

TÜRK TELEKOM GROUP ANNOUNCES 2014 THIRD QUARTER FINANCIAL AND OPERATIONAL RESULTS



Solid Revenue and EBITDA along with Strong Operational Results

Türk Telekom, Turkey's leading communications and convergence technologies group announced its 2014 third quarter financial and operational results. Consolidated revenues exceeded TL 3.5 billion with 4.4% year on year growth. Group EBITDA margin maintained at 39% while EBITDA¹ reached TL 1.4 billion, an increase of 4.4% year on year. Group net profit was TL 319 million.

2014 Third Quarter Highlights

- ❖ Consolidated revenues increased 4.4% year on year driven by solid growth in mobile and broadband businesses
- ❖ Robust EBITDA margin of 39% on a consolidated basis - EBITDA increased 4.4% year on year
- ❖ Strong performance in mobile business with 18% revenue growth and an improving EBITDA margin of 19%
- ❖ Continued momentum in subscriber acquisitions with 447K net gains in the third quarter; 2.1 mn net additions in the last one year
- ❖ Healthy mix of subscriber base with 22% year on year growth in postpaid subscribers resulted in 47% postpaid ratio
- ❖ 10% year on year growth in broadband revenues backed by 6% ARPU uplift and accelerated net additions of 87K
- ❖ Net income realized at TL 319 million – affected by FX conditions

¹EBITDA 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 third quarter results:

Türk Telekom Group's robust financial and operational performance continued in the third quarter of 2014. Group revenues exceeded TL 3.5 billion with 4.4% year on year growth. Consolidated EBITDA also increased by 4.4% with a solid EBITDA margin exceeding 38%.

Mobile business was the main driver of Group's revenue growth, followed by fixed broadband. Mobile revenues continued its high growth with 18% year on year. Our sustained strong net addition performance in the third quarter resulted with a 15% year on year increase in mobile subscribers, reaching 16.2 million. In the past 12 months, we have successfully implemented our scale building strategy while protecting our profitability. The outstanding 2.1 million net additions in this period while holding on to our EBITDA margin is a proof that we are on the right track. In the third quarter mobile EBITDA increased by 26% year on year with a margin of 19% indicating more than 1 percentage point improvement year on year. A highlight of our increased number of subscribers is that in the process, we are lifting our postpaid ratio in the base. As of the third quarter of the year, we reached 47% postpaid ratio compared to 44% a year ago. As a result of the progress in our mobile business, we reached our first positive EBIT since Q4 2012.

Fixed line business continues to deliver strong profitability. Our EBITDA margin in the third quarter in fixed line was 46%. Despite challenges presented by our fixed voice business, significant contribution of broadband and corporate data businesses to the fixed line revenues positions us for sustained strength in fixed line. Broadband business grew by 10% year on year driven by both subscriber and ARPU uplift. We added 87 thousand net subscribers in broadband with the support of back to school season started in September. Accordingly, broadband subscribers reached 7.5 million. On the fiber side, we reached 715 thousand subscribers in our fibernet tariffs. An additional 308 thousand hipernet subscribers we have on our FTTC network brings our total number of subscribers benefitting from high speed fiber to over 1 million. On fixed voice, we maintained 10% year on year revenue decline in the third quarter of 2014 which is a welcome improvement over 12% levels in prior periods.

We had important strides towards integration of our functions in the third quarter of 2014. As the second decisive step towards a more customer centric approach, we combined sales and customer care functions of fixed line and mobile businesses under single group-wide leaders. This new structure will bring Türk Telekom Group closer to the goal of one-stop shop for all telecommunication needs of our customers on consumer and corporate fronts, and offer substantial improvement in customer experience while differentiating our Company from competition.

Our commitment to create increased value for our customers remains to be our driving force in pushing ahead this critical transformation of our group. I highly appreciate the efforts of our teams at Türk Telekom Group with whom we are building the future of our company.

Financial Highlights

TL in Millions	2013 Q3	2014 Q2	2014 Q3	QoQ Change	YoY Change
Revenue	3,365	3,300	3,512	6.4 %	4.4 %
Net Operating Expenses excluding Depreciation and Amortization	(2,060)	(2,047)	(2,150)	5.0 %	4.3 %
Operating Profit before Depreciation and Amortization (EBITDA)	1,305	1,253	1,362	8.8 %	4.4 %
Depreciation and Amortization	(441)	(470)	(493)	5.0 %	11.8 %
Operating Profit	864	783	869	11.0 %	0.7 %
Net Financial Income/ (Expense)	(553)	246	(453)	NM	(18.2)%
Taxes	(81)	(237)	(106)	(55.2)%	31.6 %
Net Profit Before Minority Interest	229	792	310	(60.8)%	35.2 %
Net Profit After Minority Interest	236	801	319	(60.2)%	34.9 %
Capital Expenditure	645	298	511	71.8 %	(20.7)%

Revenues

Consolidated revenues increased by 4% YoY (up by TL 147 mn) to TL 3.5 bn in the third quarter of 2014, mainly due to increase in mobile (up by TL 171 mn) and broadband revenues (up by TL 86 mn). Excluding the effect of “IFRIC 12 - non-operational construction revenues”, growth would be 5%.

