

**TÜRK TELEKOM GROUP**  
**2018 THIRD QUARTER**  
**FINANCIAL AND OPERATIONAL**  
**RESULTS**

November 6, 2018



**STRONG OPERATIONAL PERFORMANCE AND CASH GENERATION  
ON SOLID FUNDAMENTALS**

Türk Telekom Group announced its financial and operational results for the third quarter of 2018. The Group delivered impressive growth rates both in revenue and EBITDA<sup>1</sup> together with a significant cash flow generation as a reflection of strong operational performance supported by the best subscriber additions achieved over the last decade.

**Türk Telekom CEO Dr. Paul (Boulos H.B.) Doany said:**

“Third quarter results highlight the strength of our businesses, leading us to raise our 2018 guidance. Our unmatched diversified portfolio under integrated business model combined with benefits of our penetration initiatives enabled us to deliver superior operational results. Moreover, we generated TL 3.0 bn unlevered free cash flow<sup>2</sup> in the first nine months of the year with a substantial increase compared to TL 278 mn in the same period of last year, driven by record high EBITDA generation, as well as leveraging on normalized capex cycle post LTE launch and strict working capital management. Looking forward, we are confident as we are taking the right steps to address current macro environment in emerging markets including Turkey with our track record of effective execution to deliver strong profitable growth and generate high cash flow.”

**Upward Revision in 2018 Guidance**

Our company has decided to revise upwards its 2018 guidance on Consolidated revenue (excluding IFRIC 12), EBITDA and CAPEX on the back of strong revenue growth and strong operational profitability in the first nine month of 2018.

Accordingly, under current circumstances, guidance for 2018 is as below:

- Consolidated revenue growth (excluding IFRIC 12) to be around 13% over 2017
- Consolidated EBITDA to be at TL 8.0 bn and TL 8.2 bn levels
- Consolidated CAPEX to be around TL 4.2 bn

	Previous 2018 Guidance	Revised 2018 Guidance
Consolidated Revenue Growth (excluding IFRIC 12)	Around 11%	Around 13%
Consolidated EBITDA	TL 7.6 bn - TL 7.8 bn	TL 8.0 bn - TL 8.2 bn
Consolidated CAPEX	Around TL 4.1 bn	Around TL 4.2 bn

<sup>1</sup>EBITDA is a non-GAAP financial measure. The EBITDA definition used in this press release includes revenues, cost of sales, marketing, sales and distribution expenses, general administrative expenses, research and development expenses and other operating income/(expense), and income/(expense) from investing activities, but excludes depreciation, amortization and impairment expenses, financial income/(expenses) presented in other operating income/(expenses) (i.e. FX gain/(loss), interest and rediscount income/(expense) on current accounts excluding bank borrowings).

<sup>2</sup>Unlevered free cash flow is defined as net cash provided by operating and investing activities from operations.

### 3rd Quarter 2018 Financial Highlights

Consolidated Revenue increased to TL 5.4 bn, up by 19% YoY, the highest topline growth since IPO. Excluding IFRIC 12 revenue, consolidated revenue growth was at 17% YoY.

Consolidated EBITDA grew 34% YoY to TL 2.3 bn with a strong EBITDA margin of 42%. Growth in operating profit also accelerated to 34% YoY.

Net loss was TL 2.8 bn in Q3'18 due to unfavorable FX movements in the quarter. On the other hand, excluding FX & FX Hedging impacts, net income was at TL 1.0 bn.

Consolidated Capex was TL 1.2 bn in Q3'18 compared to TL 554 mn in Q3'17.

Group generated significant unlevered free cash flow of TL 2.0 bn in Q3'18, substantially higher than TL 381 mn in Q3'17 driven by strong EBITDA growth and improvement in working capital. Cash and cash equivalents at the end of Q3'18 was TL 6.2 bn compared to TL 2.8 bn at the end of Q3'17.

