

TÜRK TELEKOMÜNİKASYON A.Ş.



**INTERIM ACTIVITY REPORT AS OF 30.06.2019
BASED ON NO:II-14.1 COMMUNIQUE OF CAPITAL MARKETS
BOARD**

July 26, 2019

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1. OVERVIEW OF TÜRK TELEKOM

Türk Telekom, with 178 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 TT Mobil 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 14.5 million fixed access lines, 11.1 million broadband, 3.6 million TV and 22.4 million mobile subscribers as of June 30, 2019. Türk Telekom Group Companies provide services in all 81 cities of Turkey with 31,467 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 TT Mobil 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., project development and corporate venture capital company TT Ventures Proje Geliştirme A.Ş, Electric Supply and Sales Company TTES Elektrik Tedarik Satış A.Ş. wholesale data 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 ve Elektronik Para Hizmetleri A.Ş. and counselling services company 11818 Rehberlik ve Müşteri Hizmetleri A.Ş.

2. CORPORATE STRUCTURE

Ownership Structure

Group	Shareholder	Paid-in Capital Amount (TL)	Share (%)
A	Levent Yapılandırma Yönetimi A.Ş.	1,925,000,000.00	55
B	Republic of Turkey Ministry of Treasury and Finance	875,011,884.975	25
C	Republic of Turkey Ministry of Treasury and Finance	0.01	
B	Turkish Wealth Fund	174,988,115.015	5
D	Free Float	525,000,000.00	15
Total		3,500,000,000.00	100

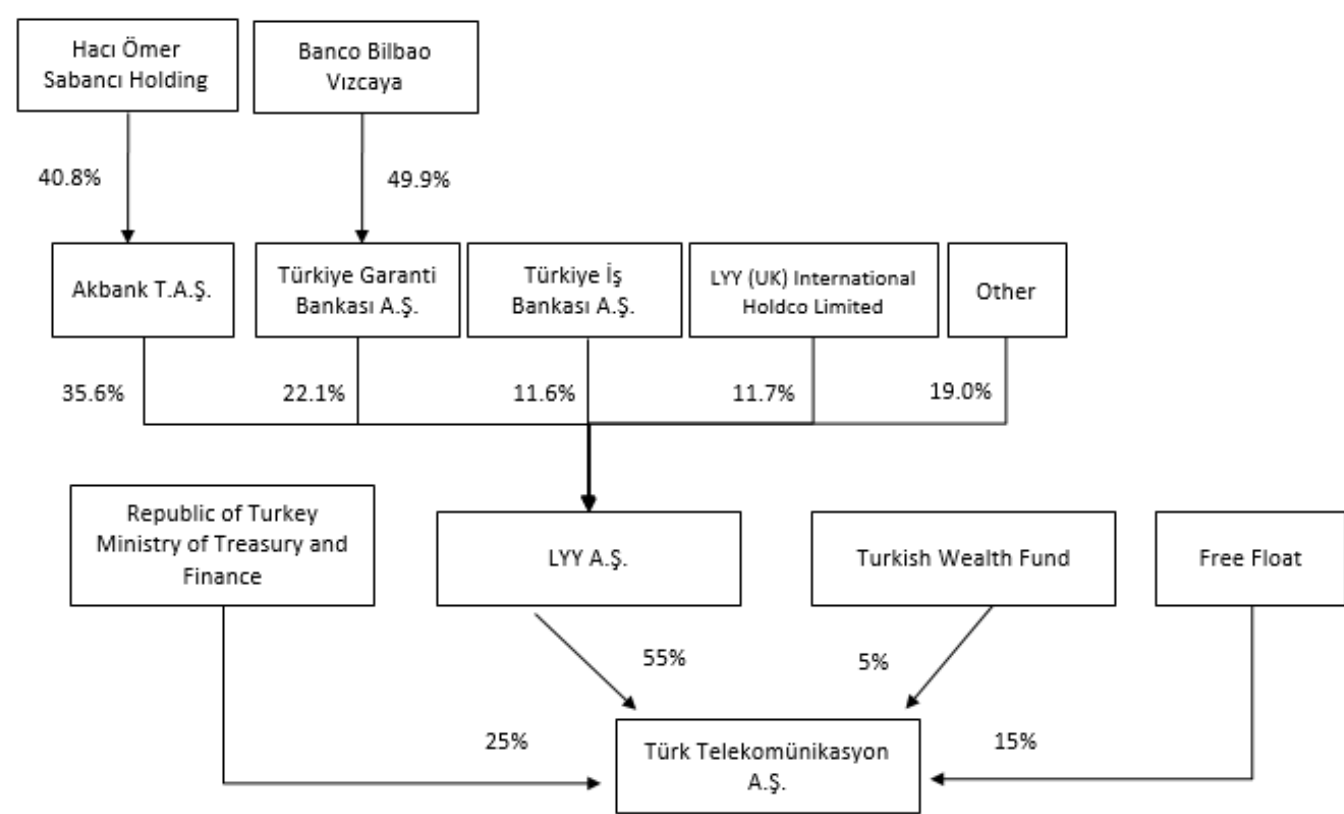
Note: According to the Official Gazette on February 5, 2017, the Council of Ministers decided to transfer the 6.68% stake (5% B Group shares and 1.68% D Group shares) of the Company belonging to the Turkish Treasury to the Turkish Wealth Fund. The transaction was completed in 2017.

