# TÜRK TELEKOM GROUP ANNOUNCES 2014 SECOND QUARTER FINANCIAL AND OPERATIONAL RESULTS



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# Solid EBITDA, Improved Margin and Strong Net Income

Türk Telekom, Turkey's leading communications and convergence technologies group, announced 2014 second quarter financial and operational results. Consolidated revenues decreased 1% year on year in the second quarter to TL 3.3 billion mainly due to MTR cut effective since mid-last year and the decline in "IFRIC 12 - non-operational construction revenues". Excluding these non-operational impacts, consolidated revenues increase by 4.5% YoY. Consolidated EBITDA<sup>1</sup> was kept intact at 1.2 billion with an improvement in EBITDA margin to 38%. Group reported a record net profit of TL 801 million in line with the favorable FX environment.

The Group's financial success was backed by strong operating performance. Mobile subscribers reached 15.8 million with net addition of 493 thousand while 18 thousand new broadband subscribers were gained in the second quarter of 2014.

## **2014 Second Quarter Highlights**

- Consolidated revenues declined 1% YoY. Excluding the MTR cut and the effect of "IFRIC 12 - non-operational construction revenues", revenues grew 4.5%
- Solid consolidated EBITDA margin, improving 1 percentage point to 38%
- **❖** Another strong subscriber gain in mobile business with 493K net adds
- ❖ 5% YoY revenue growth (14% excluding MTR cut effect) in mobile business driven by 76% YoY growth in mobile data and postpaidization in subscriber base. 15% EBITDA growth YoY
- **❖** 7% YoY growth in broadband revenues
- ❖ Net income increased 186% YoY to TL 801 million driven by favorable FX environment

<sup>&</sup>lt;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.

#### Türk Telekom CEO Rami Aslan's comments on 2014 second quarter results:

I am pleased to announce that Turk Telekom achieved a strong set of results in the second quarter of 2014. This quarter is marked by changes in our management team, which is aimed to align the company towards a faster integration with its subsidiaries and unlocking further efficiencies. As we continue to effectively apply strong operating efficiencies, our focus on high quality revenues are higher than ever.

In the second quarter of 2014, our consolidated revenue declined 1.3% to TL 3.3 billion. This decline was mainly driven by MTR cuts applied mid last year, which affected our mobile business negatively. Excluding the MTR cut, our revenues grew 1.5%. Another important factor affecting our revenue growth negatively is the decline in non-operational revenues such as "IFRIC 12 - construction revenue", which is a mandatory accounting treatment related to our fiber investments. Excluding the MTR cut and "IFRIC-12 – construction revenue", our growth is 4.5%

In addition to being non-operational, these declining revenues are of low margin nature. This has positive implications on our profitability. This quarter, our consolidated EBITDA margin improved around one percentage points to 38%

Our mobile business, which is one of our top revenue growth drivers, grew 5% year on year in Q2 2014. Excluding the inorganic MTR cut effect, the growth is 14%. Very strong number of net subscriber additions in mobile business in Q1 of 2014 continued with another impressive figure, with 493 thousand net additions in Q2 2014. In addition, we improved our blended ARPU by 5% since last quarter to 21.7 TL. Our success in mobile number portability net gains continued with an intensified pace. In the first half of 2014, we added 1.1 million net subscribers in MNP, which is more than what we added in 2013 full year. In our mobile business, we continue to build scale while improving our EBITDA margin. Together with increased synergies between our mobile and fixed line businesses, we will achieve sustained levels of profitability in our mobile arm.

In the fixed line side, our broadband business revenues grew 7% year on year, while our fixed voice revenue decline decelerated to 10% year on year from previous 12% levels. In addition, our corporate data business revenues increased 12% year on year. All in all, our operational fixed line revenues (excl. IFRIC12 – construction revenue) grew slightly by 0.4%. As a result of increased quality of our revenues, our fixed line EBITDA margin improved to 47% from 46% a year ago.

On funding side of our business, our group recorded a tremendous achievement by launching a debut bond issuance of USD 1 billion. This was the first dual tranche and largest ever corporate bond issuance out of Turkey, and it reopened the corporate bond market for Turkish companies after a 9 month period of no issuances. With this issuance, Turk Telekom increased its average maturity of debt by 1.4 years, reduced its funding cost by 30 bps, and improved its current ratio by 48%. As part of the bond issuance, we acquired an investment grade rating from Fitch (BBB-), and a one-notch-below investment grade rating from S&P (BB+) with a positive credit watch. Both ratings are same as the sovereign ceiling of Turkey.

With the first half of 2014 behind us, Turk Telekom is set to deliver solid results for the full year. Our company is strengthened by our management teams' and employees' resolution to move towards integration of our businesses and realization of increased efficiencies. I highly appreciate all efforts put in this endeavor, which will evidently produce greater value for our stakeholders.

