

TÜRK TELEKOMÜNİKASYON A.Ş.



**INTERIM ACTIVITY REPORT AS OF 30.06.2016
BASED ON NO:II-14.1 COMMUNIQUE OF CAPITAL MARKETS
BOARD**

July 26, 2016

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1. OVERVIEW OF TÜRK TELEKOM

Türk Telekom, with 175 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 June 30, 2016, Türk Telekom has 12.9 million fixed access lines, 8.3 million broadband and 18 million mobile subscribers. Türk Telekom Group Companies provide services in all 81 cities of Turkey with 33,625 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 AssistTT Rehberlik ve Müşteri Hizmetleri A.Ş., wholesale data and capacity service provider Türk Telekom International and its subsidiaries.

2. CORPORATE STRUCTURE

• Ownership Structure

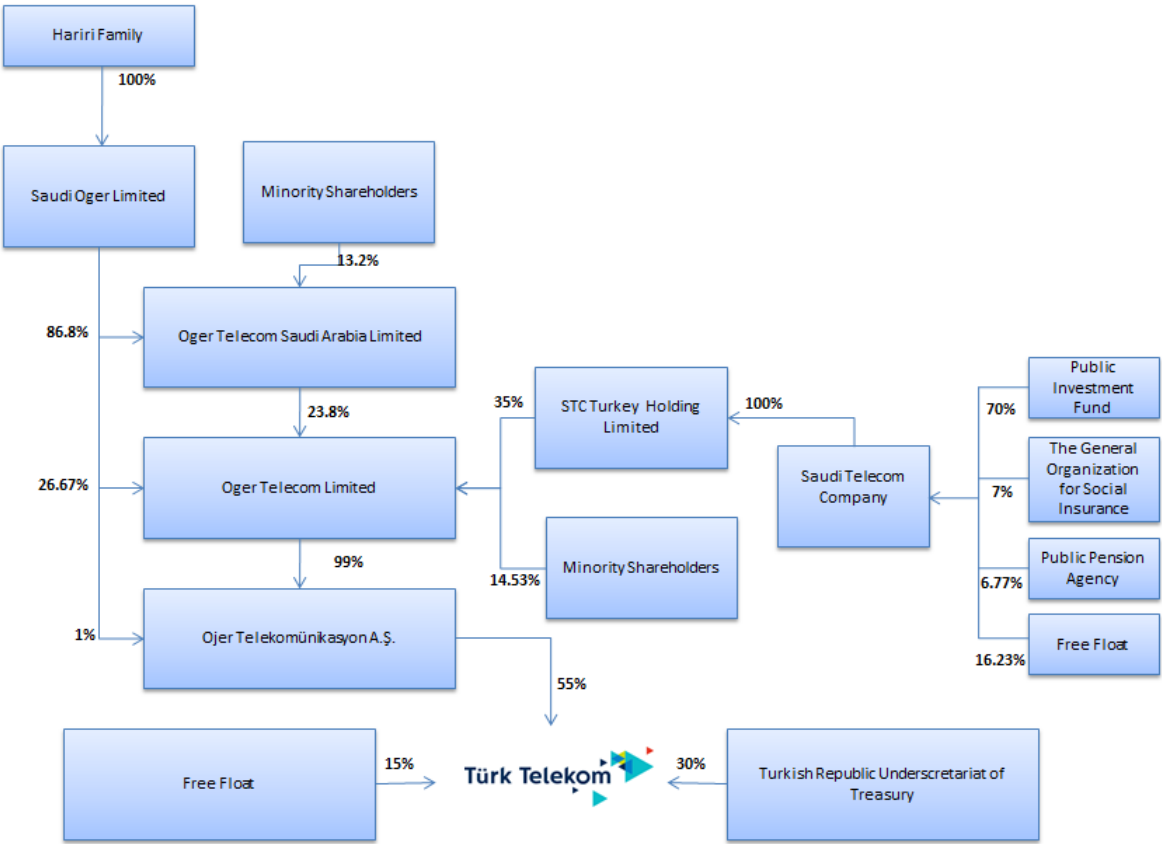
Class	Shareholder	Share Capital (TL)	Share (%)
A	Ojer Telekomünikasyon A.Ş.	1,925,000,000.00	55
B	T.R. Undersecretariat of Treasury	1,049,999,999.99	30
C	T.R. Undersecretariat of Treasury	0.01	
D	Free float	525,000,000.00	15
Total		3,500,000,000.00	100