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;

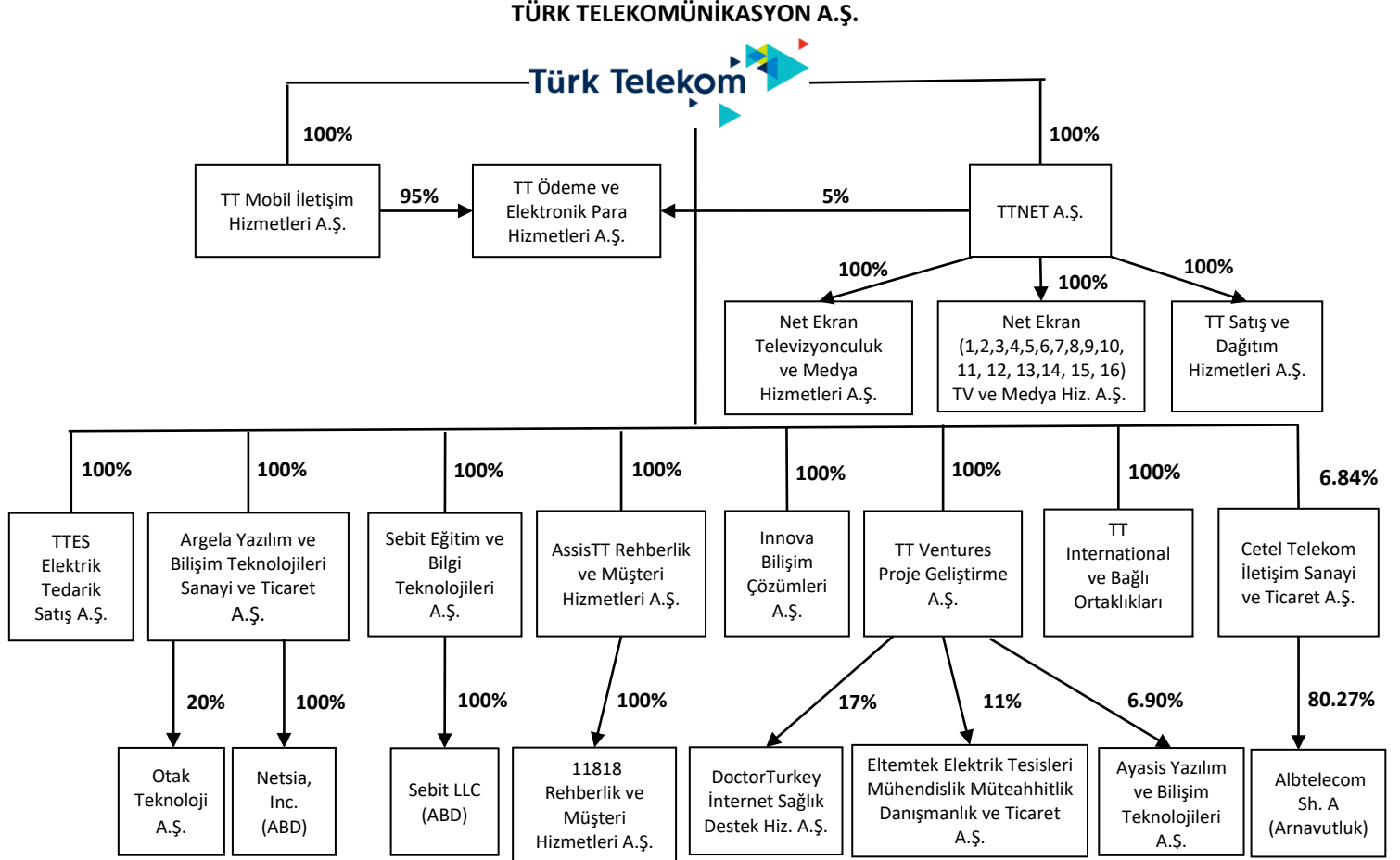
- a) Any proposed amendments to the Articles of Association;
- b) The transfer of any of the Company’s registered shares which would result in a change in management control;
- c) The registration of any transfer of the Company’s registered shares in the shareholder ledger.