Hedge ratio<sup>3</sup> increased to 57% in Q3'18 up from 44% in Q2'18 and 31% in Q3'17, driven by additional hedge transactions and increased FX based cash.

### 3rd Quarter 2018 Operational Highlights

Total number of Türk Telekom subscribers reached 44.7 mn with 1.2 mn net additions in Q3'18. Annual growth in subscriber base accelerated from 5.1% in Q3'17 to 10.4% in Q3'18 – the highest annual growth rate since IPO.

Broadband subscriber base increased by 13% YoY to 10.6 mn with 288K net additions in Q3'18.

Fiber subscribers<sup>4</sup> reached 3.4 mn, up by 229K – the best third quarter performance in this segment ever.

Mobile subscriber base increased to 20.8 mn. Subscriber additions accelerated with 586K net additions in Q3'18, up from 293K in Q2'18 and 414K in Q3'17.

LTE population coverage expanded to 89% in Q3'18 from 80% a year ago. Share of LTE users<sup>5</sup> in mobile subscriber base increased to 44% in Q3'18 from 22% in Q3'17. Average monthly data usage per LTE user lifted to 6.5 GB with an accelerated growth rate of 38% YoY.

Subscriber additions in fixed voice segment continued with 90K net adds in Q3'18. Combined with nDSL, total fixed access lines reached 14.3 mn with 202K net adds in the quarter.

Home TV subscribers reached 1.6 mn, up by 149K - the highest third quarter net adds in this segment ever, reinforcing the second player position of Tivibu Home in the Pay TV market. Total Pay TV subscribers exceeded 3.5 mn with 266K net additions in Q3'18, the best third quarter performance in this segment ever.

As of Q3, the share of multiple product ownership among our subscriber base<sup>6</sup> increased from 58% in Q3'17 to 63% in Q3'18.

<sup>3</sup>Hedge Ratio is defined as the ratio of hedged FX based debt plus FX based cash over gross FX debt. For further details, please see "Summary Financial and Operational Information" file at [Investor Relations Website](#)

<sup>4</sup>Fiber subscribers include FTTH/B & FTTC subscribers.

<sup>5</sup>Mobile subscribers who registered for LTE and have LTE compatible device and simcard.

<sup>6</sup>Among constant subscriber universe that provided consent for sharing and using their information within the Group, which accounts for 72% of total Group subscribers as of Q3'18.

### 3rd Quarter 2018 Strategic Highlights

Significant improvements have been made in Türk Telekom Online Self-Service app (“Online İşlemler”), solidifying foundation for best-in class self-service customer experience and operational efficiency. Introduction of new features, more user-friendly interfaces and attractive campaigns have increased customer rating of the app to 4.6<sup>7</sup> stars out of 5. The number of TT Mobil users of the app more than doubled in 9M’18 compared to 9M’17, reaching 8.8 mn with 54% penetration among our smartphone users. The average usage frequency of active customer base exceeded 15 times per month. “Online İşlemler”, downloaded 21 mn times so far, is among the top 10 most downloaded apps in Turkey in Q3’18.

Türk Telekom has launched a new device financing model to address the mobile handset financing requirements of its customers in cooperation with Hemenal Finansman A.Ş and ING Bank A.Ş. In this model, financing is directly provided by Hemenal Finansman and ING Bank at competitive interest rates, while Türk Telekom Group acts as an intermediary for collection and the installments are reflected to customers’ mobile invoices. With this new consumer finance solution providing an easy and quick way to Türk Telekom customers to buy or renew their mobile handsets, Türk Telekom targets to strengthen its leadership position in smartphone penetration and increase data consumption among its subscribers. Following completion of on-site tests, consumer financing is currently offered at more than 60 Türk Telekom retail stores, and roll-out process across Turkey is ongoing.

