

TÜRK TELEKOMÜNİKASYON A.Ş.



**INTERIM ACTIVITY REPORT AS OF 31.03.2017
BASED ON NO:II-14.1 COMMUNIQUE OF CAPITAL MARKETS
BOARD**

April 25 , 2017

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1. OVERVIEW OF TÜRK TELEKOM

Türk Telekom, with 176 years of history, is the first integrated telecommunications company in Turkey. In 2015, Türk Telekomünikasyon A.Ş. adopted a “customer-oriented” 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.

In January 2016, Türk Telekom unified its mobile, fixed voice, broadband and TV products and services under the single “Türk Telekom” brand.

As the “Multi play provider of Turkey,” Türk Telekom Group Companies offer a complete range of mobile, fixed voice, broadband and TV services. Türk Telekom Group Companies have a wide service network and product range in the fields of individual and corporate services. As of March 31, 2017, Türk Telekom has 13.2 million fixed access lines, 8.9 million broadband and 18.7 million mobile subscribers. Türk Telekom Group Companies provide services in all 81 cities of Turkey with 34,147 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 Sebit 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.

2. CORPORATE STRUCTURE

Ownership Structure

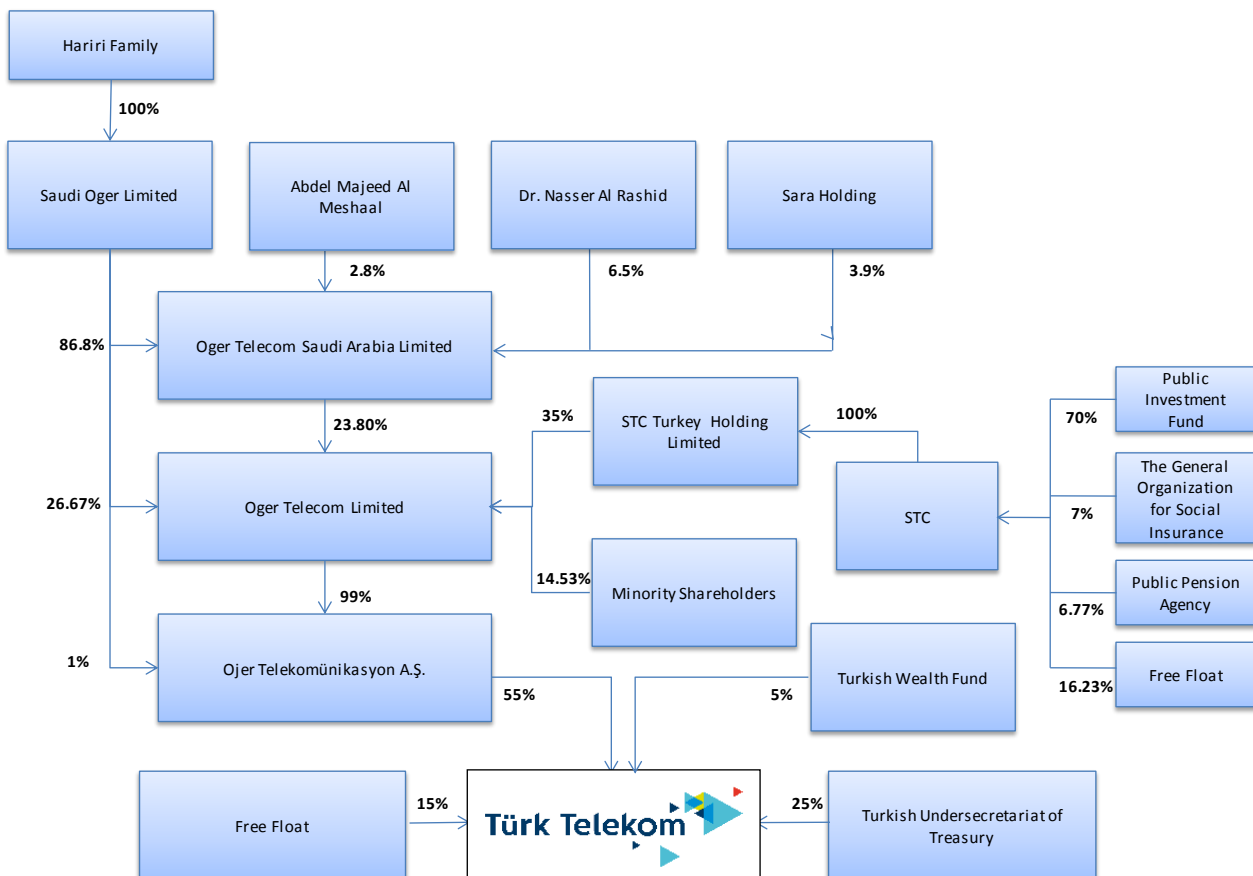
Group	Shareholder	Paid-in Capital Amount (TL)	Share (%)
A	Ojer Telekomünikasyon A.Ş.	1,925,000.000.00	55
B	Republic of Turkey Undersecretariat of Treasury	875,011,884.99	25
C	Republic of Turkey Undersecretariat of Treasury	0.01	
B	Turkish Wealth Fund	175,000,000.00	5
D	Free Float	525,000,000.00	15
Total		3,500,000,000.00	100

