

**TÜRK TELEKOMÜNİKASYON A.Ş.**



**INTERIM ACTIVITY REPORT AS OF 31.03.2018  
BASED ON NO:II-14.1 COMMUNIQUE OF CAPITAL MARKETS  
BOARD**

**April 25, 2018**

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## 1. OVERVIEW OF TÜRK TELEKOM

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 Avea 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 13.9 million fixed access lines, 10.1 million broadband and 19.9 million mobile subscribers as of March 31, 2018. Türk Telekom Group Companies provide services in all 81 cities of Turkey with 33,525 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 Avea 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, 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.”

## 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 | 875,011,884.975             | 25         |
| C            | Republic of Turkey Undersecretariat of Treasury | 0.01                        |            |
| B            | Turkish Wealth Fund                             | 174,988,115.015             | 5          |
| D            | Free Float                                      | 525,000,000.00              | 15         |
| <b>Total</b> |                                                 | <b>3,500,000,000.00</b>     | <b>100</b> |

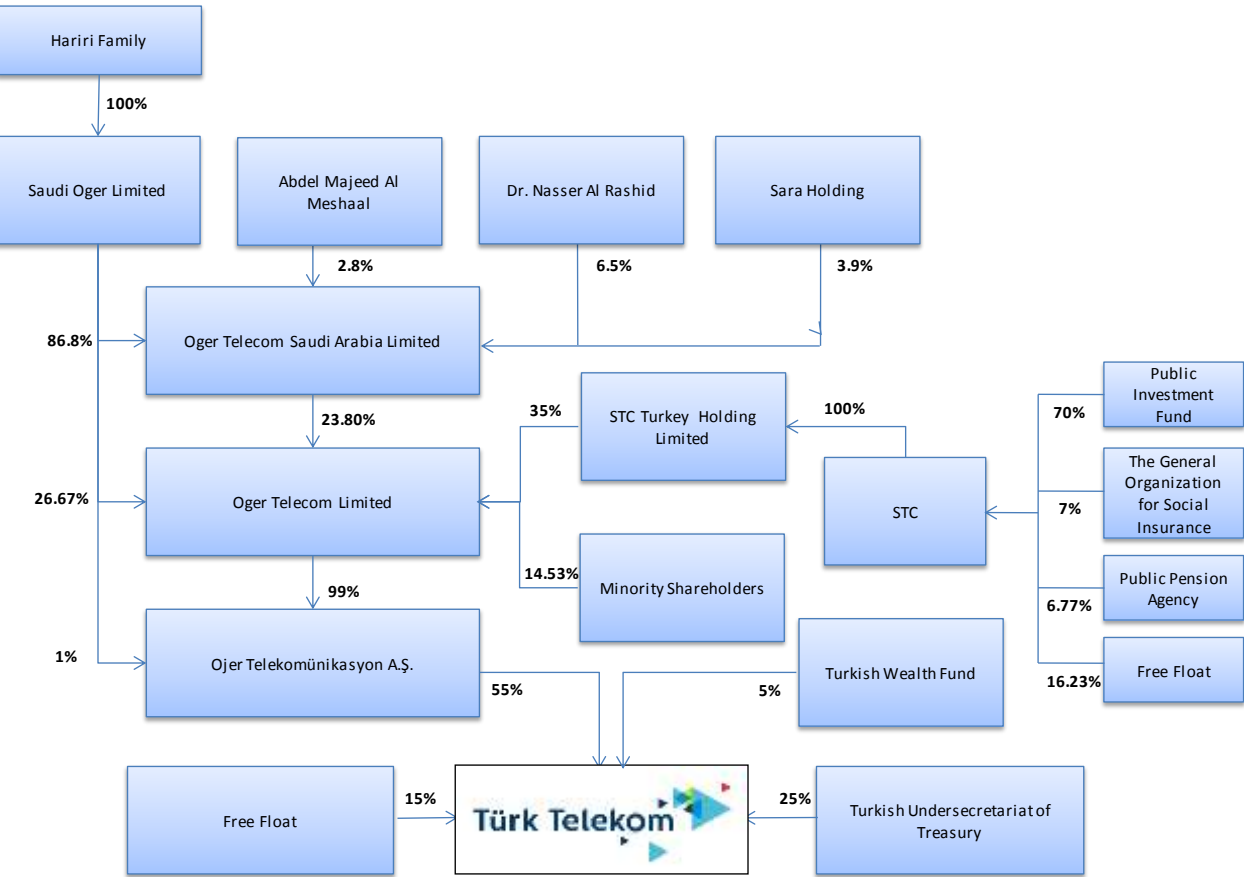
\*According to the Official Gazette on February 5, 2017, the Council of Ministers decided to transfer the 6.68% stake (5% B Group shares and 1.68% D Group shares) of the Company belonging to the Turkish Treasury to the Turkish Wealth Fund. The transaction was completed in 2017.

