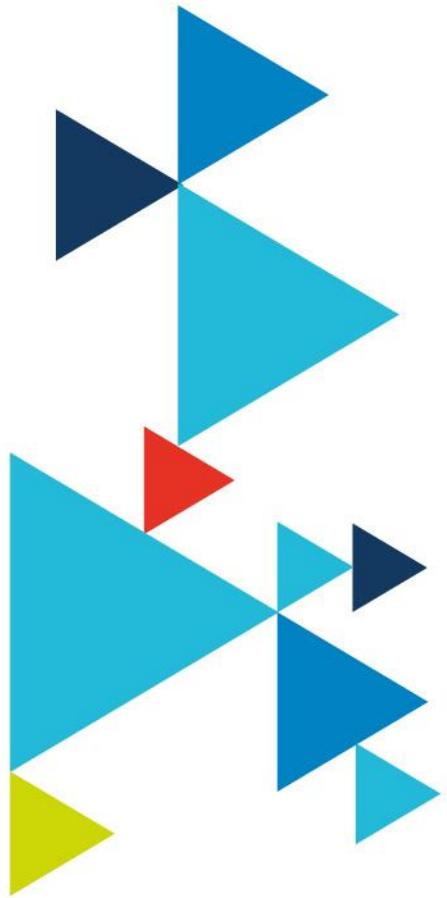


# TÜRK TELEKOM GROUP

## 2017 SECOND QUARTER

### FINANCIAL AND OPERATIONAL RESULTS

July 25, 2017



## RECORD REVENUE AND EBITDA GROWTH

Türk Telekom Group left behind an excellent quarter with solid financial and operational results. The Group's performance in Q2'17 was highlighted by better than expected growth in key financial indicators. Consolidated revenue reached TL 4.5 bn, increasing by 14% yoy, a record high growth the company achieved since IPO. Excluding construction revenue adjustment, top line growth continued to be remarkable at 12%, primarily driven by mobile and broadband revenues. EBITDA<sup>1</sup> also demonstrated a record growth since IPO, increasing 30% yoy to TL 1.7 bn with more than 4pps yoy improvement in the margin to 38%. The underlying operational performance and efficiency measures had a positive contribution to net income realized at TL 890 million, more than three times higher than in the same period of last year. Meanwhile, the Group invested TL 545 mn in Q2'17, excluding the last instalment of LTE spectrum fees in April 2017.

Türk Telekom Group revised upwards its guidance on consolidated revenue (excluding construction revenue adjustment) and EBITDA on the back of strong revenue growth and operational profitability increase in the first half of 2017. Consolidated capital expenditures guidance is also revised up, considering the acceleration on corporate data and information technologies projects in the second half of the year. Under current circumstances, revised guidance for 2017 is as below:

- ❖ Consolidated revenue growth (excluding construction revenue adjustment) to be 10% to 11% over 2016
- ❖ Consolidated EBITDA to be at TL 6.3 bn and TL 6.4 bn levels
- ❖ Consolidated CAPEX to be around TL 3.3 bn

	Previous 2017 Guidance	Revised 2017 Guidance
<b>Consolidated revenue growth (exc. construction revenue adj.)</b>	8% – 9%	10%–11%
<b>Consolidated EBITDA</b>	TL 5.8 bn – TL 6.0 bn	TL 6.3 bn – TL 6.4 bn
<b>Consolidated CAPEX</b>	Around TL 3 bn	Around TL 3.3 bn

<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.

## 2017 Q2 OPERATIONAL HIGHLIGHTS

- ❖ Total number of broadband subscribers increased 188K to 9.1 mn in Q2'17. 145K of total net additions were fiber<sup>2</sup> subscriber additions.
- ❖ Broadband ARPU grew 7.5% yoy to TL 44.6 backed by demand for higher speed and capacity.
- ❖ A healthy mix of mobile subscribers at 18.8 mn with 54% postpaid ratio - up from 51% a year ago.
- ❖ Accelerated ARPU growth at 12% in mobile business - highest yoy ARPU growth since Q2'11, driven by mobile data growth. Mobile data revenues increased by 86% yoy, reaching 53% share in mobile service revenues.
- ❖ Decline in fixed voice subscribers at 67K, the lowest quarterly decline since IPO. Including naked DSL lines, number of total access lines realized at 13.2 mn, up by 77K from previous quarter.
- ❖ Total TV subscribers up by 179K to 2.3 mn, out of which 894K is home TV subscribers. Subscriber base growth in home TV accelerated to 121K in Q2 – the highest quarterly net gain the company had in home TV segment so far.

### Türk Telekom CEO Dr. Paul (Boulos H.B.) Doany's comments on 2017 Q2 results:

We delivered outstanding operational and financial results in the second quarter, exceeding our targets. With accelerated momentum, we posted a profitable growth with topline rising 14% year on year, which was 12% excluding non-operational IFRIC revenues. EBITDA grew 30% with EBITDA margin expanding by more than 4pps year on year to 38% in the second quarter. The ongoing strength of our broadband and mobile businesses together with visible operating efficiencies in a more streamlined organization, normalization in commercial expenses after last year's LTE related expenses as well as a better FX environment were among the drivers of our successful performance from top to bottom in the second quarter.