Operating Expenses Excluding Depreciation and Amortization

Net operating expense increased by 4% (up by TL 89 mn) in the third quarter of 2014 mainly due to the increase in personnel (up by TL 44 mn) and domestic interconnection expenses (up by TL 42 mn).

Operating Profit before Depreciation and Amortization (EBITDA)

Operating profit before depreciation and amortization grew by 4% YoY to 1.4 bn with a consolidated EBITDA margin of 39%. TL 22.8 mn provision was recorded under other expense in Q3 2014 regarding Information and Communication Technologies Authority’s (ICTA) TL 30.5 mn regulatory penalty decision on TTNET in this quarter. The provision amount is calculated based on the early payment discount right. Excluding one-off impact of this fine, consolidated EBITDA growth would be 6% with an EBITDA margin of 39.4%

In fixed line business, EBITDA was realized at TL 1.1 bn with 1 percentage point improvement in EBITDA margin to 46% from 45% realized in Q3 2013. Excluding one-off impact of ICTA’s penalty decision on TTNET, mentioned above, fixed line EBITDA margin would increase to 47% while EBITDA would grow by %3 YoY. In mobile business EBITDA increased by 26% YoY to TL 218 mn with an EBITDA margin of 19% in Q3 2014 vs 18% margin realization in Q3 2013.

Depreciation and Amortization

Total depreciation and amortization increased to TL 493 mn in Q3 2014 from TL 441 mn in Q3 2013 with 12% YoY increase.

Operating Profit

Operating profit² increased by 1% YoY in Q3 2014 due to higher increase in EBITDA compared to depreciation and amortization expense.

Net Financial Income / Expense³

Net financial expense recorded at TL 453 mn in Q3 2014 decreased 18% compared to Q3 2013. TL 436 mn of net financial expense was due to net FX loss.

Corporate Taxes

Corporate taxes, realized at TL 106 mn in Q3 2014, were up by 32% YoY due to the 34% increase in profit before tax in Q3 2014 compared to Q3 2013. Effective corporate tax rate in Q3 2014 was 26%.

Net Income

Net income registered at TL 319 mn or *kurus* 0.0910 per share increased by 35% YoY due to less severe FX conditions compared to Q3 2013, in which TL 236 mn net income or *kurus* 0.0675 per share was recorded.

²Operating 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.

³Net 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	Q3	Q2	Q3	Change	Change
Total Access Lines* (mn)	13.7	13.4	13.3	(0.7)%	(3.4)%
<i>Number of Fixed Voice Subscribers (mn)</i>	12.7	11.9	11.7	(2.3)%	(8.3)%
<i>Naked Broadband Subscribers (mn)</i>	1.0	1.4	1.6	12.4 %	58.3 %
Fixed Voice ARPU (TL)	21.8	21.1	21.3	1.4 %	(2.0)%
Fixed Voice MoU (min)	99.6	96.6	89.8	(7.1)%	(9.9)%
Total Broadband Connections (mn)	7.2	7.4	7.5	1.2 %	4.4 %
<i>Fiber Subscribers ('000)</i>	446	693	715	3.1 %	60.4 %
Total Tivibu Subscribers (mn)**	1.5	1.8	1.8	0%	22.5 %
<i>Tivibu Home (IPTV) Subscribers('000)</i>	242	302	289	(4.2)%	19.6 %
Broadband ARPU (TL)	39.2	40.5	41.4	2.3 %	5.8 %
Mobile Total Subscribers (mn)	14.1	15.8	16.2	2.8 %	15.0%
<i>Mobile Prepaid Subscribers (mn)</i>	7.9	8.6	8.7	0.9 %	9.8%
<i>Mobile Postpaid Subscribers (mn)</i>	6.2	7.2	7.6	5.2 %	21.6 %
Mobile Prepaid ARPU (TL)	13.3	13.7	14.7	7.2 %	10.5 %
Mobile Postpaid ARPU (TL)	31.9	30.1	30.8	2.3 %	(3.4)%
Mobile Blended ARPU (TL)	22.5	21.7	22.9	5.4 %	1.5 %
Mobile MoU (min)	375.0	416.7	416.5	(0.1)%	11.0 %

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

** Total Tivibu Subscribers: IPTV and Tivibu Go (Web TV+ Mobile TV +Smart TV subscribers)

Additional Information

Türk Telekom Group invested TL 511 mn in the third 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 September 30, 2014 was 33,910.

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 September 30, 2014; Türk Telekom Group companies have 13.3 mn Fixed Access Lines, 7.5 mn Broadband Connections and 16.2 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>