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;

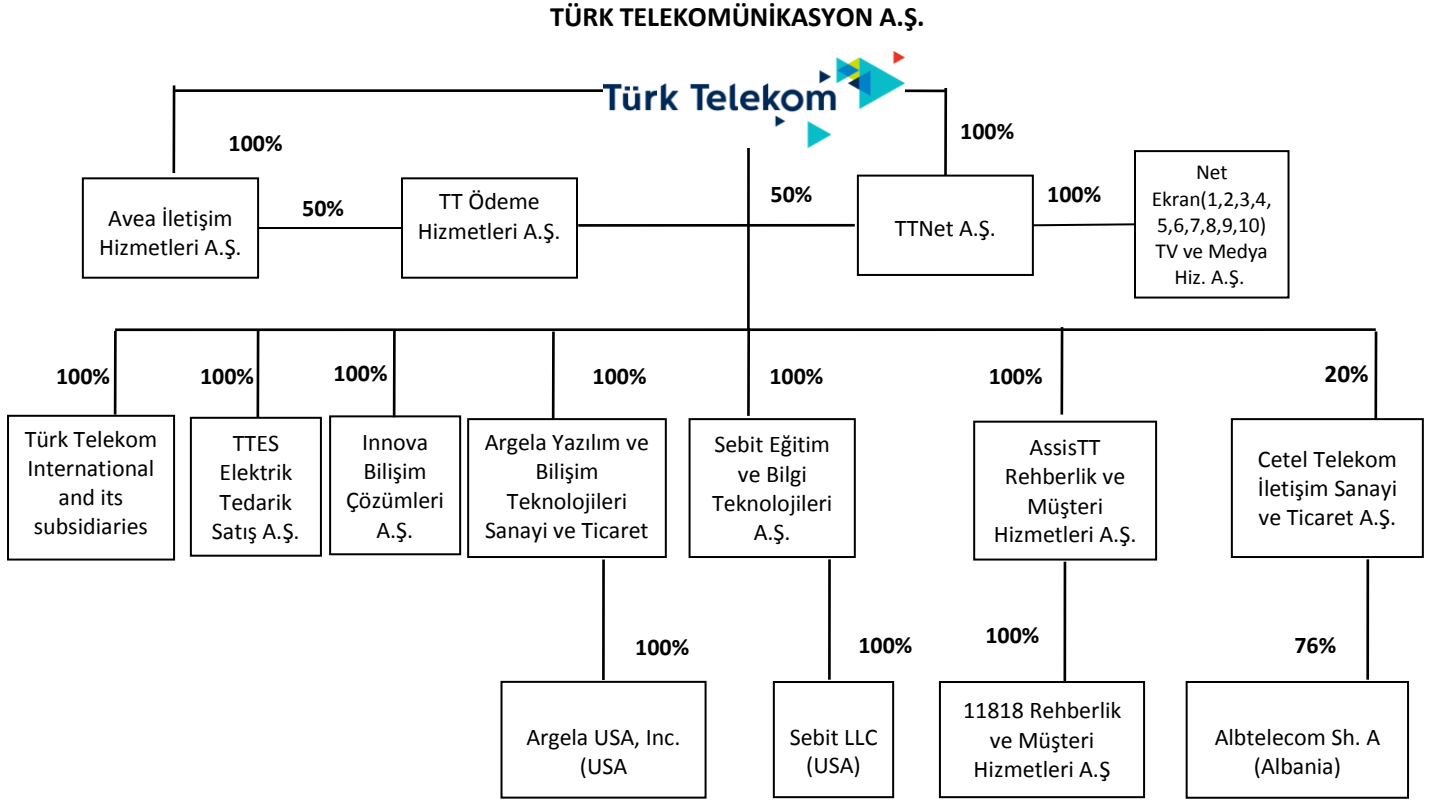
“In order to protect Turkey’s national interests relating to national security and the economy, the Class C share’s positive vote is required for the following matters regardless of the voting result in the Board or General Assembly, otherwise accepted as null and void;

