

TÜRK TELEKOM GROUP ANNOUNCES 2014 YEAR END FINANCIAL AND OPERATIONAL RESULTS



SOLID YEAR END RESULTS AND OPERATIONAL PERFORMANCE

Türk Telekom, Turkey's leading communications and convergence technologies group announced its 2014 year-end financial and operational results. Meeting the full year financial guidance given for 2014, consolidated revenues increased 3.7% driven by superior performance in high growth businesses, namely mobile, fixed broadband and corporate data. Excluding nonoperational IFRIC revenues, consolidated revenue growth would be 5%. Group delivered an EBITDA¹ of TL 5 billion in line with the guidance range. Net profit in 2014 increased 54% to TL 2 billion reflecting the impact of more favorable FX conditions compared to 2013.

2014 Year End Highlights

- ❖ **Full year guidance for 2014 was successfully met. Consolidated revenues grew by 3.7% to TL 13.6 bn, EBITDA exceeded TL 5 bn and CAPEX realized at TL 2.1 bn**
- ❖ **Mobile revenues grew 12% to TL 4.3 bn in 2014 with an outstanding 1.8 mn annual net subscriber additions and increased postpaid ratio of 48%. Excluding MTR cut effect, revenue growth would be 17%**
- ❖ **Mobile EBITDA increased 19% in 2014 while EBITDA margin reached 16% continuing to deliver improvement year on year**
- ❖ **Mobile data revenues grew 76% in 2014 supported by the smartphone penetration, which reached 52%, 15 percentage points year on year improvement**
- ❖ **Broadband revenue growth of 8.5% in 2014 was backed by both ARPU and subscriber increase (4.2% and 3.7% year on year, respectively)**
- ❖ **Total broadband subscriber number reached 7.6 million, out of which, more than 1.1 mn is high speed broadband (fiber+vdsl) subscribers**
- ❖ **Net income realized at TL 2 billion with 15% margin**
- ❖ **Consolidated CAPEX spending decreased to TL 2.15 bn in 2014 with 16% CAPEX/sales ratio**

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

Türk Telekom CEO Rami Aslan's comments on 2014 year end results:

I am pleased to announce that Turk Telekom Group completed 2014 with solid operational and financial results while embarking upon significant changes to its organization. Operationally, we continued to build up our subscriber base in mobile and broadband businesses while improving the decline in our fixed voice business. Financially, we met all three of our guidance line items, namely revenue, EBITDA and CAPEX. Organizationally, we have completed our functional integration by unifying our support functions and creating consumer and corporate business divisions.

Our focus on customer satisfaction and providing the best value and variety of products and services helped us gain 1.8 million net additions in our mobile business and reach 16.3 million subscribers. 1.3 million of our total net additions are postpaid customers, which brings our industry leading postpaid subscriber ratio to 48%, up from 45% a year ago. Helped by a healthy balance of postpaid and prepaid customer ratio, enriched data plan selection, and quality network, we grew our smartphone base to 52% of our total customer base. These positive subscriber drivers coupled with a stable blended ARPU helped us deliver a 22% revenue growth in mobile business in the last quarter of 2014. Our scale building strategy is designed to improve our profitability. 2014 mobile EBITDA margin reached 16%, which is a continuation of gradual improvement in EBITDA margin year on year since 2011. Joining forces with our group portfolio of products in fixed line and TV businesses, our mobile business will continue to outperform in the coming periods.

In fixed broadband business, our focus on premium services continues. As the clear market leader, we drive ARPU up through price discipline and enriched offers to our customers, which leads to upselling. Our customers have high demand for speed and capacity. We make sure that they get it through our superior network, best in class customer service, and unmatched value added services. The ratio of customers who are in 16mbps and higher speed packages in our base is now 49%, while the share of unlimited package subscribers increased to 87%. In 2014, our fixed broadband ARPU increased 4% to TL 41 while we gained net 273 thousand customers. Combination of ARPU and subscriber increase enabled us to deliver 8.5% revenue growth in fixed broadband business.

