

TÜRK TELEKOM GROUP
2018 SECOND QUARTER
FINANCIAL AND OPERATIONAL
RESULTS

July 24, 2018



STRATEGIC INITIATIVES UNDER SPOTLIGHT WITH ACCELERATED SUBSCRIBER GROWTH

Türk Telekom Group announced its financial and operational results for the second quarter of 2018. Group's strong performance in the second quarter underscores the success of operations in all business segments and ongoing focus on building further value for all stakeholders.

Türk Telekom CEO Dr. Paul (Boulos H.B.) Doany said: "Second quarter results demonstrate our strength in execution of our strategic initiatives, as well as in delivering remarkable subscriber additions and double-digit revenue and EBITDA¹ growth. With a strong first half behind us and great momentum in our businesses, we are also optimistic about the rest of the year."

2nd Quarter 2018 Financial Highlights

Consolidated revenue reached TL 5.0 bn with 10% YoY growth. Excluding IFRIC 12 revenue, consolidated revenue growth was at 10.5% YoY, in line with company expectations.

Consolidated EBITDA at TL 2.0 bn grew 15% YoY with an EBITDA margin of 40%. Growth in operating profit was also strong at 13% YoY.

Consolidated Capex was TL 836 mn in Q2'18 compared to TL 544 mn in Q2'17.

Group reported a net loss of TL 889 mn in Q2'18 due to unfavorable FX movements² in the quarter. On the other hand, excluding FX & FX Hedging impacts, net income was at TL 676 mn.

2nd Quarter 2018 Operational Highlights

Number of total Türk Telekom subscribers reached 43.5 mn with 937K net additions in Q2 – the best second quarter performance over the past 10 years. Annual growth in subscriber base accelerated from 3% in Q2'17 to 10% in Q2'18 – the highest growth rate since 2008.

Broadband subscriber base increased by 13% YoY to 10.3 mn with 248K net additions in Q2'18.

Fiber subscribers³ reached 3.2 mn, up by 190K – the best second quarter performance in this segment ever.

With 293K net additions in Q2, mobile subscribers increased to 20.2 mn. Postpaid performance was particularly strong with a net gain of 369K, the highest second quarter postpaid additions over the past 10 years. Postpaid ratio lifted to 57% - up by 1 ppt in a single quarter.

¹EBITDA 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).

²June'18 – USD/TL: 4.5607, EUR/TL: 5.3092, March'18 - USD/TL: 3.9489, EUR/TL: 4.8673, June'17 - USD/TL: 3.5071, EUR/TL: 4.0030, March'17 – USD/TL: 3.6386, EUR/TL: 3.9083.

³Fiber subscribers include FTTH/B & FTTC subscribers.

LTE population coverage expanded to 88% in Q2'18 from 77% a year ago. Share of LTE users⁴ in our mobile subscriber base increased to 41% in Q2'18 from 28% in Q2'17, while average monthly data usage per LTE user was up by 30% YoY to 5.7 GB.

Fixed voice subscribers increased for the fourth quarter in a row with 60K net additions in Q2. Combined with nDSL, total fixed access lines reached 14.1 mn with 160K net adds in the quarter – the best second quarter performance since IPO.

Subscriber additions in Home TV accelerated further to 175K, the highest quarterly net adds in this segment ever. Number of total Home TV subscribers reached 1.5 mn, reinforcing second player position of Tivibu Home in the market. Total Pay TV subscribers increased to 3.3 mn with 335K net additions in Q2'18.

2nd Quarter 2018 Strategic Highlights

As an important development, Türk Telekom signed a cooperation protocol for “Leasing of Fixed Electronic Communication Infrastructure” with Turkcell, Vodafone, Türksat, and Telkoder. The protocol aims to ensure effective utilization of the infrastructure, minimize duplicate investments, accelerate new investments, provide superior customer experience and better address environmental issues. All these would be addressed by non-discriminatory commercial agreements open to all operators. In the locations with existing infrastructure, favorable prices will be offered for a long-term leasing commitment of minimum five years. On the other hand, in the areas without suitable infrastructure, Türk Telekom will extend its existing network to meet the new coverage areas requested, but will own all infrastructure under this scheme, where incremental Capex requirement will be financed by the operator(s) requesting new infrastructure, without impacting Türk Telekom’s cash flow. In return, these operators will have a ‘right-of-use’ for the newly built passive infrastructure.