- Any proposed amendments to the Articles of Association;
- The transfer of any of the Company’s registered shares which would result in a change in management control;
- 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

Abdullah Tivnikli

Suat Hayri Aka

Cenk Serdar

Hakam Kanafani

Nasser Sulaiman A Al Nasser

Mazen Abou Chakra

Rami Aslan

Fahri Kasırga

İbrahim Eren

Kemal Madenoğlu*

Yiğit Bulut

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

CEO and Member of the Board of Directors

Independent Member of the Board of Directors

Independent Member of the Board of Directors

Independent Member and Vice Chairman 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

* Kemal Madenoğlu has resigned after the period and our Company's Board of Directors has resolved that Fuat Oktay shall be appointed as an independent board member to the vacant position.

Senior Management

Rami Aslan	CEO and Member of Board of Directors
Erkan Akdemir	CEO, Avea
	CEO of the Consumer Business Unit, TTNET
Mehmet Ali Akarca	CEO of the Corporate Business Unit, TTNET
Kaan Aktan	Chief Consumer Finance Officer, TTNET
Bahattin Aydın	Chief Human Resources Officer
Hüseyin Balcı	Chief Consumer Sales Officer, TTNET
Necdet Mert Başar	Chief Corporate Marketing Officer, TTNET
Kadir Boysan	Chief Corporate Sales Officer, TTNET
Dr. Nazif Burca	Head of Internal Audit
Doğan Coşgun	Chief Legal Officer
Dr. Ramazan Demir	Chief Regulation Officer
Çağrı Dönmez	Chief TV Officer, TTNET
Hakan Dursun	Chief Consumer Marketing Officer, TTNET
Fırat Yaman Er	Chief Business Planning Officer
	Acting Chief Strategy and Business Development Officer
Metin Erhan	Chief Procurement and Vendor Management Officer
Abdurrahman Güvenlioğlu	Chief Support Services Officer
Nimet Güventepe	Chief Corporate Customer Care Officer, TTNET
Murat Kırkgöz	Chief Financial Officer
Orçun Onat	Chief Consumer Care Officer, TTNET
Kaan Sümer	Chief Corporate Financial Officer, TTNET
Dr. Coşkun Şahin	Chief Technology Officer
Cemil Yıldırım	Chief Administrative Affairs Officer, Avea
Yavuz Yıldırım	President of Wholesale Clients Unit, Türk Telekom

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 second quarter of 2016 and 2015 YE are 33,625 and 34,147 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 April 15, 2016,

Conclusion of the Related Party Transactions Report prepared by our Board of Directors are as follows;

Common and recurring asset, service and liability transfer transactions between TTNET A.Ş. and Türk Telekomünikasyon A.Ş. in 01.01.2015 - 31.12.2015 financial year exceeded 10% of the reported gross sales revenue of Türk Telekom as stated under its 2015 year-end financial tables and projected to exceed in 2016. These transactions are considered to be made on arm's length basis as fair, non-discriminative, reasonable by taking into consideration the negative discrimination on TTNET A.Ş. due to current pricing regulations.

Apart from those there are no asset, service and liability transfer transactions exceeding the threshold with the related parties and is not projected to be done in 2016.,

In addition, there is no non-recurring asset, service and liability transfers which reached or exceeded or projected to reach or exceed 5% of the publicly announced gross sales revenue, total assets or average of the adjusted daily weighted average market capitalization for 6 months period prior to the related Board Resolution date, as defined by the Article 9 of the Communiqué.

As we have disclosed on April 18, 2016,

A loan agreement in amount of USD 100 million or EUR equivalent is signed between our Company and the EBRD (The European Bank for Reconstruction and Development) to finance our capital expenditures. The loan has a maturity of 9 years with 2-year grace period. Interest rate is LIBOR/EURIBOR + 200 bps per annum.