Natural and legal persons owning over 5% of our Company shares, directly or indirectly are stated below:



Note: There is no natural or legal persons whose shareholding exceeds 5% except those shown in the shareholder structure.

- Subsidiaries and financial investments:



Management and Organization

Board of Directors

Dr. Ömer Fatih Sayan

Eyüp Engin

Yiğit Bulut

Hakan Aran

Selim Dursun

Dr. Nureddin Nebati

Dr. Muammer Cüneyt Sezgin

Aclan Acar

Ertuğrul Altın

Chairman of the Board of Directors and Member of the Board of Directors

Vice Chairman of Board of Directors and Independent Member of Board of Directors

Independent 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

Member of the Board of Directors

Member of the Board of Directors

Member of the Board of Directors

Senior Management

Dr. Boulos H.B (Paul) Doany	CEO - General Manager
Kaan Aktan	Finance Assistant General Manager
Dr. Ramazan Demir	Digital and Cyber Security Product Development Assistant General Manager
Fırat Yaman Er	Strategy, Planning and Business Development Assistant General Manager
Yusuf Kırac	Technology Assistant General Manager
Şükrü Kutlu	Human Resources, Regulation and Support Assistant General Manager
Ümit Önal	Marketing and Customer Care Assistant General Manager
Yakup Öztunç	Sales Assistant General Manager (Acting)
Yavuz Türkmen	Legal Assistant General Manager
Yavuz Yıldırım	Head of Internal Audit
	Wholesale Assistant General Manager

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 30.06.2019 and 31.12.2018 are 31,467 and 33,417 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 several geographies (U.S., Europe, Gulf, Japan, China, and Turkey) and several sources (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.

Relating to Eurobonds issued by Türk Telekom, the Group actively monitors the price and yield dynamics of these bonds, which are tradeable instruments in the secondary markets, in order to formulate optimum cash management strategies on a total return and cost basis.

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. In this framework, as of 30 June 2019 the Company has hedge position of USD 1.98 billion equivalent, 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, as of 30 June 2019 Türk Telekom has a position of USD 450 million equivalent of 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 Financial Risk Management Policy approved by the Board of Directors.