*According to Official Gazette published on 5 February 2017, Council of Ministers decided to transfer 6.68% (5% B Group shares & 1.68% D Group shares) of the shares of the Company belonging to the Turkish Treasury to the Turkish Wealth Fund.

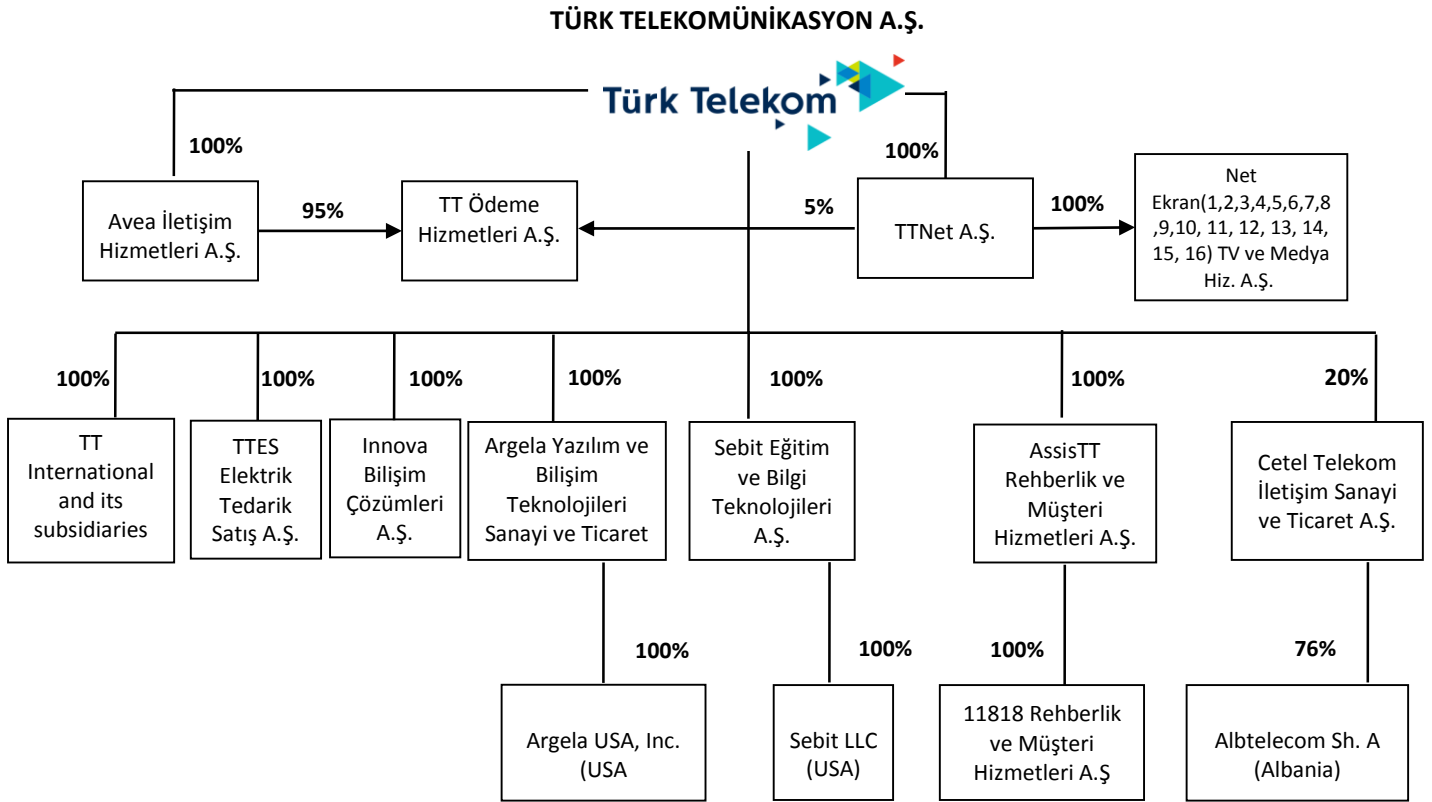
The Türk Telekom Shareholders' Agreement and the Articles of Association further state that the Turkish Treasury owns a "golden share" (Class C share). The "golden share" is entitled to nominate a Board Member and has the below rights as per article 6 of the Articles of Association; "In order to protect Turkey's national interests relating to national security and the economy, the Class C share's positive vote is required for the following matters regardless of the voting result in the Board or General Assembly, otherwise accepted as null and void;