Türk Telekom signed a pilot project agreement with Vodafone for leasing of fixed infrastructure in Sincan, Ankara in an effort to ensure efficient use of existing infrastructure and accelerate new investments. Under the signed agreement, in the locations with existing infrastructure within the scope of the project, Türk Telekom will lease its available infrastructure to Vodafone for 15 years with favorable prices while in the locations without suitable infrastructure, incremental Capex requirement will be financed by Vodafone. Türk Telekom will be owner of the new infrastructure under this scheme. Excavation works in the selected area are currently under progress.

#### **Türk Telekom CEO Dr. Paul (Boulos H.B.) Doany’s comments on Q3 2018 results:**

“We delivered solid results in the third quarter as we continued to execute with financial and pricing discipline in a challenging market environment without sacrificing from our strategy to drive penetration and data consumption for sustainable growth. With these results, we are confident on the strength of our strategy to deliver greater value to our stakeholders. Accordingly, we revised our revenue and EBITDA guidance for 2018 upwards.

We gained 4.2 million net subscribers, record high last twelve months subscriber gain since IPO, carrying total number of Türk Telekom subscribers to 44.7 million. Over the last years, we have successfully transformed Türk Telekom into a more customer oriented, penetration and diversification focused innovative company that utilizes group synergies to deliver a sustainable growth in subscriber base.

Our penetration focused strategy proved to be appropriate for the current environment. “Internet Bizden”, our affordable entry level internet campaign, constituted around 50% of our total broadband net additions. This performance continued to support our fixed voice

<sup>7</sup>The rating of IOS app

segment, where we gained 90 thousand net subscribers in the quarter. During the quarter, 48% of our total net additions came from mobile segment where we achieved 586 thousand subscriber additions, reaffirming the success of our mobile growth strategy. Data consumption was fuelled in the third quarter with average monthly usage per LTE user at 6.5 GB, up by 38% yoy. In TV, we have sustained our great momentum in Q3 with home TV subscriber base expanding by 149K, the highest third quarter net additions so far, supported by attractively priced TV plus mobile bundles. We are the number two player in Turkish pay TV market and our performance in this segment demonstrates that our strategy on “wireless homes” is well on track. We will continue to drive this strategy for future upsells as we remain focused on strengthening our competitive position with affordable TV service.

In the third quarter, we maintained our focus on best in class customer experience with digital solutions. We have been investing in improving the customer experience at every touch point and we are particularly very encouraged by the progress in our major digital touch point, the Online Self-Service app (“Online İşlemler”). TT Mobil subscribers using the app reached 8.8 million in the first 9 months with an accelerated pace of growth. “Sil Süpür”, our loyalty campaign providing rewards such as free data and free minutes to our subscribers, has been an important contributor for momentum in this channel. Moreover, Tambu, our digital keyboard, reached 7.2 mn downloads as of Q3’18 with 14.7 bn engagements via its toolbar. The new version of Tambu with features such as toolbar integrated food and drink, local and web search, and gamification module will be released soon. As a very recent development in our digital portfolio, we also launched Eleq, our live mobile game, developed by our subsidiary Argela.

Meanwhile, we believe under the current macro dynamics, the importance of initiatives for all the sector players to utilize infrastructure effectively and minimize duplicate investments has increased substantially. Within this scope, in the third quarter we continued to explore opportunities for mobile network sharing, while starting our pilot for fixed infrastructure leasing.

All in all, these financial results reflect strength and resilience of our businesses together with the benefits of the early actions we undertook for adjusting to changing environment. Many emerging market economies had a volatile third quarter with increase in US interest rates, tightening financial conditions, and trade protectionism. In Türk Telekom, we are taking measures in response to the current challenges with a tight focus on opex and capex efficiency and cash flow generation. At the same time, we adopt a very disciplined and prudent approach in our financial operations to provide more value to our stakeholders, enabling us to sustain our high cash flow generation capability. Moreover, Turkey is fundamentally unique with its young, dynamic and tech savvy population, containing huge growth potential and offering numerous opportunities to investors. All in all, we remain confident about future prospects of our businesses.