With its ambitious plans in the Pay TV market, Türk Telekom continues to enrich its content variety in Tivibu. In the second quarter, Türk Telekom signed an exclusive broadcasting rights agreement with Turkish Basketball Federation. According to agreement, all games of the Turkish Basketball Super League, which is among the most valuable leagues in Europe, Women’s Basketball Super League, Turkish Cups for both Women’s and Men’s will be aired on Tivibu Sports exclusively over the upcoming three seasons.

In Q2'18, Türk Telekom opened the largest data center of Turkey in Esenyurt, Istanbul, increasing the number of its data centers to seven. With these data centers, Türk Telekom provides its corporate customers with data storage, cloud and cyber security services in a fast, quality and secure manner while also hosting its own data systems. Türk Telekom is the well-positioned company to pioneer in data storage in Turkey with its highly secure best in class data centers and unique fiber infrastructure across the country.

Tambu has been downloaded 6.6 mn times in its first year, highlighting that it is on the right track regarding fast penetration strategy. The number of Tambu downloads is two times more than its closest competitor, making Tambu the most downloaded keyboard in Turkey with a strong brand awareness among its category. The share of active users reached 20%, half of which are using Tambu directly via the app. The level of engagement of Tambu users is also

⁴Mobile subscribers who registered for LTE and have LTE compatible device and simcard.

encouraging, which will enable monetization in the next phases and plans are in place to strengthen engagement further. Since the launch, Tambu keyboard has been accessed 10 billion times while Tambu hyper local content together with unicode emojis has been shared 140 million times so far. With more functionality embedded, Tambu's position as a platform will be reinforced during the second phase, which will be launched in the subsequent quarters.

Türk Telekom CEO Dr. Paul (Boulos H.B.) Doany's comments on Q2 2018 results:

"In the second quarter, we continued to generate strong results in our businesses. We delivered 10% revenue and 15% EBITDA growth annually with an EBITDA margin of 40%.

Our successful operational performance enabled us to deliver these strong financial results. In the second quarter, we gained 937K net subscribers, the best second quarter subscriber add since IPO, raising the total number of Türk Telekom subscribers up to 43.5 mn. Fixed broadband business continued its excellent performance as total subscriber base exceeded 10.3 mn with 248K net adds, benefiting from the successful execution of penetration focused campaigns. Total number of our mobile subscribers reached to 20.2 mn with 293K net adds, driven by postpaid subscriber net adds at 369K. In fixed voice, we had another quarter of positive net subscriber adds supported by penetration campaigns in fixed broadband. Combined with a quarterly increase in ARPU level, annual decline in our fixed voice revenue eased further down to 1% in Q2'18 from 8% in Q2'17. At the same time, with new and more affordable offers in Pay TV services, we continued to accelerate our Home TV net additions. In the second quarter, we increased our Home TV subscriber base by 175K - the best subscriber addition ever in this segment, driven by Mobile with Tivibu Campaigns, in line with our "wireless homes" strategy.

We offer a rich TV content in dual platforms of IPTV and DTH with user friendly technologies like catch up TV, video on demand and self- installment options. The latest example of our efforts to enrich our TV content is the acquisition of the exclusive broadcasting rights of Turkish Basketball Super League for the three upcoming seasons. We aim to increase Pay TV penetration to further strengthen our core businesses, and we have been delivering excellent results. The number of total Home TV subscribers reached almost 1.5 million in the second quarter, reinforcing our number two position in the market in Turkey.

