

TURKCELL ILETISIM HIZMETLERI A S

Form 20-F

March 20, 2017

Table of Contents

As filed with the Securities and Exchange Commission on March 20, 2017

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 20-F**

**REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**OR**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934**

**For the fiscal year ended December 31, 2016**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934**

**For the transition period from                      to**

**OR**

**SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**Date of event requiring this shell company report**

**Commission File Number: 1-15092**

**TURKCELL ILETISIM HIZMETLERI A.S.**

**(Exact Name of Registrant as Specified in Its Charter)**

**TURKCELL**

**(Translation of Registrant's Name into English)**

**Republic of Turkey**

**(Jurisdiction of Incorporation or Organization)**

**Turkcell Kucukyali Plaza**

**Aydinevler Mahallesi Inonu Caddesi No:20 Kucukyali Ofispark B Blok**

**Maltepe**

**Istanbul, Turkey**

**(Address of Principal Executive Offices)**

**Mr. Zeynel Korhan Bilek**

**Telephone: +90 212 313 8150**

**Facsimile: +90 216 504 4058**

**Turkcell Kucukyali Plaza**

**Aydinevler Mahallesi Inonu Caddesi No:20 Kucukyali Ofispark B Blok**

**Maltepe**

**Istanbul, Turkey**

(Name, Telephone, E-mail and/or Facsimile Number and Address of Company Contact Person)

**Securities registered pursuant to Section 12(b) of the Act:**

<b>Title of each class</b>	<b>Name of each exchange on which registered</b>
<b>American Depositary Shares</b>	<b>New York Stock Exchange</b>
<b>Ordinary Shares, Nominal Value TRY 1.000*</b>	<b>New York Stock Exchange</b>

\*Not for trading on the NYSE, but only in connection with the registration of ADSs representing such ordinary shares pursuant to the requirements of the Securities and Exchange Commission.

**Securities registered pursuant to Section 12(g) of the Act:**

**None**

**Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:**

**None**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

<b>Ordinary Shares, Nominal Value TRY 1.000</b>	<b>2,200,000,000</b>
---	----------------------

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T

Edgar Filing: TURKCELL ILETISIM HIZMETLERI A S - Form 20-F

(§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP

International Financial Reporting Standards as issued

Other

by the International Accounting Standards Board

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

**Table of Contents****TABLE OF CONTENTS**

<b><u>ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS</u></b>	<b>4</b>
<b><u>ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE</u></b>	<b>4</b>
<b><u>ITEM 3. KEY INFORMATION</u></b>	<b>4</b>
<u>3.A SELECTED FINANCIAL DATA</u>	4
<u>3.B CAPITALIZATION AND INDEBTEDNESS</u>	9
<u>3.C REASONS FOR THE OFFER AND USE OF PROCEEDS</u>	9
<u>3.D RISK FACTORS</u>	9
<b><u>ITEM 4. INFORMATION ON THE COMPANY</u></b>	<b>24</b>
<u>4.A HISTORY AND DEVELOPMENT OF THE COMPANY</u>	24
<u>4.B BUSINESS OVERVIEW</u>	25
<u>4.C ORGANIZATIONAL STRUCTURE</u>	76
<u>4.D PROPERTY, PLANT AND EQUIPMENT</u>	76
<b><u>ITEM 4A. UNRESOLVED STAFF COMMENTS</u></b>	<b>78</b>
<b><u>ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS</u></b>	<b>78</b>
<u>5.A OPERATING RESULTS</u>	81
<u>5.B LIQUIDITY AND CAPITAL RESOURCES</u>	95
<u>5.C RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES, ETC.</u>	98
<u>5.D TREND INFORMATION</u>	98
<u>5.E OFF-BALANCE SHEET ARRANGEMENTS</u>	100
<u>5.F TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS</u>	101
<u>5.G SAFE HARBOR</u>	101
<b><u>ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES</u></b>	<b>101</b>
<u>6.A DIRECTORS AND SENIOR MANAGEMENT</u>	101
<u>6.B COMPENSATION</u>	106
<u>6.C BOARD PRACTICES</u>	106
<u>6.D EMPLOYEES</u>	109
<u>6.E SHARE OWNERSHIP</u>	110
<b><u>ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS</u></b>	<b>110</b>
<u>7.A MAJOR SHAREHOLDERS</u>	110
<u>7.B RELATED PARTY TRANSACTIONS</u>	111
<u>7.C INTERESTS OF EXPERTS AND COUNSEL</u>	111
<b><u>ITEM 8. FINANCIAL INFORMATION</u></b>	<b>111</b>
<u>8.A CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION</u>	111
<u>8.B SIGNIFICANT CHANGES</u>	113
<b><u>ITEM 9. THE OFFER AND LISTING</u></b>	<b>113</b>
<u>9.A OFFER AND LISTING DETAILS</u>	113
<u>9.B PLAN OF DISTRIBUTION</u>	114
<u>9.C MARKETS</u>	114
<u>9.D SELLING SHAREHOLDERS</u>	114
<u>9.E DILUTION</u>	114
<u>9.F EXPENSES OF THE ISSUE</u>	114
<b><u>ITEM 10. ADDITIONAL INFORMATION</u></b>	<b>115</b>
<u>10.A SHARE CAPITAL</u>	115
<u>10.B MEMORANDUM AND ARTICLES OF ASSOCIATION</u>	115

<u>10.C MATERIAL CONTRACTS</u>	126
<u>10.D EXCHANGE CONTROLS</u>	126
<u>10.E TAXATION</u>	127
<u>10.F DIVIDENDS AND PAYING AGENTS</u>	132
<u>10.G STATEMENT BY EXPERTS</u>	132
<u>10.H DOCUMENTS ON DISPLAY</u>	133
<u>10.I SUBSIDIARY INFORMATION</u>	133
<b><u>ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u></b>	<b>133</b>
<b><u>ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES</u></b>	<b>136</b>
<b><u>ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES</u></b>	<b>137</b>
<b><u>ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS</u></b>	<b>137</b>
<b><u>ITEM 15. CONTROLS AND PROCEDURES</u></b>	<b>137</b>
<b><u>ITEM 16.</u></b>	<b>139</b>
<u>16.A AUDIT COMMITTEE FINANCIAL EXPERT</u>	139
<u>16.B CODE OF ETHICS</u>	139

**Table of Contents**

<u>16.C PRINCIPAL ACCOUNTANT FEES AND SERVICES</u>	139
<u>16.D EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES</u>	139
<u>16.E PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED</u>	
<u>PURCHASERS</u>	140
<u>16.F CHANGE IN REGISTRANT S CERTIFYING ACCOUNTANT</u>	140
<u>16.G CORPORATE GOVERNANCE</u>	140
<u>16.H MINE SAFETY DISCLOSURE</u>	145
<b><u>ITEM 17. FINANCIAL STATEMENTS</u></b>	<b>145</b>
<b><u>ITEM 18. FINANCIAL STATEMENTS</u></b>	<b>145</b>
<b><u>ITEM 19. EXHIBITS</u></b>	<b>145</b>

**Table of Contents**

**INTRODUCTION**

This is the 2016 annual report for Turkcell Iletisim Hizmetleri A.S. ( Turkcell ), a joint stock company organized and existing under the laws of the Republic of Turkey. The Company , we , us , our , Group and similar terms refer to Turkcell, its predecessors, and its consolidated subsidiaries, except as the context otherwise requires.

Our audited Consolidated Financial Statements as of December 31, 2016 and 2015 and for each of the years in the three-year period ended December 31, 2016 included in this annual report have been prepared in accordance with International Financial Reporting Standards ( IFRS ) as issued by the International Accounting Standards Board ( IASB ).

Certain figures included in this annual report have been subject to rounding adjustments. Accordingly, figures shown for the same category presented in different tables may vary slightly, and figures shown as totals in certain tables may not total exactly. In this annual report, references to TL , TRY and Turkish Lira are to the Turkish Lira, and references to \$ , U.S. Dollars , USD , U.S. \$ and cents are to U.S. Dollars and, except as otherwise noted, all interest rates are per annum basis. In this annual report, references to Turkey or the Republic are to the Republic of Turkey.

Statements regarding our market share and total market size in Turkey are based on the Information and Communication Technologies Authority s ( ICTA ) or operators announcements, and statements regarding penetration are based on the Turkish Statistical Institute s ( TUIK ) announcements pertaining to the Turkish population. Furthermore, statements regarding our 2G coverage are based on the ICTA s specifications as well as the TUIK s announcements, and statements regarding our 3G coverage are based on the ICTA s 3G coverage calculation specifications issued on April 25, 2012. Statements regarding 4.5G coverage and performance are based on our own calculations, pending publication of ICTA specifications.

References to the Information and Communication Technologies Authority or the ICTA include its predecessor entity, the Telecommunications Authority.

We have not independently verified the information in industry publications or market research, although management believes the information contained therein to be reliable. We do not represent that this information is accurate.

The methodology for calculating performance measures such as subscriber numbers, average revenue per user ( ARPU ) and churn rates varies substantially among operators and is not standardized across the telecommunications industry, and reported performance measures thus vary from those that would probably result from the use of a single methodology. In addition, subscriber numbers in the mobile communications sector may be difficult to calculate as a result of individuals having more than one SIM card or SIM cards being removed due to periods of inactivity. The differing methodologies for calculating these performance indicators make it difficult to draw comparisons between these figures for, and to determine the relative market share of, different mobile operators.



**Table of Contents**

**FORWARD-LOOKING STATEMENTS**

This annual report includes forward-looking statements within the meaning of Section 27A of the U.S. Securities Act of 1933, as amended, Section 21E of the U.S. Securities Exchange Act of 1934, as amended, and the Safe Harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. All statements other than statements of historical facts included in this annual report, 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 *may*, *will*, *expect*, *intend*, *estimate*, *anticipate*, *believe*, *continue*, or similar statements.

Although we believe that the expectations reflected in such forward-looking statements are reasonable at this time, we 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. Important factors that could cause actual results to differ materially from our expectations are contained in cautionary statements in this annual report, including, without limitation, in conjunction with the forward-looking statements listed below, and include, among others, the following:

competition in our main market;

increased competition and/or the entrance of new direct and indirect competitors in the market due to new applications and regulatory changes in Turkey with respect to certain technologies;

the refocusing of our business strategy in Turkey and the execution of this strategy by our new senior management team;

failure to successfully integrate and manage the new opportunities we pursue new business models, new technologies and international activities;

regulatory decisions and changes in the regulatory environment;

managing changes in our liquidity position and increased indebtedness and finance costs;

failure to abide by the requirements of our licenses or applicable regulations, including new requirements regarding personal data protection in Turkey and local-sourcing requirements for the development of our 4.5G license in Turkey;

economic and political developments in Turkey and internationally;

exposure to certain risks through our interests in associated companies, including due to political instability in Ukraine;

foreign exchange rate risks;

reduction in cash generated from operations and increased capital needs, which may increase our borrowing requirements, and consequently, our finance costs and exposure to the risks associated with borrowing;

our ability to deal with spectrum limitations;

zoning limitations related to our Base Transceiver Stations ( BTS ) and potential increase in coverage requirements;

potential liability and possible reduced usage of mobile phones as a result of alleged health risks related to BTSs and the use of handsets;

our dependence on certain suppliers for network equipment and the provision of data services;

Turkcell s complex ownership structure and ongoing disagreements among our main shareholders;

our dependence on certain systems and suppliers for network technology and IT services and our exposure to potential natural disasters, regular or severe IT and network failures, human error, security breaches and other cybersecurity incidents and IT migration risk;

technological changes in the telecommunications market;

our dependence on third party providers to help us navigate the regulatory, security and business risks of industries where we traditionally do not compete;

our ability to retain key personnel and distributors;

**Table of Contents**

legal actions and claims to which we are a party; and

inherent limitations of the effectiveness of our internal control over financial reporting.

All subsequent written and oral forward-looking statements attributable to us are expressly qualified in their entirety by reference to these cautionary statements.

**Table of Contents****ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

Not Applicable.

**ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE**

Not Applicable.

**ITEM 3. KEY INFORMATION****3.A Selected Financial Data**

Our audited annual Consolidated Financial Statements including our consolidated statements of financial position as of December 31, 2016 and 2015 and our consolidated statements of profit and loss, comprehensive income, changes in equity and cash flows for the three years in the period ended December 31, 2016 ( Annual Consolidated Financial Statements ) included in this annual report have been prepared in accordance with International Financial Reporting Standards ( IFRS ) as issued by the International Accounting Standards Board ( IASB ).

Effective from the fourth quarter of 2015, our financial statements have been presented in TRY only, the currency in which we recognize the majority of our revenues and expenses. We no longer present financial statements in USD. This change has allowed us to align our Turkish and US reporting.

The following information should be read in conjunction with Item 5. Operating and Financial Review and Prospects , our audited Consolidated Financial Statements as of December 31, 2016, 2015 and 2014, and the related consolidated statements of profit and loss, comprehensive income, changes in equity, and cash flows for the years ended December 31, 2016, 2015 and 2014, and the related notes appearing elsewhere in this annual report.

The following table presents our selected consolidated statements of operations, statement of financial position and cash flows data as of and for each of the years in the four-year period ended December 31, 2016, presented in accordance with IFRS as issued by the IASB which have been derived from our audited Consolidated Financial Statements as of and for the year ended December 31, 2016; and our selected consolidated statements of operations, statement of financial position and cash flows data as of and for one-year period ended December 31, 2012, presented in accordance with IFRS as issued by the IASB which have been derived from our accounting records as of and for the year ended December 31, 2012. Our financial statements for 2012 were originally published in U.S. dollars and were audited.

	2016	2015	2014	2013	2012
	(Million TRY, except share data and certain other data)				
<b>Selected Financial Data Prepared in Accordance with IFRS as Issued by the IASB</b>					
<b>Consolidated Statement of Operations Data</b>					
Total revenues <sup>(1)</sup>	14,285.6	12,769.4	12,043.6	11,407.9	10,507.0
Direct cost of revenues <sup>(2)</sup>	(9,236.6)	(7,769.5)	(7,383.9)	(7,063.9)	(6,487.3)

Edgar Filing: TURKCELL ILETISIM HIZMETLERI A S - Form 20-F

Gross profit	5,049.0	4,999.9	4,659.7	4,344.0	4,019.7
Other income	78.6	44.5	58.9	35.5	32.3
Administrative expenses	(721.8)	(625.3)	(562.7)	(550.3)	(484.2)
Selling and marketing expenses	(1,910.9)	(1,901.9)	(1,974.6)	(1,843.6)	(1,705.7)
Other expenses	(312.8)	(270.4)	(135.2)	(94.4)	(137.5)
Results from operating activities	2,181.9	2,246.8	2,046.1	1,891.2	1,724.6
Finance income	1,064.8	756.1	955.4	759.9	691.7
Finance costs	(1,237.6)	(799.5)	(1,247.0)	(204.6)	(224.2)
Net finance income/(costs)	(172.8)	(43.4)	(291.6)	555.3	467.5
Monetary gain <sup>(3)</sup>			205.1	176.9	169.9
Share of profit of equity accounted investees <sup>(4)</sup>			4.5	(0.7)	(37.6)
Profit before income taxes	2,009.1	2,203.3	1,964.0	2,622.7	2,324.3

**Table of Contents**

	2016	2015	2014	2013	2012
	(Million TRY, except share data and certain other data)				
Income tax expense	(423.2)	(667.1)	(730.4)	(591.4)	(522.5)
Profit from continuing operations	1,586.0	1,536.2	1,233.6	2,031.3	1,801.8
Profit/ (loss) from discontinued operations <sup>(4)</sup>	(42.2)	367.3	202.8	298.0	256.1
Profit for the period	1,543.8	1,903.6	1,436.5	2,329.3	2,058.0
Attributable to:					
Equity holders of the Company	1,492.1	2,067.7	1,864.7	2,325.9	2,079.0
Non-controlling interest	51.7	(164.1)	(428.2)	3.4	(21.0)
Profit for the period	1,543.8	1,903.6	1,436.5	2,329.3	2,058.0
Basic earnings per share Total Group	0.68	0.94	0.85	1.06	0.95
Basic earnings per share- from continuing operations	0.70	0.77	0.76	0.92	0.83
<b>Consolidated Statement of Financial Position Data (at period end)</b>					
Cash and cash equivalents	6,052.4	2,918.8	9,031.9	8,128.9	6,998.9
Total assets	31,600.2	26,207.3	23,694.2	21,284.6	18,687.4
Long-term debt <sup>(5)</sup>	6,935.1	3,487.8	1,247.9	1,528.5	1,103.8
Total debt <sup>(6)</sup>	9,781.2	4,214.2	3,697.7	3,332.5	3,039.6
Total liabilities	15,531.8	11,788.4	6,983.6	6,549.5	5,923.7
Share capital	2,200.0	2,200.0	2,200.0	2,200.0	2,200.0
Total equity/net assets	16,068.4	14,418.9	16,710.6	14,735.1	12,763.7
Weighted average number of shares <sup>(7)</sup>	2,193,184,437	2,200,000,000	2,200,000,000	2,200,000,000	2,200,000,000
<b>Consolidated Cash Flows Data<sup>(8)</sup></b>					
Net cash generated by operating activities	607.1	1,901.3	1,990.8	2,210.6	2,122.7
Net cash (used in)/ generated by investing activities	(2,976.7)	(3,563.0)	(1,378.0)	(1,084.0)	543.4
Net cash generated by/(used in) financing activities	4,839.0	(4,887.4)	93.0	(232.0)	(309.9)
<b>Other Financial Data</b>					
			794.0	990.0	885.0

Dividends declared or proposed <sup>(9)(10)</sup>					
Dividends per share (declared or proposed) <sup>(10)</sup>			0.36	0.45	0.40
Gross margin <sup>(11)</sup>	35%	39%	39%	38%	38%
Adjusted EBITDA <sup>(12)</sup>	4,619.5	4,140.5	3,761.8	3,544.5	3,241.5
Capital expenditures	3,494.7	8,536.2	2,144.8	1,822.3	1,738.8

- (1) Total revenues includes Telecommunication services, equipment revenues, revenue and commission fees on betting business, call center revenues and revenues from financial services (Note 7).
- (2) Direct cost of revenues includes payments for our treasury share (the amount paid to the government under our license) and universal service fund, transmission fees, base station rent and energy expenses, billing costs, depreciation and amortization charges, technical, repair and maintenance expenses, roaming charges, interconnection fees, costs of simcards sold, handset costs where we are the principal in the sale of handsets and personnel expenses related to our technicians and direct cost of revenues from financial operations (Note 12).
- (3) Hyperinflationary period lasted until 31 December 2005 in Turkey and commenced on January 1, 2011 in Belarus. In the financial statements of subsidiaries operating in Belarus, restatement adjustments have been made to compensate the effect of changes in the general purchasing power of the Belarusian Ruble in accordance with IAS 29. IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. The economy of Belarus was considered to transit out of hyperinflationary status and we determined to cease applying IAS 29 starting from January 1, 2015. Therefore, subsidiaries operating in Belarus have not applied IAS 29 in 2015.

---

**Table of Contents**

- (4) Turkcell's ownership in A-Tel was sold to Bereket Holding A.S. for a consideration of TL 31.0 million in 2014. The Company accounted its joint venture A-Tel by applying equity method accounting until August, 27 2014. We have announced our intention to exit from jurisdictions in which Fintur operates and initiated an active program to locate a buyer for our stake. Fintur is now classified as held for sale and reported as discontinued operations (Note 17).
- (5) Long-term debt consists of long-term loans and borrowings, debt securities issued as well as long-term lease obligations.
- (6) Total debt consists of long-term and short-term loans and borrowings, debt securities issued as well as lease obligations.
- (7) The Company has purchased 6,815,563 shares back with a price range of full TL 8.92 to 9.99 as part of the share buyback decision on 27 July 2016. The transactions amount to TL 65,607 million. Treasury shares are deducted from Equity (Notes 25 and 26).
- (8) The presentation of statement of cash flows for the year ended December 31, 2015 has been revised in 2016, For details please refer to 18.A Financial Statements Note 2.
- (9) The Ordinary General Assembly meeting of our Company pertaining to the years 2010, 2011, 2012, 2013 and 2014 approved a dividend in respect of these years amounting to TRY 3,925 million, which represented 42.5% of net distributable income. The dividend was paid to shareholders on April 6, April 8 and April 13, 2015.
- (10) Dividends per share was computed over 2,200,000,000 shares. The dividends per share were TRY 0.40, TRY 0.45 and TRY 0.36 for the years ended 2012, 2013 and 2014 respectively (equivalent to \$0.11, \$0.13, and \$0.10 respectively as of December 31, 2016).
- (11) Gross margin is calculated as gross profit divided by total revenues.
- (12) Adjusted EBITDA is a non-GAAP financial measure that is defined as the profit of the Company for the period before finance income, finance costs, income tax expense, other income, other expense, monetary gain, profit or loss from discontinued operations and depreciation and amortization. A reconciliation of Adjusted EBITDA to net income is presented below.

**Non-IFRS measures**

Adjusted EBITDA is a non-GAAP financial measure that is defined as the profit of the Company for the period before finance income, finance costs, income tax expense, other income, other expense, monetary gain, profit or loss from discontinued operations, share of profit of equity accounted investees and depreciation and amortization. Our management reviews Adjusted EBITDA as a key indicator each month to monitor our financial performance. Net income is also considered by our management as an indicator for our overall business performance which includes results from our operations, financing and investing activities. Adjusted EBITDA is not a measurement of financial performance under IFRS and should not be construed as a substitute for profit for the period as a measure of performance or cash flow from operations as a measure of liquidity.

We believe Adjusted EBITDA, among other measures, facilitates performance comparisons from period to period and management decision making. It also facilitates performance comparisons from company to company. Adjusted EBITDA as a performance measure eliminates potential differences caused by variations in capital structures (affecting interest expense), tax positions (such as the impact of changes in effective tax rates on periods or companies) and the age and book depreciation and amortization of tangible and intangible assets (affecting relative depreciation and amortization expense). We also present Adjusted EBITDA because we believe it is frequently used by securities analysts, investors and other interested parties in evaluating the performance of other mobile operators in the telecommunications industry in Europe, many of which present Adjusted EBITDA when reporting their results.

Nevertheless, Adjusted EBITDA has limitations as an analytical tool, and you should not consider it in isolation from, or as a substitute for analysis of, our results of operations, as reported under IFRS.



Some of these limitations are:

it does not reflect our cash expenditures or future requirements for capital expenditures or contractual commitments;

it does not reflect changes in, or cash requirements for, our working capital needs;

it excludes share of profit of equity announced investees and discontinued operations;

**Table of Contents**

it does not reflect the interest expense, or the cash requirements necessary to service interest or principal payments, on our debt;

it excludes depreciation, amortization and impairments and although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and Adjusted EBITDA does not reflect any cash requirements for such replacements;

it does not reflect other income and expense items which are generally outside the scope of our ordinary operations;

it is not adjusted for all non-cash income or expense items that are reflected in our consolidated statement of cash flows; and

other companies in our industry may calculate this measure differently from how we do, which may limit its usefulness as a comparative measure.

We compensate for these limitations by relying primarily on our results under IFRS and using Adjusted EBITDA measures only supplementally. See Item 5. Operating and Financial Review and Prospects and the Consolidated Financial Statements contained elsewhere in this annual report.

The following table provides a reconciliation of Adjusted EBITDA, as calculated using financial data prepared in accordance with IFRS as issued by the IASB, to net profit, which we believe is the most directly comparable financial measure calculated and presented in accordance with IFRS as issued by the IASB.

	<b>Year ended December 31,</b>				
	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
	<b>(Million TRY)</b>				
Adjusted EBITDA	4,619.5	4,140.5	3,761.8	3,544.5	3,241.5
Finance income/(costs)	(172.8)	(43.4)	(291.6)	555.3	467.5
Monetary gain			205.1	176.9	169.9
Other operating income/(expense)	(234.2)	(225.9)	(76.3)	(58.9)	(105.2)
Depreciation and amortization	(2,203.3)	(1,667.8)	(1,639.4)	(1,594.4)	(1,411.7)
Share of profit of equity accounted investees			4.5	(0.7)	(37.6)
Consolidated profit before income tax	2,009.1	2,203.3	1,964.0	2,622.7	2,324.3
Income tax expense	(423.2)	(667.1)	(730.4)	(591.4)	(522.5)
Profit or (loss) from discontinued operations	(42.2)	367.3	202.8	298.0	256.1
Profit for the period	1,543.8	1,903.6	1,436.5	2,329.3	2,058.0

**Table of Contents**

The following table presents selected operational data:

**I. Operating Results**

	As of and for the year ended December 31,		
	2016	2015	2014
<b>Industry Data</b>			
Population of Turkey (in millions) <sup>(1)</sup>	79.8	78.7	77.7
<b>Turkcell Data<sup>(2)</sup></b>			
Number of mobile postpaid subscribers at end of period (in millions) <sup>(3)</sup>	17.4	16.6	15.2
Number of mobile M2M subscribers at end of period (in millions)	2.1	1.9	1.5
Number of mobile prepaid subscribers at end of period (in millions) <sup>(3)</sup>	15.7	17.4	19.4
Number of fiber subscribers at end of period (in thousands)	1,043.9	899.4	735.1
Number of ADSL subscribers at end of period (in thousands)	818.0	620.8	456.2
Number of IPTV subscribers at end of period (in thousands)	359.7	223.7	60.1
Total Turkcell Turkey subscribers at end of period (in millions)	35.3	35.8	35.9
Total Turkcell Group subscribers at the end of period (in millions) <sup>(4)</sup>	50.1	51.6	52.0
Mobile average monthly revenue per user (in TRY) <sup>(5)</sup>	26.8	24.5	22.5
Postpaid	39.2	38.5	37.7
Postpaid (excluding M2M)	44.0	42.7	41.5
M2M	3.3	3.3	3.2
Prepaid	13.9	12.4	11.6
Fixed Residential average monthly revenue per user (in TRY) <sup>(5)</sup>	51.1	48.7	47.4
Mobile average monthly minutes of use per subscriber <sup>(6)</sup>	323.9	296.6	275.3
Mobile Churn <sup>(7)</sup>	24.7%	27.3%	28.3%
Fixed Churn <sup>(8)</sup>	18.9%	16.7%	17.7%
Number of Turkcell employees at end of period	3,870	3,851	3,319
Number of employees of consolidated subsidiaries at end of period <sup>(9)</sup>	15,129	12,798	12,311

(1) The population of Turkey for 2016, 2015, and 2014 is based on TUIK's announcements.

(2) For a discussion of how these metrics affect our revenues, please see Item 5A. Operating Results, VI. Year Ended December 31, 2016 Compared to the Year Ended December 31, 2015 a. Revenues.

(3) Subscriber numbers do not include subscribers in Ukraine, Belarus, Northern Cyprus and Germany.

(4) Subscriber numbers include subscribers in Ukraine, Belarus, Northern Cyprus and Germany.

(5) We calculate average revenue per user ( ARPU ) using the weighted average number of our mobile and fixed subscribers in Turkey during the period.

(6) Average monthly minutes of use per subscriber is calculated by dividing the total number of incoming and outgoing airtime minutes of use by the average monthly sum of postpaid and prepaid mobile subscribers in Turkey for the year divided by twelve.

(7) Churn rate is the percentage calculated by dividing the total number of subscriber disconnections during a certain period by the average number of subscribers for the same period. For these purposes, we define average number of subscribers as the number of subscribers at the beginning of the period plus one half of the total number of gross subscribers acquired during the period. Churn refers to our mobile subscribers in Turkey that are both

voluntarily and involuntarily disconnected from our network. Additionally, in the fourth quarter of 2015, 379 thousand subscriptions and in the first quarter of 2016, 196 thousand subscriptions which were not topped-up within the stipulated period were also disconnected.

(8) Fixed churn rate represents the rate of subscriber disconnections during a certain period and is calculated by dividing the total number of subscriber disconnections during a certain period by the average number of subscribers for the same period. For these purposes, we define average number of subscribers as the number of subscribers at the beginning of the period plus one half of the total number of gross subscribers acquired during the period. Churn refers to our fixed subscribers in Turkey that are both voluntarily and involuntarily disconnected from our network. Fixed churn rate includes switches between Fiber and ADSL.

(9) See Item 6.D. Employees for information concerning our consolidated subsidiaries.

## **II. Exchange Rate Data**

The Federal Reserve Bank of New York does not report, and historically has not reported, a noon buying rate for the Turkish Lira. For the convenience of the reader, this annual report presents translations of certain Turkish Lira amounts into U.S. Dollars at the relevant Turkish Lira exchange rate for purchases of U.S. Dollars at the \$/TRY exchange rate announced by the Central Bank of Republic of Turkey ( CBRT ). The assets and

**Table of Contents**

liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to TRY from the functional currency of the foreign operation at foreign exchange rates prevailing at the reporting date. The income and expenses of foreign operations are translated to TRY at monthly average exchange rates excluding foreign operations in hyperinflationary economies which are translated to TRY at exchange rates at the reporting date.

The income and expenses of foreign operations in hyperinflationary economies are translated to TRY at the exchange rate at the reporting date. Prior to translating the financial statements of foreign operations in hyperinflationary economies, their financial statements for the current period are restated to account for changes in the general purchasing power of the local currency. The restatement is based on relevant price indices at the reporting date. As stated in the annual monetary and exchange rate policy announcements of the CBRT, which have been published since 2002, the foreign exchange rate is not a policy tool or target; it is determined by the supply and demand conditions in the market. Along with inflation targeting, the CBRT continued to support financial stability and the implementation of the floating exchange rate regime in 2016.

The hyperinflationary period in Turkey ceased by December 31, 2005 and commenced in Belarus on January 1, 2011 and ceased by January 1, 2015. Accordingly, the economy of Belarus was considered to transit out of hyperinflationary status and we determined to cease applying IAS 29 starting from January 1, 2015. The following table sets forth, for the periods and the dates indicated, the CBRT's buying rates for U.S. Dollars. These rates may differ from the actual rates used in preparation of our Consolidated Financial Statements and other information appearing herein. The \$/TRY exchange rate on March 10, 2017 was TRY 3.7522= \$1.00.

	2017 <sup>(2)(3)</sup>	2016 <sup>(2)</sup>	2015 <sup>(2)</sup>	2014 <sup>(2)</sup>	2013 <sup>(2)</sup>	2012 <sup>(2)</sup>
High	3.878	3.534	3.060	2.367	2.160	1.889
Low	3.519	2.793	2.278	2.071	1.746	1.734
Average <sup>(1)</sup>	3.702	3.021	2.720	2.188	1.901	1.793
Period End	3.752	3.519	2.908	2.319	2.134	1.783

Source: CBRT

- (1) Calculated based on the average of the daily exchange rates of each month during the relevant period.
- (2) These columns set forth the CBRT's buying rates for U.S. Dollars expressed in Turkish Lira.
- (3) Through March 10, 2017.

	March 2017 <sup>(1)</sup>	February 2017	January 2017	December 2016	November 2016	October 2016
High	3.752	3.787	3.878	3.534	3.440	3.100
Low	3.608	3.569	3.519	3.367	3.098	3.000

Source: CBRT

- (1) Through March 10, 2017.

No representation is made that Turkish Lira or the U.S. Dollar amounts as presented in this annual report could have been or could be converted into U.S. Dollars or Turkish Lira, as the case may be, at any particular rate. For a discussion of the effects of fluctuating exchange rates on our business, see Item 5A. Operating Results .

**3.B Capitalization and Indebtedness**

Not applicable.

**3.C Reasons for the Offer and Use of Proceeds**

Not applicable.

**3.D Risk Factors**

*The following is a discussion of those risks that we believe are the principal material risks faced by our Company and its subsidiaries. No assurance can be given that risks that we do not believe to be material today will not prove to be material in the future. Consequently, the risks described below should not be considered to be exhaustive.*

## Table of Contents

### **Competition in the Turkish telecommunications market may adversely affect the growth of our business and our financial condition.**

The majority of our revenue comes from our operations in Turkey. Competition in this market and certain regulatory actions that limit our ability to respond effectively to competitive pressures may adversely affect the growth of our business and our financial condition. Continued price competition and higher incentive-driven competition has, and will continue to, put pressure on our prices, market shares and profitability, as well as our liquidity. If the competition further intensifies, or the market slows or develops in unexpected ways, this could harm our business and financial condition.

In this market, we currently face intense competition from two other operators, Vodafone and Turk Telekom Group, both of which have recently experienced changes in senior management, which may result in changes in their strategies. As part of the changes to our own strategy announced in 2015, we are taking an integrated approach to the mobile, fixed and TV businesses. When viewing mobile and fixed as a single converged market, we are the second largest player in Turkey in terms of revenue, after the Turk Telekom Group, whereas when viewing the mobile market alone, we are the market leader.

In light of this newly-defined strategy and market, our aim is to solidify our position in Turkey as a converged communications and technology services company. However, our convergence strategy faces numerous challenges, including gaining access to the installed infrastructure, particularly from the incumbent operator, and to content. We also face the challenge of building or acquiring required assets at a reasonable cost. Furthermore, within our own organization, legal impediments prevent us from freely marketing all of our services to all of our subscribers.

In line with our strategy, we are currently in discussion with Turksat, a satellite and cable TV operator in Turkey, Vodafone, and TELKODER, the association of small ISPs of Turkey, to create a joint venture that would deploy fiber infrastructure in Turkey. No assurance can be given that these discussions will be successful. If the joint venture is established, the associated costs and regulatory hurdles are likely to be significant and the sharing of infrastructure may have an impact on the way we market fiber services and on the competitive landscape in the fiber market. In this regard, no decision has yet been taken regarding the contribution of our existing fiber infrastructure to the proposed joint venture.

As other operators in Turkey are also moving towards converged services, aggressively priced converged offers may have an adverse effect on our revenue, ARPU and our market share. Furthermore, convergence may increase the level of competition from other operators that have not been our traditional competitors, such as television service providers, that may prevent us from acquiring new customers.

In the past, Turkey's principal telecommunications regulator, the ICTA, interfered with our ability to price our services and respond to competitive pressures. Regulatory actions such as the ICTA's regulations on our retail pricing and maximum retail prices had been a significant factor in shaping the development of the Turkish market and in our ability to respond to changes in the market. Regulatory actions have often favored our competitors, such as interconnection rates which have been set asymmetrically and have facilitated increased competition. Although the ICTA's maximum and minimum retail price regulations have been lifted, it is possible that the ICTA may act to regulate other areas of our business, including converged offers, and we cannot predict the impact that such regulation would have on our ability to execute our convergence strategy and on our competitive position and also the removal of the minimum retail price regulation may change the market dynamics. Furthermore, sub-brand initiatives of the existing competitors, and new licenses and authorizations issued by the regulator such as Fixed Telephony Service ( FTS ) and Mobile Virtual Network Operator ( MVNO ) licenses have made it easier and/or more attractive for new direct and indirect competitors to enter the market.

Competition has also been affected by the increasing use of applications and services that make use of the internet as a substitute (namely over the top , or OTT services) for some of our more traditional services, such as messaging and voice. These have had an adverse impact on our revenues which may in the future be material. Reduced demand for our core services of voice, messaging and data could significantly impact our growth and profitability.

In some businesses, we are dependent on our competitors for certain services that we provide. For example, we are reselling xDSL from the incumbent operator Turk Telekom and we are dependent on their sales service in this business. Therefore, any delay or negligence of Turk Telekom could result in dissatisfaction of our customer end and lead to churn of our xDSL subscribers.



## Table of Contents

With respect to terminals, there is an increasing emphasis in the Turkish market on terminal bundled campaigns. Increased demand for terminal bundled campaigns will continue to lead to higher working capital requirements and bad debt expense. Working capital requirements related to terminal financing and bad debt expenses are being managed by our consumer finance company, which commenced operations in 2016. Our consumer finance company is exposed to changes in the economic environment in Turkey and may encounter increased credit default risk, particularly as its credit portfolio increases or in the event of degradation in the economic environment. Furthermore, the demand for consumer loans might be negatively affected in case of an increase in interest rates.

We are in process of restructuring our sales channel and renovating Turkcell stores (TİM). Any delay in store renovation, roll-out execution or disagreement with dealers could lead to a loss of customers or loss of key locations.

Competition in the market may also be adversely affected by changes in a number of other areas that are not specific to telecommunications, tax (in particular taxes on our services and on mobile devices), increases in interest rates, depreciation of the Turkish Lira against U.S. Dollar or Euro, macroeconomic developments and changes in consumer behavior, which could in turn adversely affect our financial results and the development of our business.

**Our growth strategy is partly dependent on new investment opportunities, which could affect our business and financial condition, and the return on our investments cannot be guaranteed.**

In addition to growing our existing business, our strategy for growth involves selectively seeking and evaluating new investment opportunities and participating in those meeting our criteria. We intend to pursue inorganic growth opportunities both in Turkey and in countries where we believe we can replicate our business model, including countries with a cultural affinity and similar dynamics to our domestic and international markets in order to be able to leverage our experience and technological base. These opportunities may include alliances, such as MVNOs, management service agreements and marketing partnerships, and may be in the area of mobile or fixed telecommunications and services. In accordance with our convergence strategy, the opportunities that we pursue in some markets, including Turkey, may include services that would be adjacent or complementary to services that we already offer in such market. In addition, we may provide services in related areas and also consider investing or increasing our investments in business areas outside of the scope of our core business.

Telia Company, the majority shareholder of Fintur Holdings B.V. ( Fintur ) through its 58.55% stake, has initiated a process to divest its Eurasian assets on September 17, 2015. In line with our growth strategy and as the minority (41.45%) shareholder in Fintur (operating in Kazakhstan, Azerbaijan, Georgia and Moldova), we submitted a binding offer to acquire Telia Company's 58.55% stake in Fintur and its 24% direct stake in Kcell JSC (Kazakhstan) on February 26, 2016. However, negotiations with Telia Company were inconclusive. We have since announced our intention to exit from jurisdictions in which Fintur operates and initiated an active program to locate a buyer for our stake. Fintur is now classified as held for sale and reported as discontinued operations. No assurance can be given that we will successfully or completely exit on commercially viable terms. We may also decide not to sell and it is still possible that we could buy out the majority shareholder, which would likely lead to an increase in our debt and increases in our exposure to macroeconomic risks in the Fintur countries, to fluctuations in currencies that have been prone to devaluation, to countries that have a high risk of corruption and to other compliance issues. Fintur has been the subject of allegations of corruption in the past, often as part of broader allegations against Telia Company and certain of its subsidiaries. Furthermore, in the case of an acquisition, we would be exposed to risks in our ability to successfully integrate these companies, their systems and their networks and to implement new strategies, and to the reaction of customers, competitors and regulators. If we do not completely exit or acquire Fintur, we also face the risk that the majority shareholder may sell to another party, leaving us as a minority shareholder with a new majority shareholder not chosen by us or that we may disagree with. Should there be a disagreement between us and the other shareholder (Telia Company or a successor) in the future, no assurance can be given that we will be able to take the

course of action that we believe appropriate, including with respect to operational and strategic matters.

New investments may not achieve expected returns or returns that are in line with those of our core business, which may cause high value erosion. In many of the markets and businesses in which we have invested or may invest, it may take several years and significant investments to achieve desired profitability, if at all. As part of our strategy to become an integrated player, we may consider acquiring fixed operators in certain of the markets in which we operate. Any such acquisition would increase risks associated to these countries and to this type of business. If we become a minority shareholder in an investment, we might encounter difficulties for the

## **Table of Contents**

protection of our minority shareholder rights. In addition, if an asset in which we have invested does not provide the expected returns, we may need to make further investment or we may consider disposal at a sale price that may be below carrying value or liquidation.

In the context of our evaluation of potential investments in the regions we target for international expansion, Turkcell has considered opportunities in countries in the Commonwealth of Independent States (CIS), Eastern Europe, the Balkans and the Middle East and Africa ( MEA ), and may consider such opportunities in the future. Operations in many of these countries are subject to economic, political and other risks. Furthermore, for acquisitions outside of Turkey, current and future E.U., U.S. and international laws and regulations, as well as legal and regulatory actions, targeting certain countries, local companies and individuals may curtail our ability to do business in affected countries and may impede our exercise of control. Turkcell itself, as well as certain of its key employees (notably those who are E.U. or U.S. citizens), could be subject to sanctions under such laws and regulations. Some of the countries and companies in which we have contemplated making investments and in which we may from time to time consider opportunities, and certain individuals involved in such companies, have been the specific targets of such laws and regulations. Similarly, jurisdictions in which we have invested may from time to time become subject to sanctions, as has been the case in Crimea. Investors may be reticent to invest in a company doing business in such countries or other countries that may be at risk due to the political instability. These factors could have an adverse effect on the demand for and the price of our shares.

### **Regulatory decisions and changes in the regulatory environment could adversely affect our business and financial condition.**

Our industry is subject to extensive regulation, in Turkey and the other countries in which we operate. Compliance with new and existing laws and regulations has had and is likely to continue to have a significant impact on the ways in which we do business. This may include but is not limited to the impact on our ability to set our pricing and offer new and existing services, including converged services, on customer use of our services, the way we handle, process and store customer data, the terms of our subscriber contracts, the way we can communicate with customers, including in particular our ability to contact subscribers with new converged offers, and our ability to obtain and maintain licenses. Furthermore, the laws, regulations, regulatory orders and licenses under which we operate are subject to interpretation and enforcement by regulators with which we are not always in agreement. Complying with regulations may be costly, and failure to comply may lead to significant penalties, adverse publicity and the loss of licenses in the affected line of business or country and could adversely affect our business and financial condition. Furthermore, our licenses generally have specified terms and renewal is not assured. For more information on regulation and how it may impact our business, see Item 4.B. Business Overview Regulation of the Turkish Telecommunications Industry .

Pricing is one of the key areas in which we are subject to regulation. The actions of the ICTA and the Ministry of Transport, Maritime Affairs and Communications in our voice, SMS, data, value added services, roaming and interconnection pricing have, and will continue to, negatively affect our pricing and our ability to design and launch campaigns and offers. Consequently, these actions have and will continue to adversely affect our business and financial condition. For more information, see Item 4.B. Business Overview Regulation of the Turkish Telecommunications Industry . In addition, the ICTA has determined and may in the future determine that we are an operator with significant market power and as a result impose certain constraints on us, while imposing less stringent ones on other mobile and fixed telecommunications operators in the market, both of which may adversely affect our business and financial condition. Recently the ICTA imposed new rules regarding the proration of service fees for postpaid subscribers that will lead to revenue loss.

The ICTA is currently considering new regulations or changes to regulations in a number of areas that could affect our business, including the following:

An ICTA decision relating to the cost of ISP access to the Turk Telekom network (effective from October 2016) and possible changes in Fair Usage Policy in the fixed broadband market, have had and may have a negative effect on our cost structure, as we may be required to provide additional service and incur additional access costs that we cannot fully charge for. This problem will increase as customer traffic increases, which we expect to occur, in particular as a result of increases in demand for videos, increased use of OTT apps and increased smartphone penetration. We have proposed a change in the pricing model to the ICTA, but no assurance can be given that this will be accepted.

The ICTA has taken decisions in the fiber market that have favored the incumbent Turk Telekom, in particular exempting the fiber market from market analysis. This exemption has expired in October 2016, but in order to maintain their competitive advantage, Turk Telekom has requested an extension. No assurance can be given that this will not be granted.

## Table of Contents

ICTA has extended its Double opt-in rule (requiring consumers to submit two approvals before purchasing value added services) from game and music services to all value added services that are purchased via SMS. This makes it more difficult to purchase our services and which may adversely affect our services revenue.

Taxation is also an area in which we are subject to specific regulations. We are already subject to a Special Communication Tax and could be adversely affected by an increase in tax rates or new taxes, including on mobile devices, data, and services. Such taxes could adversely affect consumer demand for products and services and our results of operations.

As a result of the establishment of our consumer finance company and our existing operations in mobile finance, we are subject to banking and finance laws and regulations (the principal regulator is the Banking Regulation and Supervision Agency ( BRSA )), and pursuant to our focus on services such as TV and music, we are subject to broadcasting and copyright laws and regulations. These regulations are different from those that we currently encounter in our core communications business in Turkey and we will need to obtain and develop the expertise required to comply with these laws and regulations, which may be costly. As we enter new businesses, such as energy, we will also be exposed to the regulatory regimes and decisions specific to those businesses.

### **Any downturn in the economy and instability in the political environment in Turkey and internationally may have an adverse effect on our business and financial condition.**

With a substantial portion of our revenues, assets and business derived from and located in Turkey, and denominated in Turkish Lira, adverse developments in the Turkish economy are likely to have a material adverse effect on our business and financial condition. The performance of the Turkish economy may be affected by global, regional and domestic economic and political developments. In our view, the biggest threats to the global economy, including Turkey, in 2017 are the sustainability of economic growth and the sustainability of current low energy prices, which have generally benefitted the Turkish economy and the country's current account deficit. The effect of prolonged low energy prices on commodity exporter countries in the region such as Russia, Saudi Arabia and Iran may negatively affect terms of trade between these countries and Turkey. Other potential threats to the Turkish economy result from an increasing pace of normalization of U.S. monetary policy with possible higher inflation and interest rates under the new U.S. administration, continuing Eurozone deflation risks, and geopolitical tensions with military operations in Iraq and Syria and the southeastern part of Turkey and instability in Ukraine in the Commonwealth of Independent States (CIS), the Balkans and Caucasus regions.

The Turkish economy grew for 27 successive quarters until Q3 2016, including growth of 3% in 2014 and 6.1% in 2015. The Turkish economy experienced a 1.8% contraction in the third quarter of 2016. If the Turkish economy slows or develops in unexpected ways, this may have an adverse impact on our operations and financial condition.

The Turkish economy is also sensitive to instability in the domestic political environment, which has been a factor in recent years, notably the failed July 2016 coup attempt. After this failed coup attempt, economic activity declined in the third quarter. Despite slowing domestic growth, improvement in the current account deficit was halted, in particular due to a sharp decline in tourism income. The coup attempt and regional political tensions are believed to have contributed to a 35% fall in tourist arrivals in 2016. In addition, political decisions in the countries that we serve to limit internet access (including limiting access to YouTube or Twitter) may negatively impact our revenues.

During the failed July 2016 coup attempt, we were required to provide certain communication services for free, adversely affecting our revenue. In the state of emergency that has followed, on July 21, 2016, the Turkish Capital Markets Board (the CMB ) under its Communiqué on Share Buy-backs decided to temporarily remove the limits that are applicable to public companies' acquisition of their own shares (especially the limit restricting buy-backs up to

10% of the share capital) and authorized Turkish public companies to initiate stock repurchases, even in the absence of shareholder approval. Public companies that do not currently have any share buy-back programs can acquire their own shares from the stock exchange without being subject to any limit under the Communiqué provided that they publicly disclose any such trade. No end date has been set for this temporary regime. Our company with its board resolution dated July 27, 2016, has chosen to take advantage of this authorization and set aside a maximum fund amount (TRY 150 million) for buy-backs of both shares and bonds and has purchased 6,815,563 shares in a price range of TRY 8.92 to 9.99 from September 2016 through March 10, 2017 at a cost of TRY 65.607 million. On January 30, 2017 our board increased the maximum fund amount to TRY 300 million for share buy-back, including our ADRs traded on the NYSE, and bond buy-back, allowing management to buy, sell and/or redeem these securities within the maximum fund amount.

## **Table of Contents**

This is a temporary regime that the CMB may discontinue at any time. The eventual discontinuation of this policy may have an adverse effect on the demand for shares in the Turkish market, including our shares, and lead to a decline in the prices of such shares.