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;

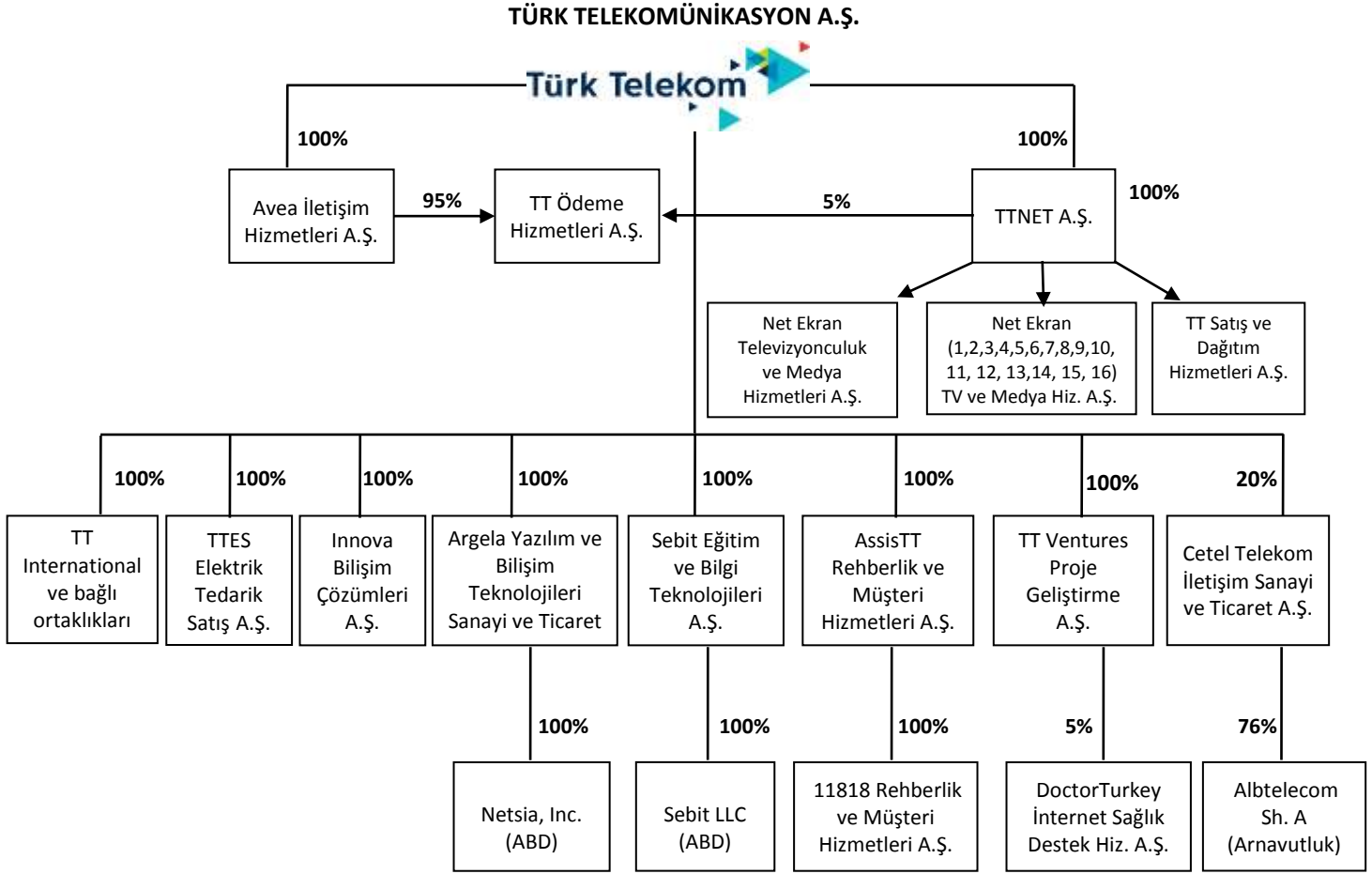
“In order to protect Turkey’s national interests relating to national security and the economy, the Class C share’s positive vote is required for the following matters regardless of the voting result in the Board or General Assembly, otherwise accepted as null and void;

- 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

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 31.03.2018 and 31.12.2017 are 33,525 and 34,502 respectively.