As we have disclosed on April 20, 2016,

Our Board of Directors has resolved that our Company's Ordinary General Assembly Meeting for the year 2015 shall be held at the address of Türk Telekomünikasyon A.Ş. Head Quarters The Cultural Center, Turgut Özal Bulvarı 06103 Aydınlikevler, Ankara and by electronic means on 16.05.2016 at 12:00 a.m. in order to discuss the attached agenda items.

TÜRK TELEKOMÜNİKASYON A.Ş. AGENDA FOR ORDINARY GENERAL ASSEMBLY MEETING 2015

1. Opening and Election of the Chairmanship Committee;
2. Authorizing the Chairmanship Committee to sign the minutes of the General Assembly Meeting and the List of Attendees;
3. Reading the Board of Directors annual report for the year 2015;
4. Reading the Auditor's Report for the year 2015;
5. Reading, discussing and approving the balance sheet and profit/loss accounts for the year 2015;
6. Releasing the members of the Board of Directors for the operations and transactions of our Company during 2015;
7. Approval of the temporary appointments made to the Board of Directors to the positions which became vacant because of the resignations by the General Assembly pursuant to Article 363 of the Turkish Commercial Code;
8. Defining the salaries of the Members of the Board of Directors;

9. Election of the Board of Auditors, defining their terms of office and their salaries;
10. Discussing and resolving on the proposal of the Board of Directors regarding the distribution of the profit generated in 2015;
11. Election of the Auditor for the purpose of auditing our Company's operations and accounts for the year 2016 pursuant to Article 399 of Turkish Commercial Code and Article 17/A of the Articles of Association of our Company;
12. Informing the General Assembly about the donations and aids made in 2015;
13. Informing the General Assembly about the guarantees, pledges and mortgages given by our Company in 2015 in favour of third parties, and about revenues or interests generated;
14. Informing the General Assembly of the changes that have material impact on the management and the activities of our Company and its subsidiaries and that were realized within the previous fiscal year or being planned for the following fiscal year and of the reasons of such changes, pursuant to the Corporate Governance Principle No. 1.3.1 (b);
15. Informing the General Assembly of the transactions of the controlling shareholders, the Board of Directors Members, the executives who are under administrative liability, their spouses and their relatives by blood and marriage up to the second degree that are performed within the year 2015 relating to make a material transaction which may cause conflict of interest for the Company or Company's subsidiaries and/or to carry out works within or out of the scope of the Company's operations on their own behalf or on behalf of others or to be a unlimited partner to the companies operating in the same kind of fields of activity in accordance with the Communiqué of the Capital Markets Board No: II-17.1 pursuant to the Corporate Governance Principle No. 1.3.6;
16. Informing the Shareholders regarding the "Remuneration Policy" determined for the Board of Directors Members and the Senior Executives in accordance with the Corporate Governance Principle No: 4.6.2;
17. Discussing and voting for authorizing the Board of Directors or person(s) designated by the Board of Directors for company acquisitions to be made by our Company or its subsidiaries until the next ordinary general assembly meeting up to 500 Million Euro which will be separately valid for each acquisition;
18. Discussing and voting for authorizing the Board of Directors to establish Special Purpose Vehicle(s) when required for above mentioned acquisitions;
19. Resolving on giving permission to the Board of Directors Members to carry out works within or out of the scope of the Company's operations on their own behalf or on behalf of others or to be a partner to companies who does such works, and to carry out other transactions, as per Article 395 and 396 of Turkish Commercial Code;
20. Comments and closing.

As we have disclosed on May 11, 2016,

Standard & Poor's affirmed our company's foreign currency long term rating "BBB-" (investment grade) and revised the outlook from Negative to Stable.

The outlook revision is driven by our company's solid operating results in recent quarters, strong revenue growth prospects and revision in country outlook.

As we have disclosed on May 16, 2016,

2015 General Assembly Meeting was held. Please find List of Attendees and Minutes on <http://www.ttinvestorrelations.com/corporate-governance/general-assembly-meeting.aspx>

As we have disclosed on June 27, 2016,

Fitch Ratings has affirmed our Long-term Foreign and Local Currency Issuer Default Ratings of "BBB-" (investment grade) with stable outlook, and senior unsecured rating of "BBB-", as part of a routine portfolio review process.