In the second quarter, we remained focused on our strategic initiatives and we made encouraging progress. As critical development, we signed a cooperation protocol for rental of fixed infrastructure with other telecom players in Turkey. This protocol will pave the way for a more effective utilization of the infrastructure and acceleration of the new investments with favorable terms to all operators for a time commitment under non-discriminatory commercial terms. The first Pilot project terms are now determined as a 'base model', and execution is expected to commence soon. On the other hand, we delivered impressive results from active mobile sharing 'pilot project' we launched in Q1'18. It is encouraging to see improvements in many indicators including capacity, coverage, network satisfaction and connectivity. Now, we are evaluating options to spread this active sharing model especially in low population density areas within the framework of regulations. In the high population density areas, we are also evaluating extending current 'Passive Sharing' model with other players on a cost sharing basis, where we can offer a discounted Fiber to the Site (Base Station), and also RAN Active Sharing Model (Leasing Model).

Overall, we have a cost-effective combination of fixed and mobile network initiatives to best manage capex, increase network operational efficiency, enhance superior customer experience and build long term stakeholder value.

To conclude, second quarter results highlight the strength of our operational performance and our determination to execute our strategic initiatives. As always, I would like to thank each and every member of Türk Telekom family for their tremendous efforts under “Empathy Program” to provide best customer experience and achieve these results.”

Financial Review

(TL mn)	Q2'17	Q1'18	Q2'18	QoQ Change	YoY Change
Revenue	4,501	4,686	4,951	5.6%	10.0%
Revenue (Exc. IFRIC 12)	4,292	4,545	4,740	4.3%	10.5%
EBITDA	1,712	1,972	1,968	(0.2)%	15.0%
<i>Margin</i>	38.0%	42.1%	39.8%		
Depreciation and Amortisation	(773)	(878)	(910)	3.6%	17.8%
Operating Profit	939	1,094	1,058	(3.2)%	12.6%
<i>Margin</i>	20.9%	23.3%	21.4%		
Financial Income / (Expense)	249	(986)	(2,163)	119.4%	n.m.
FX & Hedging Gain / (Loss) ⁵	339	(879)	(1,932)	119.8%	n.m.
Interest Income / (Expense) ⁵	(85)	(86)	(172)	99.9%	103.4%
Other Financial Income / (Expense)	(6)	(21)	(59)	185.4%	967.0%
Tax Income / (Expense)	(298)	(51)	216	n.m.	n.m.
Net Income	890	56	(889)	n.m.	n.m.
<i>Margin</i>	19.8%	1.2%	n.m.		
Adjusted Net Income ⁶	631	748	676	(9.6)%	7.1%
CAPEX	544	581	836	44.0%	53.6%

⁵As 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.

⁶Adjusted net income excludes the after tax impact of FX & FX hedging gain/loss during respective period.

Revenues

Consolidated revenues increased by 10.0% YoY (up by TL 450 mn) to TL 4,951 mn in Q2'18. Excluding IFRIC 12, top line growth was 10.5% YoY (up by TL 449 mn) mainly due to 11.3% YoY increase in mobile (up by TL 187 mn), 10.9% YoY increase in broadband (up by TL 131 mn) and 54.8% YoY increase in international revenues (up by TL 80 mn). Decline rate in fixed voice revenues decelerated further to 1.5% YoY (down by TL 10 mn) in Q2'18 from 8.1% YoY (down by TL 58 mn) in Q2'17.

Growth in mobile service revenue was 14% YoY, around 3 ppt higher than the growth in total mobile revenues. The difference is mostly attributable to a more segmented approach in our device business as explained under OPEX part below.

Operating Expenses Excluding Depreciation and Amortization (OPEX)

Operating expenses increased by 7.0% YoY (up by TL 194 mn) in Q2'18. Excluding IFRS 15 impact (TL 148 mn on commercial expenses) growth in operating expenses was 12.3% YoY (up by TL 342 mn).

Personnel expenses increased by 16.2% YoY (up by TL 106 mn) in Q2'18. Excluding one-off items, the increase in personnel expenses was 8.4% YoY.

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 40 mn impact in Q2'18). 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 21% YoY (up by TL 162 mn) in Q2'18.

Meanwhile, positive impact of device focused risk management policy and segmented approach in receivable management process continued. Provisions for doubtful receivables declined by 26.9% YoY (down by TL 29 mn).