### **5. FINANCIAL RISK MANAGEMENT**

Türk Telekom Group is exposed to financial risks such as liquidity risk, foreign exchange risk, interest rate risk and counterparty risk.

To minimize liquidity risk, the Group obtains long-term financing from different regions of the world (The United States, Europe, the Gulf Region, Japan, China, and Turkey) and different investment groups (commercial banks, international financial institutions such as EIB and EBRD, officially supported export credit agencies and bond). This strategy enables the Group to secure long-term financing at lower costs and also eliminates the Group's dependency on a single region or investor group.

Long-term financing and diversified sources result in the Group carrying liabilities in foreign currencies. Due to net liabilities denominated in foreign currencies and fluctuating exchange rates, the Group is often exposed to foreign exchange risk, which may have an impact on cash flow and the balance sheet.

Türk Telekom minimizes the negative impact of foreign exchange risk on its cash flow by carefully planning foreign currency cash flow. Firstly, the Group holds a balanced portfolio of foreign currencies (US Dollar and Euro) to avoid adverse impacts on the balance sheet. Additionally, in the face of exchange rate fluctuations between the Turkish Lira and these foreign currencies, the Group initiated a long-term hedging strategy in 2015, and realized a hedging transaction of USD 1,12 billion, details of which are provided in the footnotes to the financial statement. Furthermore, in order to create a natural hedge against foreign exchange risk, Türk Telekom keeps a significant portion of its liquid assets in the form of foreign exchange cash.

To avoid interest rate risk, Türk Telekom has entered a USD 1,050 million equivalent interest-rate swap, details of which are provided in the footnotes in the financial statements. Together with the use of fixed-cost funds such as bonds, Türk Telekom reduces its exposure to the risk of a floating interest rate.

With regard to its financial assets, Türk Telekom maintains its strategy of minimizing exposure to counterparty risks by implementing limits and a diversification policy.

Türk Telekom carries the transactions to manage the financial risks based on the evaluations and approval of the Treasury Committee, which is appointed by the Board of Directors.

## 6. MATERIAL ISSUES DURING THE PERIOD

### Regulatory Disclosure dated 15.01.2018 - About Corporate Venture Capital Company

Via our Company's regulatory disclosure dated 15.11.2017, we announced that, our Company had decided to establish a Corporate Venture Capital (CVC) Company.

The transactions in relation to the incorporation of the CVC Company are ongoing.

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.

### Regulatory Disclosure dated 19.01.2018 - Update regarding Treasury Share Payments Notification

Via our Company's regulatory disclosure dated 06.12.2017, we announced that provisions enabling restructuring of treasury share, contribution share to universal service, contribution share to Authority expenses, administrative fee, wireless fee, penalty fee and ancillaries thereof under dispute or under examination, had been stated with 7061 numbered law Amending Some Tax Laws and Other Laws by adding provisional clause to Law no 406 on Telegraph and Telephone Law.

Within the scope of the provisional clause, our company's wholly owned subsidiary Avea İletişim Hizmetleri A.Ş. ("Avea") has decided to utilize the restructuring provisions regarding treasury share, contribution share to universal service, contribution share to Authority expenses, administrative fee, wireless fee, penalty fee and ancillaries thereof which are the subject of finalized investigations and related litigations. Accordingly, all existing disputes in this scope will be resolved.

Total amount calculated in this context is TL 312,180,719 which includes TL 210,462,569 principal and TL 101,718,150 interest (based on Domestic Producer Price Index, Yi-UFE). Payment will be made in six equal installments (plus deferred payment interest) in two-month periods beginning in January 2018.

Regarding this subject, TL 119,927,494 (principal TL 66,697,174, interest TL 53,230,320) were provisioned at 30 September 2017 dated consolidated financial statements. The remaining amount is planned to be provisioned at 2017 Year End financials.

After the related decision, there has been no change in our consolidated EBITDA guidance of TL 6.3 billion and TL 6.4 billion levels, which was announced on July, 25th 2017.

In order to ensure that the legitimate interests of our Company and our investors are protected until the studies to clarify the processes related to the subject of the utilization of restructuring provisions of Avea mentioned in this disclosure are completed, insider information disclosure was decided to be postponed pursuant to article 6 of the Material Events Disclosure Communiqué numbered II-15.1 by the Capital Markets Board (CMB). This disclosure is made based on the fact that the reasons for postponement have been removed, and under article 23 paragraph 7 of CMB's Material Events Disclosure Communiqué numbered II-15.1, and relevant legislations.

### Regulatory Disclosure dated 25.01.2018 - Our indirect shareholder Saudi Telecom Company 2017 Q4 Results Announcement

Our indirect shareholder Saudi Telecom Company (STC) announced its Q4 2017 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 2017 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 2018 at Public Disclosure Platform of Turkey.