7. MATERIAL ISSUES AFTER THE END OF THE PERIOD

As we have disclosed on July 14, 2016,

Our independent board member and Vice Chairman of Board, Kemal Madenoğlu has resigned.

As we have disclosed on July 19, 2016,

Our Company's Board of Directors has resolved that Fuat Oktay shall be appointed as an independent board member, in the capacity of real person board member, to the vacant board member position for the remaining term of office of the Board of Directors in accordance with Article 363 of Turkish Commercial Code as to be submitted to the approval of the General Assembly of our Company at the first upcoming General Assembly Meeting to be held and selected as Vice Chairman of Board.

Fuat Oktay

He was born in 1964 in Yozgat-Çekerek. After graduating from the business management department at Çukurova University in 1985, he worked as a research associate at the university.

He completed a master's programme on Manufacturing Engineering and received his MBA in business management at the Wayne State University in 1990 in Detroit which is the center of automotive industry in USA.

He also received his PhD on Industrial Engineering at the same University and became an expert on aviation and automotive industries.

Throughout his stay in the US, he provided process management consultancy services to many companies and conducted many projects as the project leader. He worked in the automotive industry, at the companies such as Ford, General Motors and Chrysler. In these companies, he worked on product development and lean production projects.

He provided consultancy services to many public and private sector companies. Moreover, he provided consultancy services to small and medium sized enterprises, including KOSGEB.

In some of these companies, he served as Director General, Vice-Chairman and Board Member.

During the economic crisis hitting Turkey in early 2000s, he specialized in enterprise-based crisis management, and worked as Vice-Dean and Head of the Business Management Department at Beykent University.

He served as Deputy Director General responsible for Strategic Planning and Business Development, Sales and Marketing, Production Planning and Information Technologies, at Türk Hava Yolları (THY).

Between 2008-2012, he has brought 5 different joint venture projects to life at THY Teknik A.Ş. in the fields of maintenance & repair, design and manufacturing.

He also served as a Steering Committee Member for Turkish-English, Turkish-German and Turkish-Spanish Business Councils at Foreign Economic Relations Board.

He performed as the Chairman of the Prime Ministry Disaster and Emergency Management (AFAD) between January 2, 2012 and June 19, 2016.

Since June 19, 2016, he has been working as the Prime Ministry Undersecretary and he speaks fluent English.

As we have disclosed on July 22, 2016,

S&P Global Ratings has affirmed our company's long term foreign currency corporate rating "BBB-" (investment grade) and revised the outlook from stable to negative.

The outlook revision is driven by the revision in sovereign outlook.

8. SUMMARY FINANCIAL RESULTS

• Summary Türk Telekom Consolidated Balance Sheet as of 2016 Q2 and 2015 YE

TL millions	2016 Q2	2015 YE
Intangible Assets ^(a)	8,076	8,262
Tangible Assets ^(b)	8,752	8,565
Other Assets ^(c)	6,583	6,109
Cash and Equivalents	3,214	2,838
Total Assets	26,626	25,774
Share capital	3,260	3,260
Reserves and Retained Earnings	1,395	1,733
Interest Bearing Liabilities ^(d)	13,722	11,803
Provision for Employee Termination Benefits	601	635
Other Liabilities ^{(e) (f)}	7,648	8,342
Total Equity and Liabilities	26,626	25,774

(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

(f) As of Q3'15, minority put option liability was terminated due to the acquisition of minority shares (10%) of Avea.

- **Summary Türk Telekom Consolidated Income Statement for the periods of 2016 Q2 and 2015 Q2**

TL millions	2016 Q2	2015 Q2
Revenues	3,940	3,526
EBITDA	1,322	1,320
<i>Margin</i>	<i>34%</i>	<i>37%</i>
Operating Profit ^(a)	627	788
<i>Margin</i>	<i>16%</i>	<i>22%</i>
Financial Income/Expense, net ^(b)	-212	-339
FX & Hedging Gain/Loss, net	-88	-308
Interest Income/Expense, net	-93	-9
Other Financial Income/Expense, net	-31	-22
Tax Expense	-168	-125
Profit	248	335
<i>Margin</i>	<i>6%</i>	<i>10%</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 financial statements.