

# TURK TELEKOM GROUP ANNOUNCES 2014 FIRST QUARTER FINANCIAL AND OPERATIONAL RESULTS



### First Quarter Results Point to a Strong Start

Turk Telekom, Turkey's leading communications and convergence technologies group, announced 2014 first quarter financial and operational results. The group delivered strong financial results alongside successful subscriber acquisitions. Mobile subscribers showed an impressive net gain of 757 thousand in a single quarter and reached 15.3 million total mobile subscriber base, while broadband subscribers continued to grow with an increase of 4% compared to same quarter of 2013 and reached 7.4 million. Consolidated revenues grew to TL 3.2 billion resulting in an EBITDA of TL 1.2 billion with a robust 38% EBITDA margin.

### 2014 First Quarter Highlights

- ❖ **Consolidated revenues increased by 2% YoY with a robust EBITDA margin of 38%. Excluding MTR cut effect, growth would be 4% YoY**
- ❖ **Outstanding performance in mobile business with 757K net adds, highest base growth in a single quarter since 2007**
- ❖ **4% year on year revenue increase (14% excluding MTR cut effect) in mobile business driven by 65% YoY data revenue growth and subscriber additions**
- ❖ **Total broadband subscribers reached 7.4 mn, accompanied with 8% YoY revenue increase. The revenue growth was driven by both subscriber net additions and 4% YoY ARPU uplift**
- ❖ **Fiber subscribers grew 2.5 times year on year, reaching 682K as of Q1 2014**
- ❖ **Continued double digit revenue increase in corporate data in Q1 2014 with 17% YoY growth**
- ❖ **Net income was realized at TL 384 mn indicating 48% QoQ increase due to easing FX conditions, while year on year net income fell 27%**

<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.

### **Turk Telekom CEO Rami Aslan's comments on 2014 first quarter results:**

Building up on a successful year, Turk Telekom Group made a solid start to 2014. While we grew our topline 2% year on year in the first quarter of the year, reaching 3.2 billion TL, our EBITDA increased by over 4%, which shows that our efficiency programs are paying off. Consolidated EBITDA margin reached 38% - delivering a full percentage point improvement year on year.

The initiatives we started in terms of growing our subscriber base continued to be effective, especially in our mobile business. The momentum we gained in the last quarter of 2013 has carried on with an intensified pace. Our net subscriber additions in mobile reached 757 thousand, which is the highest in a quarter since 2007. This was a balanced subscriber base growth with 54% of net additions being post-paid. Our leadership in postpaid subscriber ratio continues with 45%. Meanwhile, despite continued intense competition in the market, we managed to maintain our EBITDA year on year in our mobile business.

Mobile data has been one of our main revenue growth drivers in mobile business with a 65% year on year increase in the quarter. Launching the third version of our smartphone Avea inTouch 3 has been instrumental in strengthening our leadership in smartphone penetration and fuelling the mobile data growth. Smartphone users in our base now reached 42% of total subscribers.

Our broadband and corporate data businesses continued to be the growth drivers of our fixed line business, recording 8% and 17% revenue growth rates year on year, respectively. In broadband, we have reached 7.4 million total subscribers with 70 thousand net additions. Our robust program in fiber has also continued to bear fruit with 60 thousand net additions, reaching over 680 thousand subscribers. In fixed broadband, our premium products and services continued to generate value and set us aside from the competition.

Fixed voice, which still is a significant source of revenue for us, is an area where we continue to serve our customers with great care. Our launch of TT E4 – the home smart phone – is received with excitement among our subscribers. Together with our latest campaign “the happiness is in your home”, it proved to be a highly effective retention tool.

As we embark on the rest of the year with a strong first quarter behind us, we are confident that our commitment in a cohesive approach to our businesses will deliver superior results. I would like to extend my sincere gratitude to our employees, shareholders, and all other stake holders for enabling us to keep on track to reach our goals.

## Financial Highlights

Turk Telekom Group	Q1 2013	Q4 2013	Q1 2014	QoQ Change (%)	YoY Change (%)
TL in Millions					
Revenue	3,143	3,296	3,195	(3.1)	1.6
Net Operating Expenses Excluding Depreciation and Amortization (OPEX)	(1,992)	(2,017)	(1,995)	(1.1)	0.2
Operating Profit Before Depreciation and Amortization (EBITDA)	1,151	1,278	1,200	(6.1)	4.2
Depreciation and Amortization	(440)	(458)	(477)	4.1	8.5
Operating Profit	712	820	723	(11.9)	1.6
Net Financial Income/ (Expense)	(34)	(468)	(246)	(47.5)	N.M.
Taxes	(161)	(102)	(107)	5.4	(33.4)
Net Profit Before Minority Interest	517	251	370	47.4	(28.3)
Net Profit After Minority Interest	526	260	384	47.6	(27.1)
Capital Expenditure	254	835	279	(66.6)	9.7

### Revenues

Consolidated revenues increased by 2% YoY (up by TL 52 mn) to TL 3.2 bn in the first quarter of 2014, mainly due to the growth in broadband business (up by TL 68 mn), corporate data (up by 42 mn) and mobile business (up by TL 40 mn). Excluding MTR cut effect in mobile business; consolidated revenues would grow 4% YoY in the first quarter.