On November 26, 2014, we made a major announcement concerning our TV business. Starting 2015-2016 season, UEFA Champions League and UEFA Europa League broadcasting rights will be with Turk Telekom Group for three years. In order to ensure maximum reach, we will supplement our current IPTV platform with a satellite platform. A significantly strengthened TV business will be a very valuable component of our already strong telecom and technology services portfolio. It will help us solidify our position as the unique convergent player in Turkish telecom market.

2014 was a year in which we made important strides towards our integration goal. Our organizational announcement at the end of December marked the final stage of our functional integration. We officially transformed from a product centric group to a customer centric group when we established corporate and consumer business units. Support functions of the group, which were integrated earlier in the year, will be supporting these units as well as our wholesale business. We strongly believe that this transformation will unlock substantial value in our group and be the milestone of our group's success in the future.

As we commence a new year with our integrated organization, I would like to emphasize my confidence in our team's ability to deliver improved results and thank our stakeholders for their unwavering support of our organization.

YE 2014 Guidance is met

Guidance Items (TL mn)	2013	2014	Change	Guidance Range	Guidance Met?
Revenue	13,117	13,602	3.7%	3.5% - 4.5% growth	✓
EBITDA	4,986	5,047	1.2%	Between TL 5.0 bn & TL 5.2 bn	✓
Capex	2,205	2,146	-2.7%	Around TL 2.1 bn	✓

Financial Highlights

Türk Telekom Group TL in Millions	2013	2014	YoY Change %
Revenue	13,117	13,602	3.7
Net Operating Expenses excluding Depreciation and Amortization	(8,131)	(8,555)	5.2
Operating Profit before Depreciation and Amortization (EBITDA)	4,986	5,047	1.2
Depreciation and Amortization	(1,780)	(2,002)	12.5
Operating Profit	3,207	3,045	(5.0)
Net Financial Income/ (Expense)	(1,500)	(469)	(68.7)
Taxes	(439)	(607)	38.1
Net Profit Before Minority Interest	1,267	1,969	55.4
Net Profit After Minority Interest	1,303	2,007	54.1
Capital Expenditure	2,205	2,146	(2.7)

TL in Millions	2013 Q4	2014 Q3	2014 Q4	QoQ Change %	YoY Change %
Revenue	3,279	3,512	3,595	2.4	9.6
Net Operating Expenses excluding Depreciation and Amortization	(2,001)	(2,150)	(2,364)	10.0	18.1
Operating Profit before Depreciation and Amortization (EBITDA)	1,278	1,362	1,232	(9.6)	(3.7)
Depreciation and Amortization	(458)	(493)	(562)	14.1	22.8
Operating Profit	820	869	669	(23.0)	(18.4)
Net Financial Income/ (Expense)	(468)	(453)	(17)	(96.3)	(96.5)
Taxes	(102)	(106)	(156)	47.0	53.6
Net Profit Before Minority Interest	251	310	496	60.0	97.7
Net Profit After Minority Interest	260	319	504	58.2	93.8
Capital Expenditure	835	511	1,057	106.7	26.6

Revenues

Consolidated revenues increased by 3.7% YoY (up by TL 485 mn) to TL 13.6 bn in 2014, mainly due to 12.4% increase in mobile (up by TL 474 mn), 8.5% increase in broadband (up by TL 286 mn), and 15.2% increase in corporate data revenues (up by TL 154 mn). Excluding nonoperational IFRIC revenues top line growth would be 4.7% YoY.

9.6% YoY consolidated revenue growth (up by TL 316 mn) was recorded in Q4'14 as mobile revenue grew 22.5% YoY (up by TL 212 mn), broadband revenue increased 8.6% YoY (up by TL 74 mn) and corporate data revenue increased 23.9% YoY (up by TL 59 mn) at the same quarter of the year. IFRIC revenue grew 36% YoY in Q4'14 (up by TL 47 mn) in line with the acceleration in capex in this quarter.

Operating Expenses Excluding Depreciation and Amortization

Net operating expense increased by 5.2% (up by TL 424 mn) in 2014 mainly due to the increase in personnel (up by TL 289 mn) and tax expense (up by TL 117 mn).

In Q4'14, net operating expense increased by 18.1% YoY (up by TL 363 mn) due to the increase in personnel expense (up by TL 154 mn), bad debt expense (up by TL 79 mn), tax expense (up by TL 46 mn) and IFRIC expense (up by TL 42 mn). Excluding the one off items realized in Q4 (explained under EBITDA part below), net operating expense would grow 14.9% YoY in Q4.