To conclude, I thank each and every member of Türk Telekom family for their continued invaluable contribution during the third quarter. It is also worth to take this opportunity to emphasize our full support for Turkish government’s anti-inflation program. We will continue to work with full force to connect Turkey to the future as the country’s leading information and communication technologies company.”

## Financial Review

(TL mn)	Q3'17	Q2'18	Q3'18	QoQ Change	YoY Change
<b>Revenue</b>	4,532	4,951	<b>5,396</b>	9.0%	19.1%
<b>Revenue (Exc. IFRIC 12)</b>	4,420	4,740	<b>5,154</b>	8.7%	16.6%
<b>EBITDA</b>	1,687	1,968	<b>2,267</b>	15.2%	34.3%
<i>Margin</i>	37.2%	39.8%	<b>42.0%</b>		
<b>Depreciation and Amortisation</b>	(714)	(910)	<b>(961)</b>	5.6%	34.6%
<b>Operating Profit</b>	973	1,058	<b>1,305</b>	23.4%	34.1%
<i>Margin</i>	21.5%	21.4%	<b>24.2%</b>		
<b>Financial Income / (Expense)</b>	(519)	(2,139)	<b>(5,077)</b>	137.3%	877.9%
FX & Hedging Gain / (Loss) <sup>8</sup>	(398)	(1,933)	<b>(4,906)</b>	153.8%	1133.0%
Interest Income / (Expense) <sup>8</sup>	(88)	(171)	<b>(186)</b>	8.4%	111.0%
Other Financial Income / (Expense)	(33)	(35)	<b>14</b>	n.m.	n.m.
<b>Tax Income / (Expense)</b>	(161)	212	<b>926</b>	337.6%	n.m.
<b>Net Income</b>	293	(870)	<b>(2,846)</b>	n.m.	n.m.
<i>Margin</i>	6.5%	n.m.	<b>n.m.</b>		
<b>Adjusted Net Income <sup>9</sup></b>	638	696	<b>1,000</b>	43.6%	56.8%
<b>CAPEX</b>	554	836	<b>1,219</b>	45.8%	120.1%

## Revenues

Consolidated revenues increased by 19.1% YoY (up by TL 864 mn) to TL 5,396 mn in Q3'18. Excluding IFRIC 12, top line growth was 16.6% YoY (up by TL 734 mn) mainly due to 18.3% YoY increase in mobile (up by TL 314 mn), 14.1% YoY increase in broadband (up by TL 173 mn) and 44.7% YoY increase in international revenues (up by TL 84 mn). Fixed voice segment registered a revenue growth at 1.2% YoY (up by TL 8 mn) in Q3'18 compared to 5.5% YoY revenue decline (down by TL 38 mn) in Q3'17.

<sup>8</sup>As of Q2'18, income/expense from derivative interest payments, which were previously presented under FX & hedging gain/loss, started to be presented under interest income/expense item. As a result of this reclassification, TL 18 mn expense from derivative interest payments in Q1'18 presented under interest income/expense item in Q2'18.

<sup>9</sup>Adjusted net income excludes the net impact of FX & FX hedging gain/loss (after tax) during respective period.

Our more segmented approach in device business as explained under OPEX part below continued to impact non-service mobile commission revenues in Q3'18; however, it is mostly compensated by the one-off gains in the quarter due to retrospective mobile revenue booking.

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

Operating expenses increased by 10.0% YoY (up by TL 285 mn) in Q3'18. Excluding IFRS 15 impact (TL 162 mn on commercial expenses) and IFRIC 12 increase (up by TL 115 mn), growth in operating expenses was 12.1% YoY (up by TL 332 mn).