#### Regulatory Disclosure dated 08.02.2018 - Guidance for 2018 Consolidated Financial Results

Under current circumstances, guidance for 2018 is as below

- Consolidated revenue growth (excluding IFRIC 12) to be around 11% over 2017
- Consolidated EBITDA to be at TL 7.0 billion and TL 7.2 billion levels
- Consolidated CAPEX to be around TL 3.5 billion

#### Regulatory Disclosure dated 08.02.2018 - Board of Directors' resolution for profit distribution

Subject to the decision of our Company's Ordinary General Assembly to be convened for the year 2017,

It is resolved that;

1. Our Company's profit generated as a result of its activities performed between dates 01/01/2017 – 31/12/2017 according to the independently audited consolidated financial tables prepared in accordance with the provisions of "CMB Communique About Financial Reporting in Capital Markets No.II-14.1" is TL 1,135,532,329.14 and the commercial profit calculated within the scope of the provisions of Tax Procedure Law is TL 2,370,578,044.73;
2. Pursuant to the CMB Communique on Dividends No: II-19.1, the profit after tax amount of TL 1,135,532,329.14 shall be the base amount for dividend distribution;
3. Pursuant to article 11/1 of the CMB Communique on Dividends No:II-19.1, there are no losses in our Company's previous years' profit distribution table to be deducted on the grounds that our Company's recent reserves (excluding the term profit of which previous losses shall be deducted priorly) are sufficient;
4. Since our Company already reached the general legal reserve limit, which is 20% of the paid in capital in accordance with Article 519 of Turkish Commercial Code, this reserve is not required for 2017;
5. Net profit in the amount of 1,135,532,329.14 TL, shall be set aside, as the extraordinary legal reserved in order to further strengthen the balance sheet structure under the provisions of the Company's Articles of Association.

#### Regulatory Disclosure dated 09.02.2018 - Audit Committee Charter

Audit Committee Charter, which was approved by the resolution taken by our company's board of directors on February 08, 2018, is attached.

#### Regulatory Disclosure dated 11.02.2018 - About Corporate Venture Capital Company

Via our Company's regulatory disclosure dated 15.11.2017, we announced that, our Company's decided to establish a Corporate Venture Capital (CVC) Company. The CVC Company was established as of February 09, 2018. with the name of "TT Ventures Proje Geliştirme A.Ş."

#### Regulatory Disclosure dated 27.02.2018 - About News or Rumours

On 25th -26th of February 2018, there were some false claims on the media regarding our Company's 2017 Consolidated Financial Statements, and Independent Auditor's Report.

As per the new requirements in the independent auditing standard ("BDS 701"), applied for the first time for 2017 annual period, independent auditors need to communicate the key audit matters in detail along with auditor's opinion. Similar information and explanations in that context for other publicly listed companies are also included in the independent auditors' opinion for the disclosed financial statements.

The communication on key audit matters included in the independent auditor's opinion that are explanatory in nature are misrepresented in the press, as if such information is the audit opinion. In the explained key audit matters, there are no issues that impact the independent auditor's opinion negatively. In the audit of consolidated financial statements of Türk Telekom Group, the explained audit procedures in the independent auditor's report have been applied and unmodified opinion was expressed in the independent auditor's report.

The statement by the Independent Auditor of our Company, KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. on the related subject sent to our Board of Directors is attached.

This public disclosure is made by our Company under article 9 of CMB's Material Events Communiqué numbered II-15.1, and relevant legislations.

## **7. MATERIAL ISSUES AFTER THE END OF THE PERIOD**

### Regulatory Disclosure dated 02.04.2018 - Appointment of Independent Audit Firm

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 KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. for the audit of our Company for the accounting period of 2018, which is subject to the approval of the shareholders during the upcoming Ordinary General Assembly Meeting.

### Regulatory Disclosure dated 03.04.2018 - 2017 Ordinary General Assembly Meeting

Our Board of Directors has resolved that our Company's Ordinary General Assembly Meeting for the year 2017 shall be held at the address of Türk Telekomünikasyon A.Ş. Head Quarters The Cultural Center, Turgut Özal Bulvarı 06103 Aydınlıkevler, Ankara and by electronic means on 27.04.2018 at 10:00 a.m. and in order to discuss the attached agenda items. Agenda, invitation letter and proxy sample for the 2017 ordinary general assembly meeting are attached.