Operating Profit before Depreciation and Amortization (EBITDA)

Consolidated operating profit before depreciation and amortization grew by 1.2% YoY to TL 5.0 bn in 2014 with an EBITDA margin of 37.1%.

Consolidated EBITDA was affected by a few one-off gain and expenses in Q4'14, namely TL 44 mn one off expense related to early retirement personnel incentive program, TL 30 mn one off expense related to regulatory fees and fines, TL 15 mn bad debt related one off expense due to calculation change and TL 24 mn real estate sales gain booked under other expenses. Excluding the impacts of these one off items, consolidated and fixed line EBITDA margins in Q4 would be 36.0% (vs 34.3% reported) and 41.8% (vs. 39.3% reported), respectively.

Mobile EBITDA improvement continued in 2014 with 19.1% YoY EBITDA growth and 16.1% EBITDA margin realization, one percentage point improvement compared to 2013.

Depreciation and Amortization

Total depreciation and amortization expense increased to TL 2 bn in 2014 from TL 1.8 bn in 2013 with 12.5% YoY increase. Excluding TL 44 mn of one off fixed asset impairment expense in Q4 2014, depreciation and amortization would grow 10% in 2014.

Operating Profit

Operating profit² decreased by 5% YoY (down by TL 162 mn) in 2014 due to increase in depreciation and amortization expense (up by TL 222 mn).

Net Financial Income / Expense³

Net financial expense recorded at TL 469 mn in 2014, decreased by 68.7% compared to 2013 mainly due to the eased conditions in FX environment compared to last year.

Corporate Taxes

Corporate taxes, realized at TL 607 mn in 2014, were up by 38.1% YoY due to 51% increase in profit before tax in 2014 compared to 2013. Effective corporate tax rate in 2014 was 24%.

Net Income

Net income, registered at TL 2 bn or TL 0.5736 per share, increased by 54.1% YoY, reflecting the impact of more favorable FX conditions compared to 2013.

Operational Highlights

Türk Telekom Group			YoY
Operational Highlights	2013	2014	Change %
Total Access Lines* (millions)	13.7	13.2	(3.7)
<i>Number of Fixed Voice Subscribers (mn)</i>	12.5	11.4	(9.0)
<i>Naked Broadband Subscribers (mn)</i>	1.2	1.8	51.5
Fixed Voice ARPU (TL)	21.7	21.2	(2.3)
Fixed Voice MoU (minutes)	102.4	93.0	(9.2)
Total Broadband Connections (mn)	7.3	7.6	3.7
<i>Fiber Subscribers ('000)</i>	624	729	16.9
<i>VDSL Subscribers ('000)</i>	139	395	184.8
Broadband ARPU (TL)	39.4	41.0	4.2
Total TV Subscribers (mn)**	1.8	1.9	2.1
<i>Tivibu Home (IPTV) Subscribers ('000)</i>	286	289	1.1
Mobile Total Subscribers (millions)	14.5	16.3	12.4
<i>Mobile Prepaid Subscribers (mn)</i>	8.0	8.5	6.7
<i>Mobile Postpaid Subscribers (mn)</i>	6.5	7.8	19.2
Mobile Blended ARPU (TL)	22.3	22.0	(1.3)
Mobile Prepaid ARPU (TL)	13.5	13.9	3.1
Mobile Postpaid ARPU (TL)	32.1	30.4	(5.3)
Mobile MoU (minutes)	366	406	10.8