6. MATERIAL ISSUES DURING THE PERIOD

Regulatory Disclosure dated 02.04.2019 - 2018 Ordinary General Assembly Meeting Result

Ordinary General Assembly Meeting was held.

Minutes and List of Attendees is attached. (<https://www.kap.org.tr/en/Bildirim/751868>)

Regulatory Disclosure dated 02.04.2019 - Ordinary General Assembly Decision for Profit Distribution

It is resolved at our Company's Ordinary General Assembly Meeting for the year 2018 that;

1. Our Company's loss generated as a result of its activities performed between dates 01.01.2018 - 31.12.2018 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 1,391,261,128 and the commercial loss calculated within the scope of the provisions of Tax Procedure Law is TL 1,965,757,320,
2. Accordingly, no dividend to be distributed for the activity year of 2018 due to the loss calculated in accordance with consolidated financial tables and the provisions of Tax Procedure Law.

Regulatory Disclosure dated 02.04.2019 - Appointment of Independent Audit Firm

KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (KPMG) has been selected as audit company on 02.04.2019 dated Ordinary General Assembly for the audit of our Company for the accounting period of 2019.

Regulatory Disclosure dated 05.04.2019 - Collective Bargaining Agreement Negotiations

The Collective Bargaining Agreement negotiations between our Company and Türkiye Haber-İş Union will begin on April 16, 2019 at our Company's Headquarters in Aydınlikevler/Ankara.

Regulatory Disclosure dated 26.04.2019 - The Registration of 2018 Ordinary General Assembly Meeting Results

The resolutions taken at our Company's 2018 Ordinary General Assembly Meeting held on April 2, 2019 have been registered by Ankara Trade Registry Office on April 24, 2019 and published on the Turkish Trade Registry Gazette on April 26, 2019.

Regulatory Disclosure dated 26.04.2019 - Registration of Independent Auditor Selection

The general assembly resolution dated April 2, 2019 on the selection of KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. for the audit of our Company for the accounting period of 2019 has been registered by Ankara Trade Registry Office on April 24, 2019 and published on the Turkish Trade Registry Gazette on April 26, 2019.

Regulatory Disclosure dated 28.05.2019 - About Credit Rating Agreement

The credit rating agreement signed on May 29, 2018 between JCR Eurasia Rating and our Company Türk Telekomünikasyon A.Ş. has been rescinded and the rating process has been discontinued by mutual consent.

The rating of our Company dated August 17, 2018 will no longer valid after 12 June, 2019.

Regulatory Disclosure dated 17.06.2019 - Collective Bargaining Agreement

On the 13th Collective Bargaining Agreement negotiations between our company and Türkiye Haber- İş Union, 60-day legal discussion duration has ended without agreement. Negotiations will continue via official mediator who will be appointed by Ministry of Family, Labor and Social Services, and our Company and Union will always be able to meet and sign Collective Bargaining Agreement during this period.

Regulatory Disclosure dated 19.06.2019 - Notification Regarding the Eurobond Repayment

Our Company's bond (ISIN: RegS XS1028952155 and 144A US90011QAA85) issued to qualified investors abroad on June 19, 2014 with a total nominal value of US\$500 million and the maturity of 5 years, has matured and the amount of interest and principal has been redeemed on June 19, 2019.

7. MATERIAL ISSUES AFTER THE END OF THE PERIOD

Regulatory Disclosure dated 18.07.2019 - Revision of Corporate Rating by Fitch

On July 12 2019, Fitch Ratings revised Turkey's Long-term Foreign Currency Issuer Default Rating (IDR) from "BB" to "BB-". Country ceiling was also revised from "BB+" to "BB-".

As a result of the revision in the country rating and country ceiling, Fitch has revised our Company's long-term foreign and local currency issuer default ratings (IDRs) and senior unsecured instrument ratings from "BB+" to "BB-".