Operating Profit before Depreciation and Amortization (EBITDA)

Consolidated EBITDA in Q2'18 increased by 15.0% (up by TL 256 mn) YoY to TL 2.0 bn with an EBITDA margin of 39.8%. Underlying EBITDA margin, even adjusted for IFRS 15, was strong at 36.8%.

Depreciation and Amortization Expense

Depreciation and amortization (D&A) expense increased by 17.8% YoY (up by TL 137 mn) to TL 910 mn mainly due to TL 119 mn incremental D&A expenses stemming from IFRS 15.

Operating Profit⁷

Operating profit increased 12.6% YoY (up by TL 119 mn) to TL 1,058 mn in Q2'18 on the back of double digit growth in revenue. IFRS 15 had limited impact of TL 30 mn on operating profit in Q2'18.

Net Financial Income / Expense⁸

Net financial expenses increased substantially to TL 2.2 bn in Q2'18 due to FX² losses on the back of sharp depreciation of TL against both USD and EUR during the quarter.

Tax Income/Expense

With negative income-before-tax driven by higher FX losses², Group booked tax income of TL 216 mn in Q2'18.

Net Income/Loss

Due to sharp depreciation² in TL against USD and EUR, Group recorded TL 889 mn net loss in Q2'18.

On the other hand, excluding FX & FX Hedging impacts, group delivered net income of TL 676 mn in Q2'18 versus TL 631 mn in Q2'17.

Capital Expenses

Capex was TL 836 mn in Q2'18 compared to TL 544 mn in Q2'17. Excluding the impact of IFRS 15, underlying Capex was TL 689 mn with 26.5% YoY growth.

⁷Operating 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.

⁸Net 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

	Q2'17	Q1'18	Q2'18	QoQ Change	YoY Change
Total Access Lines (mn) ⁹	13.2	13.9	14.1	1.2%	6.1%
Fixed Voice Subscribers (mn)	9.4	9.7	9.7	0.6%	3.0%
Naked Broadband Subscribers (mn)	3.8	4.2	4.3	2.4%	13.8%
Fixed Voice ARPU (TL)	23.1	21.9	22.2	1.4%	(3.8)%
Total Broadband Subscribers (mn)	9.1	10.1	10.3	2.5%	13.5%
Total Fiber Subscribers ('000)	2,321	2,960	3,150	6.4%	35.7%
FTTH/B ('000)	931	1,127	1,179	4.7%	26.6%
FTTC ('000)	1,389	1,833	1,971	7.5%	41.9%
Broadband ARPU (TL)	44.6	44.6	43.6	(2.1)%	(2.2)%
Total TV Subscribers (mn) ¹⁰	2.3	2.9	3.3	11.5%	41.0%
Tivibu Home (IPTV + DTH) Subscribers('000)	894	1,276	1,451	13.7%	62.3%
TV ARPU (TL)	17.4	17.5	16.6	(5.4)%	(4.9)%
Mobile Total Subscribers (mn)	18.8	19.9	20.2	1.5%	7.8%
Mobile Postpaid Subscribers (mn)	10.1	11.1	11.5	3.3%	13.4%
Mobile Prepaid Subscribers (mn)	8.6	8.8	8.7	(0.9)%	1.2%
Mobile Blended ARPU (TL)	28.2	28.4	30.2	6.5%	7.2%
Mobile Postpaid ARPU (TL)	36.6	35.9	37.8	5.2%	3.2%
Mobile Prepaid ARPU (TL)	17.9	18.5	19.6	6.1%	9.9%

⁹Naked DSL Lines and Fixed Voice Lines

¹⁰Tivibu Home (IPTV, DTH) and Tivibu Go (Web TV+ Mobile TV +Smart TV subscribers)

About Türk Telekom Group

Türk Telekom, with 177 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 14.1 million fixed access lines, 10.3 million broadband, 3.3 million TV and 20.2 million mobile subscribers as of June 30, 2018. Türk Telekom Group Companies provide services in all 81 cities of Turkey with 33,615 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., wholesale data, corporate venture capital company TT Ventures Proje Geliştirme A.Ş, Electric Supply and Sales Company TTES Elektrik Tedarik Satış A.Ş. 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>