- 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 2017
- 4 - Reading the Auditor's Report for the year 2017
- 5 - Reading, discussing and approving the Balance Sheet and Profit/Loss Accounts for the year 2017
- 6 - Releasing the Members of the Board of Directors for the operations and transactions of our Company during 2017
- 7 - Defining the salaries of the Members of the Board of Directors
- 8 - Defining the salaries of the Members of the Statutory Audit Board
- 9 - Discussing and resolving on the proposal of the Board of Directors regarding the distribution of the profit generated in 2017
- 10 - Election of the Auditor for the purpose of auditing our Company's operations and accounts for the year 2018 pursuant to Article 399 of Turkish Commercial Code and Article 17/A of the Articles of Association of our Company
- 11 - Informing the General Assembly about the donations and aids made in 2017
- 12 - Informing the General Assembly about the guarantees, pledges and mortgages given by our Company in 2017 in favour of third parties, and about revenues or interests generated
- 13 - 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 of Capital Markets Board Corporate Governance Principle No:1.3.1 (b)
- 14 - 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 2017 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 an unlimited partner to the companies operating in the same kind of fields of activity in accordance with the Capital Markets Board Corporate Governance Principle No:1.3.6
- 15 - Informing the general assembly regarding the "Remuneration Policy" for the Board of Directors Members and the Senior Executives in accordance with the Capital Markets Board Corporate Governance Principle No:4.6.2

16 - Informing the general assembly regarding the "Disclosure Policy" pursuant to article 17 of the Capital Markets Board Communiqué On Material Events Disclosure No: II-15.1

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 Euros 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

Regulatory Disclosure dated 12.04.2018 - Disclosure Policy

Our Company's updated Disclosure Policy is attached.

## 8. SUMMARY FINANCIAL RESULTS

### Summary Türk Telekom Consolidated Balance Sheet as of 31.12.2017 and 31.03.2018

| TL millions                                        | 31.12.2017    | 31.03.2018    |
|----------------------------------------------------|---------------|---------------|
| Intangible Assets <sup>(a)</sup>                   | 8,438         | 9,263         |
| Tangible Assets <sup>(b)</sup>                     | 9,138         | 8,964         |
| Other Assets <sup>(c)</sup>                        | 7,473         | 7,730         |
| Cash and Equivalents                               | 4,100         | 3,979         |
| <b>Total Assets</b>                                | <b>29,149</b> | <b>29,936</b> |
| Share capital                                      | 3,260         | 3,260         |
| Reserves, Retained Earnings and Other Equity Items | 1,295         | 1,707         |
| Interest Bearing Liabilities <sup>(d)</sup>        | 16,492        | 17,496        |
| Provision for Employee Termination Benefits        | 711           | 652           |
| Other Liabilities <sup>(e)</sup>                   | 7,391         | 6,822         |
| <b>Total Equity and Liabilities</b>                | <b>29,149</b> | <b>29,936</b> |

(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 and Provisions for Employee Termination Benefits.

## Summary Türk Telekom Consolidated Income Statement for the periods of 2017 Q1 and 2018 Q1

| TL millions                                        | 2017 Q1      | 2018 Q1      |
|----------------------------------------------------|--------------|--------------|
| <b>Revenues</b>                                    | <b>4,307</b> | <b>4,686</b> |
| <b>EBITDA</b>                                      | <b>1,528</b> | <b>1,972</b> |
| <i>Margin</i>                                      | 35%          | 42%          |
| <b>Operating Profit <sup>(a)</sup></b>             | <b>807</b>   | <b>1,094</b> |
| <i>Margin</i>                                      | 19%          | 23%          |
| <b>Financial Income/Expense, net<sup>(b)</sup></b> | -623         | -986         |
| FX & Hedging Gain/Loss, net                        | -509         | -879         |
| Interest Income/Expense, net                       | -76          | -86          |
| Other Financial Income/Expense, net                | -38          | -21          |
| <b>Tax Expense</b>                                 | <b>-119</b>  | <b>-51</b>   |
| <b>Profit</b>                                      | <b>66</b>    | <b>56</b>    |
| <i>Margin</i>                                      | 2%           | 1%           |

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

### IFRS 9 & 15 Adoption :

The Group adopted IFRS 9 Financial Instruments issued with a date of initial application of 1 January 2018. IFRS 9 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

Türk Telekom adopted IFRS 15 Revenue from Contracts with Customers with a date of initial application of 1 January 2018. The Group applied IFRS 15 using the cumulative effect method – by recognizing the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of equity at 1 January 2018. Therefore, the previous periods were not restated.

Please kindly find the reconciliation of IFRS 15 and the impact of IFRS 9 change on 2018 Q1 at financial footnotes.