**We hold interests in several companies that may expose us to various economic, business, political, social, financial, liquidity, regulatory and legal risks and may not provide the benefits that we expect, and our pursuit of acquisition opportunities may increase these risks.**

Our investments in subsidiaries and associated companies within Turkey and internationally has and is likely to continue to expose us to economic, political, social, financial, regulatory, currency devaluation and legal risks. These risks have affected and could adversely affect our result of operations and the carrying value of assets in our financial statements. Turkcell Group has investments in emerging markets including Azerbaijan, Belarus, Georgia, Kazakhstan, Moldova, the Turkish Republic of Northern Cyprus and Ukraine and has activities that involve other emerging markets. We are also exploring new opportunities, primarily in emerging markets.

Legal systems, institutions, commercial practices and economies in emerging markets tend to be relatively underdeveloped and some may also suffer from relatively high rates of fraud and corruption. Furthermore, through our subsidiaries in Turkey and internationally, we engage in businesses outside of the scope of our core mobile business. These other businesses are subject to risks that are in some respects different from those of our mobile business, such as in our new consumer finance company. We will need to obtain the expertise required to compete and operate in these new businesses, which may be costly. No assurance may be given that we will succeed and that we will not incur losses that could adversely affect our business and financial condition.

In some countries, we hold our investments with another shareholder or local government and in some cases we are a non-controlling shareholder. Should there be a disagreement between us and other shareholders, no assurance can be given that we will be able to take the course of action we believe is appropriate. In these cases, we may consider exiting, or alternatively increasing our investment in order to take control, which may be costly. Furthermore, some of the countries in which we have businesses or would consider investing, and the companies and individuals that we come into contact with, may be the target of E.U., U.S. and international sanctions, as has occurred in Crimea. There can be no assurance that political, legal, economic, social or other actions or developments in these countries or involving such companies and individuals will not have an adverse impact on our investments and businesses in these countries.

In this regard, we have and are likely to continue to experience issues in some of our international businesses that adversely affect our Company. Recent issues include the following:

Our operations in Ukraine may be adversely affected by military actions, political instability, civil unrest and economic problems in that country. Due to increased political instability in the Crimea region, we were eventually obliged to discontinue services there in the fourth quarter of 2014. We impaired our assets in the Crimea region down to their scrap value, while retaining our license and frequency rights. We are currently evaluating our options with respect to the disposal of lifecell's assets in Crimea and the actions that we may take may raise challenges with respect to compliance with lifecell's license requirements. Furthermore, the current military and political crisis in the Eastern part (mainly in Donetsk and Luhansk) with Russia remains unresolved and could lead us to evaluate our options in the Eastern region. The ongoing crisis may further adversely affect the Ukrainian economy and our results of operations in Ukraine and/or the value and security of our assets and operations there. We are unable to predict the likely course or duration of these

events, or the extent of the adverse impact that they have had and are likely to have on the telecommunications market dynamics and composition, our investment in Ukraine and our operations there.

In Ukraine, the local currency, the Ukrainian Hryvnia ( UAH ), depreciated against the U.S. Dollar by 52% in 2015 and by 13.3% in 2016. UAH appreciated by 1% against U.S. Dollar as of March 10, 2017 compared to closing rates on December 31, 2016. The UAH has been stable against the U.S. Dollar to date in 2017. The National Bank of Ukraine, among other measures, continues to impose certain restrictions on the processing of client payments by banks and on the purchase of foreign currency on the inter-bank market. There remains further currency devaluation risk as the country is suffering from continuing instability as noted above, and has a large current account deficit and high external funding needs. As of December 31, 2016, our outstanding debt balance related to our Ukrainian operations was UAH 3.1 billion (equivalent to TRY 407.2 million). lifecell s foreign currency revenues were 11% of its total revenues and its foreign currency operational expenses were estimated at 16% of total revenues as of December 31, 2016.



---

**Table of Contents**

Our development strategy in Ukraine in 2015 was marked by our acquisition of the 44.96% in lifecell that we did not own, with a view to strengthening our regional position, a restructuring of lifecell's balance sheet, and the acquisition of a 3G license at a cost of UAH 3,355 million (equivalent to TRY 434.3 million as of December 31, 2016) paid in 2015, plus UAH 358 million (equivalent to TRY 61.4 million as of December 31, 2016) paid in 2015 for spectrum conversion and an additional UAH 426 million (equivalent to TRY 51.6 million) committed to be paid and indexed to inflation. These increases in our investment have further increased our country and currency risk exposure.

A tender to issue 4G licenses could be held in 2017 on the basis of a July 2015 presidential decree on the introduction of 4G in Ukraine. There is no assurance that we would be successful in our bid to win a license, which would put us at a competitive disadvantage. The 4G license fee may be prohibitively high and significant deployment costs will need to be incurred. If we were successful in obtaining a 4G license it would increase our exposure to Ukraine and there is no assurance that we could operate it profitably.

In another development, MNP may finally be launched in Ukraine in 2017. The implementation of MNP may lead to a high churn of subscribers between operators. In some cases, MNP has been more disadvantageous for the third player in the market.

A decrease in the MTR rate from UAH 0.23 to UAH 0.15 was implemented from January 1, 2017. This MTR decrease could adversely affect our profitability in Ukraine.

Apart from these economic and political risks, our operations in Ukraine could expose us also to operational, competitive, regulatory and legal risks, all of which may prevent us from delivering our strategic targets. These risks have affected and could adversely affect our result of operations.

The economic situation is fragile in Belarus. The country remains vulnerable to global shocks which may trigger renewed weakness in the country's ability to service its external debt and further depreciation of the local currency, Belarusian Rubles (BYN), which could in turn lead to a further reduction in the value of our investment in this country. The BYN depreciated against the U.S. Dollar by 57% in 2015 and further depreciated in 2016 by 5.5%. BYN appreciated by 2.3% as of March 10, 2017 based on closing rate on December 31, 2016. Devaluation risks still remain, as limited currency reserves, high debt repayments and the current account deficit coupled with the close ties to the Russian economy puts the recent BYN stabilization at risk and creates inflationary and devaluation pressure. In line with our strategic priority of improving our balance sheet structure, the outstanding debt of Belarusian Telecom has been restructured. As part of the restructuring, Belarusian Telecom's total existing intra-group loans were converted into subordinated loans, provided directly by Turkcell. As of December 31, 2016, Belarusian Telecom's outstanding debt was BYN 3.3 million (equivalent to TRY 5.6 million as of December 31, 2016) owed to financial institutions and a 612 million (equivalent to TRY 2,270 million as of December 31, 2016) subordinated loan owed to Turkcell.

In Belarus, as the third operator in the market, we face regulatory and operational difficulties. No assurance can be given that the regulatory situation will change in our favor in the future. These risks have affected and could adversely affect our result of operations.

There are ongoing political discussions regarding the reunification of Cyprus, which may bring growth opportunities for our subsidiary, Kibris Mobile Telekomunikasyon Limited, but may also lead to risks including unfavorable changes in applicable regulations, an increase in competition, an increase in capex requirements and loss of revenues. A 4G tender might be held in 2017 which could require additional investments. MNP might also be introduced in the market which may intensify the competition.

We hold a 41.45% stake in Fintur, which has operations in Kazakhstan, Azerbaijan, Georgia and Moldova, and Telia Company holds the remainder, although it has announced an intention to exit. The Group is committed to exit from Fintur as well and has initiated an active program to locate a buyer. See above for a discussion of risks relating to this effort and other possible outcomes.

The spectrum license of Fintur's subsidiary in Azerbaijan will expire in 2017. No agreement has been reached for an extension and one may not be available on commercially reasonable terms. Failure to obtain an extension could lead to a halt in some of Azercell's operations.

A disagreement with the licensing authority may have consequential adverse effects on our sports betting license in Azerbaijan. Legal actions may be taken before national and international judicial authorities by our Company in case the agreement between Azerinteltek and Azeridmanservis is unilaterally terminated and/or authorization of Azerinteltek in Azerbaijan is withdrawn.

---

**Table of Contents**

Corruption is an area of significant concern in emerging markets. We are subject to laws such as the U.S. Foreign Corrupt Practices Act, which prohibit corrupt payments to governmental officials or certain payments or remunerations to customers. Violations of these laws and regulations could result in significant fines and penalties, criminal sanctions against us, companies in which we invested, and our and their officers and employees and could adversely affect our business in affected countries. Such violations or allegations of violations may also adversely affect our reputation, our revenue or our overall financial performance. There can be no assurance that acts of corruption will not occur or be alleged in respect of any of our activities or those of our affiliates. In this regard, allegations have been made regarding improper payments relating to the operations of Kcell, a 51% subsidiary of Fintur. With respect to Kcell and the other Fintur companies, through our representation on the Fintur board, we remain vigilant about such allegations, however there can be no assurance that such issues will not be substantiated or that new allegations will not arise. Turkcell has received and responded to a request from the U.S. Securities and Exchange Commission ( SEC ) to submit documents and information related to Uzbekistan and the Uzbek subsidiary of Telia Company (which is the majority owner of Fintur). Furthermore, one of our key suppliers, Ericsson, has been the subject of corruption allegations and investigations, including in respect of its Turkish operations. Although we have not to our knowledge been implicated, no assurance can be given that these allegations and investigations will not touch our Group. Our international and Turkish subsidiaries may not benefit us in the way we expect for the reasons cited above, as well as other reasons, including general macroeconomic conditions, poor management and legal, regulatory or political obstacles. For many of these subsidiaries, we do not expect to achieve desired levels of profitability in the near or mid-term, and we may be required to record impairments. We may also in response to such conditions consider increasing, restructuring or exiting certain of our investments. In addition to the foregoing, the new Turkish Commercial Code and related legislation may require us to provide new capital or other financial support to certain of our controlled subsidiaries, which may divert resources from other needs.

Furthermore, in addition to investing in our international operations, we also engage in business through roaming agreements in a number of countries. In international markets in which duopoly markets exist, such as the United Arab Emirates, Tunisia or the Maldives, operators tend to increase their roaming prices despite the overall trend of declining roaming prices in the world, which could increase our roaming costs.

**We are exposed to foreign exchange rate risks that could significantly affect our results of operation and financial position.**

We are exposed to foreign exchange rate risks because our income, expenses, assets and liabilities are denominated in a number of different currencies, primarily Turkish Lira, U.S. Dollars, Euros, Ukrainian Hryvnia, Belarusian Rubles and Azerbaijani Manat. Fluctuations of Turkish Lira, Ukrainian Hryvnia, Belarusian Rubles, Azerbaijani Manat and Kazakhstan Tenge, on the one hand, and U.S. Dollars and Euros, on the other, have had and may have an unfavorable impact on us. In particular, a substantial majority of our equipment expenditures are currently, and are expected to continue to be, denominated in U.S. Dollars and Euros, while the revenues generated by our activities are denominated in other currencies, in particular the Turkish Lira, Ukrainian Hryvnia, Belarusian Ruble, Azerbaijani Manat and Euro. In addition, we are exposed to such currency mismatches with respect to certain capital expenditures and off-balance sheet obligations, in particular our obligations in respect of universal service for the installation of infrastructure in uncovered areas of Turkey, a service that we have contracted to provide for an amount in TRY, but which requires expenditures in foreign currencies. See Item 8. Financial Information and Note 34 to our audited Consolidated Financial Statements included in Item 18. Financial Statements of this annual report on Form 20-F. Increases in inflation and devaluations that are not matched by adjustments in our tariffs have had, and may continue to have, an adverse effect on our results of operations and our liquidity.

The TRY depreciated by 21.5% against the U.S. Dollar and 16.8% against Euro in 2016, driven mainly by increased internal macroeconomic and political volatility, national security issues, terrorist attacks and political uncertainties as well as international developments such as Britain's EU exit referendum result and U.S. presidential elections which led U.S. rates higher and the Federal Reserve's hike in interest rates, and downward emerging markets growth outlook. We enter into derivative transactions and hold cash to manage the risk with respect to the Turkish Lira, however, these transactions have a cost and do not fully cover all of our risks.

In 2016, the Belarusian Ruble depreciated against the U.S. Dollar by 5.5% while the Ukrainian Hryvnia depreciated by 13.3%. During the same period the Belarusian Ruble appreciated by 13.1% and the Ukrainian Hryvnia appreciated by 6.6% against the TRY. In December 2015, the Azerbaijani Manat was allowed to float

**Table of Contents**

and total depreciation of the Manat against the U.S. Dollar reached 98.8% in 2015. Risks of further devaluation remained and currency depreciated by a further of 13.6% in 2016 as the country struggled to bring its balance of payments for its energy-dependent economy back into equilibrium. The Kazakhstan Tenge appreciated by 14% against the U.S. Dollar in 2016 and the central bank eased its policy rate to 12% from 17% as a response to foreign exchange gains and downtrend in inflation. There are no tools to hedge foreign exchange rate risks effectively due to restricted and undeveloped financial markets in these countries.

As of December 31, 2016, our consolidated debt was TRY 9,781 million. The debt balance of our companies operating in Turkey was TRY 9,368 million, of which TRY 2,059 million (\$585 million) was denominated in U.S. Dollars and TRY 3,641 million ( 981 million) in Euro. The debt balance of lifecell was TRY 407.2 million, denominated in UAH. Meanwhile, Belarusian Telecom had a debt balance of TRY 5.6 million, denominated in BYN. The financing of infrastructure investments, license fee payments and any other potential investment opportunities could lead to an increase in our U.S. dollar and/or Euro debt, further increasing our currency exposure.

**Reduction in cash generated from operations and increased capital needs may increase our borrowing requirements, which may increase our financing costs and our exposure to the risks associated with borrowing.**

We continue to experience challenging macroeconomic, regulatory and competitive conditions in our markets that may reduce cash generated from operations, and we may continue to face increased capital needs to finance our technological and geographic expansion. In 2015, this included the payment of the Ukrainian 3G license fee and the buyout of SCM's interest in lifecell/Euroasia and the debt restructuring of lifecell and Belarusian Telecom, the payment of the Turkish 4.5G license fee and related capital expenditures in Turkey, and the establishment of a consumer finance company. Furthermore, in 2015, we paid a dividend for the first time in several years, which significantly reduced our available cash. In 2016, major cash outflow items included 4.5G license fee installments, capital expenditures and loan payments. In addition, an increase in the volume of assigned contracted receivables has resulted in and may continue to result in higher working capital requirements if we fail to successfully run our consumer finance company. These pressures have in the past reduced, and may continue to reduce, our liquidity. Reduced liquidity may lead to an increase in our borrowing requirements. Our borrowings expose us to foreign exchange rate risk, interest rate risk and possibly to increases in our total interest expense, each of which could have a material adverse effect on our consolidated financial condition and results of operations. We enter into derivative transactions and hold cash to manage the risk with respect to the Turkish Lira. However, these transactions have a cost and do not fully cover all of our risks. Furthermore, no assurance can be given that we will continue to have access to financing on terms that are satisfactory to us or at all. In addition, no assurance can be given that unexpected cash outflows will not be required that could further erode liquidity and increase borrowing requirements.

As of December 31, 2016, our consolidated debt was TRY 9,781 million. TRY 4,214 million of our debt portfolio consisted of financing obligations paying interest at fixed rates. The remainder of our debt portfolio pays interest at floating rates, which has been favorable in the current interest rate environment, but would expose us to increased costs if rates increase further. In 2015, we obtained financing lines of around \$2.9 billion (part in U.S. Dollars and part in Euro) for the refinancing needs of the Company and our subsidiaries and to fund infrastructure investments and any other potential investment opportunities, which would significantly increase our indebtedness. Of this amount, we issued a Eurobond with an aggregate principal amount of \$500 million and drew \$500 million and 445 million under our club loan agreement with five international banks and 500 million of debt under our loan agreement with China Development Bank. We are likely to increase our debt for the financing of infrastructure investments, license fee payments and any other potential investment opportunities.

In 2015, we received investment grade ratings from Moody's, Standard & Poor's and Fitch Ratings and sustained in 2016. These investment grade ratings may not be sustained since Turkey's credit has been downgraded to below

investment grade by Fitch, S&P and Moody's. Furthermore a decrease in our free cash flow, an increase in our net debt position or more generally a change in financial policies and projections, a material increase in investment and acquisition plans or shareholder returns and an increase in corporate governance issues could also result in a credit rating cut.

Some of our borrowing agreements contain cross default clauses under which a default by a group company could constitute an event of default under certain of our borrowings.

---

**Table of Contents**

**We are subject to a variety of risks with respect to our Base Transceiver Stations ( BTSs ) excellence.**

***Spectrum limitations and frequency costs may adversely affect our ability to provide services to our subscribers and the cost to us of providing such services.***

Our spectrum licenses have specified terms and are subject to renewal upon a payment of a fee, but renewal is not assured. The loss of, or failure to renew, our licenses could have a material adverse effect on our business and financial condition. Those licenses have also specified radio spectrum. The spectrum is a continuous range of frequencies within which the waves have certain specific characteristics. The number of subscribers that can be accommodated on a mobile network is constrained by the limited amount of spectrum allocated to the operator of the network and is also affected by subscriber usage patterns and network infrastructure. After the 4.5G auction held on August 26, 2015, we have 2x10 MHz of FDD spectrum in 800 MHz band, 2x12.4 MHz of FDD spectrum in 900 MHz band, 2x30 MHz of FDD spectrum in 2100 MHz band, 10 MHz of TDD spectrum in 2100 MHz band, 2x29.8 MHz of FDD spectrum in 1800 MHz band, 2x25 MHz of FDD spectrum in 2600 MHz band and 10 MHz of TDD spectrum in 2600 band. As our subscriber base and their demand for mobile services such as voice and data grow and as we offer a greater number of services, we will require additional capacity. We may face capacity problems, which may in turn lead to deterioration in our network's quality and may negatively impact our operational results.

***We have recently been awarded a license allowing us to deploy a IMT advanced network in Turkey. There are certain coverage and local production obligations imposed by the tender. Potential increase in coverage requirements or failure to abide by the requirements of our licenses or applicable regulations may have an adverse effect on our business and financial condition.***

We have achieved a major step forward in the development of telecommunications in Turkey with the deployment of IMT Advanced (known commercially as 4.5G) networks in 2016. Our 4.5G build-out requires significant financial investments and there can be no assurance that we will be able to meet all of the 4.5G license terms and conditions. The cost of the 4.5G license as well as the capital expenditure required in connection with our 4.5G build-out is material. Furthermore, the license agreement contains certain tedious terms that may weigh on the profitability of this investment and may have an adverse effect on our 4.5G investment plans in the future. These include terms regarding minimum required usage of domestic equipment in meeting infrastructure obligations, an active network sharing obligation for a portion of the population, high coverage obligations for roads and railroads and significant taxes and spectrum usage fees, which will increase as the number of frequencies used increases. With respect to the domestic procurement requirement, since there is not enough research and development, product development and production capacity in the domestic market, it is not possible to meet our obligations in the short term and we have asked ICTA to waive this requirement for 2015-2016, but no assurance can be given that ICTA will not find us to be in breach of our license. More generally, demand for 4.5G services may also not be at the level we expect, such that the return on investment we make in connection with 4.5G may not meet our expectations. Any of the foregoing could harm our competitive position and our profitability.

In addition, if we fail to obtain additional frequencies in the future at a reasonable cost, the competitive coverage advantage of our Company may be adversely impacted. The cost of obtaining new frequencies has increased significantly in recent years and is expected to continue to increase. This has had and is likely to continue to have an adverse impact on our cost of providing competitive coverage and also on our results of operations.

Consistent with the nature of terminal technology development, traffic on the 2G network is expected to shift to the 3G network and, once fully deployed, to the 4.5G network. However, terminal penetration is the key factor in providing the expected shift in traffic. Penetration may stay low or our subscribers may choose to stay on the 2G or 3G network for reasons such as the 2G network's lower battery power consumption. In addition, coverage will depend

on the full deployment of the 4.5G network, compared to the coverage level of the 2G and 3G networks.

***There are alleged health risks, zoning limitations related to our BTS may adversely affect our ability to provide services at certain areas.***

We are aware of allegations that there may be health risks associated with the effects of electromagnetic signals from BTS and from mobile handsets. While we believe that there is currently no substantiated link between exposure to electromagnetic signals at the level transmitted by our BTS and mobile handsets and long



## **Table of Contents**

term damage to health, the actual or perceived health risks of mobile communications devices could adversely affect us through a reduction in subscribers, reduced usage per subscriber, increased difficulty in the leasing and acquisition of site locations for base stations and exposure to potential liability. Furthermore, we may not be able to obtain insurance with respect to such liability on commercially reasonable terms.

In recent years, legal proceedings have been brought against mobile operators seeking the removal of base station sites for health reasons. In addition, the Turkish Supreme Court overruled the decisions of some local courts, finding that a base station in question could have negative effects on human health over the long term. If the number of those cases increases or if new regulations were to result, these could have a material adverse effect on our operations and financial results. Such legal proceedings may make it more difficult for us to establish and maintain such sites. Furthermore, there are conflicting and confusing reports in the media about the health effects of BTS. These reports have even caused local residents in certain regions to form large protests in strong objection to the BTS sites. Such obstacles have made it increasingly difficult to build new BTS sites and maintain our existing sites. The ICTA has issued an updated regulation which further tightened electromagnetic field limits. This may negatively impact network quality and increase our capital expenditures.

There are zoning limitations related to our BTS that require operators to obtain construction permits and certificates, which may be costly and may have an adverse effect on our operating results. Zoning law in Turkey requires mobile operators to obtain certifications for all existing and new BTS, which may result in significant compliance costs and/or closing of BTS for which certification cannot be obtained, negatively impacting our financial condition. An exception to this requirement for base stations was recently rescinded by a court decision. As a result of this situation, some municipalities take actions to suspend the construction of BTS or order their demolition. Modifications to the Zoning Law with respect to building certification procedures are under discussion. Any difficulty in maintaining or building BTS due to health concerns and our inability to obtain the required permission and certificates, may negatively impact the quality of our network, including our ability to expand and upgrade it, and affect our operational performance.

In 2012, metropolitan municipalities were authorized to consider the requirements of city and building aesthetics and electronic communication services when certifying BTS sites. We believe that certification should be based on technical and legal considerations only. Operators will also be required to pay additional fees to obtain a site selection certificate, which may lead to additional operational costs and the certificate processes for implementation of sites may delay the permit process. No regulation or enacting legislation has yet entered into force, creating uncertainty on this issue, including as to the details of such fees and the application process.

In addition, municipalities regulate the choice of operators' BTS locations, and if we do not have, or are unable to obtain, a construction certificate in our preferred location, we may have to move our BTS to another location. In relation to our fiber business, there is an obligation to get permission for excavations from authorized municipalities or institutions. In some areas, excavations may have to be stopped due to the high cost of tariffs requested from municipalities. Our investment plans may be affected due to excavations being banned during certain seasons within the administrative boundaries of municipalities. In some cases, we could face the risk that, although we get the approval of the Ministry of Transport, Maritime Affairs and Communications, institutions subordinate to the Ministry do not recognize these approvals and do not give permission to excavate. In addition, a new law has increased the number of metropolitan municipalities and in some cases, the size of their territory was increased, which may have the effect of increasing our coverage obligations and the number of BTS required to meet them. Furthermore, right of way conflicts with major municipalities to establish fiber optics infrastructure may affect our ability to provide services and to maintain operational excellence. Related regulatory actions in the future are likely to increase our costs and affect results of operations, in many cases, adversely.

***We are dependent on a small number of suppliers for network equipment, information systems and handsets and for the provision of data and services. We also rely on a small number of distributors. The failure of any of our counterparty such as suppliers or distributors may have an adverse effect on our business and financial condition.***

Like all operators, we purchase our mobile communications network equipment, from a limited number of major suppliers. Our business is dependent on a small number of critical suppliers in areas such as network infrastructure, information systems and handsets and distribution. We also rely on a small number of distributors and, in 2015, we have decreased the number of distributors that we work with in Turkey from five to two, which may further increase the concentration risk. Any financial difficulty or failure of any of our suppliers in terms of timing and quality and of any of our distributors may adversely affect our business and financial condition. There

**Table of Contents**

can be no assurance that we will be able to obtain equipment from one or more alternative suppliers on a timely basis in the event that any current supplier for any reason, including that the technological requirements for our increasingly advanced infrastructure are too complex, is unable or unwilling to satisfy our demands. This could also affect our competitive position, if our suppliers stay behind technological developments compared to the suppliers of our competitors. Adverse economic conditions have negatively affected and may continue to affect our domestic and international suppliers, leading to a contraction in their business, which in turn may lead to a decrease in the quality of the services that they render to us and adversely affect timely delivery of such services, negatively impacting our business and operations. In addition, our existing and new license agreements or new regulations may require us to purchase network equipment from specified suppliers or meet certain specifications regarding our existing suppliers. Equipment from these suppliers may not always be compatible with our existing equipment or the supplier may fail to integrate it, and our employees may not be familiar with the technical specifications and maintenance requirements of equipment from these suppliers. Furthermore, if our suppliers fail to meet the requirements, we may end up violating the terms of our license agreements. These factors could also have a material adverse effect on our business and financial condition.

**Turkcell's complex ownership structure and ongoing disagreements among our main shareholders have adversely impacted and may continue to impact decision-making on important matters. These ongoing disputes may lead to further regulatory or legal actions, and affect the ownership and control of our company.**

Our principal shareholder is Turkcell Holding A.S., which holds 51.00% of Turkcell's shares as of March 10, 2017, based on the Company's share book. On December 6 and 7, 2016, Sonera Holding BV applied to the Central Registry Agency to convert its 13.07% of direct Turkcell stake into tradable shares, with a nominal value of TRY 287,632,179.557 which are now publicly held. Turkcell Holding A.S. is 52.91% owned by Cukurova Telecom Holdings Limited and 47.09% by Telia Sonera Finland Oyj. Cukurova Telecom Holdings Limited is 51% owned by Cukurova Finance International Limited and 49% by Alfa Telecom Turkey Limited. According to public filings (a Schedule 13D filed in November 2009), Alfa and Telia Company entered into an agreement regarding a possible consolidation of their holdings in Turkcell into a new company. In a Schedule 13D filing, Alfa has deleted references to this agreement.

Cukurova and Alfa are involved in a long-running dispute regarding, in summary, amounts due by Cukurova to Alfa and Alfa's claim to take ownership of Cukurova's indirect 13.8% interest in our Company in settlement of such amounts. In 2014, as a result of a court decision, Cukurova paid Alfa \$1.6 billion to release this claim. Cukurova has been provided loan financing amounting to \$1.6 billion by the Turkish state-owned Ziraat Bank for which an indirect 13.8% interest in our Company has been provided as collateral. According to the latest publicly available information, Alfa and Cukurova remain in a stalemate over a right given to Alfa to buy Cukurova's stake and rights of Cukurova to either buy Alfa's stake or sell its own stake to Alfa. This dispute and other disputes have effectively blocked shareholder decision-making on important corporate matters, and could have an adverse effect on the ability of our management to execute business decisions and take other actions. We cannot predict how the resolution of this dispute will affect our Company, whether other disputes will be resolved and whether our shareholders will be able to achieve agreement on matters regarding the operation of our Company.

The shareholding structure and the ongoing disputes have adversely affected our company in a number of ways and present a number of risks, including in particular:

Our Articles of Association contain quorum and majority requirements, at various levels, for shareholder meetings and decisions. Failure to achieve a quorum or the required majority vote can

block decisions that require shareholder approval. Prior to our shareholders meeting held in 2015, we have had difficulty convening shareholder meetings and numerous items submitted to our shareholders have not been approved, including the distribution of dividends, the approval of our dividend policy, the election of independent board members, the release of directors for actions taken and the approval of financial statements. In 2012, 2013 and 2014, due to lack of quorum, the annual general assemblies could not convene on time, but eventually convened on March 26, 2015. The annual general assembly meeting for 2015 convened on March 29, 2016 but did not approve all items submitted to it. Our Board of directors has decided to call the Annual General Assembly Meeting of our Company for 2016 to convene on March 30, 2017.

A number of corporate governance requirements were enacted under Turkish regulations by the CMB with mandatory effect from June 30, 2012.

## Table of Contents

We were unable to comply with some of these requirements because of a lack of consensus among our main shareholders, including a requirement that one-third of our Board members and that all of our Audit Committee members be independent .

Under the Capital Markets Law, the CMB has the power to take action against the Company, our Board members and our main shareholders in respect of the various governance issues that have arisen or to amend the Articles of Association without general assembly approval. Under such powers, the CMB directly appointed all of the current members of our Board. The CMB appointed members' terms of office will last until new appointments are made in accordance with applicable legislation.

An Investor Compensation Center ( ICC ) was formed in 2013 by the CMB under the 2013 Capital Markets Law. Under the Capital Markets Law that deals with the duties and responsibilities of the CMB, it is stipulated that the ICC may use the rights vested on the general assembly in public companies whose ordinary general meetings of two consecutive financial years could not be made within statutory deadlines and whose board members have been nominated partly or wholly by the CMB. The Regulation on the Investor Compensation Center was published in the Official Gazette with no further details on how this right shall be exercised by the ICC. The form and scope of such actions are not clearly defined and we are not aware of any precedents, thus were we to find ourselves in this situation in the future, we may not be able to predict what actions the ICC might eventually take, if any.

No assurance may be given regarding the impact of past or future CMB actions, future ICC actions, or any future legal actions against our Company, on the overall company strategy, convening of our general assembly or the distribution of dividends.

Compliance with our home country governance rules is an important element of our compliance with the listing requirements of the New York Stock Exchange ( NYSE ). Failure to comply with such rules could jeopardize the continued listing and trading of our ADRs on the NYSE.

For so long as our main shareholders are in dispute and/or unable to achieve consensus, we are likely to continue to experience difficulties obtaining corporate decisions, including with respect to the matters discussed above, and we may have difficulty obtaining decisions regarding our business and operations. This situation may also lead to further regulatory and legal actions being taken in respect of our Company, the nature and effects of which we cannot predict. Ongoing disputes among the shareholders may affect the ownership and control of our shares, the demand for and price of our shares and our ability to manage our business, and no assurance can be given that the interests of these shareholders will be aligned with those of our other shareholders.

**We face risks related to our dependence on network and IT systems and the products and services we provide through third party suppliers as well as our exposure to technological changes in the communications market, including industries where we traditionally do not compete.**

*We are dependent on certain systems and suppliers for information technology ( IT ) and network technology ( NT ) services and our business continuity is at risk due to our exposure to potential natural disasters, regular or severe IT and network failures, human error, security breaches and other cyber security incidents and IT migration risk, any of which could have an adverse effect on our operations, damage our reputation and affect our relationships with our customers.*

We are heavily dependent on IT and NT systems, suppliers of IT and NT services and our IT and NT employees for the continuity of our business and we are continually upgrading and converting our IT and NT systems. Although we devote significant resources to the development and improvement of IT and NT and of security, backup and continuity

systems, we could still experience IT and network failures and outages due to system deficiencies, human error, security breaches, sabotages, terrorist or other destructive acts, natural disasters such as earthquakes and floods, unsuccessful migration to alternative or improved IT and NT systems, or other factors. We have experienced an increased number of attempted cyber-attacks of varying degrees of sophistication by unauthorized parties attempting to obtain access to our computer systems and networks. As of the date of this annual report, we believe that no such attacks have succeeded in obtaining access to our critical systems, although such attacks in practice may develop over long periods of time during which they can remain undetected. Computer hackers routinely attempt to breach the security of technology products, services, and systems. If successful, these could result in, for example, unauthorized access to, misuse, loss, or destruction of our data or systems and theft of sensitive or confidential data, including personal information of our employees and customers, and theft of services and/or funds. In the event of such breaches, we could be exposed to potential

## Table of Contents

liability, litigation, and regulatory action, as well as the loss of existing or potential customers, damage to our reputation, and financial loss. In addition, the cost and operational consequences of responding to breaches and implementing remediation measures could be significant.

Mobile networks are migrating towards internet protocol ( IP ) technology to transport information. These networks open up the possibility for IP-based services. However, once these services are introduced into the IP domain, the mobile network may be harmed by potential attacks. The threats on the mobile network can originate from external sources, such as the public internet, or internal sources, such as terminals connected to our mobile network. Despite the systems and infrastructure which we have put in place to address these security concerns, we could encounter successful attacks on our infrastructure, which could have an adverse effect on our operations, damage our reputation and affect our relationships with our customers.

*Although we closely follow general technological trends in communications and technology, we may be unable to adapt to rapid technological changes in communications and information technology, which could result in higher capital expenditures and a greater possibility of commercial failure.*

Rapid technological changes in communications and information technology are redefining the markets in which we operate and the products and services we offer, shortening product life cycles and facilitating the convergence of various segments, including in our core mobile communications businesses. If we fail to anticipate, invest in and implement new technologies with the levels of service and prices that customers demand or to respond effectively to technological changes, our business, financial condition and results of operations could be adversely affected. In addition, such new technologies require significant capital expenditures and it is impossible to predict with any certainty whether the technology selected by us will be the most economical, efficient or capable of attracting customer usage, or whether such technologies will be developed according to anticipated schedules, will perform according to expectations or will achieve commercial acceptance. Although we are following general technological trends in communications and technology, there can be no assurance that we will be able to develop new products and services that will enable us to compete efficiently.

*We have become active in providing products and services for industries other than telecommunications, many of which are developed and/or maintained by third party providers. Our reliance on these third party providers to help us navigate the regulatory, security and business risks of industries where we traditionally do not compete adversely affects our business.*

The operation of our business depends, in part, upon the successful deployment of continually-evolving products and services, including for applications in industries other than telecommunications, such as TV, music, energy, mobile financial services, mobile health and mobile education solutions, authentication solutions, data center services and entertainment and community services. We are reliant upon third party providers to help us navigate risks relating to security, regulations and business in the industries where we do not traditionally compete. Changes in such industries may impair our partners' business and/or negatively impact the content we are developing, such as for entertainment, which, in turn, could have a material adverse effect on our business and financial condition.

**Our business, consolidated financial results and/or operational performance could be adversely affected unless we retain our key personnel, our partners and their employees.**

Our performance depends, to a significant extent, on the abilities and continued service of our key personnel. Competition for qualified telecommunications and technology personnel in Turkey and elsewhere is intense. In addition, we depend on our dealers, distributors and their employees for the growth and maintenance of our customer base. The loss of the services or loyalty of key personnel could adversely affect our business and financial condition

and could lead to breaches of confidentiality, particularly if a number of such persons were to join a competitor.

Our former Chief Executive Officer, Mr. Sureyya Ciliv, resigned from his position effective January 31, 2015. Mr. Kaan Terzioglu was appointed as our Chief Executive Officer later in 2015 and a new Chief Financial Officer, Mr. Bulent Aksu, was appointed as of July 20, 2016. In 2015 and 2016, there have been organizational changes in our Company, including changes to our management team, to our structure and business strategy and further changes may be made. Although, we have taken measures to prevent major disruptions to our operations, no assurance can be given that the changes being implemented will achieve their objectives, or that they will not have an adverse effect on our business or lead to retention issues among our key personnel. Failure to implement these changes successfully could adversely affect our ability to compete effectively, which could impact our revenues, operations, or results of operations.



---

**Table of Contents****We are involved in various claims and legal actions arising in connection with our business, which could have a material effect on our financial condition.**

We are subject to investigations and regular audits by governmental authorities in Turkey, including the Competition Board, the ICTA, tax authorities and certain other parties, and governmental authorities in other countries in which we have operations. We are currently involved in various claims and legal actions with such authorities. We have set aside provisions for certain of our ongoing disputes based on applicable accounting standards. However, no assurance can be given that the provisions we set aside will be sufficient to cover our actual losses under these matters, and that new disputes will not arise under which we would face additional liabilities and reputational risk. For a more detailed discussion of disputes that we presently believe to be significant, see Item 8. Financial Information and Note 37 to our audited Consolidated Financial Statements included in Item 18. Financial Statements of this annual report on Form 20-F. In particular, we have an ongoing dispute regarding the application of the Turkish Special Communication Tax to prepaid card sales made by our distributors. The tax authority has assessed a significant special communication tax and a related penalty against our Company as a result of a tax investigation regarding the years 2008 to 2012. The tax amount assessed with respect to the Company was TRY 211.1 million as principal and TRY 316.6 million as tax penalty, totaling TRY 527.6 million. There was no provision with regard to this case in financials for the year ended 2016. The dispute is being litigated in a variety of courts and first instance courts have notified their verdicts; some are in favor of us, some are partially in favor of us and partially against us, while others are against us. These verdicts are appealed by the party against which the verdict was rendered. In accordance with the Law no.6736 we filed applications for the restructuring of penalties and interest on the Special Communication Tax regarding the disputes on the tax amount for the years 2008-2012. The tax office accepted the restructuring application for the years 2008, 2009, 2010, and 2012, and we paid the restructured amount. Within this scope we submitted a waiver petition to the tax office related to the cases for these terms and as a result of this situation the Council of State decided that there is no need to grant a decision by the reason of waiver during the appeal process related with the cases for the years 2008, 2009, 2010 and 2012. On the other hand the tax office rejected the application for the restructuring of SCT regarding the dispute on the tax amount for the year 2011. The Company also filed a case for the cancellation of aforementioned rejection act of Tax Office for the year 2011. The case is pending. Therefore the appeal processes are ongoing related with the cases for the year 2011. Currently, we are under tax investigation for the year 2013 and a provision of approximately TRY 15 million is set in our year-end financials. We may face investigations in respect of later years, and there is a risk that we may incur a special communication tax and penalties as a result of such investigations. We may also face with a risk of unexpected tax audits and claims in many different areas that are subject to taxation such as corporate tax, value added taxes and others. Additionally, changes in tax laws and non-tax regulations may lead to the growth of our tax burden and may, as a result, materially adversely affect our financial condition and results of operations.

Due to our license, we pay the Undersecretariat of the Treasury (the Turkish Treasury ) a monthly treasury share equal to 15% of our gross revenue including some exemptions. The Turkish Treasury may change its opinions based on interpretations of treasury share calculations. Therefore unanticipated treasury share liabilities and fines may also be levied. We have also had several long running disputes with the Turkish Treasury regarding claims for payments of additional treasury share and allegations of deficient treasury share and contribution share payments and penalties imposed within the context of our 2G and 3G Concession Agreements. We are also involved in several disputes regarding administrative fines imposed by the ICTA and ICTA's additional radio utilization and usage fee requests made after ICTA's investigations on number of subscribers and radio utilization and usage fees regarding the years 2010-2011, 2012, 2004-2009, 2013. The ICTA has investigated the same issue with respect to 2014 and has warned the Company by alleging that the Company made an incorrect notification. For a more detailed discussion of our disputes that we presently believe to be significant, see Note 37 to our audited Consolidated Financial Statements included in Item 18. Financial Statements of this annual report on Form 20-F.

**Although we maintain and regularly review our internal control over financial reporting, there are inherent limitations on the effectiveness of our controls.**

We maintain and regularly review internal control over our financial reporting. However, internal control over financial reporting has inherent limitations and there is no assurance that a system of internal control over financial reporting, including one determined to be effective, will prevent or detect all misstatements on a timely basis. A control system, no matter how well-designed and operated, can provide only reasonable, not absolute, assurance regarding financial statement preparation and presentation. Our systems may not always allow us to detect and prevent fraud or other misconduct by our employees, representatives, agents, suppliers or other third parties. We may be exposed to fraud or other misconduct committed by our employees, representatives, agents, suppliers or other third parties that could subject us to litigation, financial losses and sanctions imposed by

---

**Table of Contents**

governmental authorities, as well as affect our reputation. Such misconduct could include misappropriating funds, conducting transactions that are outside of authorized limits, engaging in misrepresentation or fraudulent, deceptive or otherwise improper activities, including in return for any type of benefits or gains or otherwise not complying with applicable laws or our internal policies and procedures.

Our latest review as of December 31, 2016, has revealed certain deficiencies in our controls, although none that we believe constitute material weaknesses. However, our controls have in the past suffered from these and lesser deficiencies and no assurance can be given that others will not emerge in the future. A failure to detect or correct deficiencies and weaknesses in a timely manner could have an adverse effect on the accuracy of our financial reporting and also on the operations and may also cause financial losses or increase opportunity cost.

**ITEM 4. INFORMATION ON THE COMPANY**

**4.A History and Development of the Company**

Turkcell Iletisim Hizmetleri A.S. ( Turkcell ), a joint stock company organized and existing under the laws of the Republic of Turkey, was formed in 1993 and commenced operations in 1994. Our principal shareholder is Turkcell Holding A.S., which holds 51.00% of Turkcell s shares based on the Company s share book. On December 6 and 7, 2016, Sonera Holding BV applied to Central Registry Agency to convert its 13.07% of Turkcell stake into tradable shares, with a nominal value of TRY 287,632,179.557. Turkcell Holding A.S. is 52.91% owned by Cukurova Telecom Holdings Limited and 47.09% by Telia Sonera Finland Oyj. Cukurova Telecom Holdings Limited is 51% owned by Cukurova Finance International Limited and 49% by Alfa Telecom Turkey Limited.<sup>1</sup>

The address of our principal office is Turkcell Iletisim Hizmetleri A.S., Turkcell Kucukyali Plaza, Aydindevler Mahallesi Inonu Caddesi No:20 Kucukyali Ofispark B Blok, Maltepe, Istanbul, Turkey. Our telephone number is +90 (212) 313 10 00. Our website address is [www.turkcell.com.tr](http://www.turkcell.com.tr). In July 2000, we completed our initial public offering with the listing of our ordinary shares on the Borsa Istanbul and our ADSs on NYSE.

We operate under a 25-year GSM license granted in April 1998, a 20-year 3G license granted in April 2009 and a 13 year 4.5G license effective for until April 30, 2029.

Our GSM license was granted in April 1998 upon payment of an upfront license fee of \$500 million. Under our license, we pay the Undersecretariat of the Treasury (the Turkish Treasury ) a monthly treasury share equal to 15% of our gross revenue. Of such fee, 10% is paid to the Ministry of Transport, Maritime Affairs and Communications of Turkey ( Turkish Ministry ) for a universal service fund. We also operate under interconnection agreements with other operators that allow us to connect our networks with those operators to enable the transmission of calls to and from our GSM system.

In early 2009, we were granted a 20-year type A 3G license, which provides the widest frequency band, for a consideration of 358 million (excluding VAT), and we signed the related 3G license agreement on April 30, 2009. The 3G license agreement has similar provisions to the aforementioned 2G license agreement.

In 2013, we won an auction held by the Turkish Ministry related to universal service, which requires installing sufficient infrastructure to uncovered areas with a population of less than 500 and the operation of the service for three years. We started the service in August 2013 and as of the end of 2015, infrastructure covering 1,794 settlements has been installed (out of the three-year target of 1,799) within the scope of the project, with network-sharing technology. This contract was recently renewed until December 31, 2018 and to add mobile broadband services to the

existing infrastructure providing GSM services under Universal Service Law and to operate the new and existing networks together.

In the 4.5G auction held on August 26, 2015, we were awarded a total frequency band of technology agnostic 172.4 MHz, the largest amount of spectrum of any operator, for 1,623.5 million (excluding VAT and interest payable on the installments). We commenced offering 4.5G services from April 1, 2016. The 4.5G license is effective for 13 years until April 30, 2029. The first installment of the license fees of 706 million, including VAT, was paid on October 26, 2015. The second installment of 413.8 million was paid on April 25, 2016. The third installment of 413.8 million was paid on October 25, 2016. The last installment will be paid on April 27, 2017. We may choose to pay the last installment in Euro or in Turkish Lira converted at the buying exchange rate announced by Central Bank of the Republic of Turkey on January 2, 2017.

<sup>1</sup> Turkcell Holding A.S. and Cukurova Telecom Holding Limited's shareholding structure are described as set forth in its disclosures in Public Disclosure Platform dated March 25, 2015 and April 14, 2015 respectively, which the Company has not independently verified.

---

## **Table of Contents**

Following the 4.5G auction, we have a total frequency bandwidth of 234.4 MHz which has increased our spectrum share of the total bandwidth of the market to 43%. We acquired twice the bandwidth acquired by Vodafone while paying the same amount in terms of price per MHz, and 56% more bandwidth than Turk Telekom (formerly known as Avea) while paying only 9% more per MHz. Moreover, we paid the lowest per subscriber price for 1 MHz in the auction at 0.28 per subscriber, compared to 0.44 and 0.52 paid by Vodafone and Turk Telekom, respectively. The new spectrum acquired, including the widest frequency bands on 1800 MHz and 2600 MHz, along with a strong network deployment has enabled us to provide the fastest 4.5G speeds of 500 Mbps and above. We plan to increase these speeds to 1000 Mbps and beyond in the future through more carrier aggregation combinations and availability of advanced user devices supporting new features. This will allow customers to access mobile services at a speed comparable to fiber broadband.

In 2016, we had total revenues of TRY 14,285.6 million, our Adjusted EBITDA totaled TRY 4,619.5 million and we reported net income of TRY 1,492.1 million. For the year ended December 31, 2016, we spent approximately TRY 3,494.7 million on capital expenditures including non-operational items and our 4.5G license fee, compared to TRY 8,536.2 million and TRY 2,144.8 million in 2015 and 2014, respectively. Capital expenditures in 2015 and 2016 related mainly to our 4.5G license and the GSM and fixed-line networks of the Company, Superonline and lifecell.

Our subscriber base has grown substantially since we began operations in 1994. At year-end 1994, we had 63,500 subscribers. By year-end 2016, that number had grown to 50.1 million for the Group.

In addition to our operations in Turkey, we have various international operations. For more information, see [Item 4.B. Business Overview International and Domestic Subsidiaries](#) .

## **4.B Business Overview**

We are the leading mobile telecommunications operator and the second largest converged telecommunications company in Turkey in terms of revenue, with a 37.4% share (including our financial services revenue) in the fourth quarter of 2016, among the three major operators in the Turkish telecommunications market (Turkcell Turkey, Turk Telekom and Vodafone) according to the operators' announcements for the year ended December 31, 2016. Beginning in 2015, Turkcell Turkey has positioned itself as a converged player in the total telecommunications market in line with our new strategic priorities. We have shifted to a new organizational structure with the aim of increasing efficiency and simplifying our business processes, as well as strengthening our position as a provider of converged communications and technology services. We have taken steps to integrate our marketing efforts, sales channel and technical platform as well as to establish customer services as a key focus area.

We provide high-quality mobile and fixed voice, data, TV and other services over our advanced network and have developed what we believe to be the premier mobile service provider in Turkey by differentiating ourselves from our competitors with our value offers, which include superior and innovative technologies, more advantages, outstanding and extensive service quality, and being a leader in social responsibility. We maintain our strong position in the market due to our customer-oriented approach and our ability to provide quick and diverse solutions to meet customers' needs through lifestyle segments.

We have differentiated our network in terms of quality and speed of service, with extensive spectrum rights covering 43% of the total spectrum available, extensive 3G coverage (covering over 95% of the population) and the broadest 4.5G license of any operator in terms of spectrum allocation. We have also focused on building out an advanced fiber network to support our mobile and fixed offerings (including broadband and television), through our 37,154 km fiber network, which reached 18 cities in Turkey as of December 31, 2016. As a result, we had a 55% subscriber market share of the fiber to the home/building market as of December 31, 2016 according to the operators' announcements,

despite not being the incumbent fixed line operator, and expect this to be a key focus area going forward.