Türk Telekom Group	2013 Q4	2014 Q3	2014 Q4	QoQ Change %	YoY Change %
Operational Highlights					
Total Access Lines* (millions)	13.7	13.3	13.2	(0.7)	(3.7)
<i>Number of Fixed Voice Subscribers (mn)</i>	12.5	11.7	11.4	(2.6)	(9.0)
<i>Naked Broadband Subscribers (mn)</i>	1.2	1.6	1.8	12.6	51.5
Fixed Voice ARPU (TL)	21.3	21.3	21.3	(0.2)	0.2
Fixed Voice MoU (minutes)	98.7	89.8	88.9	(1.0)	(10.0)
Total Broadband Connections (mn)	7.3	7.5	7.6	1.3	3.7
<i>Fiber Subscribers ('000)</i>	624	715	729	2.0	16.9
<i>VDSL Subscribers ('000)</i>	139	308	395	28.2	184.8
Broadband ARPU (TL)	39.6	41.4	41.3	(0.3)	4.4
Total Tivibu Subscribers (mn)**	1.8	1.8	1.9	1.9	2.1
<i>Tivibu Home (IPTV) Subscribers('000)</i>	286	289	289	0.0	1.1
Mobile Total Subscribers (millions)	14.5	16.2	16.3	0.6	12.4
<i>Mobile Prepaid Subscribers (mn)</i>	8.0	8.7	8.5	(1.5)	6.7
<i>Mobile Postpaid Subscribers (mn)</i>	6.5	7.6	7.8	3.0	19.2
Mobile Blended ARPU (TL)	21.2	22.9	22.5	(1.6)	6.1
Mobile Prepaid ARPU (TL)	13.1	14.7	14.3	(2.7)	9.5
Mobile Postpaid ARPU (TL)	30.2	30.8	30.9	0.2	2.4
Mobile MoU (minutes)	368.7	416.5	415.0	(0.3)	12.6

* Total Access Lines: Naked DSL Lines and Fixed Voice Lines

** Total Tivibu Subscribers: IPTV and Tivibu Go (Web TV+ Mobile TV +Smart TV subscribers)

Additional Information

Türk Telekom Group invested TL 2.1 bn in 2014 with primary focus on continuing to improve the quality of the services and products provided to customers.

Türk Telekom Group's total headcount at December 31, 2014 was 34,389.

About Türk Telekom Group

Türk Telekom Group, the leading communication and convergence technology group in Turkey, provides integrated telecommunication services from PSTN and GSM to broadband internet. As of December 31, 2014; Türk Telekom Group companies have 13.2 mn Fixed Access Lines, 7.6 mn Broadband Connections and 16.3 mn Mobile Subscribers. Group companies have a modern network infrastructure covering the whole country and offer a wide variety of services to residential and commercial customers all over Turkey. Apart from 90 % shares in Avea, one of the three GSM operators in Turkey, Türk Telekom owns 100% of broadband provider TTNET, convergence technologies company Argela, IT solutions provider Innova, online education company Sebit, call center company AssisTT and wholesale data and capacity service provider company Türk Telekom International AT AG and its subsidiaries. Türk Telekom also has an indirect minority share in Albtelecom, the Albanian incumbent telecom operator. Türk Telekom shares are listed in Borsa Istanbul since May 2008.

DISCLAIMER

This release includes forward-looking statements. All statements other than statements of historical facts included in this press release, including, without limitation, certain statements regarding our operations, financial position and business strategy may constitute forward-looking statements. In addition, forward-looking statements generally can be identified by the use of forward-looking terminology such as, among others, "may", "will", "expect", "intend", "plan", "estimate", "anticipate", "believe" or "continue".

Although the Company believes that the expectations reflected in such forward-looking statements are reasonable at this time, it can give no assurance that such expectations will prove to be correct. Given these uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

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

²Operating profit includes revenues, cost of sales, depreciation and amortization, selling and marketing expenses, administrative expenses, other operating income/(expense), and income/(expense) from investing activities, but excludes financial income/(expenses) presented in other operating income/(expenses) (i.e. FX gain/(loss), interest income /(expenses), and discount income/(expense) on receivables and payables), income on unconsolidated subsidiaries, and minority interest. Reported operating profit on CMB financial statements is different due to reclassification requirements of the POA/CMB since 2013 Q3 financial statements. Further explanations are available on notes 2.1 and 5 on financial statements.

³Net financial income/(expense) includes financial income/(expense) and FX gain/(loss), interest income /(expenses), discount income/(expense) on receivables and payables excluding financial borrowings which are presented in other operating income/(expenses). Net financial income/(expense) on CMB financial statements is different due to reclassification requirements of the POA/CMB since 2013 Q3 financial statements. Further explanations are available on notes 2.1 and 5 on financial statements.