

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The PSTN services and wholesale broadband services are provided by Türk Telekomünikasyon A.Ş., the retail internet services are provided by TTNET A.Ş. the mobile services - are provided by Avea İletişim Hizmetleri A.Ş.

Türk Telekom® brand used in this press release is the joint brand of Turk Telekom Group of companies. All group companies's legal entities remain intact.

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