The total number of subscribers in the five countries where we have consolidated operations reached 50.1 million as of December 31, 2016. In Turkey total mobile, fixed and IPTV subscribers were 35.3 million.

Effective from 2015, we have changed our reportable segments in order to align the segments with our convergence strategy. Following this change, our business is divided into two main reportable segments: Turkcell Turkey and Turkcell International.

***Turkcell Turkey.*** Our Turkish telecommunications business represents the largest share of our business, accounting for 89.5 % of our revenues and 90.1% of our Adjusted EBITDA in 2016. During

---

**Table of Contents**

the first half of 2015 we realigned our strategy in Turkey to focus on developing innovative and integrated telecommunications solutions for consumer, corporate and wholesale customers in Turkey by leveraging our leading brand, extensive customer base, technological capabilities and strong distribution channels. We have invested in what we believe to be the most advanced mobile and fiber networks in Turkey and have the broadest spectrum in 4.5G in Turkey, which we expect will provide us with a competitive advantage by allowing us to provide high quality and speedy service across the Turkish mobile telecommunications industry.

***Turkcell International.*** Turkcell International accounted for 6.1% of our Group revenues in 2016. We have telecommunications operations in a number of emerging market geographies that we believe are complementary to our operations in Turkey as a result of our cultural affinity and the potential to export our business model. These geographies include Ukraine (which accounted for 4.0% of our revenues in 2016), Belarus (which accounted for 1.0% of our revenues in 2016) and the Turkish Republic of Northern Cyprus (which accounted for 0.9% of our revenues in 2016) and Germany.

***Other Subsidiaries and intersegment eliminations.*** Other Subsidiaries and intersegment eliminations mainly comprises our information and entertainment services in Turkey and Azerbaijan, consumer financing services and call center revenues, and accounted for 4.6% of our revenues in 2016.

We have a strong track record of profitable operations with total revenues for 2016 of TRY 14,285.6 million and Adjusted EBITDA in 2016 of TRY 4,619.5 million. We have achieved these results while continuing to invest in our network to support our strategy of offering innovative solutions, with capital expenditures for 2016 of TRY 3,494.7 million.

We serve a broad range of consumer, corporate and wholesale customers, which accounted for 79.9%, 17.1% and 3.0% of Turkcell Turkey revenues (not including other revenues and prior to consolidation eliminations) in 2016. As part of the realignment of our strategy, we have emphasized the importance of customer services and established customer services as a separate focus area. Revenues from data and services and solutions have been growing rapidly, with growth of 56.3% and 94.6%, respectively, in 2016.

We are the only company listed on both the NYSE and the Borsa Istanbul, with a market capitalization of TRY 21.5 billion as of December 31, 2016, making us the 6<sup>th</sup> most valuable publicly traded company in Turkey.

**I. Industry****a. Overview**

GSM, one of the digital standards for mobile communications, was developed in 1987 to facilitate unification and integration of mobile communications worldwide.

Since Turkcell was founded in 1994, mobile technology has evolved from GSM (2G) to UMTS/HSPA+ (3G) to LTE/LTE-Advanced (4G/4.5G), providing new capabilities and extensive improvements in customer experience. 2G was originally intended to carry voice, with some limited data and messaging capabilities whereas the focus in 3G shifted more onto data, along with simultaneous voice and data capability. And 4G has brought fully IP-based architecture where everything is considered as data. Turkcell currently has all of these technologies in its mobile networks to serve customers who use and depend on them based on their subscription profiles and terminal types. With the advent of 4G/4.5G technologies it has become possible to introduce more sophisticated services utilizing

lower latency and higher data speeds.

Our Company has also branched out in to the development of fixed line networks, including fiber-optics connecting directly to the home, creating a fiber-to-the-home ( FTTH ) network.

***b. The Turkish Telecommunications Market***

We believe that the Turkish telecommunications market has growth potential with favorable demographics, including a relatively young population and lower penetration levels compared to Western Europe and other developed markets.

According to a TUIK announcement, the estimated median age of the Turkish population is 31.4, which is lower than elsewhere in Western Europe, and the majority of the population lives in urban areas. There were 79.8 million people living in Turkey as of December 31, 2016.



## **Table of Contents**

There are currently three major operators in the telecommunications sector in Turkey, Turkcell Turkey, Vodafone Telekomunikasyon A.S. ( Vodafone ) and Turk Telekomunikasyon A.S. ( Turk Telekom and together with its mobile segment (formerly known as Avea) and TTNET, Turk Telekom Group ). In 2016, the total revenue of the Turkish mobile and fixed markets was TRY 36.7 billion compared to TRY 32.5 billion in 2015, according to the operators announcements (for the calculation of total market revenues, non-group call centers and financial services revenues are added to Turkcell Turkey s reported revenue).

Vodafone entered the Turkish mobile market by acquiring Telsim on May 24, 2006 from the Savings Deposit Insurance Fund ( SDIF ). Turk Telekom Group is 55% owned by Oger Telecom.

## **II. Strategy**

Our vision is to become a converged communications and technology services company with globally relevant services.

In an effort to create value for our customers, we have identified the following four strategic pillars through which we intend to pursue sustainable profitable growth:

### ***Strengthening Our Position in Turkey***

Our goal is to become the number one converged telecom company in Turkey. In order to reach this goal, we have taken the following actions:

We realigned our organization and have taken steps to integrate our mobile and fixed network platforms to provide a seamless experience to our customers.

We integrated our sales channels and offers with the goal of providing a full range of mobile, fixed and broadband products and services.

In April 2016, we launched the first converged bundle offer in Turkey, which includes mobile and fixed products in a single bill.

Our aim is to meet our customers increasing demand for data while providing the highest quality network experience. To be able to do this, we acquired the widest range of spectrum in the 4.5G auction at a very competitive price per MHz and subscriber. We will also continue to invest in our fiber network both to ensure scale and to meet the demands of 4.5G technology.

A key element of our strategy is to expand our range of multiple-play offerings, adding fixed, broadband and television to deliver a multi-play offering (including mobile, fixed and TV) to the Turkish market. As a result of the launch of our new offerings, we have grown our share of fiber residential multi-play subscribers (who subscribe to our internet and TV bundles) and mobile triple play subscribers (who subscribe to voice, data and strategic services).

In addition, we aim to continue to increase our revenues from corporate customers by offering them fixed and mobile converged total telecom solutions. In line with this strategy, in order to become the leading cloud services provider in Turkey, we have established data centers in Istanbul and Ankara to provide cloud services to our corporate customers.

*Expanding in Existing and New Markets*

We aim to improve the performance of our international subsidiaries and increase their revenue contribution to the Group. After the restructuring of debt at both our Ukrainian and Belarusian subsidiaries in 2015, we believe we have positioned these businesses to be able to achieve profitable growth.

Starting from 2016, our Ukrainian operations offer their services under the new brand lifecell . Under the new brand identity and with ongoing investments in 3G+ infrastructure and services, seeks to become Ukraine s top data operator.

In Belarus, we started to provide LTE services on beCloud s infrastructure in August 2016, which we believe will contribute to our growth in the market.

## **Table of Contents**

We also intend to actively pursue external opportunities in ways that would allow us to replicate our business model in countries with cultural affinity and similar dynamics to our domestic and international markets in order to be able to leverage our experience and technological base. Accordingly, to the extent that we continue to grow our international business, we expect that our international revenues will represent a greater share of total group revenues over the medium term, further diversifying our revenue streams and positioning us for further growth.

### ***Developing and Spreading Digital Services***

We continued to create value for our customers through our services and solutions delivered through our superior network. We increased our focus on strategic services including BiP, Turkcell TV+, fizy, lifebox, Sports and Education. BiP, our integrated IP-based communication platform has been downloaded by 11.1 million people; global downloads exceeded 1.2 million as of December 31, 2016. We believe that these services will facilitate our strategy shift from being a telecom operator to an over-the-top (OTT) company. We are also seeking to expand in other adjacent business areas in Turkey, for example by launching our payment platform Paycell. We are currently working on the integration of Paycell with all our digital services. Furthermore, we are pursuing opportunities to grow inorganically in Turkey to add new capabilities and/or widen the range of our products/services offerings.

### ***Focus on Sustainable Shareholder Return***

In order to grow profitably, we aim to manage our costs effectively, while investing in growth areas. We have taken significant steps towards improving our balance sheet, thereby creating value for our shareholders. We launched a consumer financing company to further facilitate the financing of the technology demands of our customers. We are still the only Turkish company with an investment grade rating from all three major rating agencies (S&P, Moody's and Fitch). In 2015, we obtained new sources of credit of approximately \$2.9 billion (part in U.S. Dollars, part in Euro) that we have partly used for infrastructure investments and restructuring of existing debt.

## **III. Customer Segmentation and Services**

### ***a. Customer Segmentation***

In Turkey, we have a total of 35.3 million customers including 33.0 million mobile, 1.9 million fixed broadband and 359.7 thousand IPTV customers. We serve a broad range of consumer, corporate and wholesale customers, which accounted for 80%, 17% and 3% of Turkcell Turkey revenues in 2016, excluding other revenues and consolidation eliminations. Revenues attributable to consumer and corporate segments grew by 12% and 8%, respectively in 2016, while revenues attributable to the wholesale segment increased by 17% over the same period.

Through our increased focus on customers, all loyalty actions are designed in line with the targeted segments lifestyles, needs, priorities, and expectations.

The aims of the segmentation are:

to increase the loyalty of existing Turkcell customers;

to ensure behavioral and emotional brand loyalty; and

to ensure a seamless series of positive brand experiences throughout all customer touch points, as well as to attract new customers.

Turkcell Turkey serves its customers' needs, priorities and expectations under three main categories:

*Consumer Category*

For mobile, we manage our customers either under the mass segment or under one of our two large sub-segments; youth and premium. With differentiated mobile communication offers, value added services, as well as campaigns and co-branded activities we aim to create value for customers in these segments. Our priority for these segments is especially the bundling of mobile services such as BiP, fizy, Turkcell TV+, and lifebox in multiplay propositions.

Fixed consumer customers are consolidated under a single segment, residential.

## **Table of Contents**

### *Corporate Category*

The Corporate segments for our mobile and fixed customers are composed of Small Office /Home Office ( SoHo ), Small and Medium Enterprises ( SME ) and Enterprise customers, for which we have differentiated mobile communication offers as well as campaigns and co-branded activities with selected companies from other sectors to create added value for targeted segments.

### *Wholesale Category*

Our wholesale segment focuses on managing wholesale voice, data and roaming services with the national licensed operators, international operators and network centric business owners such as data centers and content providers.

For roaming services, the wholesale segment strives to achieve the best international coverage for customers to have continuous communication wherever they travel and to enable all visitors to enjoy the service quality of Turkcell.

For wholesale data and voice services, our main strategy is to become the regional junction point in an increasingly connected world.

### **b. Services**

We provide high quality mobile and fixed voice, data, TV and other services to our subscribers throughout Turkey. We provide a range of mobile services to our customers, enabling them to call, text, access the internet, stream music and watch videos and roam abroad. We provide these services through our network of over 48,500 base stations providing 99.67% 2G, 96.04% 3G, 82.5% 4.5G coverage in Turkey. Our mobile subscribers can choose between our postpaid and prepaid services. Currently, postpaid subscribers sign a subscription contract and receive monthly bills for services. Prepaid subscribers must purchase a starter pack, which consists of a simcard with balance of TRY 35 or monthly usage allowance with 1000 minutes, 1000 SMS and 1 GB, while the top-up (TL refill) cards or usage allowance (package refill) cards (both physical and digital) can be purchased in amounts ranging from TRY 10 to TRY 180. As of December 31, 2016, we had approximately 15.7 million prepaid subscribers and 17.4 million postpaid subscribers, compared to approximately 17.4 million prepaid subscribers and 16.6 million postpaid subscribers as of December 31, 2015.

We provide a range of fixed services in Turkey including voice, broadband and TV services to consumers and a wider range of services to our corporate customers, including cloud and traffic carrying. We provide these services through a combination of our own fiber infrastructure and leased copper. As of December 31, 2016, we had approximately 1.9 million fixed line customers of which approximately 1 million were fiber and 818 thousand were ADSL customers. We cover 2.7 million homes with our fiber infrastructure.

#### ***(i) Voice Services***

Voice services are the main services that we provide to our customers. Voice services consist of high quality mobile communication services on a prepaid and postpaid basis and fixed voice services for consumers and corporate customers.

#### ***(ii) Broadband***

Our broadband services consist of mobile broadband, fiber to the home/building and ADSL.

We commercially launched 3G simultaneously in 81 city centers and major cities in Turkey at the end of July 2009 and reached 96.04% population coverage as of December 31, 2016 and launched LTE (4.5G) network simultaneously in 81 city centers in Turkey on April 1, 2016.

Smartphones, which combine the features of a mobile phone with those of other popular digital mobile devices (e.g. personal digital assistants, media players, GPS navigation, digital camera) and have an open operating system (e.g. Windows Mobile, Android) allowing access to the Internet and running a variety of third-party software applications, are an important component for the growth of our mobile broadband business. The smartphone penetration on our network reached 64% by the end of 2016, up from a 52% penetration at the end of 2015. 4.5G services have been commercially launched in Turkey on April 1, 2016. In order to increase penetration of the 4.5G services, Turkcell launched campaigns in which various 4.5G enabled smartphones were

**Table of Contents**

offered to Turkcell customers by dealers at competitive prices. In most cases, Turkcell is acting as an agent on behalf of its dealers to provide handsets, although the Company is increasingly selling handsets itself as a principal. The table below shows the number of smartphones in our network and smartphone penetration for the periods indicated:

	2009	2010	2011	2012	2013	2014	2015	2016
Number of smartphones in our network (millions)	0.9	2.0	3.8	6.2	9.6	12.7	16.1	19.2
Penetration <sup>(1)</sup>	3%	6%	12%	19%	30%	40%	52%	64%

(1) Smartphone penetration is calculated as the ending number of smartphone subscribers (excluding smartphone subscribers with deactivated status) divided by the ending number of Turkcell mobile voice subscribers (excluding Turkcell subscribers with deactivated status).

A wide variety of data offers are made available as part of our voice and terminal bundled campaigns, where terminals are sold by dealers, to increase LTE available device penetration, create a unique terminal experience and enhance the broadband internet experience. Distributors, dealers, Turkcell Consumer Finance Company and Turkcell offer joint campaigns to the subscribers, which may include the sale of devices by the dealer and a communication service to be provided by us. In addition, we are increasingly selling handsets ourselves as a principal. These campaigns contain a variety of devices such as smartphones, LTE available modems and tablets and some complimentary products such as wearables, game consoles, headsets, TV set top boxes and VR sets. Throughout 2016, we maintained our position as leader of handset campaigns through our dealer channel and we delivered attractive joint campaigns with top of the class models of brands in high demand such as Samsung, Apple, and some local handset manufacturers such as Vestel and General Mobile. We have also launched Turkcell-branded T series smartphones and a tablet with Android operating systems since 2010, which we believe contributes to increased smartphone penetration, data usage and further builds customer loyalty by offering a technologically advanced product at a competitive price. The latest version of the T-series, the T70, was launched in June 2016 and sold more than 200 thousand units country wide.

When the Group sells goods or services as a principal, income and payments to suppliers are reported on a gross basis in revenue and operating costs, respectively. If the Group sells goods or services as an agent, revenue and payments to suppliers are recorded in revenue on a net basis, representing the margin earned.

We emphasize our value propositions to our broadband products by not charging our customers for activation, modem or installation services and by offering high-speed fiber broadband at attractive prices.

We offer fixed broadband internet packages to our residential customers. We also offer internet, voice and TV bundles, where we benefit from the use of our own fiber. We need the incumbent's network to provide services outside our fiber zones, therefore we are able to offer double-play packages only with internet and voice to our customers. We are not offering IPTV service on DSL because our TV technology is IP based (IPTV), which has a multicast structure, technically DSL infrastructure can not support this kind of service.

***(iii) Digital Services & Solutions***

By providing a wide range of digital services, Turkcell enables users to remain connected wherever they are, via their mobile devices. From digital communications services to media and entertainment services, Turkcell responds to the diverse needs of subscribers to help them connect to life.

*Digital Services*

Turkcell seeks to differentiate itself by providing innovative and pioneering solutions in collaboration with its strong solution providers and various partnerships.

Turkcell is focused on developing and managing digital services and solutions to address the diverse needs of both consumers and corporate customers, thereby enriching their lives. These services are designed around enhancing the communication experience of our customers via better call management and messaging services, enriching their on the go experience by using mobile technologies, especially in the areas of information and entertainment (i.e. television, communication, education, music and sports) and enabling our customers to access information according to their needs and providing convenience services such as mobile payment and finance services.



## Table of Contents

Turkcell has developed a number of Turkcell-branded mobile applications in-house. Turkcell App Market is a localized application store for users to download both free and paid mobile applications to their supported handsets. It enables people to download more than 20,000 applications including Turkcell-branded applications and third party applications such as news, games and sports. As of December 31, 2016, Turkcell has 42 active Turkcell-branded mobile applications that were downloaded from the Turkcell App Market over 3 million times in 2016.

Among others, below are the strategic services on which we focus:

*BiP* is an Integrated IP-based communication platform;

*Turkcell TV+* enables subscribers to watch live television channels and on-demand video content on their mobile devices and through IPTV platform;

*fizy* (formerly known as *Turkcell Music*) is a digital music platform to stream and download music,

*lifebox* (formerly known as *Smart Storage*) is a cloud service that facilitates data storage;

*My Account* is an application for our customers to track their bills and usage, changing their settings and making transactions & purchases;

*Goals on Your Mobile (Goller Cepte)* allows fans to follow their team and be updated on a wide variety of categories such as game scores and player transfers;

*Turkcell Academy* provides digital learning contents and services in various categories such as technology, innovation, personal development, marketing, leadership, certificate programs;

*Dergilik* is a digital publishing platform which enables access to more than 250 popular magazines published in Turkey;

Downloads of strategic services increased to 44.2 million in 2016, from 21.4 million in 2015.

### *Integrated IP-Based Communication Platform (BiP)*

BiP is available for all operators' subscribers on iOS and Android platforms through App Store and Play Store and has been downloaded 11.2 million times in 192 countries as of December 31, 2016. The application supports eleven languages including Turkish, English, Ukrainian, Belarusian and Russian Spanish, Arabic, Azerbaijani, German, Farsi, and Romanian. Every month around 240 million messages are sent, more than 5 million items of entertainment are shared, and 3.8 million calls are made with 400.000 hours of call duration.

The most important features of Turkcell's IP-based communication platform BiP includes:

Instant messaging, sending photos, videos and audios;

Group messaging with multiple people;

High quality VoIP and video call;

Entertaining content: Creating and sharing internet memes, a wide range of emojis;

Secret chat Disappearing messages in the pre-defined time;

Communicating with non-BiP users via SMS; and

Sharing location.

BiP Discover area provides also a new connected life experience as a marketplace that consists of various entertainment and information services. Discover area offers two way communication between users and services. Today, BiP Discover serves more than 71 different services including top Turkish banks, TV Shows, celebrities, content providers and customer services with 3 million followers.

Similar to the product offered in Turkey, BiP in Ukraine, includes voice and video call features in addition to messaging capabilities. lifecell subscribers also benefit from free data while using BiP.

BiP data includes a roaming package (100 MB) as well.

#### *Turkcell TV+*

Turkcell's multi-screen TV platform Turkcell TV+, launched in October 2014, delivers an enhanced television viewing experience to its subscribers anywhere, any time. Its unique features as compared to other

## **Table of Contents**

platforms include the abilities to pause and rewind live streams, record to cloud and the capability to switch between four screens. As of December 31, 2016 Turkcell TV+ reached 1.1 million subscribers, 360 thousand of which were IPTV users, and customers who have downloaded Turkcell TV applications reached 2.3 million to date. We expect that with the launch of 4.5G technology in Turkey, a more extensive content library, a new generation 4K-Ultra HD technology and application portfolio starting with YouTube, TV+ will become an even more popular and attractive service for both fixed and mobile users while playing an important role for the growth of Turkcell Group.

### *fizy*

Turkcell's digital music service fizy enables its users, via an application, to access a number of songs free of data charges. Users have the flexibility to listen to their favorite songs offline as well. As of December 31, 2016 fizy has been downloaded 8.0 million times to date.

### *Goals on Your Mobile (Goller Cepte)*

Goals on Your Mobile is a sports application designed for the four top soccer clubs and live score fans. It provides instant super league goal videos, betting analysis and the latest news. It is also a social application where people can come together in a forum. The app had been downloaded 2.9 million times as of December 31, 2016. The service plans promise new features such as multiplayer games and an in-depth betting analysis in the first quarter of 2017.

### *lifebox*

Turkcell's personal cloud service, lifebox is the first local storage service in Turkey and globally provides all users the ability to store their photos, documents, and videos in one secure, convenient and personal space with autosyncing abilities, and to share them easily. lifebox awareness is at the second place in the local market. With its autosyncing, searching and storing features, lifebox has aimed to provide solutions to user storage needs and engage them with their memories. lifebox had reached more than 3.6 million downloads and subscribers by the end of 2016. More than 600 million items have been stored in lifebox servers as of today.

### *Turkcell Academy*

Turkcell launched the Turkcell Academy service in 2014 in order to reshape ways of learning so that anyone, anywhere, would have access to world class learning and quality content. Enriched with Turkcell's technology and training knowhow and content partnerships with top institutions worldwide, Turkcell Academy provides an access to a digital and innovative world. Turkcell believes that accessible knowledge with mobility will offer equal opportunities in education and empower people.

Turkcell Academy offers services for consumers and corporates. As the consumer service, Turkcell Academy has a website and mobile application that provide digital learning contents and services in various categories such as technology, innovation, personal development, marketing, leadership, certificate programs.

Regarding the corporate service, the Learning Management System (LMS) of Turkcell Academy enables to easily prepare trainings, courses, exams and questionnaires. User management on the LMS is easy-to-use and the platform also allows detailed training-tracking and reporting. Besides these advantages of Turkcell Academy LMS as a training tool; it is also a highly developed evaluation tool with its capabilities of simultaneously reporting the responses.

Turkcell Academy mobile application had been downloaded by 1.2 million customers by the end of 2016. About 5 million learning videos have been watched on Turkcell Academy as of today.

*My Account*

One of our priorities as Turkcell is to drive customer loyalty through digital. Within the scope of this strategy, we invest in our digital self-service channels. The primary channel is our mobile application called *My Account* by which we provide our customers the ability to track their bills, usage and settings and make transactions and purchases. Our engagement activities combined with these offerings brought over 14 million downloads and about 10 million monthly active users in 2016. Our customer satisfaction and effort scores also indicate that we offer a simple and user friendly experience and make our customers' lives easier.

## **Table of Contents**

### *Dergilik (Digital Publishing)*

Our digital publishing app, Dergilik, is an all-access application that gives users access to more than 250 popular magazines published in Turkey on their iOS and Android tablets and smartphones. All magazines available on Dergilik can also be downloaded and read via a monthly subscription fee. Dergilik service is enhanced with auto-download, favorite pages and magazines features. As of December 2016, the app has been downloaded by 0.9 million customers.

### ***Business Applications***

Business Applications provides corporate customers with a competitive advantage by providing non-core industrial solutions. Fleet management, employee tracking, push-to-talk services, energy monitoring services and new generation cash register solutions are available to streamline customer processes and provide operational efficiency through new revenue streaming channels, better customer reach and experience.

With the rise of the enterprise applications market as well as improvements in mobile internet, cloud services and mobile devices, businesses have been undergoing a strategically important process of digital and mobile transformation. Turkcell continues to be a strategic business partner to companies in all industries for transformation projects that aim to render all processes manageable via mobile devices anytime and anywhere.

In addition to a network that is superior and stronger than ever with the arrival of 4.5G, Turkcell offers companies M2M, digital services and business app solutions that enable real time data exchange with an end-to-end approach.

Turkcell also aims to meet corporate customers' network and infrastructure management needs via access, data center and cloud infrastructure solutions combined with managed services capabilities in order to reduce operating expenses and increase productivity.

Mobile transformation, network management and IT outsourcing projects provide a significant opportunity for business growth and expansion, especially in the large enterprise market. Turkcell takes pride in being the strategic partner to more than 100 companies and public institutions in such projects where it implemented technology, communications and systems integration services via its Professional Services organization.

### *Turkcell Super Esnaf Application*

Super Esnaf (tradesman) is a location-based application which provides the geographic information of approximately 300,000 small business owners. The aim of the application is to make small business owners more visible and accessible, and to make it easier for people using Super Esnaf application to find the nearest craftsmen according to their needs. There are 62 categories of business operators from grocery stores to carpenters available on the Super Esnaf application.

### *Turkcell Smart Enablers Services*

Turkcell Smart Enablers is a network of mobile-based and innovative technological services that offers companies the opportunity to know their customers better, reach the right customer in the right place, and increase security measures. These services are provided through a web service (API) that is easy to integrate into a company's existing systems. Eighteen services have been launched within this service group.

As of the end of 2016, more than 400 companies evaluate their business processes and provide new technological services to their customers by using Turkcell Smart Enablers web services (APIs).

*Turkcell Smart Map*

The Turkcell Smart Map service, which is another first for Turkey, makes it possible for companies who want to target specific customers to analyze large-scale data. Turkcell Smart Map operates on a website on which Turkcell's corporate customers can analyze Turkcell's mobile activity concentration at a point and time where an activity is being planned, or analyze where their own customers are concentrated at a specific time of day. Through this application, companies may have access to important data that will help them conduct marketing activities, develop growth strategies, and decide on new investment and design campaigns. In 2015, Turkcell developed new features such as Point of Interest (POI) analysis, movement analysis and interactive dashboard reports.

## **Table of Contents**

### *Location Based Services*

Corporate customers can monitor and manage their sales forces and fleets with Ekip Mobil. Ekip Mobil is a management console that allows customers to view their field teams/vehicles on a map, define alarms for specific regions and create direct communication channels to the field. Ekip Mobil can be used on any mobile device. For companies, the investment costs are minimal.

### *Turkcell Smart Education*

The aim of the Turkcell Smart Education program is to provide an interactive education platform for corporate customers. Classrooms with interactive whiteboards, document cameras and lecture capture systems will support active-learning environments. Telepresence systems, video and web conferencing enables online education or distance learning for participants around the world.

### *Authentication Services*

One Time Password is widely used by corporate customers for two-level authentication controls on transactions. The service allows corporate customers to send a single-use password via SMS to consumers when providing authentication on transactions. It is widely used for online banking processes and login transactions.

Mobile Signature, which was launched in February 2007, enables mobile subscribers to sign electronic documents and transactions with a legally-accepted digital signature using GSM SIM cards. Mobile signature subscribers can easily verify their personal identity in a digital environment and complete transactions remotely, without needing to be physically present.

Mobile Connect is a secure universal log-in solution powered by GSMA and launched in December 2015 by Turkcell. Simply by matching the user to their mobile phone, Mobile Connect allows them to log-in to websites and applications quickly without the need to remember passwords and usernames. We believe that it is safe and secure and no personal information is shared without permission.

### *Cloud Services*

Turkcell offers a wide range of cloud solutions for its corporate customers. These services range from collocation solutions, to infrastructure, backup and security services. In 2016, Turkcell managed over 3,000 virtual servers and protected more than 1 Petabyte of data for its corporate customers. As of December 31 2016, our datacenters are based across six locations on approximately 55,000 square meters.

In 2016, to meet Turkey's digital data management need, we built the nation's largest Tier 3 Designed data center in Gebze, which has a closed area of 33 thousand square meters with 10 thousand square meters of white space, 30 MVA power capacity meeting the highest standards. Data center has Turkcell Superonline's powerful fiber network through 5 connection points and infrastructure provides above 99.9% availability with its 7/24 surveillance/security/mechanical /electrical and network operations as well as its seismic ground isolation against earthquakes of magnitude 9, the DC protects your data with Turkcell know-how offering nonstop service and cost efficiency at the same time. In addition to Turkcell's powerful technology, Data Center provides comfortable work areas, including private and shared rental offices. Also, data center has international standards of ISO 27001, 22301, 10002, 20000, 50001 and Leed Gold energy efficiency.

Turkcell offers cloud based applications from its data centers. Apart from the basic hosting and e-mail solutions, Turkcell offers cloud based (aaS) productivity applications such as videoconferencing and fax which enable corporate customers to send and receive fax digitally from anywhere.

*Machine to Machine ( M2M )*

Since 2009, Turkcell has focused on its M2M business, whose principal markets in Turkey are car telematics, team tracking, fleet management, POS terminals, security alarms, smart metering, mobile health management, smart agriculture and sales force automation applications. Turkcell launched Turkey's first M2M Platform in March 2012. With the M2M Platform, customers can manage their devices more effectively. As of December 31, 2016, the number of M2M subscribers increased to 2 million compared to 1.9 million as of December 31, 2015.



---

**Table of Contents**

*Mobile Marketing*

Turkcell utilizes mobile marketing and advertising channels to create additional value for its customers. In 2016, many companies sought to expand and reach their customers through corporate messaging products, differentiating themselves from the competition. Those companies have created fast and efficient solutions to their marketing needs through the use of bulk messaging stand apart from the competition by enriching their messages in terms of visual aspects with rich content messages which is a corporate messaging service that enhances the customer's ability to send visual messages and by reaching their customers at the right place, at the right time, with our location-based SMS services. These companies also collected customer feedback by conducting satisfaction surveys using our Instant Response suite.

Increase in smartphone and tablet penetration has resulted in more data usage, more space to be creative and the need for more interactive marketing tools in order to be engaged with customers. As the use of mobile devices increases, mobile marketing has become a necessary part of every brand's marketing strategy. Turkcell utilizes mobile marketing and advertising channels to create additional value for customers.

See Item 3.D. Risk Factors for a discussion of the regulatory changes affecting our digital services & solutions.

**(iv) Wholesale**

**(i) International Roaming**

Our coverage extends to many countries in the world. As of December 31, 2016, we believe we have further enhanced our position as a leading mobile operator of international roaming services in Turkey by expanding our partnership in 208 destinations throughout the world, pursuant to commercial roaming agreements with 706 operators.

Since July 2002, we have provided roaming services for prepaid subscribers of foreign mobile operators visiting Turkey. We were the first operator to provide such a service in Turkey. This service, called Passive Customized Applications for Mobile Network Enhanced Logic (passive CAMEL), can only be enabled if both operators have installed the passive CAMEL system on their networks. As of December 31, 2016, we offered prepaid roaming to the prepaid subscribers of 411 operators from 154 destinations.

Since October 2004, we have offered roaming services for Turkcell prepaid subscribers traveling abroad. This service, called Active Customized Applications for Mobile Network Enhanced Logic (active CAMEL), can only be enabled if both operators have installed the CAMEL system on their networks. As of December 31, 2016, we offered prepaid roaming to Turkcell prepaid subscribers through 444 operators in 174 destinations.

Since October 2002, we have offered GPRS roaming. As of December 31, 2016, we allowed our subscribers to access the internet and reach their email accounts while traveling, through 607 GPRS roaming partners across 199 destinations.

As of December 31, 2016, our subscribers can send SMS to more than 732 mobile operators located in

209 destinations, including North America and China and in order to balance international SMS traffic, we have 84 International SMS Interworking Agreements in place.

Since December 2005, our subscribers have been able to send and receive MMS to and from subscribers of foreign operators. As of December 31, 2016, our subscribers were able to send MMS to 390 mobile operators in 142

destinations.

On July 30, 2009, we became the first operator in Turkey to launch 3G Roaming services in many different locations around the world. As of December 31, 2016, our subscribers enjoyed high speed mobile internet connections with 445 operators in 166 destinations.

On January 20, 2015, we have launched LTE Roaming services for our subscribers in many different locations around the world. As of December 31, 2016, our subscribers experienced LTE Roaming experience with 123 operators in 67 destinations.

On April 1, 2016, we have launched LTE Roaming services for visitor subscribers from many different countries around the world. As of December 31, 2016, subscribers of 131 operators from 62 different locations experienced LTE Roaming in Turkcell network.

## **Table of Contents**

We have entered into direct international roaming agreements with GSM operators around the world, including in Cuba, Iran, Sudan, Libya and Syria. These arrangements have been entered into in the ordinary course of business and on arm's-length terms that we believe to be in line with industry standards. Under the roaming arrangements in the listed countries, our net revenues for roaming on our Turkish network totaled less than 1.1 million in 2016 and our net expense for our subscribers roaming on the networks of operators in the listed countries was less than TRY 5.2 million in 2016. In terms of revenue generation, we do not believe that our roaming arrangements with operators in Cuba, Iran, Sudan, Libya and Syria are material.

### ***(ii) Wholesale Voice***

Turkcell and Superonline Iletisim Hizmetleri A.S. ( Turkcell Superonline ) together supply wholesale voice service by establishing interconnection agreements with fixed line and mobile operators and international carriers.

As of December 31, 2016, Turkcell Superonline had interconnection agreements with more than seventy local and international carriers. Turkcell has interconnection agreements with Turk Telekom, Vodafone, Avea and Fixed Telephony Service Operators and via these agreements parties connect their networks to enable the transmission of calls to and from their mobile communications system. As of December 31, 2016, Turkcell had interconnection agreement with 31 fixed line and mobile operators and carriers.

For Turkcell, current interconnection rates are based on the ICTA's decision on the MTRs and FTRs. ICTA designated Turkcell as an operator having significant market power in the mobile access and call origination markets. Due to this designation, Turkcell is obliged to provide access and call origination service to MVNOs and directory services. As of December 31, 2016, Turkcell had agreements with 13 Directory Service Providers. Commercial negotiations in view of reaching agreements with MVNOs are ongoing. For more information, see Item 4.B. Business Overview Regulation of the Turkish Telecommunications Industry .

### ***(iii) Wholesale Data***

Our vision to become a regional player has been reinforced with 11 border crossings in Turkey. Five border crossings are towards Europe where we can offer various diversity options to connect with important European cities through protected and completely diverse routes. Six of the border crossings are towards the East, where we can offer capacity services to the Caucasus and Caspian region as well to the Middle East.

Turkcell Superonline, that aims to transform the Silk Road into the Fibre Road, has been taking important steps to develop Istanbul as the world's newest Internet base due to its geostrategic location. Accordingly, the company provides a bridge between east and west, which supplies a continuous connection with partnerships with the Tier-1 operators and strategic partners between Asia, the Middle East and Europe, such as RCN. Today, we provide telecom services to more than 70 international operators including Tier-1 companies. Currently, we carry more than 3.5 Terabits of international traffic.

In addition to our Voice Interconnect business with national operators, we have started to enter into partnerships both in the area of backbone and customer solutions.

## **IV. Tariffs**

Our charges for voice, messaging, data and value added services consist mainly of bundles and also monthly fees, usage prices, and volume discount schemes and options under various tariff schemes.

We have various segmented tariff plans for mobile that target specific subscriber groups (postpaid or prepaid, corporate or consumer). A majority of our customers choose all-inclusive packages which include minutes to Turkcell, intra-company calls (for the corporate segment) and all national directions, data, SMS and value added services. Turkcell also offers all-inclusive packages with annual fixed-price plans that include price discounts and/or extra minutes.

Turkcell's fixed offers are based on speed, quota and fair usage. The tariffs are designed upon the composition of the different needs of different customers. Turkcell's fiber offers high speeds throughout our own infrastructure up to 1000 Mbps, usually bundled with voice, devices and TV products. ADSL offers up to

16 mbps and has voice bundled tariffs. Since 2016, VDSL is offered to our customers using DSL products, with higher speeds up to 100 Mbps.

---

**Table of Contents**

***(i) Consumer Tariffs***

We mainly offer bundled packages including voice, data, SMS and various value added services.

We have various tariff bundled smart device campaigns offered jointly by our dealer channel in which minutes, SMS and data services can be bundled with these smart devices, which are expected to lead to higher mobile broadband and services usage.

Today, more and more customers need reliable, consistent and uninterrupted internet connectivity both for mobile and fixed networks. At Turkcell, we focus on providing the best customer experience in all channels supported by competitive offers and an extensive network. We initiated our convergence program with two products for consumer and corporate segments, which include fixed broadband (fiber or DSL) and mobile broadband launched in December 2015. Furthermore, in April 2016, we launched the first converged bundle offer in Turkey, which includes mobile and fixed products in a single bill. In November 2016, we took another step forward and added TV to a converged bundle which brings together mobile, fixed and TV products in a single bill. In 2017, we will continue providing the best service and fastest speed with 4.5G offers in mobile.

In fixed broadband products (fiber and DSL internet) we have various tariffs for different internet speeds and quota. We offer 25 Mbps to 1000 Mbps internet speed in the fiber internet which we serve through our own infrastructure. The campaign prices are valid for a 24-month commitment and we generally acquire customers for a 24-month commitment. Our fixed voice product is bundled with our fixed data product. We also have tablet and desk phone campaigns in which the terminals are offered jointly by dealers, bundled with Turkcell Superonline fixed data products.

Turkcell intends to provide advantageous price schemes to consumer and corporate customers when abroad. With a customer-oriented focus, Turkcell offers products to subscribers with high- and low-roaming usage. Not only Platinum customers, but also other Turkcell postpaid customers enjoy Roam Like Home offer automatically which enables them to use their domestic tariff while abroad by paying a daily fee. The only requirement is that the tariff should include voice, SMS and data all together. Roam Like Home is valid for 66 countries and Turkcell is the most advantageous operator on that field. The subscribers, unless they apply for a specific roaming package or reject Roam Like Home feature, are subject to the Smart Roaming Tariff which was launched in January 2013. With this tariff, voice/SMS bundle and data-only solutions are offered. The Smart Roaming Tariff activates automatically, if and only when, the subscriber makes/receives a call, sends an SMS or uses GPRS. The tariff is activated again after the limits are exceeded. Whenever the subscriber goes abroad again, the tariff is reactivated automatically with the first usage unless the subscriber opt-in other package. Additionally, for subscribers preferring low-usage, Turkcell offers a linear roaming tariff known as the Turkcell World Tariff. Overall, Turkcell aims to provide better roaming experiences with various pricing schemes that fit different usage patterns.

***(ii) Corporate Tariffs and Loyalty Programs***

We offer a variety of voice packages to our corporate customers to meet their communication needs. These packages include company, on-net and/or flat minutes. We also offer bundled versions of these packages including data and flat SMS. In February 2016, just one month before the 4.5G launch, we launched our new corporate mass tariff line which includes higher data volumes and VAS services such as Lifebox and BiP. In December 2016, we took another step and added new VAS services, Fizy and TV to our new corporate mass tariff line.

We also offer various joint terminal campaigns in which voice, SMS and data packages can be bundled with different terminals. In addition, we provide various mobile data packages in order to meet different customer needs. These

packages include shared data packages, URL-based packages, VINN Wi-Fi offers and tablet bundled campaigns.

In addition to mobile tariffs, we also address and provide solutions to our corporate customers different telecommunication needs with the Total Telecom Solutions Provider ( TTSP ) approach. We provide TTSP products such as VOIP, MPLS/VPN, data center, cloud, and mobile and fixed bundle offers to our customers from a single source. Moreover, we have initiated new data center investments in Gebze and Ankara, which are active since the second half of 2016. Our corporate customers will benefit from the services provided by the data centers which include co-location, cloud and security services.

We have dedicated voice and non-voice offers, and provide different benefits for artisans . We launched several new bundled mobile tariffs for artisans at the beginning of the October 2016. These tariffs also include a

## **Table of Contents**

variety of mobile services such as Turkcell TV+, fizy, Lifebox and BiP. In addition to mobile services and tariffs in which voice, SMS and data packages are bundled, we offer voice campaigns which provide limitless talk on fixed lines from 7 am to 7 pm for free.

We also launched new corporate add on packages primarily targeting enterprise segment customers. These add on packages enable our corporate customers to transfer voice, data or roaming packages to any Turkcell customer regardless of whether the line is owned by a corporate or an individual. Our corporate customers may transfer and cancel any add on package at any time by using the online transaction channel or via dedicated corporate representatives.

For corporate customers, Turkcell Superonline provides internet services over its fiber-optic infrastructure with the latest transport technology and DSL infrastructure of the incumbent fixed operator. We have fixed internet offers and fixed internet and VoIP bundle offers. With our offers, modem products are free. We also offer fixed internet and tablet bundles jointly by dealer channel for our customers.

We have two loyalty programs which are called Win at Work and Platinum Business. We launched our business to business ( B2B ) loyalty program, Win at Work, in March 2010, for Turkcell's corporate customers. Win at Work is the first loyalty program focused on the B2B segment. The main focus of Win at Work is to offer advantages to our corporate customers and provide them with cost advantages on their non-GSM costs. With this program, Turkcell's corporate customers get discounts in several areas such as market, water, technology, car rentals, dry cleaning services and translation services. Platinum Business is a loyalty program for both corporate and consumer subscribers with the Platinum tariff plan which provides attractive co-branding offers with various brands such as discounts on sea taxi services between the Asian-European zones of Istanbul, gift cinema tickets, car park services in shopping malls, free transportation to the airport; and providing shuttle services to customers to reach their destination during ski holidays.

### ***(iii) Wholesale Tariffs***

In 2016 ensuring the necessary wholesale roaming cost basis to be able to support the new roaming consumer and corporate tariffs and propositions Roam Like Home was one of the main focuses of the Wholesale Roaming Agreements.

Based on Turkcell's roaming agreements, Turkcell hosts the subscribers of foreign operators on its network. When a subscriber of a foreign operator makes a call using Turkcell's network, that subscriber's operator pays us our inter-operator tariff ( IOT ) for the specific call type. IOT is a wholesale tariff applied between mobile operators having roaming agreements.

Interconnection rates in Turkey are based on the ICTA's decision on the interconnection tariffs for Turkcell, Vodafone, Avea, Turk Telekom and Fixed Telephony Service Operators.

With respect to data sales, Turkcell intends to provide competitive prices to promote Istanbul as a regional hub for peering and IP transit services.

## **V. Churn**

Mobile churn rate is the percentage of disconnected subscribers calculated by dividing the total number of subscriber disconnections during a period by the average number of subscribers for the same period. For these purposes, we define average number of subscribers as the number of subscribers at the beginning of the period plus one half of the total number of gross subscribers acquired during the period. Churn refers to subscribers that are both voluntarily and

involuntarily disconnected from our network. Under our disconnection process, postpaid subscribers who do not pay their bills are disconnected and included in churn upon the commencement of a legal process to disconnect them, which commences approximately 180 days from the due date of the unpaid bill. Pending disconnection, non-paying subscribers are suspended from service (but are still considered subscribers) and receive a suspension warning, which in some cases results in payment and reinstatement of service. Prepaid subscribers who do not reload TRY for a period of 270 days are disconnected (this was changed in 2010 from 210 days). Under our churn policy, prepaid subscribers are disconnected from the system if they do not top-up above TRY10 during a twelve month period. In 2016, the mobile churn rate decreased to 24.6% from 27.3% in 2015, primarily due to churn actions such as voice/data bundle offers based on different customer needs. The fixed churn rate increased to 18.9% in 2016 from 16.7% in 2015.



## **Table of Contents**

We have what we believe to be an adequate allowance for doubtful receivables in our Consolidated Financial Statements for non-payments and disconnections amounting to TRY974.5 million and TRY816.4 million as of December 31, 2016 and 2015, respectively.

The churn rate for the fixed broadband products is calculated in the same way as the churn rate for the mobile products. Fixed broadband subscribers who do not pay their bills are disconnected in 15-62 days according to the financial risk segments of the customers. The legal process commences approximately 104 days from the due date of the unpaid bill.

## **VI. Seasonality**

The Turkish mobile communications market is affected by seasonal peaks and troughs. Historically, the effects of seasonality on mobile communications usage has positively influenced our results in the second and third quarters of the fiscal year and negatively influenced our results in the first and fourth quarters of the fiscal year. Recently, however these seasonality effects have been less significant. Local and religious holidays in Turkey generally affect our operational results.

The Turkish fixed broadband market is also affected by seasonal peaks and troughs. Historically, the effects of seasonality on fixed broadband usage have negatively influenced our results in the third quarter of the fiscal year. This is mainly due to summer holidays when both usage and acquisition numbers decrease and churn increases due to residents moving.

## **VII. Mobile and Fixed Network**

### ***a. Coverage***

Statements regarding our 2G coverage are based on the ICTA's specifications as well as the TUIK's announcements regarding the population, and statements regarding our 3G coverage are based on the ICTA's 3G coverage calculation specifications issued on April 25, 2012. Statements regarding 4.5G coverage and performance are based on our own calculations, pending publication of ICTA specifications.

Our mobile communications network is designed to provide high-quality coverage to the majority of Turkey's population throughout the areas in which they live, work and travel. As of December 31, 2016, Turkcell covered 92.85% of Turkey and 99.67% of its population, including 100% of cities with a population of 1,000 or more. Coverage also includes a substantial part of the Mediterranean and Aegean coastline, and during 2015, we enhanced coverage in low-populated areas (populations of less than 1,000 people) as well. In terms of 2G, we have significantly exceeded the minimum coverage requirements of our license.

We have also expanded our mobile communications network to add capacity to existing service areas and to offer service to new areas, including the improvement of existing urban, suburban and intercity road coverage. In 2016, we continued to expand our coverage and further enhanced capacity in populated areas. Within the scope of the Ministry of Transport, Maritime Affairs and Communications' Rural Coverage Project as part of universal services which we started in August 2013, infrastructure covering 1,794 settlements with populations of less than 500 has been installed as of the end of 2016, with network sharing technology, which enables all operators to use the same BTS, BSC and IP Transmission lines. This contract was recently renewed until December 31, 2018 and to add mobile broadband services to the existing infrastructure providing GSM services under Universal Service Law and to operate the new and existing networks together.

We commercially launched 3G simultaneously in 81 provinces and major cities in Turkey in July 2009. As of December 31, 2016, we covered 96.04% of Turkey's population and 99.88% of 16 metropolitan municipalities populations. As a result of the amendment to the Law for Metropolitan Municipalities, the number of metropolitan municipalities increased and the borders of some municipalities were extended. After this amendment, the ICTA increased our coverage obligations, defined in our concession agreement by its decision, based on this amendment. We filed a lawsuit for a stay of execution and the cancellation of this aforementioned decision. The Council of State granted a motion for the stay of execution of ICTA's aforementioned decision. The ICTA objected to this decision. The objection was also rejected in favor of Turkcell. The case is still pending.

Benefiting from higher-quality communications provided by the widest spectrum in 3G, Turkcell will continue to offer seamless communications services to its customers with what we believe to be the most extensive coverage amongst its competitors.

---

## **Table of Contents**

In 2016, we continued to develop and improve the coverage and capacity of our network. In urban areas, we increased both coverage and capacity by placing network infrastructure in commercial sites such as shopping malls, business complexes and entertainment centers. We became the first mobile operator extending 3G coverage to all of the districts in Turkey.

We have been using 3G Small Cells (such as Femto, pico and micro) which are solutions to further enhance our coverage in places where signal penetration problems exist due to thick concrete walls, coated glass windows, basement floors, etc. 3G Repeaters have been used to serve the same purpose.

Following the IMT-Advanced ( 4.5G ) tender held on August 26, 2015, Turkcell acquired 10 MHz from the 800 MHz frequency band and an additional 1.4 MHz of 900 MHz frequency band and additional 10 MHz of 2100 MHz frequency band. We use these frequency bands that provide high signal penetration in order to provide IMT coverage and enhance 3G coverage as well as capacity. As of December 31, 2016, Turkcell reached 82.5% population coverage for 4.5G in Turkey.