8. SUMMARY FINANCIAL RESULTS

Summary Türk Telekom Consolidated Balance Sheet as of 31.12.2018 and 30.06.2019

TL millions	31.12.2018	30.06.2019
Cash and Equivalents	4,495	3,961
Intangible Assets	9,783	9,598
Tangible Assets ^(a)	14,274	14,024
Other Assets ^(b)	7,647	9,992
Total Assets	36,199	37,575
Share capital	3,260	3,260
Reserves, Retained Earnings and Other Equity Items	4,193	4,716
Interest Bearing Liabilities ^(c)	19,921	21,398
Other Liabilities ^(d)	8,823	8,201
Total Equity and Liabilities	36,199	37,575

(a) Tangible assets include property, plant and equipment and investment property.

(b) Major items within other assets are trade receivables, due from related parties, inventories, deferred tax asset, right of use and other current assets.

- (c) Includes short-term and long-term borrowings and lease obligations
(d) 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

IFRS 15 Adoption

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. Reconciliation of IFRS 15 change on 2018 Q1, Q2, Q3, and Q4 financials are available at financial footnotes and IFRS 15 Reconciliation tab of “Summary Financial and Operational Information” file at www.tinvestorrelations.com.

IFRS 9 Adoption

The Group has initially adopted IFRS 9 Financial Instruments issued in July 2014 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. Further details are available on 2018 FY financial statements and footnotes.

IFRS 16 Adoption

Türk Telekom adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. At transition to this standard, lease liabilities were measured at the present value of the remaining lease payments, whereas the right-of-use assets for most leases were recognized based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognized. The previous periods were not restated. Reconciliation of IFRS 16 change on 2019 Q1 and Q2 financials are available at financial footnotes and IFRS 16 Reconciliation tab of “Summary Financial and Operational Information” file at www.tinvestorrelations.com.

Summary Türk Telekom Consolidated Income Statement for the periods of 2018 Q2 and 2019 Q2

TL millions	2018 Q2	2019 Q2
Revenues	4,951	5,760
EBITDA	1,968	2,681
<i>Margin</i>	<i>39.8%</i>	<i>46.5%</i>
Operating Profit ^(a)	1,058	1,510
<i>Margin</i>	<i>21.4%</i>	<i>26.2%</i>
Financial Income/Expense, net ^{(b) (d)}	(2.139)	(999)
FX & Hedging Gain/Loss, net ^(c)	(1.933)	(427)
Interest Income/Expense, net ^(c)	(171)	(464)
Other Financial Income/Expense, net ^(d)	(35)	(108)
Tax Expense	212	(77)
Profit	(870)	435
<i>Margin</i>	<i>n.m.</i>	<i>7.5%</i>

(a) Operating profit includes revenues, cost of sales, depreciation, amortization and impairment expenses, marketing, sales and distribution expenses, general administrative expenses, research and development expenses, other operating income/(expense), and income/(expense) from investing activities, but excludes financial income/(expenses) presented in other operating income/(expenses) on CMB financial statements (i.e. FX gain/(loss), interest and rediscount income/(expense) on current accounts excluding bank borrowings). Reported operating profit on CMB financial statements is different due to reclassification requirements of the POA/CMB since Q3'13 financial statements.

(b) Net financial income/(expense) includes financial income/(expense) and FX gain/(loss), interest and discount income/(expense) on current accounts excluding bank borrowings which are presented in other operating income/(expenses) on CMB financial statements. Net financial income/ (expense) on CMB financial statements is different due to reclassification requirements of the POA/CMB since Q3'13 financial statements.

(c) As of Q2'18, income/expense from derivative interest payments, which were previously presented under FX & hedging gain/loss, started to be presented under interest income/expense item. As a result of this reclassification, TL 18 mn expense from derivative interest payments in Q1'18 presented under interest income/expense item in Q2'18.

(d) Bills, bonds and notes issued that were measured at amortized cost at Q1'18 and Q2'18 are measured at fair value as of Q3'18. Consequently, the changes were reflected to Q1'18 and Q2'18 financial statements.