### Operating Expenses Excluding Depreciation and Amortization

Net operating expense remained almost flat (up by TL 3 mn) at TL 2.0 bn in the first quarter of 2014. Increases in personnel expense (up by TL 48 mn), maintenance and repairs (up by TL 27 mn) and cost of sales (up by TL 24 mn) were mostly offset by the decreases in interconnection (down by TL 46 mn) and other expenses (down by TL 46 mn).

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

Operating profit before depreciation and amortization increased 4% YoY to TL 1.2 bn with a consolidated EBITDA margin of 38%. The two one-off items realized at Operating Expense level, namely TL 92 mn special bonus provisions under personnel expense and TL 57 mn real estate sales gain booked under other expenses, had TL -35 mn net effect on Q1 2014 EBITDA.

In fixed line business, EBITDA increased 5% YoY to TL 1.1 bn with an EBITDA margin of 47% while in mobile business, EBITDA remained flat at TL 109 mn compared to first quarter of 2013 with an EBITDA margin of 11%.

### Depreciation and Amortization

Total depreciation and amortization increased to TL 477 mn in Q1 2014 from TL 440 mn in Q1 2013 with 8% YoY increase.

### Operating Profit

Operating profit<sup>2</sup> was registered at TL 723 mn with 2% YoY growth in Q1 2014 as EBITDA growth surpassed depreciation and amortization growth in absolute terms.

### Net Financial Income / Expense

Net financial expense<sup>3</sup> affected by Turkish Lira's depreciation against US dollar and Euro increased YoY and registered at TL 246 mn in Q1 2014. However, net financial expense decreased by 47% quarter over quarter mainly due to the deceleration in TL depreciation against USD and EUR.

### Corporate Taxes

Corporate taxes at TL 107 mn was down by 33% YoY due to the decrease in profit before tax compared to Q1 2013. Effective corporate tax rate in the first quarter of 2014 was 22%.

### Net Income

Net income affected by Turkish Lira's depreciation against US dollar and Euro registered at TL 384 mn in Q1 2014 with 27% YoY decrease. On a quarterly basis, net income increased by 48% with the deceleration of TL's depreciation. Accordingly, net income per share registered at TL 0.1097 in Q1 2014 which was Kurus 0.1504 and Kurus 0.0743 in Q1 2013 and Q4 2013, respectively.

<sup>2</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. Further explanations are available on notes 2.1 and 5 on financial statements.

<sup>3</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. Further explanations are available on notes 2.1 and 5 on financial statements.

## Operational Highlights

Turk Telekom Group Operational Highlights	2013 Q1	2013 Q4	2014 Q1	QoQ Change %	YoY Change %
Total Access Lines* (mn)	14.0	13.7	13.5	(1.1)	(3.7)
<i>Number of Fixed Voice Subscribers (mn)</i>	13.2	12.5	12.2	(2.2)	(7.8)
<i>Naked Broadband Subscribers (mn)</i>	0.8	1.2	1.3	9.9	62.6
Fixed Voice ARPU (TL)	22.0	21.3	20.9	(1.6)	(4.7)
Fixed Voice MoU (min)	102.8	98.7	96.4	(2.4)	(6.3)
Total Broadband Connections (mn)	7.1	7.3	7.4	0.9	4.2
<i>Fiber Subscribers ('000)</i>	275	624	682	9.3	148.3
Total Tivibu Subscribers (mn)**	1.2	1.8	1.9	3.5	54.1
<i>Tivibu Home (IPTV) Subscribers('000)</i>	175	286	308	7.7	76.2
Broadband ARPU (TL)	39.3	39.6	40.8	3.0	3.8
Mobile Total Subscribers (mn)	13.7	14.5	15.3	5.2	11.4
<i>Mobile Prepaid Subscribers (mn)</i>	7.7	8.0	8.3	4.4	8.2
<i>Mobile Postpaid Subscribers (mn)</i>	6.0	6.5	7.0	6.2	15.4
Mobile Prepaid ARPU (TL)	12.9	13.1	12.7	(2.7)	(1.0)
Mobile Postpaid ARPU (TL)	32.7	30.2	29.5	(2.3)	(9.7)
Mobile Blended ARPU (TL)	21.9	21.2	20.7	(2.2)	(5.2)
Mobile MoU (min)	342.7	368.7	372.8	1.1	8.8

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

\*\* Total Tivibu Subscribers: IPTV, Web TV, Mobile TV and Smart TV

## Additional Information

Turk Telekom Group invested TL 279 mn in the first quarter with primary focus on continuing to improve the quality of the services and products provided to customers.

Turk Telekom Group's total headcount at March 31, 2014 was 34,630.

## About Turk Telekom Group

Turk Telekom Group, the leading communication and convergence technology group in Turkey, provides integrated telecommunication services from PSTN and GSM to broadband internet. As of March 31, 2014; Turk Telekom Group companies have 13.5 mn Fixed Access Lines, 7.4 mn Broadband Connections and 15.3 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, Turk 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 Turk Telekom International AT AG and its subsidiaries. Turk Telekom also has an indirect minority share in Albtelecom, the Albanian incumbent telecom operator. Turk 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.

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