The Law numbered 7061 which ruled a methodology change in calculation of frequency fees effective as of Jan 1st 2018 lead to an increase in frequency fees (of around TL 45 mn impact in Q3'18). Additionally, as of Q1'18, frequency fees with direct link to sales are reported under "Tax" expense. Before 2018, such frequency fees were reported under "Network and Technology" expense as there were no direct link to sales at the prior calculation methodology. Accordingly, "Network and Technology" and Tax expenses combined increased 30.7% YoY (up by TL 238 mn) in Q3'18, mainly driven by increase in tax associated with growth in mobile revenue and increase in cost of utilities and FX based technology expenses.

Meanwhile, the positive impact of device focused risk management policy and segmented approach in receivable management accelerated. As a result, provisions for doubtful receivables declined by 42.8% YoY (down by TL 48 mn).

Personnel expenses increased by 8.8% YoY (up by TL 61 mn) in Q3'18.

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

Consolidated EBITDA in Q3'18 increased by 34.3% (up by TL 579 mn) YoY to TL 2.3 bn with an EBITDA margin of 42.0%. Underlying EBITDA margin, even adjusted for IFRS 15, was strong at 39%, 2 percentage point higher than 37% in Q3'17.

### **Depreciation and Amortization Expense**

Depreciation and amortization (D&A) expense increased by 34.6% YoY (up by TL 247 mn) to TL 961 mn mainly due to TL 120 mn incremental D&A expenses stemming from IFRS 15 application.

### **Operating Profit<sup>10</sup>**

Operating profit increased 34.1% YoY (up by TL 332 mn) to TL 1,305 mn in Q3'18 on the back of strong growth in EBITDA. IFRS 15 had a limited impact of TL 38 mn on operating profit in Q3'18.

<sup>10</sup>Operating profit includes revenues, cost of sales, depreciation, amortization and impairment expenses, marketing, sales and distribution expenses, general administrative expenses, research and development expenses, other operating income/(expense), and income/(expense) from investing activities, but excludes financial income/(expenses) presented in other operating income/(expenses) on CMB financial statements (i.e. FX gain/(loss), interest and rediscount income/(expense) on current accounts excluding bank borrowings). Reported operating profit on CMB financial statements is different due to reclassification requirements of the POA/CMB since 2013 Q3 financial statements.

## Net Financial Income / Expense<sup>11</sup>

Net financial expenses increased substantially to TL 5.1 bn in Q3'18 due to FX losses on the back of depreciation of TL against both USD and EUR during the quarter.

During the third quarter, the Group executed additional participating cross currency swap (PCCS) transactions with a notional value of USD 200 mn and EUR 108 mn, while strengthening the protection level of the existing hedge positions. At the end of the quarter, the Group has USD 1.5 bn equivalent of PCCS position in total, corresponding to 57% hedge ratio<sup>3</sup> including FX based cash at USD 867 mn.

As of July 1, 2018, the Group has started to apply hedge accounting for participating cross currency swaps in accordance with IFRS 9 hedge accounting model in order to provide a stronger link between its risk management strategy, rationale for hedging and the impact of hedging on the financial statements.

## Tax Income/Expense

With negative income-before-tax due to by FX losses, Group booked tax income of TL 926 mn in Q3'18.

## Net Income/Loss

Net loss was TL 2,846 mn in Q3'18, due to depreciation in TL against USD and EUR.

On the other hand, excluding FX & FX Hedging impacts, group delivered net income of TL 1 bn in Q3'18 with a strong annual growth of 57%.

## Capital Expenses

Capex increased to TL 1,219 mn in Q3'18 from TL 554 mn in Q3'17. Excluding the impact of IFRS 15, underlying Capex was TL 1,057 mn.

## Cash Flow

Unlevered free cash flow<sup>2</sup> generated in Q3'18 was TL 2.0 bn versus TL 381 mn in Q3'17 as a result of EBITDA growth and improvement in working capital. Cash and cash equivalents in Q3'18 increased to TL 6.2 bn, significantly higher than TL 4.3 bn in Q2'18 and 2.8 bn in Q3'17.