Our fixed communications network is designed to provide high capacity and high-quality service to consumer and corporate customers. Moreover, we believe that it is very well designed and implemented to provide capacity to our mobile network. Our fixed network has capabilities to carry large volumes of data and internet traffic inside the country and is also connected to national and international telecom operators.

As of December 31, 2016 our fiber network has reached to 37,154 kilometers and connects 79 of 81 cities. In 18 cities we have fiber to the home ( FTTH ) network and homepass, which means the number of premises that are connected to the fiber network, has reached 2,734 million. We also provide enterprise Wi-Fi services.

In the fixed access network we have two main network structures called fiber to the building ( FTTB ) and fiber to the home ( FTTH ). In FTTB network, we are installing switches to access our subscribers. In FTTH networks, we are installing Gigabit Passive Optical Network ( GPON ) equipment which is the latest access network technology for residential and business subscribers. These network structures enable Turkcell to offer triple play services (High speed internet, TV, Voice over IP). The fixed access network also provides bandwidth requirement for mobile sites with Metro Ethernet services.

### ***b. Quality of Service***

The ICTA published a Regulation on Quality of Service in the Electronic Communications Sector on September 12, 2010, effective as of December 31, 2011 (see Item 4.B. Business Overview Regulation of the Turkish Telecommunications Industry for further details). The Turkcell Network is currently above the standards set by the statement. As usual, Call Drop was one of the major Quality of Service figures that we focused on during 2016.

Dropped calls are calls that are terminated involuntarily and are measured by using the ratio of total dropped calls during the most congested hour of network traffic during the relevant time period to the traffic intensity in that congested hour. Using such industry standard for dropped calls, our dropped call rate for our 2G network has further decreased below 0.60%.

Turkcell also provides high quality services through its 3G network. In a short time, we have succeeded in reducing the 3G dropped call rate below the 2G network. Our dropped call rate for our 3G network is below 0.30%. The rate of service quality is being enhanced all the time due to investments in our 2G and 3G network to improve the quality and capacity of the network.

We have started to offload data traffic by increasing the percentage of small cells in the network for improving customer satisfaction. We also focused on Special Distributed Antenna Solutions and customization of parameter settings in major stadiums to maximize the capacity of our 2G/3G Access Network. Together with Turkcell Superonline, we have also implemented Wi-Fi offload integrated with the Turkcell 3G network to further enhance the customer experience.

We are the only operator in Turkey that can increase its carrier number up to eight carriers, allocated to mobile communications in the long term, by having the widest frequency spectrum in Turkey. We are using this capability to increase our capacity to provide superior services to a larger number of subscribers and improve coverage. In 2016, we continued to increase the number of carriers with the advantage of large spectrum assets. We believe we have sufficient bandwidth to serve our current and projected short-term subscriber base and we currently meet the capacity requirements of both our 2G and 3G subscribers.

---

## **Table of Contents**

Turkcell has been awarded the ISO 9001 certificate since 1999 and renews its ISO 9001 certification every two years in the fields of design, installation, operation, sales, after sales services of global mobile communications within Turkcell functions. The latest certification Turkcell was awarded is the ISO 9001:2008 Quality Management System Certificate in 2016. In addition, Turkcell received the ISO/IEC 20000-1:2005 IT Service Management System Certificate in January 2011. As the first telecommunications company to receive the ISO 20000-1:2005 certificate in Turkey, Turkcell has promoted the adoption of an integrated process approach to effectively deliver managed services to meet business requirements.

On the fixed network side, we monitor traffic utilization in our access network continuously to prevent any saturation and upgrade the capacity as soon as possible. Turkcell modifies and redesigns the network topology to meet the future requirements which allows us to improve our quality of service performance.

The optical transmission network relying on DWDM systems with Automatically Switching Optical Network (ASON), Optical Transport Network (OTN) and traditional Synchronous Digital Hierarchy (SDH) using protection mechanisms benefit alternative fiber routes wherever available. This increases the capabilities of re-routing in the event of service interruption. Thus, the delivered point to point services provides an experience up to 99,999% availability figures; a level of quality defining the transmission network as upper level carrier-class network.

### ***c. Network Evolution***

#### ***(i) Radio Network***

We launched the LTE Advanced network (also known as 4.5G in Turkey) on April 1, 2016 after extensive trials and preparations. On the launch day, millions of our customers were able to switch to our new 4.5G network seamlessly in one hour, reflecting our operational capacity, while it took days for our competitors to migrate their customers to their respective LTE networks. We have deployed 4.5G in all 81 provinces, including all counties. We have also upgraded our in-building systems (such as those in shopping malls) so as to enhance the 4.5G user experience of our customers indoors.

With a new spectrum acquisition of 172.4 MHz in the 2015 auction, Turkcell spectrum holdings have reached 234.4 MHz, corresponding to 43% of total spectrum assets acquired by the mobile operators in Turkey. Leveraging the advantage of large spectrum assets and by a significant investment into the network infrastructure, our 4.5G network has widely supported 375 Mbps peak downlink speeds from the very first day. Three Carrier Aggregation (3CA) (an LTE Advanced technology) has enabled us to provide very high downlink speeds to our customers. We have been continuously exploring new ways to enhance our customers' experience by activating new technologies currently available. Lately, we have activated 256QAM downlink technology in the entire network to increase peak downlink speeds up to 500 Mbps. For the uplink, we have switched on 64QAM technology to increase peak uplink speeds by 50% to 75 Mbps in the entire 4.5G network. In 2017, as our next step, we plan to integrate 4x4 MIMO feature into the network to increase peak downlink speeds by as much as two-fold. Thanks to our advance planning and network deployment strategy, our 4.5G network infrastructure has been ready to support 4x4 MIMO from day one and therefore its activation should easily be accomplished via software. In this way, we believe that not only has Turkcell 4.5G network been assured to be the fastest in Turkey, but we believe that it also has become one of the most advanced and fastest mobile networks in the world. This has been proven by reports from certain independent organizations (such as in the Ookla Speedtest report dated December, 2016) that Turkcell has by far the fastest 4.5G network in Turkey when compared to other competitor networks. In the future, as the technology and its ecosystem evolve to new heights, we expect to introduce newer capabilities such as Four/Five Carrier Aggregation (4CA/5CA) and Uplink Two Carrier Aggregation (UL 2CA) by utilizing our large spectrum assets to support higher-order carrier aggregation options. We think ongoing network upgrades will also pave the way for easy migration to the next

generation technology. Turkcell is currently using the latest and most advanced products from its infrastructure vendors.

For voice services, Voice over LTE (VoLTE) has been supported from day one to provide voice services over our 4.5G network. With a larger terminal support base, we expect that voice services will be migrated to the 4.5G network from legacy 3G/2G networks. In accordance with technology evolution, currently most of the voice traffic is already carried by our 3G network, which has enabled us to gradually shrink the 2G network due to decreasing 2G traffics levels.

In order to provide a solution for VPN over the wireless technologies like 4.5G, we have announced the Mobile VPN offer to our corporate customers. With this solution, customer companies are able to the connect

## **Table of Contents**

internet cloud over a wireless interface using 4.5G technology, without sacrificing their service quality requirements. This is a fast and flexible solution for connections between their branch offices and headquarters.

We have also focused on TV and video services utilizing much higher download speeds provided by the 4.5G network. We are closely following LTE Broadcast technology and have performed live demonstrations of LTE Broadcast (eMBMS) technology in some important sporting events (a basketball game and a sailing race).

While we have been investing into new technologies, we also have been upgrading our 3G/2G networks to improve the user experience of our customers who are served by the legacy networks. By conducting modernization projects, we have achieved an energy efficiency improvement of about 30% on our 3G/2G networks. The equipment modernization also enables us to use multiple technologies (LTE, UMTS and GSM) in a mixed mode configuration on the same hardware units located at the sites, providing smaller footprints for the installations along with other benefits. It is also important to note that since the traffic volumes on the 3G network are still on the rise, we have been using newly acquired 2x10 MHz spectrum on 2100 MHz band as 5th and 6th carriers for additional capacity.

Although the 900 MHz band is still being primarily used for GSM900, we have started rolling out UMTS900 to provide coverage layer for voice calls redirected from the 4.5G network via the technique called

CS Fallback (CSFB). This has been possible by some previous projects such as Thin Layer Project for GSM 900, by which we have extracted enough spectral capacity to partially re-farm the 900 MHz band for UMTS. UMTS900 has also strengthened our 3G indoor coverage compared to the existing UMTS2100 layer.

Furthermore, we have been closely cooperating with our network vendors for long term prospects through projects that enable Turkcell to deploy the latest technologies even before their general availability. This puts Turkcell at the forefront of the technology race and allows the evaluating of the new technologies benefits when they are in the development phase, and then their timely deployment following their commercial availability.

Turkcell continues to give extensive support to the projects involving local products. We cooperate with local companies regarding base stations, antennas, transports and infrastructure solutions. ULAK Project, which is an initiative taken by Undersecretariat for Defense Industries (SSM), aims to design and develop national software and hardware components for an LTE-Advanced communication system and enhance Turkey's self-sufficiency in this area. Since the signature of the agreement between SSM and Turkcell in March 2014, we have been supporting the project, which is on developing base stations domestically, with our engineering expertise. We contributed to the product development by transferring mobile operations experience and providing a test environment. The goal of Turkcell in this project is to contribute to the positioning of 4.5G base stations manufactured locally as a competitive product, not only in Turkey but also in the region and beyond.

In the scope of the next generation technology, known as 5G, Turkcell has been participating in technology organizations such as NGMN and GSMA by joining projects and programs to follow the latest developments and shape its strategies for the future accordingly. In this context, Turkcell has been selected by NGMN to trial the 5G prototypes in the field as a part of NGMN 5G test and trial activities. Turkcell has also signed agreements with vendors (Ericsson, Huawei, Aselsan) to collaborate in the research & development and work on various use case options. Our cooperation with Ericsson in the 15GHz band enabled us to achieve a speed of 24.7Gbit in Turkey's first 5G test. In addition to technology organizations and vendors, Turkcell has been doing some research activities with universities and research centers. 5G Research and Development related MoU has been signed with some major universities in Turkey. There are a couple of applications for 5G-PPP (The 5G Infrastructure Public Private Partnership) European Commission projects together with some European partners that perform important activities on the 5G development.

Regarding our 3G and 2G networks, we have supported up to 63.3 Mbps speeds using 3C-HSDPA

(3 Carrier High Speed Downlink Packet Access) technology for downloads and 11.5 Mbps using DC-HSUPA (Dual Carrier High Speed Uplink Packet Access) technology for uploads in our 3G network since early 2015. These technologies globally had their first commercial network activations by Turkcell. For GSM, although shrinking in traffic load and capacity, up to 300 Kbps download speeds are supported with EDGE technology for users having legacy terminals or in rural areas where GSM-only coverage exists.

***(ii) Transmission Network***

Turkcell is the first operator in Turkey to start deploying All-IP NodeBs throughout its network. We are not only expanding our 3G network but also migrating legacy TDM-GSM sites to IP through the deployment of Abis



---

**Table of Contents**

over IP technologies. Thus, we currently have an All-IP mobile backhaul of more than 20,000 BTSs and Node-Bs that provides resiliency, ease of operation and operational expense advantages. In addition to this, we have also invested in topology redundancy projects due to our IP/MPLS backhaul for better service availability. Backhaul bandwidth capacities were increased for wide coverage up to 450Mbps 4.5G applications and the Microwave Radio Link network was modernized for Native Ethernet and Adaptive Modulation support to increase availability and reduce outages due to severe rain conditions. Usage of fiber connectivity is moving further from High-RAN aggregation points towards Low-RAN aggregation points. Furthermore, fiber to the site applications have been started for 4.5G readiness of sites with very high traffic. Due to higher bandwidth requirements of the 4.5G users, we are migrating from SDH based leased lines to DWDM or dark fiber multi-Gigabit Ethernet links on the high traffic aggregation points.

***(iii) Core Network***

The whole Turkcell Core Network is currently composed of IP based layered structure Next Generation Network ( NGN ) nodes, supporting all mobile standards, including 2G/3G/4.5G. By using a Geographical Redundant Pool (GRP) structure, we get (i) full redundant MSC-Ss, (ii) redundant physical interfaces to MGWs, (iii) CAPEX efficiency, and (iv) improvements in radio network KPIs. By implementing IMS (IP Multimedia Subsystem) based VoLTE (Voice Over LTE) and SRVCC (VoLTE Voice Continuity to 2G/3G), all subscribers can use seamless HDVOICE technology.

We have deployed and continue to develop our all IP Mobile Broadband GPRS network to provide the high speed and reliability to meet the demand of our businesses and consumers. 2G/3G/4.5G data services are given from our converged core network, which is designed to support all mobile broadband.

***(iv) Fixed Network***

Our fiber optic network provides up to 1000 Mbps high speed internet service in 18 cities across Turkey. We also provide superior triple play service experience to our subscribers. We are installing and investing in EDGE technology access equipment in our network. We believe that with this strategy Turkcell will be ready to offer future customer experiences.

Turkcell is the first company in the world that has realized commercial application of colorless and directionless ASON on a live traffic carrying network. Turkcell also introduced coherent 100G technology in the backbone along with optical ASON in the early stages at the end of 2012 and early 2013. In 2016, Turkcell also tested for 1 Tbps per wavelength using super channels on existing DWDM networks successfully.

Fixed networks will provide backhaul that not only connects the signal towers to the telecom network, but also allows for enough bandwidth to support operations in 4.5G. This is creating an environment in which optical cabling and fiber to ethernet media converters are among the most important parts of a mobile network. As a result, fiber will remain an integral part of telecom networks.

***(v) Services and Platforms***

We have an intelligent network and other service platforms enabling our services and we also provide secure and controlled access to the network for the content and service providers to provide messaging and data services. This infrastructure is being improved to open up more capabilities on the network for the application and content providers. New infrastructure also contains a portal where subscribers buy services, receive promotions and enroll for campaigns easily.

**d. *Network Operations***

We have primarily employed experienced internal personnel for network engineering and other design activities while employing suppliers for our network infrastructure and as our partners in product/service development. Our suppliers install the base station cell site equipment and switches on a turn-key basis, while subcontractors employed by our suppliers perform the actual site preparation.

**e. *Network Maintenance***

We have entered into several system service agreements. Under these agreements, our mobile and fixed communications network, including hardware repair and replacement, software and system support services,

**Table of Contents**

consultation services and emergency services are serviced by local providers. Our subcontractors perform corrective and preventative maintenance on our mobile and fixed communications network in the field, although providers repair all the network equipment. We have regional operation units with qualified Turkcell staff that operate and maintain our network in Turkey.

In addition, the Turkcell Network Operation Center located in Istanbul monitors our entire network 24 hours a day, 365 days a year, and ensures that necessary maintenance is performed in response to any problems.

**f. *Site Leasing***

Once a new coverage area has been identified, our technical staff determines the optimal base station location and the required coverage characteristics. The area is then surveyed to identify BTS sites. In urban areas, typical sites are building faces and rooftops. In rural areas, masts and towers are usually constructed. Our technical staff also identifies the best means of connecting the base station to the network. Once a preferred site has been identified and the exact equipment configuration for that site determined, we start the process of site leasing and obtaining necessary regulatory permits. Site leasing processes and construction of the masts or towers is performed by Global Tower. We lease or buy the land and provide site management services (yearly rental payments, contract renewals, rework permits) by Global Tower. We manage all these processes for technical demands of Turkcell, Turkcell Superonline and Global Tower.

**g. *Business Continuity Management ( BCM )***

Turkcell Business Continuity Management identifies potential threats, their impact and provides a framework for building resilience with the ability to create an effective response that safeguards the interests of our key stakeholders, their reputation, brand and value-creating activities. We established the Business Continuity Management System ( BCMS ) to implement, operate, monitor, review, maintain and improve the business continuity.

Turkcell BCMS is assisted by the coordinators and business continuity virtual team. Regular BCM training and awareness programs are carried out throughout the organization. The effectiveness of BCMS is monitored every year through internal/external audits, and integrated exercises, the results of which are reviewed in management review meetings. In 2016, we exercised and tested our business continuity plans, communication and warning procedures to ensure that they are consistent with the business continuity objectives.

Turkcell s BCM will be able to cover the majority of Turkcell s operations through potential environmental events and natural disasters. Our aim is to ensure the continuity of the voice call, messaging, data/internet and societal security services for Turkcell, availability of fixed voice call services, data/internet, hosting services, data centers and societal security services for Turkcell Superonline, provision of site acquisition and contract management services for infrastructure requirements of mobile operators, TV/Radio broadcasters and technical infrastructure suppliers and installation, testing, commissioning, operation and maintenance of tower, in building, roof top infrastructure/Sites for Global Tower at acceptable predefined levels following disruptive incidents. Business continuity plans are prepared by taking into consideration the customer s expectations, company policies and legal obligations. They are regularly exercised to guarantee the operation of time-sensitive business activities in case of business disruptions. We are continuously improving our business continuity capacity in accordance with the ISO 22301 Societal Security, Business Continuity Management System international while preserving our image as a reputable and solid integrated service provider.

**h. *Enterprise Risk Management ( ERM )***

Turkcell's Enterprise Risk Management team is responsible for coordinating the process of identifying, assessing and overseeing actions by management and the company's business units to manage the risks that may affect the business objectives of the company. ERM supplies an information platform to management regarding the risks which may have an effect on the decision making process. Turkcell ERM aims to develop an approach of integrating risk management with the core management processes as well as enterprise risk culture. While doing this, Turkcell uses an ERM framework which is compatible with the COSO ERM framework and the ISO 31000 Standard. Based on the ERM procedures, risks are identified and evaluated in terms of impact and likelihood. Risk responses and controls are developed and the whole process is monitored.

Turkcell's ERM team is the owner of an enterprise risk database. A range of management tools are used for risk identification and evaluation such as workshops, brainstorming sessions, risk reporting from divisions risk

---

## **Table of Contents**

contacts, in-depth interviews with the management team and research reports while coordinating the process of identifying and assessing risks. The risk database is monitored by the ERM team and critical risks are reported to the Early Detection of Risk Committee bi-monthly.

### **VIII. Sales and Marketing**

We design our sales and marketing strategy around subscriber needs and expectations. We try to ensure the loyalty of our subscribers by providing offers, campaigns and our advanced service delivery platforms.

#### ***a. Sales Channel***

We support our sales efforts through one of the largest retail telecommunications distribution networks in Turkey, with approximately 1,025 exclusive stores, many with prime locations, as well as approximately 8,854 non-exclusive dealers. Our two exclusive distributors provide our products and services as well as handsets and aftersales services for this wide network of dealers, while 15 exclusive Turkcell distribution centers focus solely on non-exclusive dealers. We also have a door-to-door sales force and home technology management team, which makes approximately 100,000 connected home technology transaction per month. This provides us with an important channel to distribute our integrated solutions directly into the homes of Turkish consumers. We also operate a dedicated corporate direct sales team of approximately 1,227 personnel who can offer tailored solutions to their respective segments.

Our nationwide distribution channel is an important asset that helps us differentiate ourselves from our competitors and achieve our sales targets. Our strong and extensive distribution network consists of distributors, Turkcell Distribution Centers ( TDC ), Corporate Solution Centers, non-exclusive dealers, Turkcell Communication Centers ( TIMs ), and Turkcell Stores as well as points of sale for scratch cards and prepaid airtime, including digital channels, ATMs, Point of Sales (POSs), web, call centers, supermarkets, gas stations and kiosks. We sell postpaid and prepaid services, fixed and mobile solutions, value-added services to subscribers through our distribution network. The number of exclusive and non-exclusive dealers totaled approximately 9,950 sales points as of December 31, 2016.

Our exclusive retail network consists of powerful retail dealers with good locations, modern designs and superior after-sales service. TIMs lead the market with their user-friendly atmosphere, new products and services and dedicated employees. In 2009, TIMs were relaunched with the motto "We aim to ease your life with technology" in order to enhance our customer service-oriented image under the TIM brand. As of December 31, 2016, Turkcell had approximately 1,025 exclusive sales points. Every year, around 2,150 million visitors are served by our specialized sales force, which consists of approximately 6,748 people in TIMs. Moreover, we have 116 Technology Specialists in TIMs who coach the entire sales force, help customers experience technology and spread the latest technological information.

Our non-exclusive dealer network provides us with a high penetration of Turkcell products and services in Turkey. Our 15 TDCs are aimed at enhancing our distribution effectiveness in the non-exclusive channel and ensure the timely and efficient distribution of Turkcell products and merchandising materials. They also facilitate the Turkcell brand and offer awareness in this competitive channel.

Alternative sales channels are re-designed under three main branches: Telesales, Online Sales and Self-Service channels.

We are working on attracting our customers to all of our channels through digital channels and by co-branding. We offer our customers fast and safe access to our products and services 7/24 via turkcell.com.tr, our Online Sales channel. Another channel is our Self-Service channel (which consists of ATMs, Call Centers, internet branches of

banks, Kiosks, and in other channels, over 15 thousand national and local markets and post office branches) where we give our customers the opportunity to access Turkcell's products easily and quickly. In contrast to our other two channels, we proactively reach our customers and satisfy their needs easily and safely when they need our products and services, in our Telesales channel.

All dealers are compensated based on the number of new subscribers they sign up and the level of such subscribers usage, as well as additional incentives based on their performance.

Sales Management develops strong relationships with and promotes brand loyalty among dealers through a variety of support and incentive programs. Training programs aim to educate dealers' personnel on the technical

## **Table of Contents**

aspects of our products and services, as well as sales techniques to increase sales and enhance customer relations. The technological development projects, coupled with merchandising services, point-of-purchase (POP) materials and channel specific campaigns, help to support the sales efforts in all of our sales channels.

Corporate clients are managed in five different segments: Public Accounts, Strategic Accounts, Major Accounts, Medium Businesses and Small Businesses. The first four segments' customers are directly contacted by Turkcell's Account Managers, while the Small Business segment is managed by dealers and telesales teams called Corporate Solutions Centers.

The corporate segment services consist of four basic categories:

Mobile Telecom

Fixed Telecom

Data Center and Cloud

Information Technologies

Within Turkcell's sales teams, along with Telecom Services, Mobile Product and Solution Specialists, Fixed Product and Solution Specialists, Corporate Data Network, DC Cloud, Cyber Security Specialists and Professional Services teams specialized in IT solutions have served to the corporate clients.

Turkcell also provides turnkey mobile transformation and IT outsourcing projects for large corporations with the contribution of solution partners.

### ***b. Advertising***

In 2016, we remained focused on understanding the needs of each consumer segment thoroughly and sought to offer them superior coverage, a seamless transition from 3G to the new 4.5G network in Turkey, tailored solutions, outstanding service quality, and leadership in social responsibility. We seek to empower our customers by enabling them to be more connected to life with simple communications solutions ready at their fingertips. Through the nation's fastest 4.5G bandwidth which we acquired in 2015, we provided our customers with the most reliable 4.5G LTE network nationwide in 2016.

We base our communication strategy on three pillars. The assets that ensure our leadership position which comprise the first pillar and are fourfold: it includes the mobile and fixed communication technologies which we offer in an integrated manner, the social responsibility projects that we undertake throughout the year in various areas, our position as a brand that is loved and appreciated and lastly the fact that we have established a number of 'firsts' in the Turkish market. The second pillar involves customer conversations which spring from various products and services that target diverse needs of specifically identified customer segments. Our third pillar includes our digital services that connect our customers with a large portion of what the digital world has to offer and the real experience of connectivity.

***c. Customer and Experience Management***

The key part of our customer and experience management strategy is to provide basic and premium services through several channels by thinking and acting in a customer-focused manner in line with market trends and Turkcell's mobile and fixed solutions. Our goal is to maintain a continuous relationship with our customers through fostering a high level of customer satisfaction. We continuously ask our customers how satisfied they are with the service they receive and for any suggestions through near real-time mobile surveys. We aim to achieve operational excellence throughout all customer touch points for every customer segment by continuously improving and simplifying processes and services. Customer feedback is the major input for Turkcell's continuous process and journey improvement efforts.

With respect to provision of customer services we mainly work with our subsidiary Global Bilgi Pazarlama Danisma ve Cagri Servisi Hizmetleri A.S. ( Turkcell Global Bilgi ). Turkcell Global Bilgi offers 24/7 contact center services at several sites and manages more than 200 million contracts annually. Turkcell's customer service strategies for contact centers are implemented by Turkcell Global Bilgi and we audit all of their operations along with monitoring whether customer services and customer satisfaction programs are executed in line with Turkcell's customer strategies. Turkcell Global Bilgi's success has been affirmed by a number of domestic and international awards received in 2016. We also offer customer service at face-to-face communication centers all around Turkey which are in a huge transformation process in order to meet our customers' technological needs and demands.



---

## **Table of Contents**

We aim to channel our customers to reach us digitally. To realize this goal, we invest in our online self-service channels. The primary channel is our mobile application called My Account which provides our customers the ability to track the bills, usage and settings and make top-ups to their plans. In 2017, we plan to focus more on increasing sales through this application. Additionally, our customers can contact us via online chat available on both the website and the application. We also use online chat applications to reach our customers proactively when they are stuck on the website or need assistance while trying to buy a product. For corporate customers, account managers are assigned for exclusive service. An account manager is the single point of contact and provides proper solutions in response to customer needs. While managing our corporate customers through five sales segments, we also support our customers through e-mails, calls and dedicated back offices, under the umbrella of our Contact Center. We have Corporate Customer Representatives to support direct requests from our strategic and large enterprises and/or to support indirect requests received through our account managers. In addition, for small and medium businesses, we aim to meet faster and higher quality service standards by providing online solutions to satisfy the demands of our sales teams regarding their customers demands with our Field Support Desk . Moreover, we developed a mobile application called My Company for corporate customers, which helps them to manage all their GSM lines via mobile. Our corporate customers can experience the convenience and speed of doing self-service transactions for all lines by using this application.

Turkcell has been awarded the ISO 10002 certificate since 2011 and continuously renews its ISO 10002 certification every year in the scope of design, installation, operation, sales, and after-sales services of global mobile communications within Turkcell Functions. The latest certification is ISO 10002:2004 Quality Management-Customer Satisfaction-Complaints Handling Certificate, which was awarded in 2016.

## **IX. International and Domestic Subsidiaries**

A component of our strategy has been to grow or improve our business in both international and domestic markets. International expansion and, in particular, continued strong operations in the countries in which we are currently present is important for us. We believe these operations will provide additional value to us in the future and will continue to serve an important role in our goal to be a converged communications and technology services company.

While continued improvement of our current operations is a key priority, we may further expand and increase our presence in key emerging markets in the region, such as the C.I.S. region, Eastern Europe, the Middle East and Africa and the Balkans. Through such investments, we intend not only to transfer our technological know-how and marketing expertise, but also to maximize economies of scale and group synergy.

Our international and domestic endeavors will continue in 2017. We will continue to selectively seek and evaluate new investment opportunities both in our main and adjacent communication and technology business areas as well as the businesses outside of the scope of our core business.

### **Ukraine lifecell**

We acquired our interest in our subsidiary lifecell LLC ( lifecell , formerly known as LLC Astelit or Astelit ) on April 2, 2004, by purchasing the entire share capital of Astelit s parent, CJSC Digital Cellular Communications ( DCC ), from its shareholders.

On July 10, 2015, we completed the acquisition of SCM s 44.96% stake in our Netherlands-based subsidiary Euroasia Telecommunications Holding B.V, which owns 100% of LLC Astelit and which merged with Lifecell Ventures Cooperatief U.A. in December 2016. The terms of the acquisition required a payment of \$100 million as consideration for the acquisition, the payment of Astelit s debts obtained through and with guarantee of SCM Group, the termination

of all guarantee agreements to which SCM Group is party and the release of SCM Group in this regard. In accordance with IFRS 10 Consolidated Financial Statements , the acquisition of the remaining 44.96% in Astelit for a total consideration of \$100 million was considered an equity transaction and the deficit representing the difference between the non-controlling interests was derecognized and the consideration paid for the acquisition of shares amounting to TRY 929 million was deducted from retained earnings in July 2015.

Following the acquisition of the 44.96% interest in Euroasia from SCM, Astelit s borrowings obtained from and with the guarantee of SCM Group have been repaid in July 2015. The Group converted a material portion of Astelit s borrowings to equity and restructured Astelit s remaining borrowings in order to mitigate the foreign

**Table of Contents**

exchange risks associated with borrowings denominated in foreign currency. Astelit's capital has been increased by \$686 million (equivalent to TRY 2,414.2 million as of December 31, 2016) and Astelit obtained \$66 million (equivalent to TRY 232.3 million as of December 31, 2016) subordinated loan directly from the Company in the third quarter of 2015. As of 31 December, 2016, lifecell utilized loans fully denominated in local currency of UAH 3.15 billion (equivalent to TRY 407.2 million as of December 31, 2016) under the guarantee of Turkcell.

Astelit began its operations in the Ukrainian market in February 2005 with its brand life:) During ten years, the brand became highly recognized in the market due to its focus on a young, innovative and flexible audience. After ten years of successful history in the industry, on January 15, 2016 the company announced a new stage of its development which started with large-scale rebranding. Starting from 2016, the company now offers its services under the new brand lifecell and in connection therewith changed its legal name to lifecell LLC at February 2, 2016. This brand change marks a milestone in the operator's journey as a technology leader in Ukraine. lifecell adopted blue and yellow as its brand colors, bringing Turkcell and its Ukrainian subsidiary closer in terms of brand identity. Under the new brand identity and with ongoing investments in 3G+ infrastructure and services, lifecell will continue its presence in the market, seeking to become Ukraine's top data operator and usher in new possibilities in the country's telecommunications landscape. As of Q3 2016 brand awareness research showed that about 80% of the polled were aware that lifecell is an operator which has provided mobile services in Ukraine for many years, and recently made a rebranding. Almost all of those who are aware that it was a rebranding 98% said that life:) became lifecell.

As of December 31, 2016, lifecell had 12.4 million registered subscribers. The majority of such subscribers were prepaid subscribers. lifecell's three-month active subscribers reached 9.2 million as of December 31, 2016.

The company has been known in the market as one of the most dynamic and innovative ever since lifecell was the first to introduce a number of new technologies and products that had previously been unavailable to Ukrainian subscribers. The company is highly motivated to keep its innovation leadership in marketing and sales. There are 164 exclusive lifecell shops which are working in 86 cities of Ukraine as of December 31, 2016. There are 40 facelifted and 23 rebranded shops whereas 30 shops in the process of facelifting and 13 shops in the process of rebranding as of December 31, 2016. In addition, customers can order lifecell services in 93 branded sales points and 31,286 other GSM and non-GSM sales points throughout Ukraine. As of December 31, 2016, lifecell provided roaming services in 200 countries via 533 roaming partners.

As of December 31, 2016, lifecell operated in 99% of the cities in Ukraine (excluding Crimea) with a population of more than 2,000 inhabitants (2,254 settlements) and in total more than 29,097 settlements nationally, and all principal intercity highways and roads, which corresponds to coverage of approximately 98.9% of the whole population of Ukraine or 94.7% geographical coverage with 10,812 base stations. lifecell stopped recording revenues from Crimea starting from the end of September 2014 and impaired its assets in that region. Furthermore, the current military and political crisis in the Eastern region (mainly in Donetsk and Luhansk) and with Russia remains unresolved, which could lead us to evaluate our options in the Eastern region. Cumulative capital expenditure for the development of lifecell's coverage amounted to \$1,874.8 million as of December 31, 2016.

lifecell is dedicated to further developing innovations in the market. The National Commission for the State Regulation of Communications and Informatization (NCCIR) held the 3G license tender on February 23, 2015. lifecell submitted a bid of UAH 3,355 million (equivalent to TRY 434.3 million as of December 31, 2016) and was awarded the first lot, which is the 1920-1935 / 2110-2125 MHz frequency band. Official notification was received on March 2, 2015 and the license payment was made on March 19, 2015. In May 2015, lifecell has made payment of UAH 358 million (equivalent to TRY 46.3 million as of December 31, 2016) as a first installment for conversion of spectrum from military use and committed approximately UAH 479 million (equivalent to TRY 62 million as of December 31, 2016) for the remaining installments of the conversion. The committed amount will be subject to

change according to the inflation rates at the date of the payments. After winning the tender, lifecell launched 3G services on June 4, 2015, becoming the first operator to offer a 3G+ network in Ukraine, which is available to nearly 26.7 million Ukrainian subscribers as of December 31, 2016 all over the country. lifecell launched 3G+ in Ukraine, a peak of evolution of third generation technology which allows lifecell subscribers to enjoy a speed of up to 63.3 Mbps and 3 month active 3G data users reached 3.3 million.

Since May 2015, lifecell has continued to roll out its 3G + network and officially launched its 3G + network in 24 regions in Ukraine, including such large cities as Lviv, Kyiv, Odesa, Dnipro, Chernigiv, Mykolaiv, Vinnytsa and Kharkiv, with the population over one million inhabitants. Currently 3G+ from lifecell is available

## **Table of Contents**

in more than 5,740 towns and settlements in Ukraine and in more than 2,630 Ukrainian towns and settlements lifecell is the only operator providing the third generation technology. As of December 2016 lifecell became the leader in geographical 3G coverage in Ukraine. Since the beginning of 2016 lifecell has managed to increase data traffic usage four times up to 150 Tb/day and HSDPA throughput up to almost 4 Mbit/s. 3G+ services of the lifecell network can be used by 25 million subscribers as of December 31, 2016. As of December 2016 lifecell is a leader of smartphone penetration in the Ukrainian telecommunication market. The operator has a penetration of 60.2% in its high-speed 3G+ network, which is the highest smartphone penetration.

In December 6, 2016 lifecell signed Letters of Declaration on cooperation in the framework of the development of 5G in Ukraine with Huawei Ukraine and Ericsson. Signing of these Letters in Ukraine by each of the partner companies results from the global Memoranda signed by Turkcell with Ericsson in 2015 and with Huawei in 2016. Representatives of the Ukrainian authorities also supported the introduction of the fifth generation technology in Ukraine. lifecell became the first on the Ukrainian telecom market to declare its intention to develop 5G in Ukraine. lifecell cares about reducing the technological gap with the leading European countries.

In terms of the framework of lifecell strategy targeted at smartphonization of Ukrainian society, in June 2016 lifecell introduced its terminal business direction in its official stores. Since this launch, all current and potential lifecell subscribers are able to buy modern devices from the represented line of brands together with scratch cards, which provide a package of services.

In 2016 lifecell became a technology sponsor of the national football team of Ukraine and a Premium sponsor of the legendary football club Dynamo Kyiv to support the Ukrainian sports along with millions of its fans.

During 2016, lifecell continued to implement socially responsible projects. lifecell was the first among Ukrainian telecommunication companies to implement a program of supporting its subscribers in emergencies abroad and in Ukraine. In 2015, the company launched a special social initiative, Care beyond the borders, aimed at supporting lifecell subscribers roaming in the countries where terrorist attacks, natural disasters and emergencies have happened. During 2016 lifecell supported more than 12 thousand subscribers in ten countries during terrorist attacks in Turkey, Belgium, Iraq, France and natural disasters in Ecuador, New Zealand, Italy, Japan, Indonesia, Trinidad and Tobago, providing more than 175 thousand outgoing and incoming minutes in roaming. In July 2016, lifecell became the first among Ukrainian telecommunication companies to sign a Memorandum with the Ministry of Foreign Affairs of Ukraine on cooperation to support Ukrainian clients of the company abroad.

lifecell universities is the socio-educational program of lifecell, aimed at creating a network of technical laboratories in leading Ukrainian universities. Mobile operator lifecell became the first in the Ukrainian telecommunications, to cooperate with leading technical universities by transferring telecommunication equipment and creating special technical labs for students. On April 2016 the company opened the first technical laboratory in the Institute of Telecommunication Systems (ITS) of the National Technical University s Igor Sikorsky Kiev Polytechnic Institute with an initial cost of UAH 10 million for the transferred equipment. ITS has three departments Telecommunications, Telecommunication Networks and Informational Telecommunication Networks where 471 students are studying. As of today, 102 students of Kyiv Polytechnic Institute are trained in the laboratories of lifecell universities program and gain practical knowledge.

The Ukrainian telecommunications market is regulated by the Cabinet of Ministers of Ukraine (main state policy), the State Service of Special Communication Administration ( SSSC ) (technical policy aspects) and by the NCCIR controlled by the President of Ukraine and which carries out general telecommunication market regulation and inspection.

In 2016 NCCIR approved an MTR decrease from UAH 0.23 to UAH 0.15 per minute starting from January 1, 2017. A further decrease of MTR rates with asymmetry implementation, reflecting operators cost, is hoped for in the coming years. This will stimulate competition on the Ukrainian market and will bring down competitive barriers, bringing real freedom for subscribers.

The Mobile Number Portability ( MNP ) Procedure and Technical Requirements have been prepared by the SSSC with the involvement of operators and adopted by state authorities. Tender for an MNP solution provider occurred on January 25, 2016. MNP was not launched in 2016 because the Antimonopoly Committee of Ukraine (AMCU) annulled the result of the UCRF 's initial MNP tender. There were several claims to the court and now

---

**Table of Contents**

lawsuits are still in process. Also the technological process of interaction between CDB and telecommunication networks and telecommunication networks between operators is not approved yet. So MNP introduction, intended to make the Ukrainian telecom market more competitive and transparent, was postponed to 2017.

In April 2016 LLC lifecell sold 811 towers to a subsidiary of Turkcell in Ukraine, Ukrtower LLC, and signed a tower lease agreement which allows lifecell to leaseback these assets.

**Belarusian Telecom**

On July 29, 2008, Beltel Telekomunikasyon Hizmetleri A.S. ( Beltel ) signed a share purchase agreement to acquire an 80% stake in CJSC Belarusian Telecommunication Network ( Belarusian Telecom ), which provides services using GSM and UMTS technologies, for a consideration of \$500 million. On August 26, 2008, control of Belarusian Telecom was acquired from Belarus State Committee on Property and \$300 million of the total consideration was paid. An additional \$100 million was paid in December 2009 and another \$100 million was paid in December 2010. An additional payment of \$100 million will be made to the seller when Belarusian Telecom records a full-year positive net income for the first time. For more information, see Note 27 (Other non-current liabilities) to our Consolidated Financial Statements.

At December 31, 2016, Belarusian Telecom had 1.599 million registered subscribers, the majority of which were prepaid, Belarusian Telecom s three-month active subscribers reached 1.214 million as of December 31, 2016 from 1.138 million as of December 31, 2015. Belarusian Telecom had 153 exclusive and 393 non-exclusive sales points. At December 31, 2016, Belarusian Telecom operated 2G and 3G services in all cities with a population of more than 10,000, and provided 2G services on all principal intercity highways and roads of Republic of Belarus, which corresponds to coverage of approximately 99,96% of the entire population of Belarus, or 97,7% geographical coverage.

In line with our strategic priority of improving our balance sheet structure, we have restructured the outstanding debt of Belarusian Telecom in 2015. As part of the restructuring, Belarusian Telecom s total existing intra-group loans were converted into a subordinated loan, provided directly by Turkcell. Following the restructuring, Belarusian Telecom s outstanding debt is BYN 3.3 billion (equivalent to TRY 5.6 million as of December 31, 2016) owed to financial institutions and a 612 million subordinated loan (equivalent to TRY 2,271 million as of December 31, 2016) owed to Turkcell as of December 31, 2016.

As of February 1, 2012, Mobile Number Portability was launched with a donor-initiated mechanism where subscribers who want to port their numbers had to apply to their existing operator, which was in favor of the dominant market players. In April 2014, the mobile number portability procedure was revised to a recipient-initiated mechanism. Popularity of the mobile number portability service has increased with the revision of the procedure. Belarusian Telecom has realized the highest port-in subscribers count and net-add through Number Portability in 2016 compared to the previous years.

In Belarus, lack of pricing regulations in the wholesale and retail markets to prevent dominant operators abusive pricing practices continued to have an adverse impact on our business.

In Belarus, the only LTE license is owned by JLLC Belarusian Cloud Technologies ( beCloud ) and beCloud is the only infrastructure provider for LTE services. All operators are expected to use beCloud s infrastructure to provide LTE services to their customers. beCloud s LTE infrastructure was only existing in Minsk during 2016 and they expanded their network in other oblast in December 2016. Belarusian Telecom provides LTE services on beCloud s infrastructure since August 2016.

### **Turkcell Kuzey Kibris**

Kibris Mobile Telekomunikasyon Limited ( Turkcell Kuzey Kibris ), a 100% owned subsidiary of Turkcell, was established in 1999. As of December 31, 2016, Turkcell Kuzey Kibris had 0.5 million registered subscribers.

On April 27, 2007, Turkcell Kuzey Kibris signed a license agreement for the installation and operation of a digital, cellular and mobile telecommunication system with the Ministry of Communications and Public Works of the Turkish Republic of Northern Cyprus. The license agreement became effective on August 1, 2007 and replaced the previous GSM-Mobile Telephony System Agreement dated March 25, 1999, which was based on revenue-sharing terms. The new license agreement granted a GSM 900, GSM 1800 and IMT 2000/UMTS



## **Table of Contents**

license, for GSM 900 and GSM 1800 frequencies, while the usage of IMT 2000/UMTS frequency bands was subject to the fulfillment of certain conditions. The license agreement is valid for 18 years from the date of signing. The license fee was \$30 million including VAT and financed by Turkcell Kuzey Kibris through internal and external funds.

On March 14, 2008, Turkcell Kuzey Kibris was awarded a 3G infrastructure license at a cost of \$10 million including VAT, which was paid at the end of March 2008.

In the third quarter of 2010, Turkcell Kuzey Kibris completed and began operating the radio transmission (airlink) project providing direct international voice and data connection to the mainland. The project is the only direct connection in the Turkish Republic of Northern Cyprus, aside from the Telecommunication Authority.

In 2012, Turkcell Kuzey Kibris acquired Internet Service Provider and Infrastructure establishment and operation licenses. Turkcell Kuzey Kibris applied for a right of way to major municipalities and the Ministry of Transportation (formerly known as Ministry of Transportation and Public Works which was separated into two authorities after the third quarter of 2015) in order to establish a national fiber optic infrastructure. On January 24, 2014, a protocol between Turkcell Kuzey Kibris and the Ministry of Transportation was signed for the right of way for highway sides. Total fiber optic infrastructure implementation reached 69 kilometers by the end of 2016.

The National Regulatory Authority started to decrease mobile termination rates gradually in 2014 and the decreases in 2016 which is around 71% from 0.10 TL to 0.03 TL.

The Ministry of Transportation reduced the call charges 41% for off-net calls as of January 1, 2015. These recent price regulations have a substantial adverse effect on our business. According to the requirements of Electronic Communications Law, prepaid lines were registered. In addition, technical infrastructure was completed for IMEI registrations IMEI numbers have been registered and continue to be registered since early 2016.

In the end of 2016, for the first time in communication industry in the world, Turkcell Group and Turkish Republic of Northern Cyprus lifecell, the new digital brand of Turkcell Kuzey Kibris, has transferred all terms of communication, voice and SMS, to its data-only digital world and launched a data -only package with digital services.

## **Turkcell Europe**

Turkcell Europe GmbH ( Turkcell Europe ) was founded by Turkcell in 2010 as a mobile virtual network provider (MVNO) providing service over the T-Mobile (Deutsche Telekom AG) network. Headquartered in Cologne, Germany, Turkcell Europe commenced activity in March 2011.

Until the end of 2014, Turkcell Europe continued its operation as a MVNO and offered Turkcell s service quality across both Germany and Turkey not only to the people of Turkish origin living in Germany but also those who have close commercial contact with Turkey. Besides providing advantageous offers to those who call Turkey from Germany, Turkcell Europe always aimed to provide its customers in Turkey and Germany with a unique user experience. As of December 31, 2016, Turkcell Europe had 0,3 million registered subscribers.

In order to increase the efficiency of our operations in Germany, we made changes to the business model prior to the termination of the contract with Deutsche Telekom AG, which occurred in August 2014. The wholesale traffic purchase agreement, signed between Turkcell s subsidiary Turkcell Europe GmbH operating in Germany and Deutsche Telekom for five years in 2010, has been modified to reflect the shift in business model to a marketing partnership . The new agreement between our company and a subsidiary of Deutsche Telekom was signed on August 27, 2014. The

transfer of Turkcell Europe subscribers and operations to Deutsche Telekom's subsidiary was executed on January 15, 2015. The Marketing Partnership agreement is valid until January 15, 2018. Turkcell and Deutsche Telekom has a right to terminate or renew the Marketing Partnership after January 15, 2018.

### **Financell**

Financell B.V. ( Financell ) is incorporated under the laws of The Netherlands and has its registered address in The Netherlands. It is established as an intermediate financing company that is wholly owned by Turkcell. Financell will borrow funds from third party lenders with or without a Turkcell guarantee to fund other Turkcell subsidiaries. The Board of Directors of Turkcell resolved to liquidate Financell on December 21, 2016.

**Table of Contents****Turkcell Global Bilgi**

On October 1, 1999, we established Global Bilgi Pazarlama Danisma ve Cagri Servisi Hizmetleri A.S. ( Turkcell Global Bilgi ) in order to provide telemarketing, telesales, and call center services, particularly for Turkcell Group. In 2005, Turkcell Global Bilgi completed its transition from call center to contact center as Turkcell Global Bilgi started to manage customer contacts at every channel. Since then, in addition to providing services to Turkcell, Turkcell Global Bilgi started offering customer care services to companies in finance, retail, energy, public sector and the airline industry. In 2016, Turkcell Global Bilgi announced its presence as a Customer Experience Solution Center . By completing its business model transition from Customer Care to Customer Experience, Turkcell Global Bilgi started to analyze customer experiences deeper and gained a vast experience. As of December 31, 2016, Turkcell Global Bilgi employed 11,197 employees, of whom approximately 62% provide us with customer care and retention services, around 31% serve customers of other clients while the remainder work as administrative personnel. We own 100% of Turkcell Global Bilgi.

Turkcell Global Bilgi has owned a 100% share of Global Bilgi LLC since 2008, which operates in Ukraine and provides telemarketing, telesales and call center services. Global Bilgi LLC launched a branch office in Russia in April 2013, in order to maintain a presence in the Russian market by increasing business relations and development activities with current and potential customers.

Turkcell Global Bilgi has owned a 99% share of Global Bilgi FLLC since 2009, which was operating in Belarus to provide call center services. As of October 9, 2014, the liquidation process was finalized for Global Bilgi FLLC, which solely served our subsidiary Belarusian Telecom. Belarusian Telecom continues to perform call center operations in-house.

**Inteltek**

Inteltek Internet Teknoloji Yatirim ve Danismanlik Ticaret A.S. ( Inteltek ) offers information and entertainment services. Currently, Turkcell holds 55% of Inteltek through its wholly owned subsidiary Turktell Bilisim Servisleri A.S. ( Turktell ), while Intralot S.A. Integrated Lottery System and Services, a Greek company, holds 20% and Intralot Iberia Holdings S.A., a Spanish company, holds 25%.