- a) Any proposed amendments to the Articles of Association;
- b) The transfer of any of the Company's registered shares which would result in a change in management control;
- c) The registration of any transfer of the Company's registered shares in the shareholder ledger.

Natural and legal persons owning shares of our Company, directly or indirectly are stated below:



- Subsidiaries and financial investments:**



- Management and Organization**

Board of Directors

Mohammed Hariri

Fuat Oktay

Abdullah Tivnikli

Suat Hayri Aka

Cenk Serdar

Hakam Kanafani

Nasser Sulaiman A Al Nasser

Mazen Abou Chakra

Rami Aslan

Fahri Kasirga

İbrahim Eren

Yiğit Bulut

Chairman of the Board of Directors

Independent Member and Vice Chairman of the Board of Directors

Member of the Board of Directors

Member of the Board of Directors

Member of the Board of Directors

Member of the Board of Directors

Member of the Board of Directors

Member of the Board of Directors

Member of the Board of Directors

Independent Member of the Board of Directors

Independent Member of the Board of Directors

Independent Member of the Board of Directors

Statutory Audit Board

İsmail Kartal

Ali Polat

Salih Orakcı

Member of the Statutory Audit Board

Member of the Statutory Audit Board

Member of the Statutory Audit Board

Senior Management

Dr. Paul (Boulos H.B) Doany	CEO and General Manager
Şükrü Kutlu	Human Resources, Regulation and Support Assistant General Manager
Kaan Aktan	Finance Assistant General Manager
Cengiz Doğan	Technology Assistant General Manager
Hakan Dursun	Marketing Assistant General Manager
Fırat Yaman Er	Strategy, Planning and Business Development Assistant General Manager
Ümit Önal	Sales and Customer Care Assistant General Manager
Yakup Öztunç	Legal Assistant General Manager
Yavuz Yıldırım	Wholesale Assistant General Manager
Yavuz Türkmen	Head of Internal Audit

3. SIGNIFICANT BOARD RESOLUTIONS

Significant Board Resolutions taken during the period are presented under Material Issues During the Period section.

4. PERSONNEL MOVEMENTS

Consolidated headcount as of the first quarter of 2017 and 2016 YE are 34,147 and 33,224 respectively.

5. FINANCIAL RISK MANAGEMENT

Main financial instruments of the Company are forward market transactions, bank loans and cash and short-term deposits. They are being used with the aim of raising funds for the Group's operations and hedging interest rate risk. The risks stemming from these instruments are liquidity risk, foreign exchange risk, interest rate risk, and credit risk.

6. MATERIAL ISSUES DURING THE PERIOD

As we have disclosed on January 4, 2017,

Our Company's Legal Assistant General Manager Doğan Coşgun has decided to leave his position.

As we have disclosed on January 7, 2017,

Our Company's subsidiary TT Ödeme Hizmetleri A.Ş. has been granted an operating license for payment services by the Banking Regulation and Supervision Agency ("BRSA"). The decision was published on the Official Gazette on January 6th, 2017.

Under this operating license, mobile payment services and the collection intermediary services of our Group Companies can be provided through TT Ödeme Hizmetleri A.Ş. and our payment product and service portfolio will be enriched by extending the network of member merchants.

As we have disclosed on January 19, 2017,

Our indirect shareholder Saudi Telecom Company (STC) announced its Q4 2016 unaudited financial results on the Saudi Stock Exchange's website (<http://www.tadawul.com.sa>). Turk Telekom financial data are included in the STC financial results as part of the consolidation. However, the financial data Turk Telekom provided to STC for the preparation of its consolidated financial tables is not prepared within the frame of the Capital Markets Board of Turkey

regulations and are not audited. Moreover, the data Turk Telekom provided to STC is only included in consolidated financial accounts and it is not possible to be analyzed separately apart from these accounts. Our 2016 year-end financial tables which will be prepared and audited in line with Capital Markets Board of Turkey regulations are planned to be announced in February 2017 at Public Disclosure Platform of Turkey.