<sup>11</sup>Net financial income/(expense) includes financial income/(expense) and FX gain/(loss), interest and rediscount income/(expense) on current accounts excluding bank borrowings which are presented in other operating income/(expenses) on CMB financial statements. Net financial income/ (expense) on CMB financial statements is different due to reclassification requirements of the POA/CMB since 2013 Q3 financial statements.



## Operational Performance

	Q3'17	Q2'18	Q3'18	QoQ Change	YoY Change
<b>Total Access Lines (mn)</b> <sup>12</sup>	13.4	14.1	<b>14.3</b>	1.4%	6.1%
Fixed Voice Subscribers (mn)	9.5	9.7	<b>9.8</b>	0.9%	3.7%
Naked Broadband Subscribers (mn)	4.0	4.3	<b>4.4</b>	2.6%	12.0%
<b>Fixed Voice ARPU (TL)</b>	23.0	22.2	<b>22.5</b>	1.3%	(2.1)%
<b>Total Broadband Subscribers (mn)</b>	9.4	10.3	<b>10.6</b>	2.8%	13.0%
<b>Total Fiber Subscribers ('000)</b>	2,503	3,150	<b>3,379</b>	7.3%	35.0%
FTTH/B ('000)	986	1,179	<b>1,258</b>	6.7%	27.6%
FTTC ('000)	1,517	1,971	<b>2,121</b>	7.6%	39.8%
<b>Broadband ARPU (TL)</b>	44.1	43.6	<b>44.4</b>	1.8%	0.7%
<b>Total TV Subscribers (mn)</b> <sup>13</sup>	2.5	3.3	<b>3.5</b>	8.2%	40.2%
Tivibu Home (IPTV + DTH) Subscribers('000)	1,029	1,451	<b>1,600</b>	10.3%	55.5%
<b>TV ARPU (TL)</b>	16.4	16.6	<b>14.9</b>	(9.7)%	(8.8)%
<b>Mobile Total Subscribers (mn)</b>	19.2	20.2	<b>20.8</b>	2.9%	8.5%
Mobile Postpaid Subscribers (mn)	10.4	11.5	<b>11.8</b>	2.2%	13.3%
Mobile Prepaid Subscribers (mn)	8.8	8.7	<b>9.0</b>	3.8%	2.9%
<b>Mobile Blended ARPU (TL)</b>	28.8	30.2	<b>31.8</b>	5.2%	10.3%
Mobile Postpaid ARPU (TL)	36.8	37.8	<b>39.6</b>	4.9%	7.7%
Mobile Prepaid ARPU (TL)	18.5	19.6	<b>20.1</b>	2.2%	8.8%

<sup>12</sup>Naked DSL Lines and Fixed Voice Lines

<sup>13</sup>Tivibu Home (IPTV, DTH) and Tivibu Go (Web TV+ Mobile TV +Smart TV subscribers)

## About Türk Telekom Group

Türk Telekom, with 178 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 TT Mobil 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 14.3 million fixed access lines, 10.6 million broadband, 3.5 million TV and 20.8 million mobile subscribers as of September 30, 2018. Türk Telekom Group Companies provide services in all 81 cities of Turkey with 33,226 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, directly owns 100% of mobile operator TT Mobil İletişim Hizmetleri A.Ş., retail internet services, IPTV, satellite TV, Web TV, Mobile TV, Smart TV services provider TTNET A.Ş., 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., project development and corporate venture capital company TT Ventures Proje Geliştirme A.Ş., Electric Supply and Sales Company TTES Elektrik Tedarik Satış A.Ş., wholesale data and capacity service provider Türk Telekom International, and indirectly owns 100% of subsidiaries of Türk Telekom International, TV Broadcasting and VOD services provider Net Ekran Companies, telecommunications devices sales company TT Satış Ve Dağıtım Hizmetleri A.Ş. and payment services company TT Ödeme Hizmetleri A.Ş. and counselling services company 11818 Rehberlik ve Müşteri Hizmetleri A.Ş.

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