Inteltek s business is currently operated under a contract entered into on August 29, 2008 with Spor Toto Teskilati A.S. ( Spor Toto ). The current contract is based on specific Turkish legislation relating to gaming enacted in 2008 and was entered into following numerous legal challenges to prior contracts. Under the current contract, Inteltek runs the sport betting business, iddaa, for a period of 10 years, effective as of March 1, 2009 and superseding a prior agreement. No assurance can be given that we will be able to renew this agreement on acceptable terms when it expires. Under this contract, Inteltek guaranteed a TRY 1,500 million turnover for the first year of the contract and has given similar guarantees for future years. The guaranteed turnover for the following years will be computed using producer price indices. Inteltek shall pay the guaranteed turnover difference (after deducting commission income) to Spor Toto if actual turnover is below guaranteed turnover. To date, actual turnover has exceeded that amount. In addition to the foregoing, Inteltek signed a mobile betting dealer agreement with Spor Toto on January 12, 2010, which gives it the right to operate 1,000 mobile terminals.

In the context of evaluating investment opportunities in neighboring countries, Azerinteltek Closed Joint Stock Company ( Azerinteltek ) was incorporated on January 19, 2010 in Azerbaijan and is 51% owned by Inteltek. Azerinteltek received authorization from the Ministry of Youth and Sport of the Republic of Azerbaijan and signed the Agreement with Azeridmanservis Limited Liability Company set under the Ministry of Youth and Sport of the Republic of Azerbaijan to organize, operate, manage and develop the fixed-odds and parimutuel sports betting

business in Azerbaijan for a period of 10 years. Azerinteltek started its operations, with the brand name Topaz , on January 18, 2011 and reached 476 agents as of December 31, 2016. Since January 1, 2013, Azerinteltek was authorized for the sales of lottery tickets as a main distributor by Azerlotereya.

Inteltek is the domestic market leader and is ranked among the most prominent operators in the international entertainment sector. Inteltek intends to continue to explore business opportunities both in Turkey and abroad in information and entertainment, or adjacent businesses.

According to resolution of Extraordinary General Assembly Meeting of Inteltek held on March 24, 2016, the shareholders resolved a capital decrease in the amount of TRY 20 million, reaching to TRY 10 million. The payment to the shareholders was executed on June 30, 2016.

## Table of Contents

### **Turkcell Superonline**

Superonline İletişim Hizmetleri A.S. ( Turkcell Superonline ) has a Fixed Telephony Services authorization, which allows the company to provide call origination and termination for consumers and corporations, as well as wholesale voice carrying services. It also has authorization to provide satellite communication services, infrastructure operating services, internet services and wired broadcasting services, and mobile virtual network operating services. Currently, the company carries the majority of Turkcell 's traffic, previously carried by Turk Telekom (the incumbent operator). Turkcell Superonline was founded in 2009 through the merger of our subsidiary Tellcom with the Superonline business acquired from the Cukurova Group.

Established to be an innovative telecom service operator and with its extensive international connectivity, Turkcell Superonline offers its international and national clients wholesale voice termination, international leased data lines, internet access, telehouse and infrastructure services. Furthermore, Turkcell Superonline is in the retail broadband market, bringing fiber optics to residences. Turkcell Superonline provides fast communication technology with its own fiber optic infrastructure in Turkey and provides telecommunication solutions to individuals and corporations in the areas of voice, data and TV.

Turkcell Superonline is a telecom operator providing fixed network communication solutions to telecom operators, corporations and households in the areas of data, voice and video. Bringing one of the world 's fastest internet services to Turkey through cooperation with major international operators, we carry on investing in order to transform the Silk Road into a Fiber Road by expanding our own infrastructure across Turkey with a fiber network stretching to every corner of the country. We believe that the group synergy arising from being a 100% subsidiary of Turkcell Group, along with our top quality services and our stated goals above sets Turkcell Superonline as a worthy candidate to become the most preferred service provider of choice .

We believe that Turkcell Superonline differentiates itself through its steadfast commitment to the quality of after-sale services. Turkcell Superonline supplies corporations with industry-leading service-level agreements utilizing its professional technical support personnel and highly qualified team of consultants. Turkcell Superonline has been awarded the ISO 9001:2008 Quality Management System Certificate from Bureau Veritas. Turkcell Superonline aims to become one of the leading innovative telecommunications operators in Turkey and it intends to continue to seize opportunities in the internet and telecommunications markets.

Turkcell Superonline won the tender of BOTAS, Turkey 's state-owned pipeline company, for the indefeasible right to use the capacity of the fiber optic cables already installed by BOTAS for 15 years in 2009, including the right to install additional fiber optic cables and the right to use the capacity of these fiber optic cables during the same period. This transaction has been considered as a finance lease as the lease term is for the major part of the remaining useful life of the fiber optic cables already installed by BOTAS and Turkcell Superonline made a significant investment during the initial period of the lease agreement which is an indicator that the transaction is a finance lease. The recognized cost of the indefeasible right of use as of December 31, 2016 is TRY 46.0 million (December 31, 2015: TRY 42.1 million).

Turkcell Superonline began to provide 1000 Mbps service to homes in May 2011 for the first time in Turkey in line with the Turkcell Group 's strategy to provide state-of-the-art technology for its customers with top-quality service. Turkcell Superonline has rendered Turkey as one of the first five countries in the world where a 1000 Mbps connection is provided to homes thanks to this service option. Turkcell Superonline is the fiber market leader and exceeded 1 million fiber customers as of December 31, 2016.

On August 12, 2011, Turkcell Superonline signed a share purchase agreement to acquire a 100% stake in Global Iletisim, which is specialized in providing internet and telecommunications services. In November 2011, the control over Global Iletisim was acquired from Yildiz Holding A.S. for a consideration of TRY(0.8) million. Turkcell Superonline and Global Iletisim merged on March 30, 2012.

On March 7, 2013, Turkcell Superonline signed a share purchase agreement to acquire a 100% stake in Deksarnet Telekomunikasyon A.S. ( Deksarnet ) which is an affiliate of Vestel Elektronik San. ve Tic. A.S. Group. In July 2013, the control over Deksarnet was acquired from Vestel Elektronik San. ve Tic. A.S. Group for a consideration of TRY 3.4 million. Turkcell Superonline and Deksarnet merged on December 3, 2013.

On January 31, 2014, Turkcell Superonline signed a share purchase agreement to acquire a 100% stake in Metronet Iletisim Teknoloji A.S. ( Metronet ). In April 2014, the control over Metronet was acquired from Es

---

## **Table of Contents**

Mali Yatirim ve Danismanlik A.S. for a consideration of TRY 27 million. Turkcell Superonline and Metronet merged on July 4, 2014. With this acquisition, Turkcell Superonline's fiber in-city coverage increased to 14 cities, up from the existing 12.

As of December 31, 2016, Turkcell Superonline has 37,154 km of fiber backbone covering 79 major cities in Turkey and has 11 border crossings. Turkcell Superonline has fiber in-city coverage in 18 cities and increased its homepasses to around 2.7 million as of December 31, 2016 from around 2.4 million a year ago. We have five border crossings to Europe, offering various diversity options to important European cities through protected and completely diverse routes. With our stable fiber infrastructure and six border crossings to the East, we offer capacity services through Middle-East, CIS and Asia. Our next generation network designed over this strong infrastructure enables us to deliver high quality solutions to telecom operators, multinational and national private corporations and the governmental institutions.

With the target of transforming Silk Road into Fiber Road, Turkcell Superonline has been taking important steps to develop İstanbul into the world's newest Internet base due to its geostrategic location. Accordingly, the company provides a bridge between east and west, which supplies a continuous connection with the partnerships with the Tier-1 operators and strategic partners between Asia, the Middle East and Europe such as RCN (Regional Cable Network). Today, we provide telecom services to more than 70 international operators including Tier-1 companies. Currently, we carry more than 3.5 Terabits of international traffic.

Turkcell Superonline aims to continue to invest in and expand its own fiber optic network and further utilize the group synergy created with Turkcell. The Company intends to continue to take advantage of business opportunities within the broadband industry in 2017.

Turkcell Superonline merged with Turkcell Interaktif Dijital Platform Icerik Hizmetleri A.S. on December 28, 2016 ( Turkcell Interaktif ). Following the merger, Turkcell Interaktif was deregistered from Istanbul Trade Registry.

## **Global Tower**

Kule Hizmet ve İşletmecilik A.S., ( Global Tower ) was established in 2006 as a 100% subsidiary of Turkcell and commenced its operations in 2007 to provide infrastructure management by leasing places on towers to private and public entities and institutions. It is the first and only tower company in Turkey and fifth largest tower company in Europe. In addition to Turkey, it has operations in Ukraine, Belarus and the Turkish Republic of Northern Cyprus. Today, it serves not only Mobile Network Operators ( MNO ) but also broadcasting, ISPs, energy, public institutions and other related industries. Its 100% owned subsidiary in Ukraine, UkrTower LLC, was founded in 2009 and its 100% owned subsidiary in Belarus, Beltower LLC, was founded in 2016.

Global Tower operates a unique portfolio of more than 10,000 towers, 8,000 of which are located in Turkey. In addition to this tower portfolio, it also provides service through over 100 mobile towers. Global Tower provides fast and high-quality service to its customers in collaboration with its business partners.

In April 2016, UkrTower, a 100% subsidiary of Global Tower acquired 811 towers from Lifecell, increasing its tower portfolio in Ukraine to 1,201 (including seven mobile tower units and 14 DAS (in-building systems), and excluding 36 dormant towers in the Crimea region). In addition, in Belarus, on October 3, 2016, Global Tower executed a right of use agreement with Belarusian Telecom, for the right to use regarding 767 towers among the 830 towers owned by Belarusian Telecom. The negotiations for the remaining towers are still ongoing. An assessment processes for a potential sale and lease-back arrangement relating to the towers in Belarus in currently ongoing. In Northern Cyprus, Global Tower executed an agreement with Kibris Telekom for a right-of-use arrangement relating to 115 towers

owned by Kibris Telekom.

In Turkey, Global Tower manages the processes of renting, maintaining and installing towers in 11 structured regions with its 5 solution partnerships. With this structure, the distance between any two service points in Turkey is less than 90 km.

Global Tower helps customers expand their network, peer-to-peer telecommunications and it provides broadcasting field infrastructure solutions, turnkey setup services and professional operation-maintenance services. With its project management, field rental, construction works, telecommunications equipment setup and ready-for use field delivery solutions, it helps private and public institutions reach more customers.



**Table of Contents**

Global Tower's wide product range consists of:

Shared infrastructure services in tower/rooftop/in house fields

TV-Radio infrastructure solutions

E2E and wind power infrastructure solutions

M2M / Scada / Telemetry Infrastructure Solutions

GSM-R Solutions

Mini Data Centre Infrastructure Solutions

Mobile Tower Solutions

Acclimatized System Room Solutions

Energy infrastructure solutions

Hybrid Systems Solutions (Solar / Wind)

Infrastructure Maintenance and Operation Services

Field Acquisition and Contract Management Services

Beltower, which is 100% subsidiary of Global Tower has been established in Belarus and a right of use agreement has been signed with Belarusian Telecom.

The Turkcell Board of Directors decided to initiate an initial public offering ( IPO ) of Global Tower's shares in June 2016. However, due to adverse macroeconomic conditions in the markets, the IPO has been postponed.

**Turkcell Teknoloji**

Turkcell Teknoloji Arastirma ve Gelistirme A.S ( Turkcell Teknoloji ), a wholly owned subsidiary of Turkcell, commenced operations in 2007 in the TUBITAK Marmara Research Center Technological Free Zone in Kocaeli,

Turkey. In 2015, Turkcell Teknoloji consolidated its operations in Kucukyali Technology Plaza, Maltepe, Istanbul, Turkey. Turkcell Teknoloji's new R&D center employs more than 700 researchers (excluding part-time employees) who have been accredited by the Ministry of Science, Technology and Industry. Turkcell Teknoloji's established team of experts develops a wide range of convenient and reliable solutions with innovative roadmaps. Through integrated intelligence and high-performance core capabilities, (Big Data Analytics, SIM, Network, IoT), Turkcell Teknoloji's comprehensive portfolio addresses the following domains: SIM asset and services management, location-based services, new generation value-added services, roaming solutions, big data processing, business intelligence applications, CRM solutions, sales force solutions, network management, mobile finance, terminal applications, cloud solutions, mobile marketing, internet of things (IOT), revenue management solutions and campaign management solutions.

Turkcell Teknoloji has been continuing to export technology and software to CIS, Europe, Middle East and Africa. The Turkcell Teknoloji Campaign Management System is deployed and used in five countries and Roaming Solutions are used in 10 countries. In 2016, Turkcell continued to expand its customer base, which are spread out in 13 countries, and looked for the new opportunities to implement its product catalogue with newly added products.

To ensure a permanent competitive edge and value for its solutions, Turkcell Teknoloji cooperates with a wide network of national and international R&D companies, universities and research centers and plays an active role in international R&D programs. With the goal of being Turkey's leading R&D and innovation base, Turkcell Teknoloji demonstrates the value it attached to innovation with its increasing number of patents each year. In 2016, the Turkcell Teknoloji R&D Center submitted over 275 new national and 23 international patent applications. As of December 31, 2016, Turkcell Teknoloji has 788 national and 79 international patents applications and 194 granted patents. Turkcell Teknoloji's IPR performance is among the top three in Turkey and it has over 37 TUBITAK (The Scientific and Technological Research Council of Turkey) supported projects, of which 12 are currently running.

#### **Turkcell Finansman A.S.**

Turkcell Finansman A.S. ( Turkcell Finansman ), a wholly owned subsidiary of Turkcell, was established on October 22, 2015 with the approval of the Banking Regulation and Supervision Agency ( BRSA -the

## **Table of Contents**

financial institutions regulator in Turkey) in order to provide financial solutions to its customers such as consumer loans. The company has commenced operations in February 2016 after receiving BRSA's operational permission.

Turkcell Finansman was launched nationwide in March 2016 in order to provide effective financing solutions to its customers with a prudent risk management. To ensure a permanent competitive edge and value for its solutions, Turkcell Finansman cooperates with a wide network of Turkcell point-of-sales.

To finance its operations, Turkcell Finansman's first borrowing was made on May 2016. In December 2016, it issued its first debt security, a 174 day commercial paper with a nominal amount of TRY 250 million and on February 27, 2017, Turkcell Finansman issued 179 day commercial paper amounting TRY 150 million. Fitch Ratings has assigned Turkcell Finansman A.S (TFS) BB+ Foreign and Local Currency Long-Term Issuer Default Ratings (IDRs) and AA(tur) National Long-Term Rating. In order to diversify its borrowing portfolio, Turkcell Finansman will also resort to other funding alternatives. It has applied to Capital Markets Board of Turkey (CMB) to issue asset-backed securities for up to TRY 100 million.

Turkcell Finansman's number of customers reached 1.7 million as of December 2016. As of year-end 2016, TRY 2.5 billion of consumer loans had been made.

## **Turkcell Odeme ve Elektronik Para Hizmetleri A.S.**

Turkcell Odeme ve Elektronik Para Hizmetleri A.S. became operational as of March 2015 to create a convenient payment solution for users and to offer them a streamlined shopping experience under the brand name Paycell.

In August 2016 Odeme ve Elektronik Para Hizmetleri A.S has acquired a Payment Service Provider License from the BRSA and became the first MNO subsidiary having this license in Turkey. With its new brand Paycell, Turkcell expanded its merchant network and reached over 2,000 merchants by implementing easy and secure payment methods to new areas such as mobile app stores, restaurant chains, parking lots, transportation services, physical goods and airport fast track services.

## **Lifecell Ventures**

Lifecell Ventures Cooperatief U.A. (formerly named Beltur Cooperatief U.A.) is incorporated under the laws of The Netherlands and has its registered address in The Netherlands. The main objective of the company is to provide, manage, sell or resell any kind of communication services regardless of the media or technology upon which such services are provided and to own, provide, develop, or operate any related software for providing such communication services. Its main mission is to focus on providing over-the-top (OTT) services globally, growing existing Turkcell Group's value added services and making strategic alliances. Lifecell Ventures will provide all types of communication services and cooperates with a wide network of national and international companies in order to provide cutting edge OTT solutions with real experience of connectivity to their customers.

In line with Turkcell Group's strategic priority of improving our business in both international and domestic markets and increasing our regional and global relevance through OTT products and services, Lifecell Ventures is responsible for delivering global OTT services and expanding Turkcell Group's footprint by launching new offerings, accelerating the company's owned OTT activities, growing current services and making strategic alliances.

As of December 31, 2016, Turkcell's integrated communication application BiP, which reached 11 million downloads globally, has started to be listed as a product of Lifecell Ventures Cooperatief U.A. in the application markets.

**Turkcell Satis ve Dagitim Hizmetleri A.S.**

Turkcell Satis ve Dagitim Hizmetleri AS ( Turkcell Satis ) offers unique experience to their customers and sell telecommunication and IT products through flagship and also provide wide variety of products via website [www.turkcell.com.tr](http://www.turkcell.com.tr). In 2016 Turkcell Satis started to sell equipment to other entities as corporate sales. In addition, since Turkcell Satis is experienced in the sector, it also acts as an intermediary between producer and distributors to support the determination of products, pricing, amount to be sold, sales support components and management of their inventory.

## **Table of Contents**

### **Assets Held for Sale**

#### ***Fintur***

Turkcell holds a 41.45% stake in Fintur, which holds interests in mobile operations in Azerbaijan, Georgia, Kazakhstan and Moldova.

Telia Company, which is one of our major shareholders and also our partner in Fintur through a 58.55% stake, announced on September 17, 2015 that it had initiated a process in relation to its Eurasian assets with the ultimate aim of a complete exit. In line with our growth strategy in the region, and as the minority shareholder in Fintur (which includes assets in Kazakhstan, Azerbaijan, Georgia and Moldova), on February 26, 2016, we submitted a binding offer for the remaining 58.55% stake of Sonera Holding B.V. in Fintur that we do not own and Telia Company's 24% direct stake in Kcell operating in Kazakhstan. However, the negotiations were inconclusive. Following an assessment of our strategic options regarding our stake, we have announced our intention to exit from jurisdictions in which Fintur operates and initiated an active program to locate a buyer for our stake. We have classified Fintur as held for sale and reported as discontinued operations.

As of March 2017, Fintur companies include Azercell, Geocell, Kcell and Moldcell.

### **Equity Accounted Investments**

#### ***A-Tel***

On August 9, 2006, Turkcell acquired 50% of A-Tel's shares. A-Tel was a joint venture. Our whole stake in A-Tel was sold to Bereket Holding A.S. (formerly known as Bilgin Holding) for a consideration of TRY 31 million in 2014.

### **X. Potential Investments**

Our efforts to selectively seek and evaluate new investment opportunities continue. These opportunities may include the purchase of new licenses and the acquisition of existing companies as well as alternative business models such as management contracts, marketing partnerships or other forms of cooperation both inside and outside of Turkey, focusing on communications, technology and adjacent and new business opportunities. In addition, we may provide services in related areas and also consider investing or increasing our investments in business areas outside of the scope of our core business. Our international expansion strategy focuses on key emerging markets, mainly in the C.I.S. Region, Eastern Europe, the Balkans, the Middle East and Africa. Furthermore, we may evaluate expanding into other Western European countries where there is a sizeable Turkish community through wholesale partnerships or alternative cooperative business models.

Our M&A strategy is based on evaluating opportunities in markets where there is cultural and geographical alignment, a balanced portfolio of fixed and mobile infrastructure and EBITDA contribution to Turkcell.

Turkcell has classified Fintur as held for sale and reported as discontinued operations as of October 1, 2016. The Group is committed to plan to exit from Fintur.

### **XI. Disclosure Pursuant to Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012 (ITRA)**

Based on our information and the information provided to us by our affiliates, as of the date of this annual report, we believe that certain of our business activities in Iran in 2016, and the business activities of certain of our affiliates, are subject to disclosure pursuant to ITRA Section 219.

During the year ended December 31, 2016, Turkcell and lifecell had international roaming relationships with the following companies in Iran and Syria: MTN Irancell, Taliya Iran, KIFZO and Rightel and Syriatel and MTN Syria. During the year ended December 31, 2016, Turkcell and lifecell had gross revenues of approximately TRY 847,500 attributable to these agreements. Turkcell has developed an OTT product called BiP which is available for download online for free. The Company believes that there have been downloads from within Iran, which have generated no revenue or profits.

Turkcell has voice interconnection agreements with Tadbir Ertebatat-E-Sigma ( Sigma LLC ). During the year ended December 31, 2016, gross revenues attributable to were approximately TRY 20 million.

**Table of Contents**

Turkcell Superonline provided Transit IP and leased line services through network interface agreements with Telecom Infrastructure Company of Iran ( TIC ). During the year ended December 31, 2016, gross revenues attributable to these agreements were approximately TRY 9.1 million. Furthermore, Turkcell Superonline has a business relationship with Teleka Maedeh Co. ( Telecom Idea ) based in Iran. For the year 2016 the services received from this company generated no revenues.

We have made enquiries of our major shareholders regarding activities in Iran and Syria. TeliaSonera has also informed us that TeliaSonera Region Europe has bilateral roaming agreements with MCI Iran, TCI Mobile Company of Iran, MTN Irancell, KIFZO, Rightel Iran and MTN Syria, Syriatel. During the year ended December 31, 2016, TeliaSonera Region Europe had gross revenues from these relationships that were reported to us of approximately 34,370.

Furthermore, Telia Carrier AB of Sweden provides IP Transit Services via ports located outside of Iran pursuant to a license issued by the Office of Foreign Asset Control, U.S. Department of Treasury, and provides IP Transit Services (i.e., wholesale Internet access) to and exchanges international telephony traffic with the TIC. During the year ended December 31, 2016, gross revenues and net profits attributable to these business relationships were approximately 273,950 and 172,500, respectively.

TeliaSonera has also informed us that certain Fintur companies had revenues under roaming agreements in Iran in 2016 with the following GSM operators: Mobile Company of Iran (MCI), MTN Irancell, Taliya Iran, Telecommunication kish Company ( IRNKI ), Rafsanjan Industrial Complex (Coop) ( IRNRI ), Rightel, MTN Syria and Syriatel. During the year ended December 31, 2016, revenue and net profits reported to us by the Fintur companies were of approximately \$138,337.47 and \$59,145.11, respectively. In addition, during the year ended December 31, 2016, we understand that Tcell (Tajikistan) and Ucell (Uzbekistan) had gross revenues totaling approximately \$13,656.37 and net profits of approximately \$13,225.97.

Although it is difficult to do with a reasonable degree of certainty, we have concluded that our Iranian business partners described in this section may be owned or controlled indirectly by the Government of Iran. However, to our knowledge, none of the services provided by Turkcell and our affiliates in Iran described in this section have been used by the Government of Iran to commit serious human rights abuses against the people of Iran. Furthermore, we understand that the U.S. Department of the Treasury's Office of Foreign Assets Control has issued a general license authorizing U.S. persons to engage in certain of the activities described in this section. We, and our affiliates, intend to continue the activities described in this section in 2017.

**XII. Regulation of the Turkish Telecommunications Industry****a. Overview**

All telecommunications activity in Turkey is regulated by the ICTA. The Electronic Communications Law No. 5809 (the Electronic Communications Law ), which came into force on November 10, 2008, is the principal law governing telecommunications activity in Turkey. The Electronic Communications Law was published to correspond to the rapidly-evolving Turkish telecommunications industry, and all secondary regulations have been updated to be in accordance with this law. The duties of the ICTA, which may be exercised in a manner that is adverse to our operations and our financial results, include those described below.

**b. ICTA**

The ICTA has the authority to grant licenses and set fees in the electronic telecommunications industry.

According to Article 8 of the Electronic Communications Law, electronic communications services are rendered and/or established (as in the case of an electronic communications network or infrastructure) and operated following the authorization made by the ICTA. Authorization is granted either through notification made in accordance with the principles and procedures determined by the ICTA, in cases where scarce resource allocation is not necessary, or by the granting of usage rights, in cases where scarce resource allocation is necessary (allocation of frequency, satellite position, etc.). Under the Electronic Communications Law, usage rights may be granted for up to 25 years; however, there is no clause relating to the term of notification. According to the Electronic Communications Law, the principles and procedures relating to the notification and granting of usage rights shall be determined by the ICTA through secondary regulations.



## Table of Contents

On the other hand, in cases where the quantity of rights of use is limited, Section 9-6(a) of the Electronic Communications Law allows the Ministry of Transport, Maritime Affairs and Communications to determine the criteria, such as (i) the authorization policy regarding electronic communications services which cover the assignment of satellite position and frequency band on a national scale and which need to be operated by a limited number of operators, (ii) the starting date of the service, (iii) the duration of the authorization and the number of operators to serve. While the criteria are determined by the Ministry of Transport, Maritime Affairs and Communications, the authorization is still granted by the ICTA.

Under Article 51 of the Electronic Communications Law, the ICTA was authorized to determine the principles and procedures related to the process of personal data and protection of privacy and has published Regulations on the Protection of Privacy and Processing of Personal Data . With its decision rendered on April 9, 2014 and published in the Official Gazette on July 26, 2014, the Turkish Constitutional Court decided that Article 51 of the Electronic Communications Law is a violation of Article 20(3) of the Constitution, which stipulates data protection as a constitutional measure and that the measures should be regulated by the laws and therefore annulled the aforementioned provision (Article 51). The Article 51 of the Electronic Communications Law, which was repealed by Turkish Constitutional Court, was amended and came into force on April 15, 2015. In the amended Article 51, the main principles of recording and sharing subscribers personal data are defined in general and ICTA is authorized again to determine the procedures and principles related to the process of personal data and protection of privacy; however such regulation has not been published so far.

The Electronic Communications Law establishes legal principles and broad policy lines that the ICTA must follow, some of which are stated below:

Creation and protection of a free and efficient competitive environment.

Protection of consumer rights and interests.

Protection of the objectives of development plans and Government programs as well as the strategies and policies set by the Ministry.

Promotion of implementations that ensure that everyone can benefit from electronic communications networks and services.

Ensuring non-discrimination among subscribers, users and operators under fair conditions.

Ensuring the conformity of electronic communications systems to international norms.

Protection of information safety and communication confidentiality.

The Electronic Communications Law also specifies general rules and principles relating to interconnection between operators. Agreements for interconnection are publicly available, but precautions are taken by the ICTA to protect

commercial secrets of the parties.

The law entitled Universal Services and Amending Some Laws, Law No. 5369, determines the procedures and principles governing the provision and execution of universal service and the procedures and the rules relating to the fulfillment of universal services in the electronic communications sector, a universal public service that is financially difficult for operators to provide (and performance of a universal service obligation in the electronic communications sector). In accordance with Law No. 5369, the scope of universal services is determined periodically by the Council of Ministers, which will not exceed three years.

The legislation designates the following as universal services: fixed-line telephony services, public pay telephones, telephone directory services to be provided in printed or electronic environments, emergency call services, internet services, passenger services to residential areas where access is provided by sea and sea communication and sailing safety communication services.

This law mandates that designated operators must provide universal services and the General Directorate of Communication can demand that operators provide universal services on a national and/or geographical basis. Turk Telekomunikasyon A.S. and the GSM operators are currently designated as universal services providers.

The Cabinet of Ministers Decision No. 27984 and dated July 4, 2011 allowed the use of the universal service fund to extend the mobile GSM network coverage listed in the annex of the decision to uncovered areas with a population of 500 or less. On February 13, 2013, we were appointed as universal service provider after a tender process and the related contract was signed on February 20, 2013. Under the aforementioned contract,

---

**Table of Contents**

Turkcell duly carried out its undertakings for installing sufficient infrastructure to cover 1,799 rural locations and the investment and operating expenses are compensated by the universal service fund of the Ministry of Transport, Maritime Affairs and Communications. This contract was recently renewed until December 31, 2018 31.12.2018 and to add mobile broadband services to the existing infrastructure providing GSM services under Universal Service Law and to operate the new and existing networks together.

The Electronic Communications Law also specifies general rules and principles relating to tariffs. Pursuant to the Electronic Communications Law, operators may freely determine the tariffs they apply in compliance with the relevant legislation and the ICTA arrangements. In the event of determination of the significant market power of the operator, the ICTA may determine the method of the approval, tracking and auditing of the tariffs. It may also determine the lower and upper limit of the tariffs and principles and procedures of the application of the same.

The Electronic Communications Law provides basic guidelines for the tariffs and pricing and thus leaves the detailed rules and enforcement to the ICTA. According to the law:

(1) The tariff may be determined as one or more subscription fees, fixed fees, call charges, line rentals, and similar fee items.

(2) Tariffs to be imposed in return for providing any kind of electronic communications services shall be subject to the following provisions:

(a) Operators shall freely determine the tariffs under their possession, provided that they comply with the regulations of the ICTA and the relevant legislation.

(b) If an operator is designated as having significant market power in the relevant market, the ICTA shall be entitled to determine the procedures regarding the approval, monitoring and supervision of tariffs as well as the highest and lowest limits of the tariffs and the procedures and principles for the implementation thereof.

(c) If an operator is designated as having significant market power in the relevant market, the ICTA shall be entitled to make the necessary arrangements to prevent anti-competitive tariffs such as price squeezing and predatory pricing and to supervise the implementation thereof.

(3) Procedures and principles pertaining to the implementation of this article, submission of tariffs to the ICTA and publishing and announcing them to the public shall be determined by the ICTA.

According to this regulation, the ICTA may intervene in the structure of our tariffs or may impose certain criteria relating to the revision of our tariffs. Pursuant to its decision dated December, 2005, the ICTA designated Turkcell as having Significant Market Power in the Mobile Access Call Origination Market while all three operators were designated as having Significant Market Power in Mobile Call Termination Market. As a result of the significant market power designation in the Mobile Access and Call Origination Market, our Company is obliged to provide access and call origination services to other operators such as MVNOs and Directory Services Operators on a cost-based basis, while competitors can set their prices freely on commercial basis. Being an operator designated as having Significant Market Power in the Mobile Access and Call Origination Market may have the effect of reducing the rates that we can charge other operators, such as MVNOs, which would have a material adverse effect on our business and results of operations. We cannot estimate the impact of such designation as there are currently no MVNOs in the market. Based on the ICTA's market analysis for the 2012-2015 period, Turkcell was designated as the only operator with Significant Market Power in the Mobile Access and Call Origination Market. Currently the Mobile Call Termination Market and Mobile Access and the Call Origination Market are being analyzed by the ICTA. Upon

the renewal of market analyses, operators having the Significant Market Power will be determined. Public consultation documents regarding Mobile Market Analyses were published at the end of 2016 and are expected to be finalized within the first quarter of 2017.

***c. Regulation on Quality of Service in the Electronic Communications Sector***

The ICTA abolished the Regulation On Quality of Service (issued in 2005), and published a new Regulation On Quality of Service in the Electronic Communications Sector, effective as of December 31, 2011 and applicable to all operators that provide service to end users, which sets out the procedures and principles to control the conformity of the services of operators. Mobile telephone operators are required to meet

---

**Table of Contents**

new service quality requirements and submit a report based on these requirements every three months to the ICTA. Additional requirements for service quality must be fulfilled. If the operators fail to reach these requirements more than once, this may result in the imposition of penalties. The results of quality measurements can also be made publicly available.

***d. Regulation on Administrative Fines, Sanctions and Precautions in the Electronic Communications Sector***

The ICTA abolished the Regulation on Administrative Fines to be imposed on the operators (issued in 2004) and published a new Regulation on Administrative Fines, Sanctions and Precautions to be imposed on operators, effective as of February 15, 2014. The ICTA retains the right to impose fines in the event an operator submits incorrect or misleading documents or fails to submit documents as requested by the ICTA; does not submit such documents in a timely manner; does not permit inspection or audits to be made by the ICTA; uses unpermitted equipment or equipment not complying with standards or alters technical features of equipment; or does not pay fees arising from its use of licenses and frequencies; does not meet the regulations regarding numbering, number portability, access and interconnection, end-user tariffs, consumer rights, data protection, national security and public order, service quality and such or does not comply with the provisions of license agreements, telecommunications licenses and general authorizations or the legislation. The ICTA is authorized to impose sanctions and precautions as well as administrative fines.

***e. Regulation on Authorization regarding the Electronic Communications Sector***

In 2009, the ICTA published the Regulation on Authorization regarding the Electronic Communications Sector , which determines the principles and procedures for the authorization of the companies that seek to provide electronic communication services and/or to install or operate electronic communications networks or infrastructure. In 2016, there have been major amendments to aforementioned Regulation. According to the amendments:

1. The operators authorized with the limited usage right authorization may sell devices, make installations, carry out maintenance or give consultation if it is related to or necessary for its field of activity. As a result of this amendment, Turkcell will be able to sell devices in relation with electronic communication services.
2. The companies which apply to ICTA to be authorized should have paid the minimum amount of paid capital set by ICTA. The operators authorized before the amendment of the Regulation are also liable to meet this condition. According to ICTA, the operators authorized to provide Public Access Mobile Radio Service should have minimum paid capital amounting to TRY 250.000 and the operators granted with other authorization types should have minimum paid capital amounting to TRY 1.000.000.
3. All operators should have the consent of ICTA before the transfer, acquisition or any other transaction regarding 10% or more of their shares. The operators authorized with limited usage right should also notify ICTA within two months at the latest in case of a transfer, acquisition or any other transaction of their shares up to 10%.
4. The operators should provide free call center services, which was not an obligation in the former Regulation.

5. The operators should keep the traffic data of their customers for two years, which was set at one year in the former Regulation.
6. In case of an amendment to the documents regarding the employees of the operators (including employee list) which are submitted previously to ICTA, the operators are liable to notify ICTA of the amendments.
7. ICTA is entitled to decline the applications of authorization and inspect the operators to confirm the accuracy of the information and documents submitted during the application of authorization.

In addition to the amendments of the abovementioned Regulation, the ICTA decision on Procedures and Principles Regarding the Usage of Caller Line Identification (CLI) has been published and the liabilities of the operators have been increased.

**f. Regulation on Mobile Number Portability ( MNP )**

Pursuant to Article 32 of the Electronic Communications Law, operators are required to supply operator number portability.

**Table of Contents**

MNP allows subscribers to keep their existing telephone number when changing their telephone operator, their physical location or current service plan. These regulations became operational in the fourth quarter of 2008. Since we believe the MNP regulations conflict with our rights under our license agreement, without due compensation, we filed a lawsuit in 2007 for the cancellation of the MNP regulation. While we do not object to the substance of mobile number portability, we do, however, believe that our rights under our license agreement should remain protected or, if they are violated, we should be justly compensated. The Court rejected the case in June 2009 and we appealed the decision. The Plenary Session of the Chambers for Administrative Cases approved the court decision. We applied for the correction of the decision and this process is still pending. In 2009, the ICTA issued a new Regulation on MNP, abolishing the 2007 regulation and amended some Articles of this Regulation in November 2015. For new subscriptions, subscribers of mobile operators cannot port out to another operator in the first three months if the line has not been transferred to another subscriber.

***g. Regulation on Security of Electronic Communications***

In 2008, the ICTA published the Regulation on Security of Electronic Communication, which determines the principles and procedures for precautions to be taken by the operators for eliminating or derogating the risks caused by threads or weaknesses of (i) the physical area of the operators, data, hardware/software security and reliability, and (ii) sustaining the reliability of human resources. In accordance with the regulation, our Company is required to comply with TS ISO/IEC 27001 or ISO/IEC 27001 standards. Turkcell was the first mobile operator in Turkey to receive the ISO/IEC 27001:2005 certification for its Network Operations function in 2008 covering all operations throughout Turkey. In 2011, Turkcell's IT function was also certified for ISO/IEC 27001:2005 and Turkcell's ISO/IEC 27001:2005 scope became one of the largest among telecommunication operators in Europe. In 2015, the Information and Communications Technology and Network departments successfully passed ISO 27001:2013 audits and were deemed to be in compliance with ISO 27001:2013 version. By having an ISO/IEC 27001:2013 certificate covering telecom infrastructure operations, Turkcell fulfils its regulatory obligations and offers its customers the benefits of an internationally-recognized secure management of operations and services. In July 2014, the ICTA repealed the above regulation and published the Regulation on Security of Network and Information in Electronic Communication Sector which requires the Company to set up and maintain a specialized team to detect, prevent and report all cyber events and work in coordination with the National Cyber Event Reaction Center, in addition to the abovementioned obligations.

***h. Turkish Competition Law and the Competition Authority***

In 1997, the Competition Law (No. 4054) established a Competition Board. The Competition Board consists of seven members who are appointed for a term of six years and one-third of the Board members are renewed every two years. It is an autonomous authority with administrative and financial independence established to ensure effective competition in markets for goods and services.

The Competition Board can carry out investigations, evaluate requests for exemptions, monitor the market, assess mergers and acquisitions, submit views to the Ministry of Industry and Trade and perform other tasks stipulated by the Competition Law. The ICTA can apply to the Competition Board if it determines that agreements regarding access, network interconnection and roaming violate the Competition Law.

Any person or legal entity may file a complaint with the Competition Board. The Competition Board can take necessary measures to prevent violations and may impose fines on those who are liable for such prohibited practices. The Competition Board may impose fines of up to 10% of the annual gross income of the operators, which is constituted by the end of the previous financial year and determined by the Competition Board. The ICTA and the Competition Board entered into a Protocol on Cooperation in 2002, followed by a new Protocol in 2011. The original

Protocol established a framework whereby the ICTA and the Competition Board can cooperate on legal actions and policies regarding measures, regulations and inspections that affect competition conditions and competition in the telecommunications sector. The new Protocol regulates the mechanisms to improve cooperation between the ICTA and the Competition Board.

***i. Regulation on the Establishment of Metropolitan Municipalities in Fourteen Provinces and of Twenty-Seven Districts and Amending Certain Laws and Decree Laws***

The Law No. 6360 on the Establishment of Metropolitan Municipalities in Fourteen Provinces and of Twenty-Seven Districts and Amending Certain Laws and Decree Laws was published in the Official Gazette on December 6, 2012 and enacted on March 30, 2014 through municipal elections. The Law, increasing the number of metropolitan cities from 16 to 30, dissolves the legal entity of villages and special provincial administrations



## **Table of Contents**

in cities where there are metropolitan municipalities. By the amendment of the Law for Metropolitan Municipalities, the number of metropolitan municipalities increased and the borders of some metropolitan municipalities were extended. After this amendment, the ICTA increased our coverage obligations, defined in our concession agreement, by its decision, based on this law amendment which requires us to make material capital expenditures. We filed a lawsuit for the stay of execution and cancellation of the ICTA's aforementioned decision. The Council of State granted a motion for the stay of execution of ICTA's aforementioned decision. The ICTA objected to this decision. The objection was also rejected in favor of Turkcell. The case is still pending. Since then the ICTA has been working on a new regulation aligned with the law no. 6360.

### ***j. Regulation on Base Station Implementation in Electronic Communication Sector***

In 2012, according to Law no 6360 and Municipality Law No 5393, the Metropolitan Municipalities were authorized to give site selection certificate to the BTS considering the requirements of city and building aesthetics and electronic communication services. In the relevant legislation, the certificate fee to be paid for the site selection certificate. However, the secondary legislation which determines the specific details such as fees and the application process relating the certification has not entered into force. This may lead to additional certificate fees and operational costs, such as permission processes for implementation of base stations, which may take longer.

In the meantime the Ministry of Environment and City Planning has prepared a draft document in order to regulate the implementation of telecommunication infrastructure underground. They will gather comments from the related parties, such as mobile and fixed network operators.

### ***k. Zoning Law and Construction Certificate Requirement of Base Stations***

The Supreme Court of Appeals rescinded the regulation regarding the base stations exemption from getting construction permits in the zoning law on October 1, 2009. The existing zoning law in Turkey requires mobile operators to obtain construction certificates for all existing and new base stations, resulting in the shutdown of some stations for which certification cannot be obtained. In Turkey, nearly half of the premises were built illegally without any permission. As a result, some municipalities started taking legal action such as affixing seals to suspend the construction or demolition orders against base stations, negatively affecting our coverage, quality of service and customer experience. We have also taken legal action requesting nullity of those acts. In addition, studies for altering zoning laws regarding procedures for building certifications are being prioritized.

### ***l. Regulation on Waste Electrical and Electronic Equipment***

In May 2012, the Regulation related to Waste Electrical and Electronic Equipment was published in the Official Gazette and became effective. Waste Electrical and Electronic Equipment regulations may impose some obligations on our Company and increase our operational costs.

### ***m. Regulation on the Internet***

Law no. 5651 for the Regulation of Web Content has been revised by Law no. 6518, which became effective on February 19, 2014. The new law required that all internet access providers, which include all mobile and fixed network operators as well as all internet service providers, would form a Union of Internet Access Providers ( UAP ) within three months, which was established. After the establishment of the UAP, if any internet service provider or any operator giving internet services fails to become a member of the UAP, it shall also be fined with an amount equal to one percent of the previous year's revenues.

In addition, the new law raises the existing fines for not removing content as requested by the court. The law also introduces URL-based blocking of websites which requires new capital as well as operating expenditures for all internet access providers.

**n. *GSM Licensing in Turkey***

The terms of license agreements are governed by the Authorization Regulation, and it provides that the ICTA approve the transfer of licenses to third parties, ensure continuation of services in the event of cancellation of a license and approve the investment plans submitted by licensees.

## **Table of Contents**

A GSM license is subject to the ICTA's right to suspend or terminate operations under the license on the grounds of security, public benefit, and national defense or to comply with the law. However, suspension or takeover of facilities under these circumstances is subject to the payment of compensation to the operator. The ICTA can also inspect such licensee and nullify its license if the licensee has materially failed to comply with the terms of its license. The ICTA may also terminate licenses in cases of gross negligence or non-payment of the authorization fee.

The licensee is responsible for installing telecommunications equipment in conformance with international signalization systems and numbering plans. Furthermore, the licensee is obligated to make the necessary investments to offer the licensed service, including the design of the service, the making of financial investments and the installation and operation of the facility required for the service. Licensees are allowed to determine the prices for services, subject to the regulations of the ICTA. Upon the expiry of a license, including termination, the facilities and immovables of the licensee, in operating condition, will be transferred by the licensee in accordance with the license agreement.

### ***o. Our GSM License Agreement***

#### ***General***

Since April 1998, we have operated under a 25-year GSM license for which we paid an upfront license fee of \$500 million. In 2002, we signed a renewed license agreement for our GSM license which provides that a monthly payment of 15% over our gross revenue paid to the Turkish Treasury shall be subject to the legal interest rate. If such payments are not duly paid twice in any given year, a penalty in an amount equal to triple the last monthly payment shall be payable to the Turkish Treasury. In addition, we must pay annual contributions in an amount equal to 0.35% of our gross revenue to the ICTA's expenses. After the tender relating to the allocation of additional GSM 900 frequency bands, made by the ICTA in June 2008, the license agreement was amended to include the additional frequency band and was signed by Turkcell and the ICTA in February 2009, which made small additional changes in the articles of the license agreement entitled performance bond and allocated frequency bands and then it was signed again in February 2016 with small amendments.

#### ***Terms and Conditions***

Under the license agreement, we hold a licensed concession to provide telecommunications services in accordance with GSM-PAN European Mobile Telephone System standards in the 900 MHz frequency band. Our license covers 55 channels and allocates telephone numbers between the 530 and 539 area codes in the national numbering plan. Our license also permits us to establish customer service centers, sign contracts with subscribers and market our services to subscribers. Our license was issued with an effective date of April 27, 1998, for an initial term of 25 years. At the end of the initial term, we can renew our license, subject to the approval of the ICTA, provided that we apply between 24 months and 6 months before the end of our license. Our license is not exclusive and is not transferable without the approval of the ICTA.

We paid a license fee of \$500 million to the Turkish Treasury upon effectiveness of our license. On an ongoing basis, we must pay 15% of our gross revenue, defined as of March 2006 to exclude interest charges for late collections from subscribers and indirect taxes such as 18% VAT as well as other expenses and the accrued amounts that are recorded for reporting purposes to the Turkish Treasury. We are required to pay 10% of our existing monthly treasury share to the Turkish Ministry as a universal service fund contribution. Since 2005, we pay 90% of the treasury share to the Turkish Treasury and 10% to the Turkish Ministry as a universal service fund contribution.

Furthermore, under the Regulation on Authorization regarding the Electronic Communications Sector, all kinds of share transfers, acquisitions and actions of the operators which are authorized by a Concession Agreement must be communicated to the ICTA, and such share transfers, acquisitions and actions shall be made with the written approval of the ICTA if they result in a change of control component of such operators. The control component is defined as the rights that allow for applying a decisive effect on an enterprise, either separately or jointly, de facto or legally .

Our license subjects us to a number of conditions. It may be revoked in the event that we fail to meet any of these conditions.

---

**Table of Contents*****Coverage***

Our license requires that we meet coverage and technical criterias. We must attain geographical coverage of 50% of the population of Turkey (living in cities or towns of 10,000 or more inhabitants) within three years of our license s effective date and at least 90% of the population of Turkey (living in cities or towns of 10,000 or more inhabitants) within five years of the effective date of our license. This coverage requirement excludes coverage met through national roaming and installation sharing arrangements with other GSM systems and operators. Upon the request of the ICTA, we may also be required, throughout the term of our license, to cover at most two additional areas each year. Except in the event of force majeure, we must pay a late performance penalty of 0.2% of the investment in the related coverage area per day for any delay of more than six months in fulfilling a coverage area obligation. As of today, we have met and surpassed all coverage obligations.

***Service Offerings***

Our license requires that we provide services that, in addition to general GSM phone services, include free emergency calls and technical assistance for customers, free call forwarding to police and other public emergency services, receiver-optional short messages, video text access, fax capability, calling and connected number identification and restrictions, call forwarding, call waiting, call hold, multi-party and three-party conference calls, billing information, and the barring of a range of outgoing and incoming calls.

***Service Quality***

Generally, we must meet all the technical standards of the GSM Association as determined and updated by the European Telecommunications Standards Institute and Secretariat of the GSM Association. Moreover, we must meet the standards that the ICTA imposes under Regulation on Quality of Service in the Electronic Communications Sector .

***Tariffs***

The license agreement regulates our ability to determine our tariff for GSM services. The license agreement provides that, after consultation with us and consideration of tariffs applied abroad for similar services, the ICTA sets the initial maximum tariffs in Turkish Lira and U.S. Dollars. Thereafter, our license provides that the maximum tariffs shall be adjusted at least every six months. The license agreement provides a formula for adjusting the existing maximum tariffs. For the adjustment of the maximum tariffs established in Turkish Lira, the formula is: the Turkish Consumer Price Index announced by the Ministry of Industry and Trade for Turkey minus 3% of the Turkish Consumer Price Index announced by the Ministry of Industry and Trade. For the maximum tariffs established in U.S. Dollars, the same method is applied to the USA Consumer Price All Item Index Numbers.