As we have disclosed on January 26, 2017,

Yakup Öztunç is appointed as Acting Legal Assistant General Manager of our company.

Yakup Öztunç graduated from the Faculty of Law, Ankara University in 1996. Mr. Öztunç started his career in 1997 as a self-employed lawyer. After joining Türk Telekomünikasyon A.Ş. in 1998, he took several different responsibilities as lawyer, legal counsel and legal director.

As we have disclosed on February 1, 2017,

Our wholly owned subsidiary Avea İletişim Hizmetleri A.Ş. ("Avea") received two different reports based on the audit held by Treasury Controllers Board for the years 2012 and 2013. According to the notification, Avea is alleged to have underpaid Treasury Share by TL 117,364,691.58 related to 2G services and TL 66,697,190.80 related to 3G services (for periods including 2009, 2010 and 2011 as well). In addition to the principal amounts, interest payment is also demanded to be calculated in accordance with the relevant regulations.

Majority of the requested payments is related to invoice discounts. On this subject, Avea was awarded an international arbitration decision in favour before ICC related to 2G services. Litigation proceedings against this award are ongoing before national courts. Our Company will decide on how to proceed against the requests, after examining the details of the reports.

As we have disclosed on February 1, 2017,

S&P Global Ratings has revised our company's long term corporate rating outlook from "stable" to "negative", while affirming the corporate rating of "BBB-" (investment grade). The outlook revision is driven by the revision in sovereign outlook.

As we have disclosed on February 1, 2017,

Fitch Ratings reviewed our company's corporate rating and outlook following the downgrade of Turkey's government debt rating. As a result of this review, Fitch Ratings has affirmed our Long-Term Foreign and Local Currency Issuer Default Ratings of "BBB-" (investment grade) with negative outlook, and our senior unsecured rating of "BBB-".

According to 29970 numbered Official Gazette was published on 5 February 2017,

Council of Ministers decided to transfer 6,68% (5% B Group shares & 1.68% D Group shares) of the shares of the Company belonging to the Turkish Treasury to the Turkish Wealth Fund.

As we have disclosed on February 6, 2017,

Dr. Nazif Burca, who has served as Head of Internal Audit of our company, will be appointed as CEO Advisor to assist with Risk Analysis Projects.

Yavuz Türkmen current Türk Telekom Group Financial Control Director is appointed as Head of Internal Audit.

Yavuz Türkmen graduated from Bilkent University, Economics with high honor in 1995. He started his career at KPMG. He worked at Türk Hava Yolları between 2004 and 2006 as Financial Control Manager, afterwards in 2016 he worked at Polisa Polielektrolit Kimya Company as Vice General Manager of Finance and Administrative Affairs. He joined Türk Telekom in 2007 as General Accounting Manager. Between 2009 – 2017, he served as Türk Telekom Financial Control Director

and Türk Telekom Group Financial Control Director. Yavuz Türkmen has CPA and Independent Auditor certificates.

As we have disclosed on February 8, 2017,

Under current circumstances, guidance for 2017 is as below :

- Consolidated revenue growth (excluding construction revenue adjustment) to be 8% to 9% over 2016
- Consolidated EBITDA to be at TL 5.8 billion and TL 6.0 billion levels
- Consolidated CAPEX to be around TL 3 billion

As we have disclosed on February 27, 2017,

As per article 11. of Capital Markets Board Corporate Governance Communiqué, II-17.1; Investor Relations Director Sabriye Gözde Çullas is appointed to the membership of Corporate Governance Committee.

In order to fulfill the obligations under the Company's capital market regulations and coordinate the corporate governance applications, Investor Relations Director Sabriye Gözde Çullas who has Capital Market Activities Level 3 License (License N 203840) and Corporate Governance Rating License (License N 702742) takes the responsibility.

As we have disclosed on March 13, 2017,

Our wholly owned subsidiary Avea İletişim Hizmetleri A.Ş. ("Avea") submitted a joint offer together with Vodafone Telekomünikasyon A.Ş. ("Vodafone") for the Tender issued by the Communication General Directorate of Ministry of Transport, Maritime and Communication ("Ministry") in relation to the establishment and operation of mobile communication infrastructure in 1,472 locations with no mobile communication infrastructure. The project duration is 3 years. A business partnership will be established between Avea (51%) and Vodafone (49%) in particular to the operations to be made within the scope of the project.

The tender amount will be reimbursed from the Universal Service Fund according to the Tender Specifications. The tender is expected to be concluded after the evaluation of the Tender Commission.