## **Financial Highlights**

Türk Telekom Group	2013	2014	2014	QoQ	YoY
TL in Millions	Q2	Q1	Q2	Change	Change
Revenue	3,343	3,195	3,300	3.3%	(1.3)%
Net Operating Expenses excluding Depreciation and Amortization	(2,091)	(1,995)	(2,047)	2.6%	(2.1)%
Operating Profit before Depreciation and Amortization (EBITDA)	1,252	1,200	1,253	4.4%	0.1%
Depreciation and Amortization	(441)	(477)	(470)	(1.5)%	6.5%
Operating Profit	811	723	783	8.3%	(3.4)%
Net Financial Income/ (Expense)	(445)	(246)	246	NM	NM
Taxes	(96)	(107)	(237)	121.3%	146.8%
Net Profit Before Minority Interest	270	370	792	113.7%	193.5%
Net Profit After Minority Interest	280	384	801	108.6%	185.8%
Capital Expenditure	471	279	298	6.6%	(36.8)%

#### Revenues

Consolidated revenues decreased by 1% YoY (down by TL 43 mn) to TL 3.3 bn in the second quarter of 2014, mainly due to MTR cut effect (TL - 93 mn) and decline in "IFRIC - 12 - non-operational construction revenues" (TL -94 mn). Excluding the effect of MTR cut and "IFRIC 12 - non-operational construction revenues", growth is 4.5%.

#### **Operating Expenses Excluding Depreciation and Amortization**

Net operating expense decreased by 2% (down by TL 44 mn) in the second quarter of 2014 mainly due to the decrease in "IFRIC 12 - construction expense" (down by TL 84 mn) and domestic interconnection expense (down by TL 41 mn).

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

Operating profit before depreciation and amortization remained flat at 1.2 bn with a consolidated EBITDA margin of 38%.

In fixed line business, EBITDA was realized at TL 1.1 bn with one percentage point improvement in EBITDA margin to 47% while in mobile business, EBITDA increased by 15% YoY to TL 149 mn with an EBITDA margin of 14% versus 12% margin realization in the second quarter of 2013.

#### **Depreciation and Amortization**

Total depreciation and amortization increased to TL 470 mn in Q2 2014 from TL 441 mn in Q2 2013 with 6.5% YoY increase.

#### **Operating Profit**

Operating profit<sup>2</sup> was registered at TL 783 mn with 3% YoY decline as EBITDA remained flat while depreciation and amortization grew by 6.5%.

#### **Net Financial Income / Expense**

Net financial income<sup>3</sup> recorded at TL 246 mn in Q2 2014 compared to the net financial expense of TL 445 mn recorded in Q2 2013 in line with recovery in Turkish Lira against hard currencies.

#### **Corporate Taxes**

Corporate taxes, realized at TL 237 mn in Q2 2014, were up by 147% YoY due to the 181% increase in profit before tax in Q2 2014 compared to Q2 2013. Effective corporate tax rate in Q2 2014 was 23%.

#### **Net Income**

Net income registered at TL 801 mn or TL 0.2289 net income per share increased by 186% YoY due to favorable FX environment in Q2 2014, compared to TL 280 mn net income or TL 0.0801 net income per share of Q2 2013.

<sup>&</sup>lt;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>&</sup>lt;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**

Türk Telekom Group	2013	2014	2014	QoQ	YoY
Operational Highlights	Q2	Q1	Q2	Change	Change
Total Access Lines* (mn)	13.9	13.5	13.4	(1.2)%	(3.6)%
Number of Fixed Voice Subscribers (mn)	13.0	12.2	11.9	(2.3)%	(8.0)%
Naked Broadband Subscribers (mn)	0.9	1.3	1.4	9.0 %	61.3 %
Fixed Voice ARPU (TL)	21.6	20.9	21.1	0.6 %	(2.4)%
Fixed Voice MoU (min)	108.2	96.4	96.6	0.3 %	(10.6)%
Total Broadband Connections (mn)	7.1	7.4	7.4	0.2 %	4.3 %
Fiber Subscribers ('000)	361	682	693	1.7 %	92.2 %
Total Tivibu Subscribers (mn)**	1.3	1.9	1.9	1.3 %	44.0 %
Tivibu Home (IPTV) Subscribers('000)	213	308	302	(2.0)%	41.6 %
Broadband ARPU (TL)	39.4	40.8	40.5	(0.7)%	2.7 %
Mobile Total Subscribers (mn)	13.9	15.3	15.8	3.2 %	13.6 %
Mobile Prepaid Subscribers (mn)	7.8	8.3	8.6	2.9 %	10.5 %
Mobile Postpaid Subscribers (mn)	6.1	7.0	7.2	3.6 %	17.6 %
Mobile Prepaid ARPU (TL)	14.7	12.7	13.7	7.8 %	(6.3)%
Mobile Postpaid ARPU (TL)	33.6	29.5	30.1	2.2 %	(10.4)%
Mobile Blended ARPU (TL)	23.5	20.7	21.7	4.6 %	(7.7)%
Mobile MoU (min)	377.7	372.8	416.7	11.8 %	10.3 %

<sup>\*</sup> Total Access Lines: Naked DSL Lines and Fixed Voice Lines

#### **Additional Information**

Türk Telekom Group invested TL 298 mn in the second quarter with primary focus on continuing to improve the quality of the services and products provided to customers.

Türk Telekom Group's total headcount at June 30, 2014 was 34,067.

<sup>\*\*</sup> Total Tivibu Subscribers: IPTV, Web TV, Mobile TV and Smart TV

#### **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 June 30, 2014; Türk Telekom Group companies have 13.4 mn Fixed Access Lines, 7.4 mn Broadband Connections and 15.8 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