Total number of Turk Telekom subscribers reached 39.6 million with 350 thousand quarterly net additions in the second quarter. We had particularly strong growth in broadband. As of Q2'17, fixed broadband subscribers totalled 9.1 million, an increase of 188 thousand over the prior quarter - the best second quarter net adds we had in the past nine years. The demand for our fiber product remained strong

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

with 145 thousand net additions, carrying total number of fiber subscribers up to 2.3 million. At the same time, our increased focus on untapped households started to deliver results. We are encouraged by the performance of our new entry-level wholesale campaign, “Internet Bizden”, which accounted for around one fourth of net broadband gains in the second quarter. We aim to build value on higher penetration via this campaign targeting customers with an existing fixed connection and we are very excited about growth prospects for our company and other ISPs. Second quarter was also another great quarter for TV segment, a strong contributor to our multi-play offers. We added 179 thousand TV subscribes this quarter, 6 times higher than a year ago. Meanwhile, we focused on quality growth in mobile business. Relaunch of high value Prime sub-segment, increased penetration of smartphones and continued LTE adaption translated into double digit mobile ARPU increase. Overall growth in mobile business was strong at 17% with the share of data revenues increasing to 53% of total mobile service revenues.

We performed well towards our operating plans and strategic priorities. Within the scope of Universal Service Fund, we have been recently awarded a project to establish and operate mobile communication infrastructure in 1,472 rural locations in Turkey. We established a business partnership with Vodafone for this joint network project, a first in the sector with the critical role to initiate a paradigm shift towards mobile network sharing. Meanwhile, our focus on innovation and investments in ICT ecosystem continued in full force to lead the telecommunication market in Turkey. In addition to our work on 5G and other next generation technologies, we have undertaken the steps to drive innovation via our subsidiary Argela to expand in products with platform functionality and other consumer and corporate products targeting not only Türk Telekom, but also other operators.

Last but not least, I am proud to state that Türk Telekom was ranked the most valuable brand in Turkey in 2017 by Brand Finance. This success highlights how successfully we completed one of the Turkey’s largest brand transformations last year, leading to more synergies within the Group. I wholeheartedly thank Türk Telekom family of 34 thousand people who work in all corners of Turkey and made great contribution to this success.

## Financial Review

(TL mn)	Q2'16	Q1'17	Q2'17	QoQ Change	YoY Change
<b>Revenue</b>	3,940	4,307	4,501	4.5%	14.2%
Revenue (exc. Construction adjustment)	3,820	4,138	4,292	3.7%	12.3%
<b>EBITDA</b>	1,322	1,528	1,712	12.1%	29.5%
Margin	33.6%	35.5%	38.0%		
<b>Depreciation and Amortisation</b>	(695)	(721)	(773)	7.2%	11.1%
<b>Operating Profit</b>	627	807	939	16.4%	49.9%
Margin	15.9%	18.7%	20.9%		
<b>Financial Income / (Expense)</b>	(212)	(622)	249	n.m.	n.m.
FX & Hedging Gain / (Loss)	(88)	(509)	339	n.m.	n.m.
Interest Income / (Expense)	(93)	(76)	(85)	11.6%	(8.6)%
Other Financial Income / (Expense)	(31)	(37)	(6)	(85.2)%	(81.8)%
<b>Tax Expense</b>	(168)	(119)	(298)	150.9%	78.1%
<b>Net Income</b>	248	66	890	1255.0%	259.2%
Margin	6.3%	1.5%	19.8%		
<b>CAPEX</b>	689	400	545	36.0%	(21.0)%

### Revenues

Consolidated revenues increased by 14.2% yoy (up by TL 561 mn) to TL 4,501 mn in Q2'17. Excluding non-operational construction revenue adjustment, top line growth was 12.3% yoy (up by TL 472 mn) driven by 17.1% yoy increase in mobile (up by TL 242 mn) and 17.2% yoy increase in broadband (up by TL 176 mn) revenues.

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

Operating expenses increased by 6.5% yoy (up by TL 171 mn) to TL 2,789 mn in Q2'17. Excluding non-operational construction cost adjustment, growth in opex was 3.7% yoy (up by TL 92 mn). Operational tax expenses increased by 13.9% yoy (up by TL 40 mn) and interconnection expenses increased by 12.2% yoy (up by TL 40 mn) while personnel expenses declined by 2.8% yoy (down by TL 19 mn) mostly on the back of efficiencies in a more streamlined organization. Additionally, growth in commercial

expenses and network & technology expenses (6% yoy and 9% yoy respectively) eased down, partly attributable to the high base effect in Q2'16 mainly due to LTE launch.