The standard tariffs and the maximum tariffs set by the ICTA have been established in Turkish Lira and the ICTA s schedule of standard tariffs and maximum rates are premised on the TRY/\$ Exchange Rate in effect on the date they were approved by the ICTA. Although we believe the tariff structure in our license will, in most instances, permit adjustments designed to offset devaluations of the Turkish Lira against the U.S. Dollar, any such devaluation that we are unable to offset will require us to use a larger portion of our revenue to service our non-Turkish Lira foreign currency obligations. Additionally, in the event that the ICTA were to establish maximum tariffs at levels below those that would enable us to adjust our rates to offset devaluations, this could have a material adverse effect on our business, consolidated financial condition, results of operations and/or liquidity. However, with a decision rendered in March 2016, ICTA decided that Turkcell has no obligation of applying the maximum tariffs set by ICTA in 2015. We believe that, pursuant to our license agreement, we can determine our tariffs freely, provided that they remain within

the framework of the prohibition of cross subsidy and the principles of reasonable profit and being cost based. However, under Article 13 of the Electronic Communications Law, in the event of determination of the significant market power of the operator, the ICTA may determine the lower and upper limit of the tariffs and principles and procedures of the application of the same. Based on such Article, the ICTA may take a similar decision which will have an effect on our future tariffs. With respect to our retail tariffs, following a board resolution dated March 25, 2009, the ICTA set a lower limit solely for Turkcell's on-net retail tariffs. In the following years our minimum on-net price level was changed several times by the ICTA, and was set at TRY 0.0073 for SMS and TRY 0.0428 for voice for the first two quarters of 2016. However, pursuant to a decision rendered on August 16, 2016, the ICTA removed the

**Table of Contents**

regulation on lower limit on on-net retail prices and campaigns. These pricing regulations were valid on each and every single voice tariff and campaign, whereas we were obliged to maintain our minimum on-net SMS rate on network base. The table below shows the on-net prices and MTR rates until August 16, 2016:

TRY	Before July 1, 2013	July 1, 2013	
		August 16, 2016	Change %
Minimum on-net voice price	0.0313	0.0428	37%
Minimum on-net SMS price		0.0073	
Voice MTR	0.0313	0.0250	(20%)
SMS MTR	0.0170	0.0043	(75%)

The maximum tariffs set by the ICTA may constitute the highest rates we may charge for the services included in these customized service packages. Generally, the maximum tariffs set by the ICTA for particular services are set higher than the standard tariffs determined by the ICTA for those services. Pursuant to a board decision dated September 28, 2015, price caps for voice were set at 0.4625 TRY/min for voice and TRY 0.332 for SMS. Such caps were in force at the beginning of 2016, until a decision rendered in March 10, 2016 by ICTA annulled the maximum tariffs set by ICTA in 2015

The ICTA has in the past intervened and may again intervene with the charging period, impacting the prices we charge for our tariffs.

***Relationship with the ICTA***

The license agreement creates a mechanism for an ongoing relationship between us and the ICTA. The ICTA and Turkcell coordinate their activities through a License Coordination Committee ( the Committee ), which is responsible for ensuring the proper and coordinated operation of the GSM network, assisting in the resolution of disputes under the license agreement and facilitating the exchange of information between the parties.

***License Suspension and Termination***

The ICTA may suspend our operations for a limited or an unlimited period if necessary for the purpose of public security or national defense, including war and general mobilization. During suspension, the ICTA may operate our business, but we are entitled to any revenues collected during such suspension, and our license term will be extended by the period of any suspension.

Our license may be terminated under our license agreement upon a bankruptcy ruling that is not reversed or dismissed within 90 days, upon our failure to perform our obligations under the license agreement if such failure is not cured within 90 days, if we operate outside the allocated frequency ranges and fail to terminate such operations within 90 days or if we fail to pay our treasury fee.

In the event of termination, we must deliver the entire GSM system to the ICTA.

If our license is terminated as a reason of our failure to perform our obligations under our license, the performance guarantee given by us in an amount equal to 1% of the license fee may be called. The license agreement makes no provision for the payment of consideration to us for delivery of the system on such termination.

In the event of a termination of our license, our right to use allocated frequencies and to operate the GSM system ceases. Upon the expiration of the license agreement, initially scheduled to occur in 2023, without renewal, we must transfer to the ICTA, or an institution designated by the ICTA, without consideration, the network management center, the gateway exchanges, and the central subscription system, which are the central management units of the GSM network. We may apply to the ICTA between 24 and six months before the end of the 25-year license term for the renewal of the license. The ICTA may renew the license, taking into account the legislation then currently in effect.

***Applicable Law and Dispute Resolution***

Under our license agreement, any dispute arising from scope, implementation and termination of the agreement shall be brought before the License Coordination Committee. If the dispute is not settled within 30



## **Table of Contents**

days before the License Coordination Committee, it shall be referred to the parties. If the dispute is not resolved by the parties within 15 days, then it shall be settled by an arbitral tribunal in accordance with ICC Rules. The governing law of any arbitration is Turkish law and any such arbitration shall be conducted in English. Disputes relating to national security or public policy shall not be subject to arbitration proceedings.

### ***p. Authorization of 3G License***

In 2008, the ICTA conducted a tender process to grant four separate licenses to provide IMT 2000/UMTS services and infrastructure. We were granted the A-type license, which provides the widest frequency band, at a consideration of EUR 358 million (excluding VAT). We signed the license agreement relating to 3G authorization on April 30, 2009 and then the agreement was renewed and resigned in February 2016 with small amendments which do not change the core of the service. The license agreement has a term of 20 years.

The 3G License Agreement has provisions that are generally similar to those contained in our license agreement relating to 2G. However, with respect to dispute resolution, while our 2G license provides for arbitration for the settlement of disputes, under the 3G License Agreement, disputes arising between the parties shall ultimately be settled by the Council of State of the Republic of Turkey.

With the 3G License Agreement, we were obliged to meet certain coverage obligations. We are required to cover the population within the borders of all metropolitan municipalities within three years and all cities and municipalities within six years. We are also obliged to cover every region with a population over 5,000 within eight years and population larger than 1,000 within 10 years. Following the amendment of the Law for Metropolitan Municipalities, the number of metropolitan municipalities increased and the borders of some metropolitan municipalities were extended. After this amendment, the ICTA increased our coverage obligations, defined in our concession agreement, by its decision, based on this law amendment. We filed a lawsuit for the stay of execution and the cancellation of this decision. The Council of State accepted our stay of execution request. ICTA objected to this decision. Objection was also rejected in favor of Turkcell. The case is still pending.

With the 3G License Agreement, as opposed to the 2G License Agreement, the Company assumed an obligation related to its electronic communications network investments, such as the obligation to provide at least 40% of its electronic communications investments from suppliers that have a Research and Development Center in Turkey and the obligation to provide at least 10% of its electronic communications investments from suppliers that are Small and Medium Size Enterprises ( SME ) established in Turkey.

According to the Authorization Regulation, breaches by operators resulting in the termination of the GSM concession agreement for any reason shall also result in the termination of the operator's concession agreement signed for IMT-2000/UMTS service. Also, if the GSM concession agreement is not renewed at the end of its natural expiration, the ICTA may continue to allow the utilization of the needed infrastructure by IMT-2000/UMTS services on terms and conditions to be set by the ICTA itself.

The statutes, rules and regulations applicable to our activities and our 2G and 3G licenses are generally new, subject to change, in some cases, incomplete, and have been subject to limited governmental interpretation. Precedents for and experience with business and telecommunications regulations in Turkey are generally limited. In addition, there have been several changes to the relevant legal regime in recent years. There can be no assurance that the law or legal system will not change further or be interpreted in a manner that could materially and adversely affect our operations.

### ***q. Authorization of 4.5G License***

In the IMT- Advanced ( 4.5G ) tender held on August 26, 2015, to grant spectrum usage for 800 MHz, 900 MHz, 1800 MHz, 2100 MHz (FDD,TDD) and 2600 MHz (FDD, TDD), the Company purchased a total of 172.4 MHz, the broadest 4.5G (IMT) spectrum allocation of any operator in Turkey (including widest frequency bands on 1800 MHz, 2100 MHz and 2600 MHz) for 1,623.5 million (excluding VAT and interest payable on the installments).

The tender gave equal opportunity to the operators in the low frequency bands utilized for coverage while enabled competition in higher frequency bands mainly used for capacity. The Company has reached a total frequency bandwidth of 234.4 MHz and our ownership in total bandwidth in the market increased to 43% (234.4 MHz / 549.2 MHz) with the new frequencies acquired. The operators will be able to utilize the new spectrum in a technology neutral way.

**Table of Contents**

The ICTA granted Turkcell's 4.5G License on October 27, 2015. The 4.5G License is effective for 13 years until April 30, 2029. According to the License, Turkcell started to provide 4.5G services from April 1, 2016.

The 4.5G License Agreement has provisions that are generally similar to those contained in our license agreement relating to 2G and 3G. According to the IMT License Commitments Document, the Company;

- a) must achieve population coverage of 95% of the population of Turkey and coverage of 90% of the population within the borders of all cities and all city districts within eight years,
  - b) must cover 99% of highways, high speed railroads and tunnels with lengths more than one kilometers within eight years, 95% of double roads within six years and 90% of conventional railroads within ten years, and
  - c) is obliged to share actively with other mobile operators, any new 3G or 4.5G site which it will decide to build within settlement areas with population of less than 10.000 and highways, double roads, tunnels, high speed railroads and conventional railroads,
- from the effective date of the License granted to the Company.

While building its infrastructure for 4.5G networks, Turkcell is required to purchase up to 45% of its network related hardware (i.e. base stations, switches, routers and as such) and software from local suppliers, and purchase up to 40% of the network equipment and software from vendors with local research and development centers. The local network related hardware purchase requirement is defined in three periods: 30% for first year, 40% for second year and 45% for the third and following years. Reporting on these requirements should be made to the ICTA on a yearly basis. In case of a projection of a failure to meet the requirement for locally produced hardware and software due to the lack of sufficient local supply and other relevant conditions, the Company shall file an application to the ICTA 6 months before the due date, and request an easing or removal of the obligation. Based on the law, we applied for the removal of the obligation for the first 2015-2016 period.

***r. Licenses and Authorizations of our Subsidiaries***

In addition to the foregoing, our majority owned subsidiary, Belarusian Telecom, and wholly owned subsidiaries lifecell and Kibris Telekom hold GSM licenses in Belarus, Ukraine and the Turkish Republic of Northern Cyprus, respectively, and all of them have obtained 3G licenses. If lifecell, Belarusian Telecom and Kibris Telekom fail to comply with the terms and conditions of their license agreements, they may incur significant penalties, which could have a material adverse effect on our strategy for international expansion and our business and results of operations. In addition, our subsidiaries Global Tower, Turkcell Superonline, Inteltek and Azerinteltek have licenses to perform their business. Failure to comply with the terms of such licenses may lead to significant penalties and adversely affect their, as well as our, results of operations.

***Ukraine License Agreement***

lifecell owns twelve activity licenses, for GSM 900, GSM 1800, a technology neutral license issued for 3G, one license for international and long-distance calls and eight PSTN licenses for eight regions in Ukraine. As of December 31, 2016, lifecell owned 27 frequency use licenses for IMT-2000 (UMTS), GSM 900, GSM 1800, CDMA 800 and microwave Radiorelay and Broadband Radio Access, which are regional and national. 3G activity and

frequency licenses were issued in March 2015, reissued due to the company name change, and are valid for 15 years. Additionally, lifecell holds a specific number range three NDC codes for mobile networks, twelve permissions on a number resource for short numbers, eleven permissions on a number resource for SS-7 codes (7 regional and 4 international), one permission on a number resource for Mobile Network Code and nine permissions on a number resource for local ranges for PSTN licenses two permissions on a service codes for alternative routing selection for international and long-distance fixed telephony and one permission on a code for global telecommunication service 800 .

According to the licenses, lifecell must adhere to state sanitary regulations to ensure that the equipment used does not injure the population by means of harmful electromagnetic emissions. Licenses require lifecell to inform authorities of the start/end of operations within four months and changes in the incorporation address within 30 days. Also, lifecell must present all the required documents for inspection by the NCCIR by their request. The NCCIR may suspend the operations of lifecell for a limited or an unlimited period if necessary due to the expiration of the licenses, upon mutual consent, or in the case of a violation of the terms regarding the use of radio frequencies. If such a violation is determined, the Ukrainian Telecommunications Authority will notify lifecell of the violations and will set the deadline for recovery. If the deadline is not met, the licenses may be terminated.

**Table of Contents*****Belarus License Agreement***

Belarusian Telecom owns a license, issued on August 28, 2008, for a period of 10 years, which was valid till August 28, 2018. However, in accordance with the Edict of the President of the Republic of Belarus dated November 26, 2015, numbered 475, the license is now issued without limitation of the period of validity. Starting from March 1, 2016 the license is valid from the date of the licensing authority's decision on its issue and for an unlimited period. Under the terms of its license, Belarusian Telecom is required to gradually increase its geographical coverage until the end of 2017. As of December, 2016 the number of uncovered settlements is 657 out of a total of 22,552 settlements.

***Turkcell Superonline Authorizations***

Turkcell Superonline was authorized as a Fixed Telephony Service Provider as of November 19, 2004, Infrastructure Provider as of March 6, 2006, Internet Service Provider as of February 15, 2005, Satellite Communication Service Provider as of March 24, 2009, Cable Broadcast Service Provider as of November 23, 2009, Mobile Virtual Network Operator as of August 9, 2010 and Public Access Mobile Radio Service Provider for the Marmara and Guneydogu Anadolu regions as of January 27, 2007.

The Authorization By-Law for Telecommunication Services and Infrastructure published in the Official Gazette on August 26, 2004 was abrogated with the By-Law on Authorization for Electronic Communications Sector dated May 28, 2009. According to this abrogation, Turkcell Superonline's Authorization on Infrastructure Operating Service, Internet Service Provision and Satellite Communication Service have been changed to Authority on Infrastructure Operating Service, Internet Service Provision, Satellite Communication Service and Cable Broadcast Service. Turkcell Superonline's License on Long Distance Telephony Services License has been changed to Authorizations relevant to the Fixed Telephony Services. Aforementioned Public Access Mobile Radio Service Provider Authorization of Turkcell Superonline was annulled as of December 31, 2015.

In accordance with the new legislation issued by the ICTA, the term of the infrastructure operator authorization of Turkcell Superonline has become indefinite. As a result, Turkcell Superonline revised the expected useful lives of related fixed network equipment from 15 years to 25 years.

Turkcell Superonline was authorized as a Platform Operator and Infrastructure Operator, according to the Radio and Television Supreme Council's decision numbered 24, dated March 26, 2014. Such authorizations have been provided by the Radio and Television Supreme Council, according to the rules of the Media Law and also the Radio and Television Supreme Council By-Law on Broadcasting via Cable Networks. In accordance with the Media Law and its regulations, the Platform Operator Authorization and Infrastructure Operator Authorization are provided annually. Within the scope of the Platform Operator Authorization and Infrastructure Operator Authorization, Turkcell Superonline has the right to operate the platform and infrastructure of TV services.

***s. Access and Interconnection Regulation***

The Access and Interconnection Regulation (the Regulation) became effective when it was issued by the ICTA on September 8, 2009 and abolished the Access and Interconnection Regulation which was published on May 23, 2003. The Regulation sets forth the rights and obligations of the operators relating to access and interconnection and establishes rules and procedures pertaining to their performance of such obligations. The Regulation primarily sets forth applicable principles, details of access and interconnection obligations, financial provisions, and policies and procedures regarding negotiations and contracts for access and interconnection.

The Regulation is driven largely by the goal of improving the competitive environment and ensuring that users benefit from electronic communications services and infrastructure at a reasonable cost. Under the Electronic Communications Law, the ICTA may compel a telecommunications operator to accept another operator's request for access to and use of its network. All telecommunications operators in Turkey may be required to provide access to other operators. The operators who are compelled to provide access to other operators may be obliged to provide service and information on the same terms and qualifications provided to their shareholders, subsidiaries, and affiliates by the ICTA.

In accordance with Article 7 of the aforementioned Electronic Communications Law, the ICTA may determine the operators that have significant market power in the relevant market as a result of market analysis. After determination of the operators who have significant market power, the ICTA may impose additional

**Table of Contents**

liabilities for such operators in order to protect the competitive environment. On December 15, 2005, the ICTA designated Turkcell, Vodafone, and Avea as operators holding significant market power in the GSM Mobile Call Termination Services Market and designated Turkcell individually as an operator holding significant market power in the Access to GSM Mobile Networks and Call Originating Markets. According to the new Regulation published in the Official Gazette dated September 1, 2009, numbered 27336, unless otherwise agreed, any decisions taken by the ICTA in the years 2005 and 2006 relating to market analysis were valid and effective until the end of calendar year 2009. Pursuant to its decision dated December 8, 2009, the ICTA designated Turkcell individually as an operator holding significant market power in the Access to Mobile Networks and Call Originating Markets and designated Turkcell, Vodafone and Avea as operators holding significant market power in the Mobile Call Termination Market. Based on the market analysis of the ICTA for the 2012-2015 term, all three operators were declared as operators holding significant market power in the Mobile Call Termination Market and Turkcell is once again recognized as the only operator holding significant power in Access to GSM Mobile Networks and Call Originating Markets. As explained above, renewal of market analysis for both markets was expected to be finalized in 2016. However, public consultation documents were released at the end of 2016; and mobile market analyses are expected to be finalized in the first quarter of 2017.

As a result of the significant market power designation in the GSM Mobile Call Termination Services Market, our company, as well as Avea and Vodafone, is required to provide interconnection services on a cost basis. Consequently, according to the Electronic Telecommunications Law, the ICTA may oblige such operators to provide access and to submit their reference offers for access and interconnection to the ICTA for review, and may require amendments to the offers. Operators are obliged to make the amendments requested by the ICTA in a prescribed manner and within a prescribed period. In addition, the operators are obliged to publish their reference offers for access and interconnection, which have been approved by the ICTA, and to provide access under the conditions specified in their reference offers and interconnection, which have been approved by the ICTA. Please refer to the Interconnection table under the caption Interconnection Rates Turkcell, Vodafone, Avea and Turk Telekom below for the approved interconnection rates. In September 2011, the ICTA decided that national and international mobile terminating call rates should be differentiated. As a result of this, the ICTA decided that operators could start to set their own rates liberally for international mobile terminating calls. As of August 2012, Turkcell has started to set its own mobile termination rates for international calls.

In 2014, SMP operators did not provide any reference offers since the ICTA rearranged the current reference offers by itself aiming to make the reference offers aligned. With a board resolution dated October 2014, reference offers for interconnection operations were announced for Avea, Vodafone and Turkcell. The ICTA has also set the MMS termination rate for all operators that were not previously regulated. We were not obliged to prepare new reference offers for interconnection operations in 2015. The ICTA is currently working on market analysis, and access and interconnection reference offers will be updated following the completion of such analysis.

***t. Regulation on Co-Location and Facility Sharing***

The ICTA has required operators to share certain facilities with other operators under certain conditions specified in the Electronic Communications Law and to provide co-location on their premises for the equipment of other operators at a reasonable price.

Under the Regulation, operators holding significant market power are required to provide access and services to all operators on equal terms. Operators with significant market power are also required to perform unbundling of their services, which means that they have to provide separate service of, and access to, transmission, switching, and operation interfaces. Furthermore, the ICTA may establish rules applicable to the division of the costs of facilities among parties.

The ICTA published a Communiqué concerning Co-Location and Facility Sharing on December 2, 2010 (which abolished the Regulation published on December 31, 2003). According to the new Communiqué, the ICTA should determine operators to be co-location incumbent if operators do not enable co-location or there is a dispute against competition or end-users. Similarly, the ICTA could set tariffs if the tariffs for co-layout are not determined on a cost basis.

The Communiqué defines the criteria for operators who are incumbents for facility sharing and also states the items which must be considered for determining the Facility Sharing prices.

Subsequently, the provisions that regulate the ICTA approval of the examination fee determined by the Co-Location and Facility Sharing incumbent have been removed, opening up the Co-Location and Facility



## Table of Contents

Sharing process to negotiation. In addition, the Facility Sharing incumbent's right to allocate a facility for its own network and investment plans has been reduced to 25% of the facility.

The ICTA published a regulation concerning Cellular System Antenna Facility Design, Set Up and Sharing on March 18, 2011 (which abolished the Regulation published on April 16, 2008). The regulation frames antenna facilities design, set up and sharing to enable base station facility usage by multiple operators. The emission points will not be determined by operators, therefore operators will have to work cellular planning together. Operators must share every base station facility regardless of tower or building-top distinction. Antenna facilities must be set up in certain capacity that at least one more operator can benefit. Some incentives, such as exemptions on some certification fees, will be given if sharing occurs on existing or new sites. Finally, when antenna facility set up and sharing requests are evaluated, if the owner of the facility refuses the request, the requesting operator will be informed of the reason for the refusal. This way, negotiation between parties is supported and ICTA involvement is kept at a minimum level. On December 6, 2016, the ICTA updated the above regulation and The Regulation on the Procedures and Principles of Sharing of Cellular System Antenna Installations and Radio Access Networks came into force. According to this Regulation;

The number of sharing types has increased. The terms and conditions of sharing at highways, railways and within tunnels is now a separate section.

In regions where the population is lower than 10.000, if an operator is unable to use the antenna installations built by another operator before the IMT licensing, the operator must notify the ICTA about the situation and the ICTA may let the operator build a new antenna installation. This operator is obliged to make an installation facilitating the sharing by all types with at least two other operators. The operator cannot turn down any sharing requests involving installations set up after IMT licensing in motorways, high speed and very high speed railways, dual carriage highways, tunnels and conventional railways, except for indoor installations.

In regions where the population is higher than 10.000 at the time of application to the Authority to build a new installation, provided that operator(s) are present and offer the new comer at least three of the possible share types, no wireless usage fee will be charged for the following year. If the antenna installation concerns towers exclusively, type 2 sharings will suffice. This rule will apply until December 31, 2023.

In regions where the population is lower than 10.000, except indoor installations, new antenna installations which were established between the date of the IMT authorization and the issue date of this Regulation, all settlements and motorways, high speed and very high speed railways, dual carriage highways, tunnels and conventional railways must be brought in line with the conditions set by this Regulation.

In the 4.5G Authorization Document, in provinces with a population of less than 10.000 and at sites to cover highways, double roads and railroads, any new 3G or 4.5G site to be built must be shared actively by all operators within this region. Current government officials declared that research and development ( R&D ) and production & development ( P&D ) in Turkey for high-tech products and services will be supported and some incentives will be introduced in the near future. One of the biggest local vendors in the defense industry that is already producing telecom equipment for the military declared it is planning to produce a 4.5G base station for commercial networks after 2015. In the 4.5G Authorization Document, usage of locally-produced equipment in network was

obliged, with rates up to 45%. Yet if the lack of such equipment or absence in the demand for production of such equipment is proved by mobile operators, mobile operators will be free of this obligation specifically for the related term. We informed the ICTA that we support any local R&D and P&D, as long as it complies with international technical and financial standards and can be sustainable. However, the 4.5G Authorization Document does not provide details on the compliance with international standards. The ICTA may oblige operators to buy and use the locally produced products, independent of the quality standards, if a local vendor produces sufficient equipment to support the mobile operators' demands. This may cause technical problems in our network. Should such technical problems occur, it could negatively affect our quality of service, leading to increased costs for the 4.5G infrastructure roll-out and could negatively affect our customer experience.

***u. Regulation on Consumer Rights in the Electronic Communications Sector***

The ICTA published a Regulation on Consumer Rights in the Electronic Communications Sector on July 28, 2010 (which abolished the Regulation published on December 22, 2004) and made some changes to such

---

**Table of Contents**

regulation on June 20, 2013. This regulation introduces some radical changes to the electronic communications sector. With this regulation, the ICTA determined new procedures/changes regarding: the process and timing of churn steps, the obligation of operators to keep subscribers informed of services, including, but not limited to, informing customers about amendments of the campaigns and tariffs, the consumer complaints solution mechanism, billing processes and safe internet.

In addition, the ICTA may restrict the conditions under which certain mobile internet and services are provided by third parties. Moreover, the ICTA published a board decision regarding Safe Internet on August 22, 2011, and the service is now offered to subscribers free of charge. Operators must provide Safe Internet Service to subscribers, who request this service, as two separate profiles, the child profile and the family profile, each of which can restrict subscribers from accessing certain internet addresses and content. The subscribers can easily change their profiles or opt-out from the Safe Internet Service.

The ICTA's regulation of these activities could have an adverse effect on our mobile telecommunications business and we may be fined if we do not comply. Furthermore, our compliance with the ICTA's regulations may increase the costs of doing business and could negatively impact our financial results.

***v. Regulation on Data Privacy in Electronic Communications Sector***

Under Article 51 of the Electronic Communications Law, the ICTA is authorized to determine the principles and procedures related to the process of personal data and protection of privacy. In this manner, ICTA had published Regulations on the Protection of Privacy and Processing of Personal Data . With its decision rendered on April 9, 2014 and published in the Official Gazette on July 26, 2014, the Turkish Constitutional Court decided that Article 51 of the Electronic Communications Law is a violation of Article 20(3) of the Constitution, which stipulates data protection as a constitutional measure and that the measures should be regulated by the laws and therefore annulled the aforementioned provision (Article 51). The Article 51 of the Electronic Communications Law, which was repealed by Turkish Constitutional Court, was amended and came into force on April 15, 2015. In the amended Article 51, the main principles of recording and sharing subscribers' personal data are defined in general. In addition to that, ICTA is also authorized again to determine the procedures and principles related to the process of personal data and protection of privacy; however such regulation has not been published so far.

Compliance with this regulation will involve operational expenses and may make it harder to process the customer data and provide segmented offers to our customers. Furthermore, non-compliance with this Regulation may result in the imposition of monetary fines, which could have a negative impact on our financial condition and reputation.

***w. Law on the Protection of Personal Data***

Turkey, as a part of its legislative reforms to align with the EU legislations, has adopted an extensive data protection regime. The Law on the Protection of Personal Data (the Law ), which came into force on April 7, 2016, regulates personal data of real persons and its protection, process and transfers.

The Law introduced several obligations for processing and transferring the personal data including fair and lawful processing, protection of personal data, consent requirement, providing notice of processing, and registration with the Data Protection Authority (the DPA ). According to the Law, the DPA is authorized to impose sanctions and precautions as well as administrative fines which are determined in the Law.

The Law also determines the rights of the person whose data is processed, such as the right to apply to the Data Controller to learn whether the personal data has been processed, to learn if it is being used properly according to the

purpose of the processing, to know the third parties to which the personal data is transferred in the country or abroad, to request the personal data to be erased or destroyed and the third parties to be notified of that.

Data processing activities of electronic communications providers had already been regulated under the electronic communications legislation and the regulation introduced by the Law has similarities with the regulations in the electronic communication legislation which Turkcell and Superonline had been doing their best to comply with. Turkcell and Superonline are currently testing their systems in order to evaluate compliance with the Law and to begin remedial actions if such tests reveal any issues. Such remedial actions, if required, may imply costs and may also hinder the way in which we presently access and use such data.

## **Table of Contents**

### ***x. Regulation on Electronic Commerce***

Law No. 6563 on the Regulation of Electronic Commerce published in the Official Gazette on November 5, 2014, amended Article 50 of the Electronic Communications Law, providing that without the prior consent of the subscribers, unsolicited electronic communications for the purposes of direct marketing or messages with adult content is prohibited. An opt-in mechanism has been adopted for electronic messages; however, this provision does not apply retroactively to the databases which were established by taking the data subjects' consent before the Law No. 6563 on Regulation of Electronic Commerce entered into force on May 1, 2015.

The Electronic Commerce Law and Commercial Communications And Commercial Electronic Messages Regulation published in accordance with this law exclude the messages that are sent to subscribers and users of the operators about their own products and services and these messages are regulated in The Principles And The Procedures Regarding The Communication With The Purposes Of Advertising And Marketing which was published by the ICTA on July 9, 2015. According to this legislation, these messages are also subject to the prior consent of the subscribers and users. Violation of this legislation may result in an administrative fine.

Some of the companies that previously used Turkcell's permission database in high volumes may shift to global social media channels which may not be subject to government regulation. Law No. 6563 on the Regulation of Electronic Commerce will not only affect the permission database business of Turkcell, but also bulk SMS business. More companies may prefer to use the bulk SMS enablers that operate abroad because those enablers are not subject to regulation by the Turkish government.

Additionally, the new regulation may have a negative impact on Turkcell's corporate business as a whole because the permission database and bulk SMS services are among Turkcell's most effective services for acquiring corporate subscribers.

### ***y. Registered Email Service Regulation***

Registered Electronic Mail Service was started in July 2012. Mobile operators cannot provide registered electronic mail service; however, the service may create a new mobile business area with new bundled mobile products, which are able to service our subscribers.

### ***z. Turk Telekom, Vodafone and Avea Interconnection Agreements***

#### ***(i) General***

We have interconnection agreements with Turk Telekom, Vodafone, Avea and Fixed Telephony Service Operators whereby they allow us to connect our networks with theirs to enable the transmission of calls to and from our mobile communications system.

The interconnection agreements establish understandings between the parties relating to various key operational areas, including call traffic management, and the agreements contemplate that we and the other parties will agree on the contents of various manuals setting forth additional specifications concerning matters that are not specifically covered in the interconnection agreement, such as quality and performance standards and other technical, operational and procedural aspects of interconnection.

The interconnection agreements specify that the parties shall comply with relevant international standards, including standards adopted by the GSM Memorandum of Understanding, the Telecommunications Standards Bureau of the

International Telecommunications Union, and the European Telecommunications Standards Institute. In the absence of applicable international standards, the interconnection agreements provide that the parties will establish written standards to govern their relationship.

The interconnection agreements outline the applicable interconnection principles and provide the technical basis and rationale for technical specifications and manuals to be agreed to by the parties.

In addition, the parties agree to provide the other party with information that is necessary to enable the performance of their interconnection obligations, the provision of services, or the utilization of equipment and/or buildings as contemplated in the interconnection agreement.

We had ongoing disputes with Turk Telekom, Vodafone and Turk Telekom over these agreements and with the ICTA regarding its decision related to these agreements. On December 30, 2015, Turkcell Group and Turk

**Table of Contents**

Telekom Group reached an agreement to mutually settle the ongoing lawsuits, enforcement procedures and disputes between Turkcell companies including Turkcell Iletisim Hizmetleri AS, Superonline Iletisim Hizmetleri AS, Kule Hizmet ve Isletmecilik AS and Turk Telekom Group companies including Turk Telekomunikasyon AS, Avea Iletisim Hizmetleri AS and TNet AS. In this regard, we made a payment of TRY 225 million to Turk Telekom Group which is the net of rights, receivables and claims of both parties (excluding VAT and special communication tax, including all other tax and financial obligations and interest) on January 14, 2016. See Item 8.A. Consolidated Statements and Other Financial Information Note 32 .

**(ii) Interconnection Rates Turkcell, Vodafone, Avea and Turk Telekom**

In accordance with the relevant articles of the Electronic Communications Law and subsequent Access and Interconnection Ordinance, the ICTA regulated both fixed and mobile interconnection rates. In previous years, the interconnection rates have substantially decreased with the interventions of the ICTA.

Current interconnection rates are based on the ICTA's decision on the Interconnection Tariffs issued in April and June 2013. New interconnection rates were published in October 2014 and remain in force with no change in existing rates. However, the Authority published MMS interconnection rates for the first time. The evolution of interconnection rates for voice calls between Turkcell, Vodafone, Avea, Turk Telekom and Alternative Fixed Line Operators is summarized in the table below.

	VOICE (TRY Kurus)						Alternative Fixed Line Operators
	TURKCELL	VODAFONE	AVEA	Local	Single	Double	
01/10/2004	15.60	15.60	15.60		4.10	5.90	
01/01/2005	14.80	14.80	14.80		3.40	5.10	
01/10/2005	14.00	14.00	14.00		2.00	3.70	
01/01/2007	14.00	15.20	17.50		2.00	3.70	
01/03/2007	13.60	14.50	16.70		1.89	3.00	
01/04/2008	9.10	9.50	11.20		1.71	2.70	
01/05/2009	6.55	6.75	7.75	1.39	1.71	2.70	
01/04/2010	3.13	3.23	3.70	1.39	1.71	2.24	3.2
01/07/2013	2.50	2.58	2.96	1.39	1.71	2.24	3.2
31/10/2014	2.50	2.58	2.96	1.39	1.71	2.24	3.2

\* In September 2011, the ICTA amended its Regulation on mobile termination rates by removing the restriction on the rates applicable to calls originating from international operators. After reaching commercial agreements with Turk Telekom and alternative fixed-line carriers, we began to charge higher termination rates for international calls effective August 1, 2012.

Effective from July 2013, Turkcell is paid TRY 0.0043 per SMS for SMS termination in its network. Respective rates for Vodafone are TRY 0.0043 per SMS and for Avea TRY 0.0047.

SMS (TRY Kurus)			
TURKCELL	VODAFONE	AVEA	TURK TELEKOM

01/04/2010	1.70	1.73	1.87	1.70
01/07/2013	0.43	0.43	0.47	1.70
31/10/2014	0.43	0.43	0.47	1.70

**MMS (TRY Kurus)**  
**TURKCELL    VODAFONE    AVEA**

31/10/2014	0.86	0.86	0.94
------------	------	------	------

Effective from October 2014, Turkcell is paid TRY 0.0086 per MMS for MMS termination on its network. Respective rates for Vodafone are TRY 0.0086 per SMS and for Avea TRY 0.0094.

***z. Agreements Concluded with the Fixed Telecommunication Services Operators***

***(i) Interconnection/Call Termination Agreements***

Turkcell, as an operator holding significant market power, entered into interconnection/call termination agreements with fixed telecommunication service operators that applied to Turkcell for an agreement. Interconnection rates are regulated by the ICTA. Turkcell pays fixed-line operators TRY 0.0320 per minute and fixed-line operators pay Turkcell TRY 0.0250 per minute for national voice call traffic.



---

**Table of Contents*****(ii) International Transit Traffic Services Agreements***

Turkcell entered into International Traffic Carrying Services Agreements with operators who applied to Turkcell for an agreement. Under these Agreements, we may carry calls to these operators' switches for onward transmission to their destinations and these operators should provide the termination of these calls on the relevant network. These operators charge us at various prices identified within the scope of the agreement for the calls directed to numerous networks around the globe. The operators may modify their rates upon a fifteen day advanced written notice and such rates will become applicable upon our approval.

***(iii) SMS Termination Agreements***

During 2011, Turkcell entered into SMS Termination Agreements with alternative operators who applied to Turkcell for an agreement. In accordance with the ICTA regulations on SMS Termination Rates in Turkcell's network, Fixed Telephony Service Operators pay Turkcell TRY 0.0043 per SMS.

***aa. MVNO Services***

The ICTA has designated Turkcell as the operator having significant market power in the mobile access and call origination markets, which has implications such as mandatory MVNO access and cost-oriented call origination and termination rates. In its decision regarding the Reference Access Offer of Turkcell, the ICTA determined the call origination and termination fees for voice as TRY 0.0250 per minute, wholesale on net voice call fee as TRY 0.0428 per minute, origination and termination fees for SMS as TRY 0.0043 per SMS and wholesale on net SMS fee as TRY 0.0073 per SMS, origination and termination fees for video calls as TRY 0.0775 per minute and wholesale on net video calls fee as TRY 0.1325 per minute to be applied to the MVNOs.

Highly competitive market conditions and heavy tax burdens have discouraged potential MVNOs from entering the market for years. Nevertheless, both commercial negotiations and conciliation processes by the ICTA with certain MVNO candidates are in progress and we expect to see some MVNO presence in the market in the coming years.

The ICTA has determined call origination and termination fees for Type-2 and Type-3 (Full MVNO) but not determined fees for Type-1 (Light MVNO) model. Commercial negotiations which will be viable and commercially beneficial are the main subjects to be handled in MVNO consultations between Turkcell and the potential MVNOs.

***bb. Agreements Concluded with Directory Service Providers***

Turkcell entered into agreements relating to the provision of directory services with 13 Directory Service Providers, which are licensed to provide directory services by the ICTA. The aforementioned agreements determine the principles and procedures related to the access of companies to the Turkcell database, the provision of directory services to the subscribers and the clearing procedure of the parties. Such agreements are valid and binding for a term of one year. However, if neither party notifies the other party one month before the expiration of the agreement of its request to terminate, the agreement will automatically be renewed for another one-year term.

***cc. Agreements Concluded with Operators Licensed to Provide Satellite Services***

We have executed agreements with Globalstar Avrasya Uydu Ses ve Data Iletisim A.S. and Teknomobil Uydu Haberlesme A.S., operators licensed to provide satellite services. The scope of such agreements is the interconnection between the networks of the parties and the determination of the principles and procedures of the methods of network operation and clearance.

**dd. *Prospective Legislation and Regulations***

The Electronic Communications Law provides that current telecommunications legislation shall be revised and amended. The revision and amending processes are still ongoing. However, during this period, all regulations and communiqués that were effective prior to the publication of the Electronic Communications Law will still be valid and binding, on the condition that they are not contrary to the provisions of the Electronic Communications Law.

## **Table of Contents**

### **4.C Organizational Structure**

The following chart lists each of our key subsidiaries (including our ownership interest in Fintur) and our proportionate direct and indirect ownership interest as of March 10, 2017:

- (1) The legal name of Astelit was changed to lifecell LLC as at February 2, 2016.
- (2) On December 19, 2016, Beltower LLC was incorporated under the laws of the Republic of Belarus.
- (3) On December 28, 2016, Turkcell Interaktif Dijital Platform ve Icerik Hizmetleri A.S. merged with Superonline Iletisim Hizmetleri A.S. and was deregistered from Istanbul Trade Registry.
- (4) On December 30, 2016, Euroasia Telecommunications Holding B.V. merged with Lifecell Ventures Cooperatief U.A. which was formerly known as Beltur Cooperatief U.A..
- (5) On December 21, 2016, the Board of Directors resolved to liquidate Financell B.V..
- (6) On February 20, 2017, Turkcell Enerji Cozumleri ve Elektrik Satis Ticaret Anonim Sirketi has been incorporated to carry out activities of electricity energy trade, wholesale and retail electricity sale.
- (7) On February 20, 2017, the legal of the company Turkcell Odeme Hizmetleri A.S. has changed to Turkcell Odeme ve Elektronik Para Hizmetleri A.S.

We have announced our intention to exit from jurisdictions in which Fintur operates and initiated an active program to locate a buyer. Fintur is now classified as held for sale and reported as discontinued operations.

For information on the country of incorporation of our key subsidiaries, see [Item 4.B. Business Overview](#) .

### **4.D Property, Plant and Equipment**

As of December 31, 2016, we operated 77 facilities including network data centers, of which 55 were located in Turkey, the rest in Northern Cyprus, Belarus, Ukraine and Azerbaijan.

We have our own and leased buildings in Istanbul, including our headquarters, mobile switching centers, network data centers, customer service offices and warehouses. Our buildings in Turkey and outside of Turkey are used for the purposes of administration, sales and other service centers as well marketing and operation of mobile switching centers and network data centers.

In September 2015, our headquarters moved to Kucukyali from Beyoglu bringing internal functions and group companies Turkcell Technology and Turkcell Superonline together in Istanbul, generating operational efficiencies.

As of December 31, 2016 we also had 146 owned and 1,220 leased vehicles, used for operational purposes and provided as benefits to our employees.

**Table of Contents****a. Core Network Infrastructure**

Our core network consists of three site Geographically Redundant Next Generation Home Location Register Home Subscriber Server ( NG HLR / HSS ), a combined Number Portability Switch Relay Function ( SRF ) and Number Portability Database and Signal Transfer Point ( STP ), Diameter Routing Agent (DRA). The Core Network is common for 2G, 3G, 4.5G radio networks and carries voice over IP, with combined Mobile Switch Centers/Visitor Location Registers ( MSC/VLR ), Media Gateways ( MGW ), Charging Control Node ( CCN ) and Virtual Private Network ( VPN ).

We have IMS based VoLTE (Voice over LTE) network. We are planning to converge Core Voice and IMS Networks. With convergence of the networks, the telco based fixed and mobile services and (OTT based) application services will be given easier and faster.

Our core packet switching network combined of SGSNs/MME s (Serving GPRS Support Node, Mobility Management Entity) and GGSNs/SGW/PGWs (Gateway GPRS Support Node, Serving and PDN Gateway) providing GPRS/EDGE, and HSPA/HSPA+ (High Speed Packet Access) capability for mobile packet traffic and also Policy and Charging Rules Function ( PCRF ) for subscriber policies. In addition, we already deployed Data Optimization equipment for customer experience.

We have switches in Istanbul, Ankara, Izmir, Adana, Bursa, Diyarbakir, Erzurum, Gaziantep, Hatay, Kayseri, Kocaeli, Malatya, Mersin, Mugla, Samsun, Trabzon, and Van.

In addition, we own switch buildings in different cities in Turkey, such as Istanbul (Mahmutbey, Kartal, Maltepe), Mugla, Izmit, Diyarbakir, and Erzurum. Switch buildings are where the network switching equipment, such as MSC, MGW, BSC and RNC, is located.

**b. Access Network Infrastructure**

Our Access Network consists of Base Station Controllers ( BSC ) and Radio Network Controllers ( RNC ) at Network Data Centers ( NDC ) and BTS, Node-Bs and eNode-Bs located on rooftops or towers. Since 2014, we have been calling our OMCs (Operation Maintenance Centers) as NDCs (Network Data Centers). BTSs are the fixed transmitter and receiver equipment in a cell, or coverage area of a cluster of antennas, for a 2G mobile network that communicates by radio signal with mobile devices. Similarly, Node-Bs are the corresponding equipment for 3G, connected to and controlled by RNC in order to realize 3G and HSPA+ coverage for 3G /HSPA-equipped mobile phones and eNode-Bs are the equipment that carry out equivalent functionalities for 4.5G with the important difference that they are directly connected to 4.5G Core Network.

At the end of December 2016, we owned over 48,500 base stations (2G+3G/HSDPA+4.5G (LTE-A)) and leased the land underlying such base stations.

In 2009, the ICTA resolved that operators may transfer the right of use of their towers to third parties. In accordance with this resolution, we transferred the rights of some towers to Global Tower.

**c. Transmission Network Infrastructure**

Turkcell s mobile backhaul utilizes various transport technologies to provide for an efficient, resilient and cost effective transmission network. Connectivity between sites is provided using Microwave Radio Links and leased lines carried over Synchronous Digital Hierarchy ( SDH ) and Ethernet over Dense Wavelength Division Multiplexing

( DWDM ) where appropriate. Cell sites with site connectivity are mostly served by point-to-point microwave radio links owned and managed by Turkcell, make up more than 90% of our network. Interconnections with other Public Land Mobile Networks ( PLMN ), Public Switched Telephone Networks ( PSTN ), Long Distance Telephony Services ( LDTS ) and small operator companies are realized through leased line connections. More than 90% of our leased line network connectivity is currently provided by our subsidiary Turkcell Superonline . The rest of the leased lines are provided by the incumbent Telekom operator Turk Telekom . With the growth of data usage and in preparation for 4.5G , fiber optic connectivity to cell sites has also become a part of our network topology. As a result the overall infrastructure capacity usage is fully optimized and a high grade of availability is achieved through topology resiliency and packet base IP mobile backhaul network infrastructure.

**ITEM 4A.UNRESOLVED STAFF COMMENTS**

None.

**Table of Contents****ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

The following discussion and analysis of our management with regard to our financial condition and the results of our operations should be read together with the Consolidated Financial Statements included in this annual report. In addition to historical information, the following discussion contains forward-looking statements based on current expectations that involve risks and uncertainties. Actual results and the timing of certain events may differ significantly from those projected in such forward-looking statements due to a number of factors, including those set forth in Item 3.D. Risk Factors and elsewhere in this annual report.

**I. Overview of the Turkish and International Economy**

2016 saw divergent developments in different country groups. There has been a stronger than expected pickup in growth in advanced economies, mostly due to a reduced drag from inventories and some recovery in manufacturing output. In contrast, it is matched by an unexpected slowdown in some emerging market economies, mostly reflecting idiosyncratic factors. The slowdown was accompanied by a further drop in commodity prices and volatility in financial markets. However in the second half of 2016 the picture for emerging market and developing economies (EMDEs) remained much more diverse. The growth rate in China was a bit stronger than expected, supported by continued policy stimulus. But activity was weaker than expected in some emerging markets, such as Argentina and Brazil, as well as Turkey, which faced a sharp contraction in tourism revenues. The Turkish economy contracted by 1.8% in the third quarter of 2016 after having grown for twenty seven quarters in a row. Based on market estimates, the year-on-year GDP growth in Turkey is expected to be at around 3.0% in 2016 and forecast at 3.0% in 2017. The July failed coup attempt heightened the spectrum of political uncertainty and Russian sanctions have also negatively affected confidence. Turkey's credit rating was downgraded by Fitch and Moody's to below investment grade, with S&P's rating remaining one notch below investment grade. 2017 is expected to be an even more challenging year globally due to high volatility from differing monetary policies in developed markets. Advanced Economies monetary policy is set to remain rather accommodative, as policy rates would remain very low in 2017, while average balance sheets would still expand significantly due to ongoing large asset purchases by the Bank of Japan and the European Central Bank. On the U.S. side, the Federal Reserve (FED) has increased its policy rate for the second time in 2016 and after Donald Trump's victory in the presidential election, US rates are expected to rise further due to fiscal stimulus. Market players expect two rate hikes from the FED in 2017. The European Central Bank has extended the maturity of its quantitative easing program to December 2017 and is expected to provide further easing if needed.

The TRY depreciated by 21.0% against the U.S. Dollar in 2016, and in 2017 has depreciated by 6.6% as of March 10, 2017. Market players continue to expect further devaluation in the TRY in 2017. The annual inflation rate decreased to 8.5% by the end of 2016 from 8.8% at the end of 2015. The rise in inflation increased after July led by an increase in food prices and pass through effects due to the TRY depreciation along with political uncertainties and geopolitical risks. The latest CBRT expectations survey, as of February 13, 2017, indicated that inflation is expected to be at 8.9% at the end of 2017. The current account deficit remains sizeable, as the decline in tourism offsets savings from low energy prices. Progress on structural reforms has been slow. Potential capital outflows due to a decrease in global USD liquidity and rising U.S. interest rates may have a negative impact on the Turkish economy if not counterbalanced by the European Central Bank and the Bank of Japan actions.

Turkey will hold a referendum for constitutional change regarding its presidential system on April 16, 2017 which has also contributed to the political uncertainties in the country.

**II. Taxation Issues in the Telecommunications Sector**

Under current Turkish tax laws, there are several taxes imposed on the services provided by telecommunications operators in Turkey. These taxes are charged to subscribers by mobile operators and remitted to the relevant tax

authorities. They may be charged upon subscription, on an annual basis or on an *ad valorem* basis on the service fees charged to subscribers.

The following are the most significant taxes imposed on our telecommunications services:

**a. *Special Communications Tax***

The Turkish government imposed a special 25% communications tax on mobile telephone services as part of a series of new taxes levied to finance public works required to respond to the earthquakes that struck Turkey's Marmara region in 1999. This tax is paid by mobile users and collected by mobile operators. As of August 2004 other telecom services (i.e., fixed lines and TV/radio transmission) are also included within the scope of special communication tax.

---

**Table of Contents**

Under Law No. 5838, which became effective on March 1, 2009, wired, wireless and mobile internet service providers are subject to a special 5% communications tax (previously such tax was 25% on mobile, 15% on fixed lines). Other than mobile internet services, all mobile telecommunication services are subject to a special 25% and other telecommunication services (i.e., fixed lines and TV/radio transmission) are subject to 15% tax rate. The tax collected from subscribers in one calendar month is remitted to the tax authorities within the first 15 days of the following month.

Under Law No. 6322, effective July 1, 2012, new mobile subscriptions for Machine to Machine (M2M) simcards are not subject to the special communication tax levied upon new subscriptions.

The special communications tax on new mobile subscriptions was TRY 46, TRY 44 and TRY 40 in 2016, 2015 and 2014, respectively. As of January 1, 2017, the special communications tax on new subscriptions levied is TRY 47. The tax has had a correlative negative impact on mobile usage.