As we have disclosed on March 17, 2017,

Türk Telekomünikasyon A.Ş. and PTT (Posta ve Telgraf Teşkilatı A.Ş.) signed a protocol. The protocol aims to determine general principles of the secondary protocols in order to build cooperation on real estate development, project management and building management activities, carry out, support and promote collaborative studies for the joint interest and service requirements of the parties on the joint-owned independent areas on the same parcel and/ or common used real estates of the parties.

As a part of the protocol, the parties will evaluate options so that the parties shall generate higher income and reduce the operation costs from such properties; and/or establishment of a joint Company or if necessary a Real Estate Investment Company with PTT in order to conduct activities including but not limited to services and consultancy or portfolio management to ensure the most rational utilization of these real estates.

7. MATERIAL ISSUES AFTER THE END OF THE PERIOD

As we have disclosed on April 3, 2017,

The maturity of our USD 100 million loan agreement with Bank of Tokyo Mitsubishi UFJ announced via 26th March 2014 dated Regulatory Disclosure and maturing on 31st March 2017 has been extended for 3 years. Annual interest rate of the new 3-year loan is LIBOR + 1.75%.

As we have disclosed on April 6, 2017,

As per the decision by our Company's Board of Directors pursuant to the Capital Markets Board and Turkish Commercial Code regulations, an independent auditing agreement has been signed with Akis Bağımsız Denetim ve Serbest Mali Müşavirlik A.Ş. (KPMG Türkiye) for the audit of our Company for the accounting period of 2017, which is subject to the approval of the shareholders during the upcoming Ordinary General Assembly Meeting.

As we have disclosed on April 6, 2017,

Via our Company's 01.02.2017 dated regulatory disclosure, we informed that our wholly owned subsidiary Avea İletişim Hizmetleri A.Ş. ("Avea") received two different reports from Treasury Controllers Board alleging an underpayment of its Treasury Share regarding 2G and 3G services.

Litigation proceedings regarding international arbitration decision in favour of Avea before ICC related to 2G services are ongoing before national courts. Likewise, lawsuits regarding treasury reports which were previously received for 3G services have not been concluded yet. Legal actions were taken for both of the reports disclosed on 01.02.2017 and the cases are still in progress.

This public disclosure is made by our Company under article 23 paragraph 7 of CMB's Material Events Communiqué numbered II-15.1, and relevant legislations.

As we have disclosed on April 18, 2017,

Yakup Öztunç, who has been serving as Acting Legal Assistant General Manager of our Company, is appointed as Legal Assistant General Manager.

8. SUMMARY FINANCIAL RESULTS

• Summary Türk Telekom Consolidated Balance Sheet as of 31.12.2016 and 31.03.2017

TL millions	31.12.2016	31.03.2017
Intangible Assets ^(a)	8,341	8,480
Tangible Assets ^(b)	8,710	8,313
Other Assets ^(c)	6,806	7,273
Cash and Equivalents	3,016	2,636
Total Assets	26,874	26,702
Share capital	3,260	3,260
Reserves, Retained Earnings and Other Equity Items	126	211
Interest Bearing Liabilities ^(d)	15,041	15,594
Provision for Employee Termination Benefits	696	637
Other Liabilities ^(e)	7,751	7,000
Total Equity and Liabilities	26,874	26,702

- (a) Intangible assets excluding goodwill
- (b) Tangible assets include property, plant and equipment and investment property.
- (c) Major items within Other Assets are Trade Receivables, Due from Related Parties, Other Current Assets and Deferred Tax Asset.
- (d) Includes short-term and long-term borrowing and short-term and long-term obligations under finance leases
- (e) Major items within Other Liabilities are Deferred Tax Liability, Trade Payables, Provisions, Income Tax Payable, Due to Related Parties, Other Current Liabilities, Provisions for Employee Termination Benefits and Minority Put Option Liability

• **Summary Türk Telekom Consolidated Income Statement for the periods of 2016 Q1 and 2017 Q1**

TL millions	2016 Q1	2017 Q1
Revenues	3,801	4,307
EBITDA	1,262	1,528
<i>Margin</i>	<i>33%</i>	<i>35%</i>
Operating Profit ^(a)	604	807
<i>Margin</i>	<i>16%</i>	<i>19%</i>
Financial Income/Expense, net^(b)	-30	-622
FX & Hedging Gain/Loss, net	76	-509
Interest Income/Expense, net	-75	-76
Other Financial Income/Expense, net	-31	-37
Tax Expense	-166	-119
Profit	408	66
<i>Margin</i>	<i>11%</i>	<i>2%</i>

(a) 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 note 3 on financial statements.

(b) 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 note 3 on 2013 YE financial statements.