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

Consolidated EBITDA in Q2'17 increased at record high growth rate of 29.5% yoy (up by TL 390 mn) to TL 1,712 mn and EBITDA margin improved by more than 4pps yoy to 38%.

### **Depreciation and Amortization Expense**

Depreciation and amortization expense increased by 11.1% yoy (up by TL 77 mn) to TL 773 mn in Q2'17.

### **Operating Profit**

Operating profit<sup>3</sup> increased 49.9% yoy (up by TL 313 mn) to TL 939 mn in Q2'17 on the back of the stronger growth in EBITDA.

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

Group recorded TL 249 mn net financial gain in Q2'17 compared to TL 212 mn net financial loss in Q2'16, reflecting better FX environment<sup>5</sup> in Q2'17.

### **Tax Expense**

Tax expense increased by 78.1% yoy (up by TL 131 mn) to TL 298 mn in Q2'17 as profit before tax tripled yoy.

### **Net Income/Loss**

Net income jumped to TL 890 mn in Q2'17 compared to TL 248 mn in Q2'16 thanks to strong underlying operating performance and better FX environment in Q2'17.

<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.

<sup>5</sup>June'17 – USD/TL: 3.5071, EUR/TL: 4.0030, March'17 – USD/TL: 3.6386, EUR/TL: 3.9083, June'16 – USD/TL: 2.8936 EUR/TL: 3.2044 (March'16- USD/TL: 2.8334 EUR/TL: 3.2081).

## Operational Highlights

	Q2'16	Q1'17	Q2'17	QoQ Change	YoY Change
<b>Total Access Lines (mn)<sup>1</sup></b>	12.9	13.2	<b>13.2</b>	0.6%	2.4%
<b>Fixed Voice Subscribers (mn)</b>	10.0	9.5	<b>9.4</b>	(0.7)%	(5.3)%
<b>Naked Broadband Subscribers (mn)</b>	3.0	3.7	<b>3.8</b>	3.9%	28.5%
<b>Fixed Voice ARPU (TL)</b>	23.7	23.1	<b>23.1</b>	0.1%	(2.4)%
<b>Total Broadband Subscribers (mn)</b>	8.3	8.9	<b>9.1</b>	2.1%	9.5%
<b>Total Fiber Subscribers ('000)</b>	1,742	2,175	<b>2,321</b>	6.7%	33.2%
<b>FTTH/B ('000)</b>	809	902	<b>931</b>	3.2%	15.1%
<b>FTTC ('000)</b>	933	1,273	<b>1,389</b>	9.2%	49.0%
<b>Broadband ARPU (TL)</b>	41.5	45.0	<b>44.6</b>	(0.9)%	7.5%
<b>Total TV Subscribers (mn)<sup>2</sup></b>	2.0	2.1	<b>2.3</b>	8.4%	18.1%
<b>Tivibu Home (IPTV + DTH) Subscribers ('000)</b>	544	774	<b>894</b>	15.6%	64.4%
<b>TV ARPU (TL)</b>	19.0	17.9	<b>17.4</b>	(3.0)%	(8.3)%
<b>Mobile Total Subscribers (mn)</b>	18.0	18.7	<b>18.8</b>	0.3%	4.0%
<b>Mobile Postpaid Subscribers (mn)</b>	9.3	10.0	<b>10.1</b>	1.5%	9.5%
<b>Mobile Prepaid Subscribers (mn)</b>	8.8	8.7	<b>8.6</b>	(1.2)%	(1.8)%
<b>Mobile Blended ARPU (TL)</b>	25.1	26.7	<b>28.2</b>	5.5%	12.2%
<b>Mobile Postpaid ARPU (TL)</b>	33.1	35.0	<b>36.6</b>	4.5%	10.7%
<b>Mobile Prepaid ARPU (TL)</b>	16.4	16.9	<b>17.9</b>	5.7%	9.2%

(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 176 years of history, is the first integrated telecommunications operator in Turkey. In 2015, Türk Telekomünikasyon A.Ş. adopted a “customer-oriented” and integrated structure in order to respond to the rapidly changing communication and technology needs of customers in the most powerful and accurate way, while maintaining the legal entities of Avea İletişim Hizmetleri A.Ş. and TTNET A.Ş. intact and adhering to the rules and regulations to which they are subject. Having a wide service network and product range in the fields of individual and corporate services, Türk Telekom unified its mobile, internet, phone and TV products and services under the single “Türk Telekom” brand as of January 2016.

“Turkey’s Multiplay Provider” Türk Telekom has 13.2 million fixed access lines, 9.1 million broadband and 18.8 million mobile subscribers as of June 30, 2017. Türk Telekom Group Companies provide services in all 81 cities of Turkey with 33,621 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 Sabit 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. and the mobile services – are provided by Avea İletişim Hizmetleri A.Ş. Türk Telekom® brand used in this press release is the joint brand of Türk Telekom Group companies. All group companies' legal entities remain intact.

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

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