**b. Value Added Tax ( VAT )**

Like all services in Turkey, services provided by GSM operators are subject to VAT, which is 18% of the service fees charged to subscribers. We declare VAT to the Ministry of Finance within 24 days and remit VAT paid by our subscribers within the first 26 days of the month following when the tax was incurred, after the offset of input VAT incurred by us.

VAT for roaming services was, until November 3, 2009, calculated solely on the mark-up amount on subscribers invoices for roaming services. Following the Ministry of Finance's declaration of a change in its position regarding roaming charges, we began imposing VAT and the special communications tax on the entire amount of roaming charges, starting from November 3, 2009, to comply with this change in position.

Reverse charge VAT is calculated on the invoices issued by foreign GSM operators.

**c. License and Annual Utilization Fees**

According to Article number 46 of the Electronic Communications Law, subscribers registered in the system are subject to both license and annual utilization fees. GSM operators are charged with the duty of collecting these fees.

The license fee is paid once on the subscription per subscriber. The license fee was TRY 18.95, TRY 17.95 and TRY 16.30 in 2016, 2015 and 2014, respectively. As of January 1, 2017, the license fee is TRY 19.68.

The payment of the annual utilization fee to the government depends on whether a subscriber is postpaid or prepaid. For postpaid subscribers, the monthly utilization fee was TRY 1.58, TRY 1.50 and TRY 1.36 in 2016, 2015 and 2014, respectively, and is charged to subscribers monthly. For prepaid subscribers, the annual utilization fee is calculated by multiplying the number of registered prepaid subscribers at the previous year end by the annual utilization fee and the calculated bulk annual utilization fee is paid by mobile operators the following year on the last business day in February. As of January 1, 2017, the monthly utilization fee is TRY 1.64. We decided to collect utilization fees from most of our prepaid subscribers starting from June 2011 and we are collecting since then.

**d. Special Consumption Tax**



The Special Consumption Tax ( SCT ) is a tax on prescribed goods, which includes mobile phones. The SCT is charged on mobile phones either when they are imported or when they are sold by Turkish manufacturers. The SCT rate on mobile phones (mobile phones are legally defined as transmitter/receiver cellular phones ) was set at 20% prior to October 13, 2011, and the SCT calculated in accordance with the 20% rate must not fall below TRY 40 per cellular phone device (Temporary Article 6 of Special Consumption Tax Code).

The SCT rates were raised on some motor vehicles, mobile phones, alcoholic beverages and tobacco products by a decision of the Board of Ministers, which was published in the Official Gazette on October 13, 2011. The SCT rate over cellular phones was increased from 20% to 25% and the minimum SCT amount to be calculated was increased to TRY 100 (previously the minimum SCT amount was TRY 40) effective from October 13, 2011.

---

## **Table of Contents**

The SCT rates on some motor vehicles, mobile phones and alcoholic beverages were raised by a decision of the Board of Ministers, which was published in the Official Gazette on January 1, 2014. The minimum SCT amount to be calculated over cellular phones was increased to TRY 120 effective from January 1, 2014. By a decision of the Board of Ministers, which was published in the Official Gazette on January 1, 2016, the minimum SCT amount to be calculated over cellular phones was increased to TRY 160 effective from January 1, 2016. The said decision of the Board of Ministers has been cancelled in 2016 by the Supreme Court. Finally a new article has been added to the Special Communication Tax Law (Temporary Article 6) on September 9, 2016 and the minimum SCT amount to be calculated over cellular phones was set at TRY 160 effective from September 9, 2016. There is a possibility that such tax may increase in the near future.

### **e. Tax disputes**

Changes in the Ministry of Finance's interpretation of the taxation codes, especially changes regarding consumption taxes (Value Added Tax and Special Communication Tax), may adversely affect consumer prices. In addition to the prospective financial impact of such changes, unanticipated tax liabilities and fines may also be levied against our financial results in prior years since a Turkish company's operations in the previous five years may be subject to financial investigation. Regulations that became effective July 1, 2010, however, have strengthened our rights with regards to this risk, particularly with regards to the following:

Tax inspectors shall not issue tax audit reports that contradict Decrees, Public Acts, Statutory Rules, General Communiqués and Circulars promulgated;

In the event that the tax authority differentiates previous interpretations of taxation codes via promulgated General Communiqués and Circulars, the new interpretation shall not be applied to previous transactions;  
and

Transactions that are compliant with rulings taken from the Tax Office shall be relieved from both tax penalty and overdue interest. Such shelter is valid only for a taxpayer that has applied for the ruling.

For a description of various tax related disputes to which we are party, see Item 8.A. Consolidated Statements and Other Financial Information Legal Proceedings .

### **III. Critical Accounting Policies**

Our discussion and analysis of our financial condition and results of operations are based upon our Consolidated Financial Statements, which have been prepared in accordance with IFRS as issued by the IASB. The preparation of these financial statements requires us to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of the financial statements and for the period then ended. On an ongoing basis, we evaluate the estimates used. We base our estimates on historical experience, actuarial estimates, current conditions and various other assumptions that we believe to be reasonable under the circumstances. These estimates form the basis for making judgments about the carrying values of assets and liabilities and are not readily apparent from other sources. Actual results may differ from these estimates. Our critical accounting policies are disclosed in Note 3 (Significant Accounting Policies) to our Consolidated Financial Statements in this Form 20-F.

#### **IV. Reportable Segments and Reporting Currency**

Our operations are aggregated under two main reportable segments, Turkcell Turkey and Turkcell International:

The Turkcell Turkey segment comprises mainly our telecommunication and technology services activities in Turkey and includes the operations of Turkcell, Turkcell Superonline, Turkcell Satis, group call center operations of Turkcell Global Bilgi, Turktell, Turkcell Teknoloji, Turktell Interaktif, Global Tower, Rehberlik, Turkcell Odeme and Turkcell Gayrimenkul.

The Turkcell International segment comprises mainly our telecommunication and technology services activities outside of Turkey and includes the operations of lifecell, Belarusian Telecom, Kibris Telekom, Eastasia, Lifecell Ventures, Euroasia, Beltel, UkrTower, Global LLC, Turkcell Europe, Lifetech LLC, Beltower and Fintur.

Our Other reportable segment is comprised mainly of information and entertainment services in Turkey and Azerbaijan, non-group call center operations of Turkcell Global Bilgi and consumer financing service operations of Turkcell Finansman. The accounting policies of our reportable segments are the same as those described in the summary of significant accounting policies.

---

## **Table of Contents**

As of October 1, 2016, the Group announced its intention to exit from jurisdictions in which Fintur operates and initiated an active program to locate a buyer. Fintur has since been classified as held for sale and discontinued operations. See Note 17 to our audited Consolidated Financial Statements included in Item 18. Financial Statements of this annual report on Form 20-F.

Our financial statements are presented in TRY only, the currency in which we recognize the majority of our revenues and expenses.

### **5.A Operating Results**

Our audited Consolidated Financial Statements as at December 31, 2016 and December 31, 2015 and for each of the years in the three-year period ended December 31, 2016 included in this annual report have been prepared in accordance with IFRS as issued by the IASB.

#### **I. Overview of Business**

Turkcell, a joint stock company organized and existing under the laws of the Republic of Turkey, was formed in 1993 and commenced operations in 1994. We operate under a 25-year GSM license (the 2G License ) and a 20-year GSM license (the 3G License ). We were granted the 2G License in April 1998 upon payment of an upfront license fee of \$500 million. On April 30, 2009, we signed a license agreement with the ICTA, which provides authorization for providing IMT 2000/UMTS services and infrastructure. We acquired the A-type license providing the widest frequency band for a consideration of EUR 358 million (excluding VAT). The 3G License is effective for 20 years starting from April 30, 2009. Pursuant to the agreement, we started to provide IMT 2000/UMTS services as of July 30, 2009.

We believe that the build-out of our network in Turkey is substantially completed. As of December 31, 2016, our network covered 100% of Turkish cities with a population of 1,000 or more and the majority of Turkey's tourist areas and principal intercity highways (according to the Turkish Statistical Institute 2012 Census). We currently meet the coverage requirements of our 2G license in all material respects.

In accordance with our 3G license agreement, we are required to cover the population within the borders of all metropolitan municipalities and within the borders of all cities and municipalities in three and six years, respectively. Moreover, we are required to cover the population in all settlement areas with a population higher than 5,000 and 1,000 in eight and ten years, respectively, following the date of the agreement. As of December 31, 2016, we had reached 96.04% population coverage.

In the 4.5G auction held on August 26, 2015, we agreed to purchase the use of 172.4 MHz, the largest amount of spectrum of any operator, for 1,623.5 million (excluding VAT and interest payable on the installments). The license fee is being paid in four equal semi-annual installments. We agreed to purchase the use of widest frequency bands on 1800 MHz and 2600 MHz. We believe that these will allow us to offer high quality 4.5G services. We commenced offering 4.5G services from April 1, 2016. The 4.5G License is effective for 13 years until April 30, 2029.

Under our 2G, 3G and 4.5G licenses, we pay the Undersecretariat of the Treasury (the Turkish Treasury ) a monthly treasury share equal to 15% of our gross revenue. Of such fee, 10% is paid to the Ministry of Transport, Maritime Affairs and Communications of Turkey ( Turkish Ministry ) for the universal service fund.

Other than our 2G, 3G and 4.5G licenses, we also operate under interconnection agreements with other operators that allow us to connect our networks with those operators to enable the transmission of calls to and from our mobile

communications system through existing digital fixed telephone switches. For example, we have an interconnection agreement with Turk Telekom that provides for the interconnection of our network with Turk Telekom's fixed-line network. Under our agreement with Turk Telekom, as amended, we pay Turk Telekom an interconnection fee per call based on the type and length of the call for calls originating on our network and terminating on Turk Telekom's fixed-line network, as well as fees for other services. We also collect an interconnection fee from Turk Telekom for calls originating on their fixed-line network and terminating on ours. We also have interconnection agreements with Vodafone and Avea pursuant to which we have agreed, among other things, to pay interconnection fees to them for calls originating on our network and terminating on theirs, and they have agreed to pay interconnection fees for calls originating on their networks and terminating on our networks.

## Table of Contents

Our subscriber base has grown substantially since we began operations in 1994. At year-end 1994, we had 63,500 subscribers, and by year-end 2016, that number for the Group had grown to 50.1 million including subscribers of subsidiaries.

In 2015, Turkcell Turkey has positioned itself as a converged player in the total telecommunication market in line with our new strategic priorities. We shifted to a new organizational structure with the aim of increasing efficiency and simplification in our business processes, as well as strengthening our position as a provider of converged communications and technology services. Through our merged sales channels and integrated technical platform, we have generated efficiencies. Meanwhile, customer services have become a separate focus area.

Going forward, we will monitor our market share in terms of total telecom revenues as a converged player instead of mobile only revenues, or subscribers. In this regard, positioned as the second player in the converged market, our priority will be to increase our 37.4 % share (including financial services revenue) within this market through differentiating our services and solutions, while remaining attuned to profitability.

We provide high-quality mobile and fixed voice, data, TV and other services over our network. We will continue to focus on our customer-oriented approach and our ability to provide quick and differentiated solutions to meet customers' needs through lifestyle segments.

In the mobile segment, we increased our postpaid subscriber base from 49% in 2015 to 53% in 2016 due to our focus on value. As of December 31, 2016, we had approximately 15.7 million prepaid subscribers and 17.4 million postpaid subscribers, compared to approximately 17.4 million prepaid subscribers and 16.6 million postpaid subscribers as of December 31, 2015.

Our average MoU in Turkey increased 9.2% to 323.9 minutes in 2016 from 296.6 minutes in 2015, as a result of high bundle packages utilization. Our mobile average revenue per user in Turkey increased to TRY 26.8 in 2016 compared to TRY 24.5 in 2015 mainly driven by our upsell strategy, favorable change in customer mix, focus on high value customer groups, and increased package penetration.

Our revenues are generated in large part from interconnection fees and retail tariffs. Regulatory decisions have had and may continue to have the effect of decreasing interconnection rates and imposing minimum and maximum prices on our retail tariffs. For a more detailed discussion of these factors, please see Item 4.B. Business Overview Regulation of the Turkish Telecommunications Industry and Item 5.D. Trend Information .

Churn rate is the percentage calculated by dividing the total number of subscriber disconnections during a period by the average number of subscribers for the same period. For these purposes, we define average number of subscribers as the number of subscribers at the beginning of the period plus one half of the total number of gross subscribers acquired during the period. Churn refers to subscribers that are both voluntarily and involuntarily disconnected from our network. In 2016, our churn rate for mobile operations in Turkey decreased to 24.6% from 27.3% in 2015.

In the fixed segment, we increased our subscriber base from 1.5 million for the year ended December 31, 2015, to 1.9 million for the year ended December 31, 2016. 56% of the subscriber base are fiber customers (1,044 thousand subscribers).

We have an allowance for doubtful receivables in our Consolidated Financial Statements for non-payments and disconnections that amounted to TRY 974.5 million and TRY 816.4 million as of December 31, 2016 and 2015 respectively, which we believe is adequate. The main reason for the increase in allowance for doubtful receivables is an impairment loss recognized amounting to TRY 211.4 million which was netted off with a write-off

of overdue receivables amounting to TRY 58.3 million.

## **II. International and Other Domestic Operations**

In addition to our businesses in Turkey, we have telecommunications operations in Ukraine, the Turkish Republic of Northern Cyprus, Belarus and Germany. We also operate in other countries through Fintur. For a description of, and additional information regarding, our international and other domestic operations, see Item 4.B. Business Overview .

**Table of Contents**

**III. Revenues**

Revenues include voice, data, messaging, services and solutions, wholesale and other revenues. Other revenues mainly consist of revenues from our retail business, call center business, information and entertainment services, tower business and financial services.

**IV. Operating Costs**

***a. Direct Cost of Revenues***

Direct cost of revenues includes treasury shares, transmission fees, base station rent and energy expenses, billing costs, cost of goods sold, depreciation and amortization charges, funding costs for financial services, repair and maintenance expenses directly related to services rendered, roaming charges paid to foreign mobile communications operators for calls made by our subscribers while outside Turkey, interconnection fees mainly paid to Turk Telekom, Vodafone and Avea, handset costs where the Company is the principal in the sale of the handsets, and wages and salaries and personnel expenses for technical personnel.

***b. Administrative Expenses***

Administrative expenses consist of fixed costs, including company cars, office rental, office maintenance, travel, insurance, consulting, collection charges, wages, salaries and personnel expenses for non-technical, non-marketing, and non-sales employees, and other overhead charges. Our administrative expenses also include bad debt expenses of our subscribers and customers.

***c. Selling and Marketing***

Selling and marketing expenses consist of dealer and distributor commissions, advertising, uncharged prepaid frequency usage fees, wages, salaries and personnel expenses of sales and marketing related employees, and other expenses, including travel expenses, office expenses, insurance, company car expenses, and training and communication expenses.



**Table of Contents****d. Results of Operations**

The following table shows information concerning our consolidated statements of operations for the years indicated:

	<b>For the years ended December 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
	<b>(in TRY millions)</b>		
Revenues	14,100.9	12,769.4	12,043.6
Direct cost of revenues	(9,166.4)	(7,769.5)	(7,383.9)
<b>Gross profit from non-financial operations</b>	<b>4,934.5</b>	<b>4,999.9</b>	<b>4,659.7</b>
Revenue from financial operations	184.7		
Direct cost of revenues from financial operations	(70.2)		
<b>Gross profit from financial operations</b>	<b>114.5</b>		
<b>Gross profit</b>	<b>5,049.0</b>	<b>4,999.9</b>	<b>4,659.7</b>
Administrative expenses	(721.8)	(625.3)	(562.7)
Selling and marketing expenses	(1,910.9)	(1,901.9)	(1,974.6)
Other income/(expense), net	(234.2)	(225.9)	(76.3)
<b>Results from operating activities</b>	<b>2,181.9</b>	<b>2,246.8</b>	<b>2,046.1</b>
Finance costs	(1,237.6)	(799.5)	(1,247.0)
Finance income	1,064.8	756.1	955.4
<b>Net finance (costs)/income</b>	<b>(172.8)</b>	<b>(43.4)</b>	<b>(291.6)</b>
Monetary gain			205.1
Share of profit of equity accounted investees			4.5
<b>Profit before income taxes</b>	<b>2,009.1</b>	<b>2,203.3</b>	<b>1,964.0</b>
Income tax expense	(423.2)	(667.1)	(730.4)
<b>Profit from continuing operations</b>	<b>1,586.0</b>	<b>1,536.2</b>	<b>1,233.6</b>
<b>Profit/ (loss) from discontinued operations</b>	<b>(42.2)</b>	<b>367.3</b>	<b>202.8</b>
<b>Profit for the year</b>	<b>1,543.8</b>	<b>1,903.6</b>	<b>1,436.5</b>
Attributable to:			
Equity holders of the Company	1,492.1	2,067.7	1,864.7
Non-controlling interest	51.7	(164.1)	(428.2)
<b>Profit for the year</b>	<b>1,543.8</b>	<b>1,903.6</b>	<b>1,436.5</b>

The following table shows certain items in our consolidated statement of operations as a percentage of revenue:

	<b>For the years ended December 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Statement of Operations Data (% of revenue)</b>			
<b>Revenues</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Direct cost of revenues	(64.7)	(60.8)	(61.3)

Gross margin	35.3	39.2	38.7
Administrative expense	(5.1)	(4.9)	(4.7)
Selling and marketing expenses	(13.4)	(14.9)	(16.4)
Other operating income/(expense), net	(1.6)	(1.8)	(0.6)
<b>Results from operating activities</b>	<b>15.3</b>	<b>17.6</b>	<b>17.0</b>

#### V. Segment Overview

Our operations are aggregated under two main reportable segments, Turkcell Turkey and Turkcell International:

The Turkcell Turkey segment comprises mainly our telecommunication and technology services activities in Turkey and includes the operations of Turkcell, Turkcell Superonline, Turkcell Satis, group call center operations of Turkcell Global Bilgi, Turktell, Turkcell Teknoloji, Turktell Interaktif, Global Tower, Rehberlik, Turkcell Odeme and Turkcell Gayrimenkul.

**Table of Contents**

The Turkcell International segment comprises mainly our telecommunication and technology services activities outside of Turkey and includes the operations of lifecell, Belarusian Telecom, Kibris Telekom, Eastasia, Lifecell Ventures, Euroasia, Beltel, UkrTower, Global LLC, Turkcell Europe, Lifetech LLC, Beltower and Fintur.

Our Other reportable segment is comprised mainly information and entertainment services in Turkey and Azerbaijan, non-group call center operations of Turkcell Global Bilgi and consumer financing service operations of Turkcell Finansman. The accounting policies of our reportable segments are the same as those described in the summary of significant accounting policies.

As of October 1, 2016, the Group announced its intention to exit from jurisdictions in which Fintur operates and initiated an active program to locate a buyer. Fintur has since been classified as held for sale and discontinued operations. See Note 17 to our audited Consolidated Financial Statements included in Item 18. Financial Statements of this annual report on Form 20-F.

	<b>Turkcell Turkey</b>		<b>Turkcell International</b>		<b>Other</b>		<b>Intersegment Eliminations</b>		<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	<b>(in TRY millions)</b>									
Consumer segment revenue	10,216.0	9,127.3							10,216.0	9,127.3
Corporate segment revenue	2,191.5	2,031.7							2,191.5	2,031.7
Other Turkcell Turkey revenue	380.1	321.9							380.1	321.9
Turkcell International revenue			874.7	856.1					874.7	856.1
Other revenue					661.9	458.6			661.9	458.6
Eliminations							(38.6)	(26.2)	(38.6)	(26.2)
<b>Total revenue</b>	<b>12,787.6</b>	<b>11,480.9</b>	<b>874.7</b>	<b>856.1</b>	<b>661.9</b>	<b>458.6</b>	<b>(38.6)</b>	<b>(26.2)</b>	<b>14,285.6</b>	<b>12,769.4</b>
Reportable segment Adjusted EBITDA*	4,160.9	3,759.6	235.3	246.0	222.8	134.5	0.5	0.5	4,619.5	4,140.5
Depreciation and amortization	(1,986.7)	(1,457.0)	(202.1)	(200.8)	(13.7)	(10.2)	(0.9)	0.2	(2,203.4)	(1,667.8)
Capital expenditure	3,144.4	7,751.7	336.7	770.2	13.8	14.3	(0.3)		3,494.7	8,536.2
	(195.5)	(188.0)	(6.0)	(8.3)	(10.0)	(0.3)			(211.4)	(196.6)

Bad debt  
expense

	Turkcell Turkey		Turkcell International		Other		Intersegment Eliminations		Consolidated	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
	(in TRY millions)									
Consumer segment revenue	9,127.3	8,282.3							9,127.3	8,282.3
Corporate segment revenue	2,031.7	1,907.4							2,031.7	1,907.4
Other Turkcell Turkey revenue	321.9	290.5							321.9	290.5
Turkcell International revenue			856.1	1,137.9					856.1	1,137.9
Other revenue					458.6	457.8			458.6	457.8
Eliminations							(26.2)	(32.4)	(26.2)	(32.4)
<b>Total revenue</b>	<b>11,480.9</b>	<b>10,480.2</b>	<b>856.1</b>	<b>1,137.9</b>	<b>458.6</b>	<b>457.8</b>	<b>(26.2)</b>	<b>(32.4)</b>	<b>12,769.4</b>	<b>12,043.6</b>
Reportable segment Adjusted EBITDA*	3,759.6	3,326.4	246.0	281.0	134.5	154.6	0.5	(0.2)	4,140.5	3,761.8
Monetary gain				205.1						205.1
Depreciation and amortization	(1,457.0)	(1,311.6)	(200.8)	(319.2)	(10.2)	(8.8)	0.2	0.2	(1,667.8)	(1,639.4)
Capital expenditure	7,751.7	1,982.3	770.2	158.0	14.3	4.5			8,536.2	2,144.8
Bad debt expense	(188.0)	(141.5)	(8.3)	(14.5)	(0.3)	0.0			(196.6)	(155.9)

\* For a definition of adjusted EBITDA, please see footnote 9 of the table in Item 3.A. Selected Financial Data .

**Table of Contents****Turkcell Turkey*****a. 2016 compared to 2015***

Total revenues generated by Turkcell Turkey increased 11.4% to TRY 12,787.6 million in 2016 from TRY 11,480.9 million in 2015, mainly due to a 56.3% growth in data revenues driven by the increase in mobile data and fixed data revenues impacted by increased smartphone penetration, higher user numbers and a rise in data consumption; a 94.6% increase in services revenues which was partially offset by a 26.6% decrease in voice revenues. For a more detailed discussion of the factors affecting our revenues, please see Item 4.B. Business Overview Regulation of the Turkish Telecommunications Industry and Item 5.D. Trend Information .

Turkcell Turkey's Adjusted EBITDA increased 10.7% to TRY 4,160.9 million in 2016 from TRY 3,759.6 million in 2015, mainly due to an increase in revenues which was partially offset by an increase in direct cost of revenues and administrative expenses. The increase in the direct cost of revenues mainly resulted from an increase in treasury share expenses, interconnection cost, wages, salaries and personnel, handset costs and network related expenses. The increase in administrative expenses mainly resulted from an increase in bad debt expenses, consultancy expenses and wages, salaries and personnel expenses.

Depreciation expense increased 36.4% to TRY 1,986.7 million in 2016 from TRY 1,457.0 million in 2015 mainly as a result of an increase in capital expenditures.

***b. 2015 compared to 2014***

Total revenues generated by Turkcell Turkey increased 9.5%, to TRY 11,480.9 million in 2015 from TRY 10,480.2 million in 2014, mainly due to a 38.1% growth in data revenues driven by the increase in mobile data and fixed data revenues impacted by increased smartphone penetration, higher user numbers and a rise in data consumption; a 38.5% increase in services revenues which was partially offset by a 2.7% decrease in voice revenues. For a more detailed discussion of the factors affecting our revenues, please see Item 4.B. Business Overview Regulation of the Turkish Telecommunications Industry and Item 5.D. Trend Information .

Turkcell Turkey's Adjusted EBITDA increased 13.0% to TRY 3,759.6 million in 2015 from TRY 3,326.4 million in 2014, mainly due to an increase in revenues which was partially offset by an increase in direct cost of revenues and administrative expenses. The increase in the direct cost of revenues mainly resulted from an increase in treasury share expenses, interconnection cost, wages, salaries and personnel and network related expenses. The increase in administrative expenses mainly resulted from an increase in bad debt expenses and wages, salaries and personnel expenses.

Depreciation expense increased 11.1% to TRY 1,457.0 million in 2015 from TRY 1,311.6 million in 2014 mainly as a result of an increase in the capex additions.

**Turkcell International*****a. 2016 compared to 2015***

Total revenues generated by Turkcell International increased by 2.2%, to TRY 874.7 million in 2016 from TRY 856.1 million in 2015 mainly due to currency devaluation in Ukraine and Belarus against the Turkish Lira in 2015. The annual growth rates, in terms of local currency, of our major subsidiaries, lifecell and Belarusian Telecom were 8.1% and 19.4% respectively. The revenue growth in lifecell, which operates in Ukraine, was mainly driven by the

increase in the three-month active subscriber base to 10.6 million from 9.2 million and also 14.4% higher blended ARPU (three-month active) due to higher mobile broadband usage. The revenue growth in Belarusian Telecom, which operates in Belarus, was mainly due to expansion of the subscriber base along with increased voice, mobile services revenues and terminal sales.

Turkcell International's Adjusted EBITDA decreased by 4.3% to TRY 235.3 million in 2016 from TRY 246.0 million in 2015 due to the negative impact of currency devaluation in Ukraine and Belarus against the Turkish Lira. The majority of the segment Adjusted EBITDA is driven by lifecell which decreased by 8.6% in terms of local currency in 2016 compared to 2015 due to higher network related costs resulting from the 3G+ roll-out and operational leasing expense post tower related sale and leaseback transactions, as well as higher marketing expenses.

**b. 2015 compared to 2014**

Total revenues generated by Turkcell International decreased by 24.8%, to TRY 856.1 million in 2015 from TRY 1,137.9 million in 2014 mainly due to currency devaluation in Ukraine and Belarus against the Turkish Lira

**Table of Contents**

in 2015. The annual growth rates, in terms of local currency, of our major subsidiaries, lifecell and Belarusian Telecom were 10.5% and 6.2% respectively. The revenue growth in lifecell, which operates in Ukraine, was mainly driven by the increase in three-month active subscriber base to 10.6 million from 10.3 million and also 2.9% higher blended ARPU (three-month active) due to higher mobile broadband usage. The revenue growth in Belarusian Telecom, which operates in Belarus, was mainly due to expansion of the subscriber base along with increased voice, mobile broadband and mobile services revenues.

Turkcell International's Adjusted EBITDA decreased by 12.5% to TRY 246.0 million in 2015 from TRY 281.0 million in 2014 due to the negative impact of currency devaluation in Ukraine and Belarus against the Turkish Lira. The majority of the segment Adjusted EBITDA is driven by lifecell which grew by 20.0% in terms of local currency in 2015 compared to 2014 due to effective cost management and better revenue mix.

**VI. Year Ended December 31, 2016 Compared to the Year Ended December 31, 2015**

We had 33.0 million mobile subscribers in Turkey, including 15.7 million mobile prepaid subscribers, as of December 31, 2016, compared to 34.0 million mobile subscribers in Turkey, with 17.4 million mobile prepaid subscribers, as of December 31, 2015. During 2016, we recorded a decrease of 966 thousand Turkish mobile subscribers.

In the fixed segment, we increased our subscriber base from 1.5 million, of which 899 thousand were fiber customers, for the year ended December 31, 2015, to 1.9 million, of which 1,044 thousand were fiber customers, for the year ended December 31, 2016.

In Ukraine, we had 12.4 million and 13.5 million registered subscribers as of December 31, 2016 and 2015, respectively. During 2016, we lost approximately 1.1 million Ukrainian registered subscribers, similarly 3 months active subscribers decreased from 10.6 million to 9.2 million. This was primarily due to decreasing multiple SIM card usage.

**a. Revenues**

Total revenues for the year ended December 31, 2016 increased 11.9% to TRY 14,285.6 million in 2016 from TRY 12,769.4 million in 2015.

Total revenues generated by Turkcell Turkey increased 11.4%, to TRY 12,787.6 million in 2016 from TRY 11,480.9 million in 2015, mainly due to a 56.3% growth in data revenues driven by the increase in mobile data and fixed data revenues impacted by increased smartphone penetration, higher user numbers and a rise in data consumption; a 94.6% increase in services revenues which was partially offset by a 26.6% decrease in voice revenues.

Postpaid subscriber usage is generally higher than prepaid subscriber. In Turkey, during 2016, we maintained our focus on the postpaid segment, with newly launched campaigns, offers and promotions to switch customers from the prepaid to the postpaid segment. We focus on postpaid subscribers because there is, in general, higher average revenue per postpaid subscriber and a lower churn rate. In 2016, postpaid average revenue per user excluding M2M subscribers was TRY 44.0 whereas prepaid average revenue per user was TRY 13.9. These figures indicate that postpaid average revenue per user is approximately 3.2 times the prepaid average revenue per user. Therefore, the increase in the number of postpaid subscribers has a positive effect on blended average revenue per user.

Total revenues generated by Turkcell International increased by 2.2%, to TRY 874.7 million in 2016 from TRY 856.1 million in 2015 mainly due to growth in Ukraine and Belarus business. The annual growth rates, in terms of

local currency, lifecell and Belarusian Telecom were 8.1% and 19.4% respectively.

Other subsidiaries' revenues and intersegment eliminations, mainly comprised of our revenues from information and entertainment services, call center services and financial services, grew by 44.2% to TRY 623.3 million in 2016 from TRY 432.4 million in 2015. The increase in revenue is mainly attributable to the commencement of Turkcell Finansman in February 2016.

**b. *Direct cost of revenues***

Direct cost of revenues, including depreciation and amortization, increased by 18.9% to TRY 9,236.6 million in 2016 from TRY 7,769.5 million in 2015, due to an increase in depreciation and amortization charges, treasury shares and universal funds paid, network related expenses, wages, salaries and personnel expenses, funding costs for financial services and other items.



## **Table of Contents**

Depreciation and amortization charges (including impairment charges) increased by 32.1%, to TRY 2,203.2 million in 2016 from TRY 1,667.8 million in 2015. The amortization expense for our GSM license and other telecommunication operating licenses was TRY 445.1 million in 2016 mainly attributable to our 4.5G license and TRY 125.3 million in 2015.

Treasury shares and universal funds paid to the Turkish Treasury and Ministry of Transport, Maritime Affairs and Communications ( Turkish Ministry ) increased 5.1%, to TRY 1,683.5 million in 2016 from TRY 1,601.2 million in 2015 which was mainly due to the increase in mobile revenues.

Interconnection and termination costs increased 7.0% to TRY 1,420.2 million in 2016 from TRY 1,327.0 million in 2015 mainly due to the increase in off-net interconnection traffic.

Transmission costs increased by 22.6% to TRY 139.2 million in 2016 from TRY 113.6 million in 2015. Furthermore, radio costs increased by 16.0%, to TRY 1,057.6 million in 2016 from TRY 911.4 million in 2015 mainly due to the cumulative investment impact and increased costs such as rent and energy.

Wages, salaries and personnel expenses for technical personnel increased 16.9% to TRY 859.1 million in 2016 from TRY 734.7 million in 2015, mainly due to the periodic increase in wages and salaries and the increase in number of personnel.

Roaming expenses increased 18.8%, to TRY 128.4 million in 2016 from TRY 108.1 million in 2015, mainly due to depreciation of the TRY against the EUR and overall traffic increase.

Billing and archiving costs decreased 15.9% to TRY 61.6 million in 2016 from TRY 73.3 million in 2015, mainly due to the increase in the usage of the electronic and SMS invoices for billing.

Funding costs for financial services amounting to TRY 67.2 million were recognized in 2016 due to the commencement of Turkcell Finansman in February 2016.

Other costs in direct cost of revenues increased 31.2% to TRY 1,616.4 million in 2016 from TRY 1,232.3 million in 2015 due to increased contribution of our subsidiaries to our revenues, particularly in the fixed broadband and retail businesses.

As a percentage of revenues, direct cost of revenues increased 3.8 pp to 64.7% in 2016 from 60.8% in 2015, mainly as a result of increases in depreciation and amortization expenses of 2.4 pp, retail sales related to device costs of 1.5 pp and funding costs from financial services of 0.5pp as opposed to a decrease in interconnect costs of 0.5 pp.

Gross profit margin decreased 3.8 percentage points from 39.2% in 2015 to 35.3% in 2016.

### ***c. Administrative expenses***

Administrative expenses increased 15.4%, to TRY 721.8 million in 2016 from TRY 625.3 million in 2015, mainly due to an increase in wages, salaries and personnel expenses, rent expenses, consultancy expense together with the increase in bad debt expenses resulting from the increase in assigned contracted receivables. As a percentage of revenues, general and administrative expenses increased to 5.1% for the year ended December 31, 2016, from 4.9% for the year ended December 31, 2015.

Wages, salaries and personnel expenses for non-technical and non-marketing employees increased 15.5%, to TRY 277.4 million in 2016 from TRY 240.3 million in 2015, primarily due to periodic increases in wages and salaries and the increase in number of personnel.

Bad debt expenses increased 7.5%, to TRY 211.4 million in 2016 from TRY 196.6 million in 2015, mainly due to the increase in allowance for receivables from financial services.

We provided an allowance of TRY 974.5 million and TRY 816.4 million for doubtful receivables for the years ended December 31, 2016 and 2015, respectively, depending on the likelihood of recoverability of trade and other receivables based on the aging of the balances, historical collection trends and general economic conditions.

---

**Table of Contents**

Other administrative expenses, including collection and consulting expenses, increased 23.7% to TRY 233.0 million in 2016 from TRY 188.4 million in 2015.

***d. Selling and marketing expenses***

Selling and marketing expenses increased 0.5%, to TRY 1,910.9 million in 2016 from TRY 1,901.9 million in 2015, primarily due to a decrease in selling expenses and wages, salaries and personnel expenses partially offset by an increase in marketing expenses. As a percentage of revenues, selling and marketing expenses decreased from 14.9% for the year ended December 31, 2015 to 13.4 % for the year ended December 31, 2016.

Selling expenses, which consist of distributor and dealer commissions and other selling expenses decreased 3.2%, to TRY 757.9 million in 2016 from TRY 783.2 million in 2015, mainly due to our value focused customer acquisition strategy.

Marketing expenses, which consist of advertising, market research and sponsorships expenses, increased 20.9%, to TRY 518.4 million in 2016 from TRY 428.6 million in 2015.

Wages, salaries and personnel expenses for selling and marketing employees decreased 7.1%, to TRY 354.4 million in 2016 from TRY 381.6 million in 2015, mainly due to decrease in number of personnel partially offset by periodic increase in wages and salaries.

Prepaid subscribers uncharged frequency usage fee expenses decreased 2.5%, to TRY 186.5 million in 2016 from TRY 191.4 million in 2015.

***e. Other operating income/(expense)***

Other net operating expenses increased to TRY 234.2 million in 2016 from TRY 225.9 million in 2015, mainly due to fixed asset sales gain, reversal of legal provisions, commercial agreements termination expenses, donations and litigation expenses as explained in Note 37 (Commitments and Contingencies, Legal Proceedings) to our Consolidated Financial Statements in this Form 20-F.

***f. Results from operating activities***

Results from operating activities decreased by 2.9% to TRY 2,181.9 million in 2016 from TRY 2,246.8 million in 2015. As a percentage of revenues, results from operating activities also decreased from 17.6% in 2015 to 15.3% in 2016 mainly due to a decrease in selling and marketing expenses as a percentage of revenues.

***g. Net finance income/cost***

Net finance cost improved to a TRY 172.8 million net expense in 2016 from a TRY 43.4 million net expense in 2015, due to an increase in finance cost to TRY 1,237.6 million in 2016 from TRY 799.5 million in 2015, which was partially offset by the increase in finance income to TRY 1,064.8 million in 2016 from TRY 756.1 million in 2015.

Finance income increased by 40.8% to TRY 1,064.8 million in 2016 from TRY 756.1 million in 2015, mainly due to gain from changes in the fair value of derivative instruments partially netted off with the decrease in interest income on bank deposits.

Finance cost increased by 54.8% to TRY 1,237.6 million in 2016 from TRY 799.5 million in 2015, mainly due to the increase in foreign exchange losses on borrowings, 4.5G payables and bonds issued partially netted off with foreign exchange gain from main operations and increase in financing cost of borrowings and 4.5G payables. Net foreign exchange losses increased from TRY 489.3 million in 2015 to TRY 782.5 million in 2016.

Finance cost the for year ended 31 December 2015 is mainly attributable to foreign exchange losses in Belarusian Telecom operating in Belarus and foreign exchange losses in lifecell operating in Ukraine. Foreign exchange losses from Belarusian Telecom and lifecell exclude foreign exchange losses arising in the foreign operations individual financial statements which have been recognized directly in equity in the foreign currency translation differences in the consolidated financial statements in accordance with accounting policy for net investment in foreign operations.

**Table of Contents*****h. Income tax expense***

Income tax expense decreased 36.6% to TRY 423.2 million in 2016 from TRY 667.1 million in 2015.

The effective tax rate was 21.5% and 26.0% for the years ended December 31, 2016 and 2015, respectively.

Our domestic tax rate is 20%. Differences between the effective tax rate and our domestic tax rate include, but are not limited to, the effect of allowance for deferred tax assets, tax rates in foreign jurisdictions, dividend income from investment in associates subject to certain tax exemptions (including Fintur), tax-exempt income and non-deductible expenses. The high effective tax rate in 2016 and 2015 is mainly due to the fact that since it is not probable that taxable profit will be available against which the unused tax losses or unused tax credits of lifecell and Belarusian Telecom can be utilized, no deferred tax asset is recognized on any loss incurred in lifecell and Belarusian Telecom.

***i. Profit/ (loss) from discontinued operations***

We have announced our intention to exit from jurisdictions in which Fintur operates and initiated an active program to locate a buyer. Fintur is now classified as held for sale and reported as discontinued operations (Note 17). Fintur is now therefore disclosed separately on a single line as discontinued operations in our Consolidated Financial Statements in this Form 20-F. Comparative periods in the Consolidated Financial Statements are restated to reflect the classification of Fintur as discontinued operations.

Loss from discontinued operations is TRY 42.2 million in 2016, whereas profit from discontinued operations was TRY 367.3 million in 2015 from Fintur from October 1, 2016 on the basis of our 41.45% stake in Fintur.

***j. Non-controlling interests***

Non-controlling interests in the net profit of our consolidated subsidiaries is classified separately in the consolidated financial statements of operations under non-controlling interests. Loss allocated to non-controlling interests amounted to TRY 164.1 million for the year ended December 31, 2015, compared to a TRY 51.7 million gain for 2016.

Loss allocated to non-controlling interests from lifecell's net loss amounted to TRY 209.3 million in 2015. There is no effect in 2016 since we acquired minority shares of Euroasia in July 2015. In addition, profit allocated to non-controlling interests from net profit generated by Inteltek for the years ended December 31, 2016 and 2015 amounted to approximately TRY 39.3 million and TRY 38.4 million respectively.

***k. Profit for the year attributable to equity holders of the Company***

Profit for the year attributable to equity holders of the Company decreased to TRY 1,492.1 million in 2016 from TRY 2,067.7 million in 2015, mostly due to decrease in results from operating activities and loss from discontinued operations, higher foreign exchange losses recorded, the decrease in interest income earned on time deposits, which was partially netted off with gain from changes in the fair value of derivative financial instruments.

**VII. Year Ended December 31, 2015 Compared to the Year Ended December 31, 2014**

We had 34.0 million mobile subscribers in Turkey, including 17.4 million mobile prepaid subscribers, as of December 31, 2015, compared to 34.6 million mobile subscribers in Turkey, with 19.4 million mobile prepaid subscribers, as of December 31, 2014. During 2015, we recorded a decrease of 624 thousand Turkish mobile

subscribers.

In the fixed segment, we increased our subscriber base to 1.5 million, of which 899 thousand were fiber customers for the year ended December 31, 2015 from 1.2 million of which 735 thousand were fiber customers for the year ended December 31, 2014.

In Ukraine, we had 13.5 million and 13.9 million registered subscribers as of December 31, 2015 and 2014, respectively. During 2015, we lost approximately 0.4 million Ukrainian registered subscribers although we increased our 3 months active subscribers from 10.3 million to 10.6 million. This was primarily due to successful regional strategy, effective regional tariffs and campaigns.

---

**Table of Contents****a. Revenues**

Total revenues for the year ended December 31, 2015 increased 6.0% to TRY 12,769.4 million in 2015 from TRY 12,043.6 million in 2014.

Total revenues generated by Turkcell Turkey increased 9.5%, to TRY 11,480.9 million in 2015 from TRY 10,480.2 million in 2014, mainly due to a 38.1% growth in data revenues driven by the increase in mobile broadband and fixed broadband revenues impacted by increased smartphone penetration, higher user numbers and a rise in data consumption; a 38.5% increase in services revenues which was partially offset by a 2.7% decrease in voice revenues.

Postpaid subscriber usage is generally higher than prepaid subscriber. In Turkey, during 2015, we maintained our focus on the postpaid segment, with newly launched campaigns, offers and promotions to switch customers from the prepaid to the postpaid segment. We focus on postpaid subscribers because there is, in general, higher average revenue per postpaid subscriber and a lower churn rate. In 2015, postpaid average revenue per user excluding M2M subscribers was TRY 42.7 whereas prepaid average revenue per user was TRY 12.4. These figures indicate that postpaid average revenue per user is approximately 3.4 times the prepaid average revenue per user. Therefore, the increase in the number of postpaid subscribers has a positive effect on blended average revenue per user.

Total revenues generated by Turkcell International decreased by 24.8%, to TRY 856.1 million in 2015 from TRY 1,137.9 million in 2014 mainly due to currency devaluation in Ukraine and Belarus against the Turkish Lira in 2015 and decline in Turkcell Europe revenues due to change in its business model. The annual growth rates, in terms of local currency, of our major subsidiaries, lifecell and Belarusian Telecom were 10.5% and 6.2% respectively.

Other subsidiaries revenues and intersegment eliminations, mainly comprised of our information and entertainment services and call center revenues, grew by 1.6% to TRY 432.4 million in 2015 from TRY 425.5 million in 2014.

**b. Direct cost of revenues**

Direct cost of revenues, including depreciation and amortization, increased by 5.2% to TRY 7,769.5 million in 2015 from TRY 7,383.9 million in 2014, due to an increase in depreciation and amortization charges, treasury shares and universal funds paid, network related expenses, wages and salaries and other items.

Depreciation and amortization charges (including impairment charges) increased by 1.7%, to TRY 1,667.8 million in 2015 from TRY 1,639.4 million in 2014. The amortization expense for our GSM license and other telecommunication operating licenses was TRY 125.3 million in 2015 and TRY 116.0 million in 2014.

Treasury shares and universal funds paid to the Turkish Treasury and Ministry of Transport, Maritime Affairs and Communications ( Turkish Ministry ) increased 7.4%, to TRY 1,601.2 million in 2015 from TRY 1,491.4 million in 2014 which was mainly due to the increase in mobile revenues.

Interconnection and termination costs increased 0.8% to TRY 1,327.0 million in 2015 from TRY 1,316.6 million in 2014 due to the decrease of interconnection traffic of lifecell and revised operational structure of Turkcell Europe which was partially offset by the increase in off net traffic of Turkey operations.

Transmission costs increased by 6.7% to TRY 113.6 million in 2015 from TRY 106.4 million in 2014. Furthermore, radio costs increased by 9.9%, to TRY 911.5 million in 2015 from TRY 829.7 million in 2014 mainly due to the cumulative investment impact and increased taxes and costs, such as rent and energy.

Wages, salaries and personnel expenses for technical personnel increased 12.0% to TRY 734.7 million in 2015 from TRY 655.7 million in 2014, mainly due to the periodic increase in wages and salaries and the increase in number of personnel.

Roaming expenses increased 17.3%, to TRY 108.1 million in 2015 from TRY 92.2 million in 2014, mainly due to depreciation of the TRY against the EUR and increased traffic.

Billing and archiving costs decreased 11.2% to TRY 73.3 million in 2015 from TRY 82.5 million in 2014, mainly due to the increase in the usage of the electronic and SMS invoices for billing.



**Table of Contents**

Other costs in direct cost of revenues increased 5.3% to TRY 1,232.3 million in 2015 from TRY 1,169.9 million in 2014 mainly due to the increased contribution of our subsidiaries to our revenues, particularly in the fixed broadband, and retail businesses.

As a percentage of revenues, direct cost of revenues decreased 0.5 percentage points to 60.8% in 2015 from 61.3% in 2014, as a result of decreases in interconnection and termination expenses of 0.5 pp and depreciation and amortization expenses of 0.6 pp as opposed to a rise in the operational expenses of certain subsidiaries.

Gross profit margin increased 0.5 percentage points from 38.7% in 2014 to 39.2% in 2015.

***c. Administrative expenses***

Administrative expenses increased 11.1%, to TRY 625.3 million in 2015 from TRY 562.7 million in 2014, mainly due to an increase in wages and salary expenses arising from periodic increases in such figures, together with the increase in bad debt expenses resulting from the increase in assigned contracted receivables. As a percentage of revenues, general and administrative expenses increased to 4.9% for the year ended December 31, 2015, from 4.7% in 2014.

Wages, salaries and personnel expenses for non-technical and non-marketing employees increased 13.6%, to TRY 240.3 million in 2015 from TRY 211.6 million in 2014, primarily due to periodic increases in wages and salaries.

Bad debt expenses increased 26.1%, to TRY 196.6 million in 2015 from TRY 155.9 million in 2014, mainly due to the increase in assigned receivables.

We provided an allowance of TRY 816.4 million and TRY 727.7 million for doubtful receivables for the years ended December 31, 2015 and 2014, respectively, depending on the likelihood of recoverability of trade and other receivables based on the aging of the balances, historical collection trends and general economic conditions.

Other administrative expenses, including collection and consulting expenses, decreased 3.5% to TRY 188.4 million in 2015 from TRY 195.2 million in 2014.

***d. Selling and marketing expenses***

Selling and marketing expenses decreased 3.7%, to TRY 1,901.9 million in 2015 from TRY 1,974.6 million in 2014, primarily due to a decrease in selling expenses and marketing expenses partially offset by an increase in wages and salary expenses. As a percentage of revenues, selling and marketing expenses decreased from 16.4% for the year ended December 31, 2014 to 14.9 % for the year ended December 31, 2015.

Selling expenses, which consist of distributor and dealer commissions and other selling expenses decreased 8.8%, to TRY 783.2 million in 2015 from TRY 858.8 million in 2014, mainly due to value focused approach of our customer acquisition strategy.

Marketing expenses, which consist of advertising, market research and sponsorships expenses decreased 5.0%, to TRY 428.6 million in 2015 from TRY 451.4 million in 2014.

Wages, salaries and personnel expenses for selling and marketing employees increased 6.5%, to TRY 381.6 million in 2015 from TRY 358.3 million in 2014, mainly due to periodic increase in wages and salaries.

Prepaid subscribers uncharged frequency usage fee expenses increased 2.8%, to TRY 191.4 million in 2015 from TRY 186.2 million in 2014.

***e. Other operating income/(expense)***

Other net operating expenses increased to TRY 225.9 million in 2015 from TRY 76.3 million in 2014, mainly due to commercial agreements termination expenses and litigation expenses as explained in Note 34 (Commitments and Contingencies, Legal Proceedings) to our Consolidated Financial Statements in this Form 20-F.

---

**Table of Contents*****f. Results from operating activities***

Results from operating activities increased by 9.8% to TRY 2,246.8 million in 2015 from TRY 2,046.1 million in 2014. As a percentage of revenues, results from operating activities also increased from 17.0% in 2014 to 17.6% in 2015 mainly due to a decrease in direct cost of revenues and selling and marketing expenses as a percentage of revenues.

***g. Net finance income/cost***

Net finance cost improved to a TRY 43.4 million net expense in 2015 from a TRY 291.6 million net expense in 2014, due to a decrease in finance cost to TRY 799.5 million in 2015 from TRY 1,247.0 million in 2014, which was partially offset by the decrease in finance income to TRY 756.1 million in 2015 from TRY 955.4 million in 2014.

Finance income decreased 20.9% to TRY 756.1 million in 2015 from TRY 955.4 million in 2014, mainly due to a decrease in interest earned on time deposits due to declined cash balance.

Finance cost improved 35.9% to TRY 799.5 million in 2015 from TRY 1,247.0 million in 2014, mainly due to the decrease in net foreign exchange losses from TRY 1,110.8 million in 2014 to TRY 489.3 million in 2015. Net foreign exchange loss decreased mainly due to debt restructuring in lifecell and Belarusian Telecom, foreign exchange losses recognized directly in the foreign currency translation reserves in equity as part of net investment in foreign operation accounting and lower devaluation of the UAH against USD in 2015 compared to 2014 which is partially offset by higher devaluation of the BYN against USD in 2015 compared to 2014. Foreign exchange losses in 2015 and 2014 were mainly attributable to our net foreign exchange position in our foreign operations.

Foreign exchange gains and losses arising from payables to foreign operations as a part of debt restructuring of lifecell and Belarusian Telecom and the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognized directly in equity in the foreign currency translation. In 2015, the Company has recognized net foreign exchange losses net of tax amounting to TRY 62.3 and TRY 200.2 resulting from net investment in lifecell and Belarusian Telecom respectively, in foreign currency translation differences in the consolidated financial statements in accordance with accounting policy for net investment in foreign operations.

***h. Monetary gain***

No monetary gain was recognized in 2015, as hyperinflationary accounting ceased in Belarus starting from January 1, 2015. Monetary gain was TRY 205.1 million in 2014.

***i. Share of profit of equity accounted investees***

The Company accounted its joint venture A-Tel by applying equity method accounting until August, 27 2014. Our share of profit of equity accounted investees was TRY 4.5 million as of December 31, 2014.

***j. Income tax expense***

Income tax expense decreased 8.7% to TRY 667.1 million in 2015 from TRY 730.4 million in 2014.

The effective tax rate was 26.0% and 33.7% for the years ended December 31, 2015 and 2014, respectively.

Our domestic tax rate is 20%. Differences between the effective tax rate and our domestic tax rate include, but are not limited to, the effect of allowance for deferred tax assets, tax rates in foreign jurisdictions, dividend income from investment in associates subject to certain tax exemptions (including Fintur), tax-exempt income and non-deductible expenses. The high effective tax rate in 2015 and 2014 is mainly due to the fact that since it is not probable that taxable profit will be available against which the unused tax losses or unused tax credits of lifecell and Belarusian Telecom can be utilized, no deferred tax asset is recognized on any loss incurred in lifecell and Belarusian Telecom.

**k. Profit/ (loss) from discontinued operations**

Profit from discontinued operations increased 81.1% to TRY 367.3 million in 2015 from TRY 202.8 million in 2014, mainly due to a higher net income contribution from Fintur. In 2014, due to non-cash charges in the

**Table of Contents**

Fintur financials, stemming from the write-down of operational assets and impairment charges relating to goodwill and fixed assets, our financials were impacted negatively by TRY 116 million on the basis of our 41.45% share in Fintur.

***l. Non-controlling interests***

Non-controlling interests in the net profit of our consolidated subsidiaries is classified separately in the consolidated financial statements of operations under non-controlling interests. Loss allocated to non-controlling interests amounted to TRY 428.2 million for the year ended December 31, 2014, compared to a TRY 164.1 million for 2015.

Loss allocated to non-controlling interests from lifecell's net loss amounted to TRY 209.3 million in 2015 and TRY 479.7 million in 2014. In addition, profit allocated to non-controlling interests from net profit generated by Inteltek for the years ended December 31, 2015 and 2014 amounted to approximately TRY 38.4 million and TRY 36.1 million respectively.

***m. Profit for the year attributable to equity holders of the Company***

Profit for the year attributable to equity holders of the Company increased to TRY 2,067.7 million in 2015 from TRY 1,864.7 million in 2014, mostly due to increase in results from operating activities and share of profit of equity accounted investees, lower foreign exchange losses recorded, which was partially netted off with the decrease in interest income earned on time deposits, rise in interest expense and other expense items.

**VIII. Effects of Inflation**

The annual inflation in Turkey were 8.5%, 8.8% and 8.2% for the years ended December 31, 2016, 2015 and 2014, respectively, based on the Turkish consumer price index. Depreciation of the Turkish lira, tax adjustments and the partial rise in unprocessed food prices have been effective in this development. The current inflation target set by the CBRT in its January 31, 2017 Inflation Report is 8%, with a 70% confidence interval between 6.6% and 9.4% for 2017. The most recent CBRT expectations survey, dated February 13, 2017, indicates that consumer inflation will be around 8.9% by the end of 2017, which is above the CBRT's target. Administrative price hikes introduced at the beginning of year and minimum wage increase both attributed to the negative expectations on inflation in 2016. For additional information, see Item 3.A. Selected Financial Data Exchange Rate Data and Item 3.D. Risk Factors.

Inflationary pressures in Belarus improved through 2016, with tighter fiscal and monetary policies during much of 2015-16 have helped support macroeconomic stabilization. The exchange rate has now stabilized. Since the shift to a more flexible exchange rate regime in early 2015, reserves have stabilized and, in recent months, begun to rise. Headline inflation has slowed towards the end of 2016 dropping to 10.6% from 12% in 2015. Macroeconomic stability is still fragile due to the country's reliance on Russian economy. Key domestic risks to the outlook include the pace of implementation of the policy reform agenda. On the external side, key risks include disruptions in energy price arrangements with Russia. Corporate and bank balance sheets and household confidence remain sensitive to any significant exchange rate movements, owing to high dollarization, currency mismatches, limited access to foreign exchange liquidity, and significant annual gross external financing requirements.

The fixed exchange rate regime (revised to floating exchange regime in early 2015) and the recession caused a persistent deflation in Ukraine. Ukraine experienced deflation until May 2012 when the political and economic tensions with Russia began to escalate and the rise in inflation continued even after the annexation of Crimea in April 2014. After the freeze of political tensions in eastern region and consumer confidence and economic growth improving, annual inflation decreased to 12.4% in December 2016 from 43.3% at the end of 2015. Annual inflation

came in close to National Bank's target of 12%. A moderate growth of raw food prices made a significant contribution to the slowdown in inflation. Also core inflation moderated to 5.8% in 2016 from 34.7% in 2015. The National Bank of Ukraine lowered its policy rate from 22% to 14% through 2016 on back of disinflationary progress.

### **IX. Foreign Currency Fluctuations**

We conduct our business in several currencies other than functional currencies of each of our locations. As a result of our exposure to foreign currency, exchange rate fluctuations have a significant impact, in the form of both translation and transaction risks, on our Consolidated Financial Statements.

---

## **Table of Contents**

Exchange rate movements impact our assets and liabilities denominated in currencies other than TRY, Ukrainian Hryvnia ( UAH ), Belarusian Rubles, Euro and Azerbaijani Manat for our operations in Turkey, Ukraine, Belarus, Germany and Azerbaijan, respectively. We hold some of our cash portfolio in foreign currency to manage our non-TRY denominated liabilities in Turkey. Additionally, derivative financial instruments such as forward contracts, swap contracts and options are used.

The foreign exchange risks in Turkey as the result of purchases and borrowings in U.S. Dollars and Euros have been manageable, as there is a developed market enabling the hedging of such risk; however, in Belarus and Ukraine, there are no tools to hedge foreign exchange rate risks effectively due to restricted, thin and underdeveloped financial markets. In Belarus, no international bank offers hedging instruments and local banks are too undercapitalized to be able to enter into transactions.

In Ukraine, the only hedging tool seemed to be non-deliverable forwards ( NDF ) which are a cash settled product in U.S. Dollars, a short term forward contract on a non-convertible foreign currency which could not be delivered offshore. However, with the National Bank of Ukraine forbidding any NDF settlement, the already liquidity-thin market has become virtually non-existent. As of December 31, 2016, with improving outlook for the economy on back of real growth returning to positive territory, IMF financial aid package tranches, fiscal and macro reforms being implemented, downtrend in inflation and build up in FX reserves Ukrainian Hryvnia depreciated against the U.S. Dollar by 13.3% in 2016 compared to 52.2% in 2015.

In the current economic environment and considering the aforementioned fragile economic conditions, there is a possibility of further devaluations in Ukraine and Belarus.

Our foreign currency risk management policy is focused on hedging foreign currency exposure arising from non-TRY denominated liabilities and purchase commitments. See Item 11. Quantitative and Qualitative Disclosures about Market Risk .

## **X. Interest Rate Hedging**

Monitoring and examining financing opportunities to improve our financial flexibility and performance has been a continuous process for us. Depending on the availability in both domestic and international debt/capital markets, we continuously monitor new financing alternatives for contingency purposes as well as to fund potential new investments or acquisitions. We are exposed to interest rate risk as part of our total debt portfolio is based on floating rates. We also closely monitor various hedging alternatives to hedge our interest rate risk with a minimum cost. Through June 2016 and August 2016, a significant portion of our floating FX debt portfolio was hedged and converted to fixed TRY liability through cross currency swaps.

### ***a. New Accounting Standards Issued***

See Note 3 (Significant accounting policies, new standards and interpretations) of our Consolidated Financial Statements in this Form 20-F.

## **5.B Liquidity and Capital Resources**

### ***a. Liquidity***

We require significant liquidity to finance capital expenditures for the expansion and improvement of our mobile communications network, for operational capital expenditures, for working capital, and to service our debt

obligations. A summary of our consolidated cash flows for the years ended December 31, 2016, 2015 and 2014 is as follows:

	<b>2016</b>	<b>2015</b>	<b>2014</b>
	<b>TRY million</b>		
Net cash generated by operating activities	607.1	1,901.3	1,990.8
Net cash used in investing activities	(2,976.7)	(3,563.0)	(1,350.1)
Net cash generated by/(used in) financing activities	4,839.0	(4,887.4)	65.1
Net cash increase/ (decrease) in cash and cash equivalents	2,469.5	(6,549.1)	705.8
Effects of foreign exchange rate fluctuations on cash and cash equivalents	664.1	436.0	197.7

Net cash provided by our operating activities was TRY 607.1 million in 2016 and TRY 1,901.3 million in 2015.



**Table of Contents**

The decrease in profit amounting to TRY 360 million compared to 2015 has a negative impact on net cash generated by operating activities. We consider the subtotal after the adjustments for profit for the period in order to analyze the increase in cash from operating activities. Since these lines are adjusting in nature, they are to be excluded from net cash from operating activities, as they either do not have any effect on net cash from operating activities or they have an offsetting effect on the changes in working capital. As a result, the trend in cash from operating activities should be correlated with the trend in results from operating activities, income tax expense and dividends received. The corresponding subtotal, after adjustments, increased to TRY 4,409 million in 2016 from TRY 4,127.0 million in 2015. Furthermore, the increase in interest paid to TRY 434.5 million in 2016 from TRY 153.5 million in 2015, the increase in changes in receivables from financial operations, the decrease in trade and other payables, partially netted off with the decrease in changes in trade receivables and income tax paid to TRY 135.9 million in 2016 from TRY 751.1 million in 2015 resulted in a 68.1% decrease in net cash provided by our operating activities.

Net cash used by investing activities decreased to TRY 2,976.7 million in 2016 from TRY 3,563.0 million in 2015. The change in net cash used by investing activities is mainly due to the decrease in capital expenditures. For the year ended December 31, 2016, we spent approximately TRY 2,572.4 million on acquisition of property, plant and equipment compared to TRY 2,135.4 million in 2015 while we spent approximately TRY 855.1 million on acquisition of intangible asset compared to TRY 2,461.6 million in 2015.

Net cash provided by our financing activities for the year 2016 amounting to TRY 4,839.0 million, whereas net cash used was TRY 4,887.4 million for 2015. The change is mainly attributable to the proceeds from new loan agreements and issuance of bonds which partially netted off with dividends paid and repayment of borrowings. In 2016, dividend paid amount was TRY 51.4 million, compared to dividend paid in 2015 amounting to TRY 4,025.5 million, with respect to the years ended December 31, 2010, 2011, 2012, 2013, 2014 and 2015. In addition, we repaid TRY 4,932.8 million of our loans and borrowings in 2016, compared to TRY 6,551.0 million in 2015. The cash generation from the issuance of bonds decreased to TRY 167.5 million in 2016 from TRY 1,440.0 in 2015. The cash generation from issuance of loans and borrowings increased to TRY 9,381.3 million in 2016 compared to TRY 4,866.4 million in 2015.

**b. Sources of Liquidity**

We had applied to the Capital Markets Board and, on September 15, 2015, obtained its approval of an issuance certificate to issue bonds, commercial paper or any other debentures with an amount up to \$1 billion (or its equivalent in another currency) to real and legal persons domiciled outside of Turkey through private placement and/or sales to qualified investors without a public offering. On October 2015, we issued a Eurobond with an aggregate principal amount of \$500 million, 10-year maturity, a redemption date of October 10, 2025 and coupon rate of 5.75% based on a 5.95% reoffer yield to qualified investors domiciled outside of Turkey. The bond issuance was completed and the proceeds of the issue were transferred to the Company's account on October 15, 2015 and the notes are now listed on the official list of the Irish Stock Exchange.

On September 16, 2015, we signed a club loan facility with a group of international banks with a U.S. Dollar tranche in the maximum amount of \$500 million and a Euro tranche in the maximum amount of 445 million. The facility has a maturity of five years, with principal amortization during the last three years of the loan. Interest is payable semi-annually. The facility is unsecured with an interest rate of three-month LIBOR/EURIBOR +2.0% per annum. As of December 31, 2016 the company has utilized the full amount of the facility.

On October 23, 2015 we signed a loan agreement package with China Development Bank ( CDB ) for an amount of up to EUR500 million available for two years, to refinance certain of the Group's existing loans, and for an amount of up to EUR750 million available for three years, to finance certain of our procurement requirements from Chinese

suppliers in relation to certain of our infrastructure investments. The total loan package has a final maturity of 10 years, with principal amortization during the last seven years of the loan and will be paid back in equal installments. The annual interest rate of the loan is EURIBOR +2.20%. As of December 31, 2016 an amount of 500 million has been utilized.

Turkcell Finansman has a significant portion in Turkcell group debt balance in line with the growing funding need of the company. Turkcell Finansman mainly relies on loans from local and international banks as a core funding so far. As of December 31, 2016, TFS loan portfolio was TRY 1,524 million, and only small portion of this portfolio is in foreign currency (TRY 92.7 millions)

Turkcell Finansman also had applied to the Capital Markets Board and, on November 30, 2016, obtained its approval of an issuance of domestic debt securities to qualified investors and without a public offering, within a

---

**Table of Contents**

period of one year for up to TRY 1,500 million. On December 16, we issued 174-day commercial paper to qualified investors without a public offering has been completed. The issue size is nominal TRY 250 million with the maturity date of June 8, 2017 and an annual simple interest rate of 10.7%.

In order to diversify its debt portfolio, Turkcell Finansman will also resort other funding alternatives, as such it is applied to Capital Markets Board of Turkey ( CMB ) for the issuance certificate of asset-backed securities with an amount of up to TRY 100 million within one year on January 2017.

Our loans from financial institutions consist of local and international bank borrowings and finance lease obligations with either fixed or floating interest rates. A significant portion of our bank borrowings is utilized to finance our consolidated subsidiaries financing needs and acquisition of GSM licenses. All of our loans are denominated in U.S. Dollar, BYN, EUR, HRV or TRY. The floating interest rates vary from Libor + 2.0% and Libor + 2.6% for the loans denominated in U.S. Dollars. The fixed interest rates vary from 5.8% to 28.0% for the loans denominated in U.S. Dollars, from 10.4% to 12.6% for the loans denominated in TRY, from 12.0% to 16.0% for the loans denominated in BYN, from 13.5% to 18.6% for the loans denominated in HRV and the floating interest rates vary from Euribor + 1.2% and Euribor 2.2% for the loans denominated in EUR. The fixed interest rate for Euro loans are 3.4%. The loans are payable over the period from 2017 to 2025.

The ratio of our loans and borrowings to equity is 61% as of December 31, 2016, compared to 29% as of December 31, 2015. We have been able to maintain our leverage at a satisfactory level and well in line with our targets. For more information, see Note 28 to our Consolidated Financial Statements.

The auction for the 4.5G license was held on August 26, 2015 and the capital expenditure required in connection with our 4.5G build-out is expected to be material. The tender price of the 4.5G license amounting to EUR 1,623.5 million (equivalent to TRY 5,158.7 million as at December 31, 2015) (excluding VAT of 18%) is being paid in four equal installments amounting to EUR 1,655.3 million (equivalent to TRY 5,259.9 million as at 31 December 2015) including interest and excluding VAT of 18%. On October 26, 2015, we made the payment amounting to TRY 1,321.9 million for the original amount of EUR 413.8 million (including interest) as first installment and total VAT amounting to TRY 933.4 million for the original amount of EUR 292.2 million in cash. The second installment of 413.8 million was paid on April 25, 2016. The third installment of 413.8 million was paid on October 25, 2016. The last installment will be paid on April 27, 2017. We may choose to pay the last installment in Euro or in Turkish Lira converted at the buying exchange rate announced by Central Bank of the Republic of Turkey on January 2, 2017.

We are continuing our efforts to selectively seek out and evaluate new investment opportunities. These opportunities could include the purchase of licenses and acquisitions in markets inside and outside of Turkey.

Under the current assumptions and circumstances, we expect to generate adequate levels of cash to maintain a positive cash position in the future and to have positive cash flow related to our communications and technology activities in Turkey. According to our current business plan for the operations in Turkey, we believe that we will be able to finance our current operations, capital expenditures, and financing costs and maintain and enhance our network through our operating cash flow existing credit facilities and other available credit lines. However, we continue to experience difficult pricing and competitive conditions in our markets, which we expect will continue. In addition, the increase in the volume of assigned contracted receivables may continue to result in higher working capital requirements. The working capital requirements related to terminal financing and bad debt expenses are planned to be managed by our consumer finance company, which commenced operations in 2016. We are also facing increased capital needs to finance our technological and geographic expansion, which may increase our net cash used for investing activities. These pressures have reduced, and may continue to reduce, our liquidity and may lead to an increase in borrowing needs and net cash used by financing activities.

Our cash outflows through 2017 include possible dividend payments, depending on the result of our general assembly meetings, quarterly corporate tax payments, 4.5G license fee payments, capital expenditures and working capital needs.

We expect that our total operational capital expenditures as a percentage of revenues in 2017 will be around 20%, with increased investments in preparation for the transition of the mobile network to 4.5G, further expansion of the fiber network, and the roll out of lifecell s 3G+ network.

The forward-looking statements made here regarding our liquidity and any other financial results are not a guarantee of performance. They are subject to risks and uncertainties that could cause future activities and results of operations to be different from those set forth in this annual report.

## **Table of Contents**

Important factors that may adversely affect our projections include general economic conditions, changes in the competitive environment, legal risks, developments in the domestic and international capital markets, increased investments, changes in telecommunications regulations and mismatches between the currencies in which we generate revenue and hold liquid assets and the currencies in which we incur liquid obligations and debt. See Item 3.D. Risk Factors for a discussion of these and other factors that may affect our projections.

### ***c. Capital Transactions***

In 2016, we have entered into buyback transactions on our own shares; please refer to Item 10.B. Share Buy-Backs, as well as Item 16.E which provides a table regarding the share buybacks for the year 2016.

### ***d. General Economic Conditions***

Turkey's growth was 4.5% both in the first and second quarter of 2016 and economy contracted by 1.8% in the third quarter of 2016. Economy is expected to grow by 3.0% in 2017; mainly driven by the domestic demand.

### ***e. Dividend Payments***

On March 23, 2016, the Board of Directors proposed a dividend distribution for the year ended December 31, 2015 amounting to TRY 1,200.0 million (equivalent to \$341.0 million as of December 31, 2016), which represented approximately 58% of net distributable income for the relevant year. This dividend proposal was discussed and rejected at the Ordinary General Assembly of Shareholders held on March 29, 2016. For additional details regarding our dividend policy, see Item 8.A. Consolidated Statements and Other Financial Information Dividend Policy.

## **5.C Research and Development, Patents and Licenses, etc.**

We own a number of patents, utility models, trademarks and industrial designs.

The activities of our technology center, which houses all of our R&D operations in a single location, include the following:

Partnership software development, customization and/or integration of software products of suppliers through the service and product development processes;

Developing network infrastructure strategies in a fast evolving information-communication technologies world; and

Designing short and long-term technology road maps for our operations.

Internally developed software arising from our R&D works amounted to approximately TRY 126.9 million and TRY 123.1 million in 2016 and 2015, respectively. Internally-developed software does not include any costs relating to the research phase.

## **5.D Trend Information**

**a. *Changing Subscriber Base and Usage Patterns***

The proportion of postpaid subscribers in our subscriber base in Turkey was 53%, 49% and 44% in 2016, 2015 and 2014 respectively, due to our value focus.

As our market and business strategy evolve, we expect that the percentage of our revenues from mobile data and fixed data will continue to increase with increased smartphone penetration, higher user numbers and a rise in data consumption. For these reasons and with our increased emphasis on OTT services, we also expect that the percentage of our revenues from services will also increase. On the other hand, revenues from voice and SMS traffic are expected to continue to decrease as a percentage of our revenues.

**b. *Regulations affecting our prices***

The ICTA has on several occasions intervened to place caps on the tariffs that we charge in the Turkish market. The ICTA's intervention in our retail voice and SMS prices, has negatively affected our ability to design and launch campaigns and offers and, consequently, had a negative impact on our business. The ICTA has also intervened to decrease interconnection rates.

**Table of Contents**

With respect to the interconnection rates that we charge, after a 33% reduction for Turkcell in 2008, the interconnection rates issued by the ICTA on March 25, 2009 for all mobile operators in Turkey provided for a further 29% decrease, on average, among all operators. On February 10, 2010, there was an additional 52% reduction in Turkcell's interconnection rates. Finally, with the ICTA's board resolution dated June 17, 2013, our mobile termination rates have been set at TRY 0.0250, a 20% decline from TRY 0.0313. In addition, the ICTA with a board resolution dated April 12, 2013, lowered SMS termination rates for Turkcell from TRY 0.0170 to TRY 0.0043. With its latest decision dated October 22, 2014, the ICTA also set the tariff for MMS termination rates for Turkcell at TRY 0.0086.

ICTA removed the regulation on lower limit on on-net retail prices and campaigns. These pricing regulations were valid on each and every single voice tariff and campaign, whereas we were obliged to maintain our minimum on-net SMS rate on network base. The table below shows the on-net prices and MTR rates until August 16, 2016:

TRY	Before July 1, 2013	July 1, 2013	
		August 16, 2016	Change %
Minimum on-net voice price	0.0313	0.0428	37%
Minimum on-net SMS price		0.0073	
Voice MTR	0.0313	0.0250	(20%)
SMS MTR	0.0170	0.0043	(75%)

The maximum tariffs set by the ICTA may constitute the highest rates we may charge for the services included in these customized service packages. Generally, the maximum tariffs set by the ICTA for particular services are set higher than the standard tariffs determined by the ICTA for those services. Pursuant to a board decision dated September 28, 2015, price caps for voice were set at 0.4625 TRY/min for voice and TRY 0.332 for SMS. Such caps were in force at the beginning of 2016, until a decision rendered in March 10, 2016 by ICTA annulled the maximum tariffs set by ICTA in 2015.

The ICTA has in the past intervened and may again intervene, impacting the prices we charge for our tariffs.

Further cuts in interconnection rates may make us redesign our tariffs and may impact our operational results. Currently Mobile Call Termination Market and Mobile Access and Call Origination Market are being analyzed by ICTA. Upon the renewal of market analyses in 2017, SMP operators will be determined.

Given these factors, it is difficult to predict with any degree of certainty the growth and usage patterns of our subscribers and our ability to maintain or increase revenues or profitability. General economic conditions, competitive pressures and the trend in our interconnection pricing will continue to exert pressure on our financial results.

**c. Liquidity**

Our activities have traditionally generated a strong positive cash flow. According to our current business plan for the operations in Turkey, we believe that we will be able to finance our current operations, capital expenditures, and financing costs and maintain and enhance our network through our operating cash flow and existing credit facilities and other available credit lines. However, we continue to experience difficult pricing and competitive conditions in our markets, which we expect will continue. In addition, the increase in the volume of assigned contracted receivables may continue to result in higher working capital requirements. The working capital requirements related to terminal financing and bad debt expenses are planned to be managed by our consumer finance company, which commenced operations in 2016. We are also facing increased capital needs to finance our technological and geographic expansion, which may increase our net cash used for investing activities. These pressures have reduced, and may continue to

reduce, our liquidity and may lead to an increase in borrowing needs and net cash used by financing activities.

We expect that our total operational capital expenditures as a percentage of revenues in 2017 will be around 20%, with increased investments in preparation for the transition of the mobile network to 4.5G, further expansion of the fiber network, and the roll out of lifecell s 3G network.

The forward-looking statements made here regarding our liquidity and any other financial results are not a guarantee of performance. They are subject to risks and uncertainties that could cause future activities and results of operations to be different from those set forth in this annual report.



**Table of Contents**

Important factors that may adversely affect our projections include general economic conditions, changes in the competitive environment, legal risks, developments in the domestic and international capital markets, increased investments, changes in telecommunications regulations and mismatches between the currencies in which we generate revenue and hold liquid assets and the currencies in which we incur liquid obligations and debt. See Item 3.D. Risk Factors for a discussion of these and other factors that may affect our projections

***d. Currency devaluation and impairments***

Our results of operations and the value of certain of our assets have been adversely affected by devaluations in the currencies of certain countries, in particular Ukraine, Belarus, and Turkey. Further currency devaluation remains a risk and may continue to have an adverse effect in the future. Furthermore, operational and technological changes, general macroeconomic conditions, legal, regulatory or political obstacles in Ukraine and Belarus may lead to further impairments in the values of certain of our assets in the future.

**5.E Off-Balance Sheet Arrangements**

Off-balance sheet arrangements refer to any transaction, agreement, or other contractual arrangement involving an unconsolidated entity (other than contingent liabilities arising from litigation, arbitration or regulatory actions) under which a company has:

provided guarantee contracts;

retained or contingent interests in transferred assets;

any obligation under derivative instruments classified as equity; or

any obligation arising out of material variable interests in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to the company, or that engages in leasing, hedging, or research and development arrangements with the company.

We routinely enter into operating leases for property in the normal course of business. The future minimum operating lease payments under non-cancellable leases amount to TRY 610.0 million in 2016 and TRY 377.0 million in 2015.

***a. Contingent Liabilities***

The following table illustrates our major contingent liabilities as of December 31, 2016.

Total amount committed	Amount of contingent liability expiration per period Remaining commitment				
	at December 31, 2016	Indefinite*	Less than one year	1-3 years	3-5 years

**TRY million**

Bank Letters of Guarantee	961.0	961.0	661.6	168.4	34.5	2.5	94.0
---------------------------	-------	-------	-------	-------	------	-----	------

\* Bank letters of guarantee are not given for a specific period. Most of the guarantees will remain as long as the business relationship with the counterparty continues.

As of December 31, 2016, we are contingently liable in respect of bank letters of guarantee obtained from banks and given to custom authorities, private companies and other public organizations amounting to TRY 961.0 million. We also provided guarantees to private companies amounting to TRY 189.1 million.

See Item 5.B. Liquidity and Capital Resources Sources of Liquidity .

**Table of Contents****5.F Tabular Disclosure of Contractual Obligations**

The following tables illustrate our major contractual and commercial obligations and commitments as of December 31, 2016.

Contractual Obligations	Total	Payments due by period			
		Less than 1 year	1-3 years	3-5 years	After 5 years
		(TRY million)			
Loans and borrowings (*)	11,290.7	3,012.6	3,107.6	1,909.5	3,261.0
Finance lease obligations	54.3	7.9	13.3	13.2	19.9
Payable in relation to the acquisition of Belarusian Telecom	351.9			351.9	
Operating leases	610.0	163.3	212.2	133.2	101.3
<b>Total Contractual Cash Obligations</b>	<b>12,306.9</b>	<b>3,183.8</b>	<b>3,333.1</b>	<b>2,407.8</b>	<b>3,382.2</b>

\* Includes undiscounted interest and bonds issued and excludes finance lease obligations.

Other Commercial Commitments	Total	Amount of Commitment			
		Less than 1 year	1-3 years	3-5 years	After 5 years
		(TRY million)			
Purchase obligations	915.9	836.1	75.4	4.4	

As at December 31, 2016, outstanding purchase commitments with respect to the acquisition of property, plant and equipment, inventory and purchase of sponsorship and advertisement services amounted to TRY 915.9 million.

**5.G Safe Harbor**

Not applicable.

**ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES****6.A Directors and Senior Management****I. Board Members**

Under the Turkish Commercial Code and our Articles of Association, the Board of Directors is responsible for our management. Our Articles of Association mandates a Board of Directors containing seven members.

Members of our Board of Directors are generally appointed for a term of three years. However, as the General Assembly could not convene due to a lack of quorum for meetings, in a series of resolutions in 2013, the CMB appointed new members to our Board, who shall remain members until new members are elected by the General Assembly or until the CMB announces a new resolution. The CMB stepped in based on its statutory authority to take

actions *ex officio* where publicly held companies whose shares are traded on the exchange fail to comply with corporate governance principles partially or completely. The CMB with its resolution dated March 11, 2013, announced the replacement of Mehmet Bulent Ergin, Tero Erkki Kivisaari and Oleg Adolfovich Malis on our Board of Directors with three new members, Atilla Koc, Mehmet Hilmi Guler and Ahmet Akca, who serve as independent board members according to article 17/2 of the Capital Markets Law No. 6362. The CMB with its resolutions dated August 15, 2013 and September 13, 2013 announced the appointment of Mehmet Bostan, Bekir Pakdemirli, Jan Erik Rudberg and Erik Jean Christian Antoine Belfrage, as board members who satisfy the independence criteria. The latter two members were chosen from the independent nominees list submitted by Telia Company (formerly known as TeliaSonera ). They were appointed by the CMB pursuant to sub-paragraph (k) of the first paragraph of article 128 of Capital Markets Law No. 6362, in place of members of our Board of Directors who were elected at the general assembly meeting on April 29, 2010 for a duty period of three years and whose duty periods have expired and whose successors could not be elected at the general assembly meetings.

**Table of Contents**

As of March 10, 2017, our Board of Directors had the following members:

<b>Name</b>	<b>Date appointed to the Board of Directors by Capital Markets Board resolution</b>
Ahmet Akca (Chairman)	March 11, 2013
Atilla Koc	March 11, 2013
Bekir Pakdemirli	August 15, 2013
Erik Jean Christian Antoine Belfrage	September 13, 2013
Jan Erik Rudberg	September 13, 2013
Mehmet Bostan	August 15, 2013
Mehmet Hilmi Guler	March 11, 2013

**II. Executive Officers**

We are managed on a day-to-day basis by the Corporate Executive Team with the guidance of the Board of Directors. Officers do not have fixed terms of office. The following table sets forth the name and office of each member of our Corporate Executive Team as of March 10, 2017. The titles of our Company's Senior Vice Presidents have been changed to Executive Vice President, and their functional groups have been re-positioned so as to report directly to the CEO as of March 1, 2017, to ensure a lean and more efficient management structure.

<b>Name</b>	<b>Office</b>
Muhterem Kaan Terzioglu	Chief Executive Officer
İzzet Serhat Demir	Executive Vice President Legal and Regulation
Bulent Aksu	Executive Vice President Finance
Murat Erkan	Executive Vice President Sales
Seyfettin Saglam	Executive Vice President Business Support
İlter Terzioglu	Executive Vice President Strategy
Ismail Butun	Executive Vice President Marketing
Dogus Kuran	Executive Vice President Customer & Experience Management
Serkan Ozturk	Executive Vice President Information and Communication Technologies
Aziz Gediz Sezgin	Executive Vice President Network Technologies
Ali Turk	Executive Vice President Supply Chain Management
Aysem Ertopuz Deobler	Executive Vice President Digital Services & Solutions

**III. Biographies****a. Current Board Members**

*Ahmet Akca*<sup>1</sup>, born in 1956, was appointed to the Board of Directors by Capital Markets Board decision. He also acts as the president of Turkcell's Audit Committee. From 1981 to 1988, Mr. Akca served as a Foreign Trade Manager in the glass and food industry. In 1988, he became CEO of an International Trading Company, a position he held until 1992. He later started his own business, which he still runs. Mr. Akca is the founder and Chairman of the Board of Directors of the logistics company Akca Lojistik Hizmetleri ve Ticaret A.S. He was a member of the Committee of Trustees in January 2010, at the time of the Bezmialem Vakif University establishment, and has been serving as the

Chairman of the Committee of Trustees since November 2011. After studying mathematics at Middle East Technical University and sociology at Istanbul University for a certain period, Mr. Akca graduated from the Bursa Economics and Commercial Sciences Academy s Department of Economics.

*Atilla Koc<sup>1</sup>*, born in 1946, was appointed to the Board of Directors by Capital Markets Board decision. He also serves as a member of the Audit Committee of Turkcell s Board of Directors. Having worked as an Undersecretary at the Ministry of Interior and as the Chief of Police in Konya, he served as the District Governor

<sup>1</sup> Appointed by the Capital Markets Board as independent board member pursuant to Article 17, second paragraph, of Capital Markets Law No. 6362. The CMB decision was dated March 11, 2013.

**Table of Contents**

of the Ulubey, Nusaybin and Bayindir districts, and as the Governor of Siirt and Giresun provinces. He has also been the Prime Minister's Undersecretary, the General Secretary of Ankara Metropolitan Municipality, and the Central Governor. Then, Mr. Koc served as AKP Aydin deputy in 22<sup>nd</sup> and 23<sup>rd</sup> period of Grand National Assembly of Turkey and as the Minister of Culture and Tourism in the 59<sup>th</sup> Government. Mr. Koc graduated from Ankara University's Faculty of Political Science.

*Mehmet Hilmi Guler*<sup>1</sup>, born in 1949, was appointed to the Board of Directors by Capital Markets Board decision. He formerly worked as a Project Engineer and Group Chairman at TUSAS Aerospace Industries. He also served as Vice President and Board Member of the Scientific and Technological Research Council of Turkey (TUBITAK), as Chairman and General Manager of the Machines and Chemical Industries Board (MKEK), as the General Manager and Chairman of Etibank, as the Chief Undersecretary to the Prime Minister, and as Board Member and Executive Director at ERDEMIR and IGDAS. Mr. Guler also served as Minister of Energy and Natural Resources in the 58<sup>th</sup>, 59<sup>th</sup> and 60<sup>th</sup> Governments. Mr. Guler graduated from Middle East Technical University's Department of Metallurgical and Materials Engineering where he obtained his Master's and Doctorate degrees.

*Mehmet Bostan*<sup>2</sup>, born in 1971, was appointed to the Board of Directors by Capital Markets Board decision. Mr. Bostan formerly worked as Senior Relationship Manager at BNP Ak Dresdner Bank A.S., Manager at TSKB, Chief Turkey Representative of Dresdner Bank AG and Deputy General Manager at Gunes Sigorta. He has served as the General Manager and Board Member of Vakif Emeklilik since 2010. During his position as the President of the Turkish Prime Ministry Privatization Administration, he has been appointed as the Chairman of the Board and General Manager of Sovereign Wealth Fund of Turkey on November 2, 2016. He is also a Board Member of the Turkish Tennis Federation. Mr. Bostan graduated from International Relations, from the Faculty of Economics, at Istanbul University. He holds a MBA from Bilgi University.

*Bekir Pakdemirli*<sup>2</sup>, born in 1973, was appointed to the Board of Directors by Capital Markets Board decision. Mr. Pakdemirli has been an entrepreneur in food, computer and automotive industries, besides taking roles in the establishment and management of various companies. During his career, he also served as the General Manager of a ceramics company, which is among the 500 industrial companies in Turkey and a publicly-traded food company. He has served in executive management positions at McCain Foods, a multinational company, and still offers consultancy services to McCain Company. Serving as a member of the Board of Directors of Albaraka Turk Participation Bank, Mr. Pakdemirli also continues his roles as a member of the Board of Directors of Tarkem Tarihi Kemeralti A.S., Turkish Foundation for Mental Healthcare, as well as being a member of the Board of Trustees of Anatolian Autism Foundation and a member of Capital Markets Investors Association with his attention to social responsibility. Mr. Pakdemirli presents a weekly economic program on Ege TV. Mr. Pakdemirli is a captain, pilot and an amateur radio operator. After graduating from Bilkent University, Faculty of Business Administration, he completed his Master's degree in Management at Baskent University and his PhD degree in Economics at Celal Bayar University.

*Jan Erik Rudberg*<sup>3</sup>, born in 1945, was appointed to the Board of Directors by Capital Markets Board decision. He is currently Chairman of the Board of Directors of Kcell JSC (Independent Director) and the Chairman of the Board of Directors of Hogia AB. Since 2010, Mr. Rudberg has also been a member of the Board of Directors of PJSC Megafon (Independent Director). Between 1994 and 2003, he held various executive positions at Telia AB after having served as the Chief Executive Officer of Tele2 AB, Executive Vice President of Nordbanken AB, Chief Executive Officer of Enator AB, as well the Chief Executive Officer of Ericsson Information Systems Sweden AB, and having held several managerial positions at IBM. Mr. Rudberg holds a degree in Economics and Business Administration from the Gothenburg School of Economics.

*Erik Jean Christian Antoine Belfrage*<sup>3</sup>, born in 1946, was appointed to the Board of Directors by Capital Markets Board decision. In the 70's and 80's, Mr. Belfrage worked as a Swedish diplomat in Geneva, Washington, Bucharest,

Beirut, and in Paris. He has served as Senior Vice President at SEB between 1987 and 2011, and as an advisor to Dr. Peter Wallenberg between 1987 and 2015. In 2011, Mr. Belfrage set up a consultancy firm, Consilio International AB, of which he is also the Chairman. The firm advises large Nordic

- <sup>1</sup> Appointed by the Capital Markets Board as independent board member pursuant to Article 17, second paragraph, of Capital Markets Law No. 6362. The CMB decision was dated March 11, 2013.
- <sup>2</sup> The board members who satisfy independency criteria were appointed by the Capital Markets Board pursuant to sub-paragraph (k) of the first paragraph of Article 128 of Capital Markets Law No. 6362. The CMB decision was dated August 15, 2013.
- <sup>3</sup> The board members who satisfy independency criteria were appointed by the Capital Markets Board pursuant to sub-paragraph (k) of the first paragraph of Article 128 of Capital Markets Law No. 6362. The CMB decision was dated September 13, 2013.



**Table of Contents**

corporates. Currently, Mr. Belfrage is chairman of several boards. He holds an MBA from the Stockholm School of Economics.

***b. Board members who were removed by the CMB and whose duty period expired***

The CMB with its resolution dated March 11, 2013, announced the replacement of Mehmet Bulent Ergin, Tero Erkki Kivisaari and Oleg Adolfovich Malis on our Board of Directors with three independent members, Atilla Koc, Mehmet Hilmi Guler and Ahmet Akca. Furthermore, due to the fact that remaining Board members term of duty have expired as of April 2013, namely Colin J Williams, Karin B Eliasson, Alexey Khudyakov and Gulsun Nazli Karamemmet Williams, the CMB, with its resolution dated August 15, 2013, announced the appointment of two new members, Mehmet Bostan and Bekir Pakdemirli, in order to reach the quorum stipulated under the articles of association of the Company. Further, with its resolution dated September 13, 2013, in addition to its previous appointment of 5 members, it announced the appointment of two new members, Jan Erik Rudberg and Erik Jean Christian Antoine Belfrage. Please refer to our 2012 Form 20-F for the biographies of the previous members of the Board.

***c. Executive Officers***

*Muhterem Kaan Terzioglu*, born in 1968, was appointed as Turkcell's Chief Executive Officer on April 1, 2015. He began his professional life in 1990 as an Independent Auditor and CPA at Arthur Andersen Turkey. In 1992, Mr. Terzioglu joined Arthur Andersen USA as the IT Strategies and Security Specialist, and in 1994, began working at Arthur Andersen Belgium as the Leader of Information Management and Digital Strategy Services. In 1998, he was appointed Vice President of Consultancy Services Turkey Operations. Between 1999 and 2012, he served as the Team Leader of E-Commerce Strategies for the EMEA region, Sales Director of Advanced Technologies for the EMEA region, Managing Director of Technology Marketing Organization for the EMEA region, and the Vice President of Central and Eastern Europe at Cisco Systems Brussels branch, respectively. Between April 3, 2012 and April 1, 2015, Mr. Terzioglu was a Member of the Board of Directors at Akbank, Aksigorta A.S., Teknosa Ic ve Dis Ticaret A.S. and Carrefoursa A.S. Kaan Terzioglu graduated from the Department of Business Administration at Bogazici University.

*Bulent Aksu*, born in 1974, was appointed as the Chief Financial Officer, effective in July 2016. He has 20 years of managerial experience in the field of finance, accounting, tax and management in various sectors including energy, petrochemicals, textiles and auditing. Bulent Aksu started his professional career as an inspector on the Inspection Board at Kuvveyt Turk A.S. in 1997. He held the role of Finance Manager and CFO at Calik Holding, respectively in 2003. He held the role of CFO and Board Member at Akfel Group between 2008 and 2012. He worked at Petkim Petrokimya Holding A.S, a subsidiary of Azerbaijan's national oil and gas company SOCAR between 2012 and 2013, and most recently was the CFO at Star Rafineri A.S, a subsidiary of SOCAR. In 2016, Mr. Aksu was named among the 50 Most Efficient CFOs by Fortune Turkey Magazine. Mr. Aksu graduated from the department of Business Administration (English) of Istanbul University in 1996.

*İzzet Serhat Demir*, born in 1974, joined Turkcell as the Executive Vice President of the Legal and Regulation Function in May 2015. Mr. Demir started his professional career in 1997 at Dun&Bradstreet. He worked as a lawyer and held executive and directorial positions responsible for legal affairs at Yildiz Holding and Calik Holding A.S. He was a member of the board of directors of Calik Holding AS and Albtelecom ShA and currently is a member of the board of directors of Banka Kombetare Tregtare ShA and Aktif Yatirim Bankasi A.S. Serhat Demir graduated from the Faculty of Law at Istanbul University and has a Masters of Business Administration degree.

*Murat Erkan*, born in 1969, joined Turkcell Group in June 2008 as the General Manager of Turkcell Superonline and as of December 1, 2015, he was appointed Executive Vice President of Sales. Prior to this position, he had served as the Senior Vice President of Retail and Active Sales and Senior Vice President of the Home and Consumer Business,

respectively. Mr. Erkan, who started his professional life at Toshiba, became an Application Engineer at Biltam Muhendislik and then became the first System Engineer of Turkey at Cisco Turkey. He served as Chief Officer at Cisco Systems in charge of technology, sales, business development and channel management for ten years. Prior to his position at Turkcell Superonline, Mr. Erkan had been the Business Unit Manager at Aneltech working on solutions related to Telecommunication, Mobile, ICT, defense industry and industrial products sectors since 2006. He graduated from the Yildiz Technical University Electronics and telecommunication Engineering Department in 1992. He completed the Strategic Marketing Program at Harvard Business School in 2010.

---

**Table of Contents**

*Seyfettin Saglam*, born in 1971, joined Turkcell as Chief Group Human Resources Officer in July 2014. He was appointed Executive Vice President of Business Support Officer in April 2015. He began his career in MSC Consulting Inc. in 1998. He worked as a HR professional at Tekstilbank and as the Human Resources Group Manager at Yildiz Holding, responsible for the Packaging, IT, Finance and Retail Groups. He also served as the Assistant General Manager of T.C. Ziraat Bankasi. Subsequently, he was appointed Vice Chairman and Member of the Executive Committee at Rixos Hotels and Sembol Construction Inc. Mr. Saglam has also served as an Executive Vice President of Borsa Istanbul. He graduated from the Department of Sociology at Middle East Technical University. He received a Master's degree from the Marmara University Business Administration Department in International Quality Management. He also completed the HR Management & Leadership Programs at INSEAD.

*Ilter Terzioglu*, born in 1966, joined Turkcell in 2003 as Business Strategies, Regulation and Risk Consolidation Division Head. In October 2015, he was appointed as the Executive Vice President of Strategy. Previously, he had served as Senior Vice President of International Business under the Strategy Function. He has also undertaken the roles of acting Chief of International Business, Chief Strategic Projects Officer and Chief Network Operations Officer at Turkcell. Prior to joining Turkcell, he had worked as Assistant General Manager at Turkcell Group companies, including Show TV and Superonline. He had worked for Ericsson Turkey as the Assistant General Manager responsible for Turkcell between 1994 and 2002. He graduated from the Department of Econometrics at Istanbul University.

*Ismail Butun*, born in 1973, joined Turkcell as Senior Vice President of Retail Sales on January 2016 and was appointed as Executive Vice President on July, 2016. Mr. Butun started his career at the Cuhadaroglu Holding Moscow Office in 1996. Between 1997 and 2000, he worked at the Enka Group Foreign Trade department in Moscow as Sales and Business Development Manager. Starting from 2000, he worked at Nestle as CPW Turkey Country Manager, Regional Marketing Director for Central Asia based in Uzbekistan, and later as Head of National Key Accounts for Nestle Turkey. After 2011, he served at Nestle's Global Headquarters in Switzerland, first as Business Excellence Manager at the Global Customer and Sales Management Unit and then as Marketing Manager at the Beverages Strategic Business Unit. Most recently, Mr. Butun was the General Manager of Nestle Turkey Beverages Group, also serving as a Board Member. İsmail Butun, joined Turkcell as Senior Vice President of Retail Sales on January 15, 2016. He graduated from the Bogazici University Business Administration department in 1996.

*Dogus Kuran*, born in 1973 joined Turkcell as Senior Vice President of Customer and Experience Management Function as of October 1, 2015. The titles of our Company's Senior Vice Presidents have been changed to Executive Vice President as of March 1, 2017. He had begun his career at AlcatelTeletas. After holding executive positions in sales, business development and internet solutions consultancy within Cisco Systems and Microsoft Turkey organizations, he served as Chief Sales and Operations Officer at Ericsson Turkey. Prior to his position in Turkcell, he worked as a partner at the Accenture Turkey Office responsible for the telecommunication, media and technology sectors. Mr. Kuran graduated from the Istanbul Technical University, Electrical and Electronics Engineering department in 1995. He received his Master's degree in Management Engineering from Portland State University in 1997.

*Serkan Ozturk*, born in 1976, was appointed as the Senior Vice President of Information and Communication Technologies under the Technology Function in September of 2015. The titles of our Company's Senior Vice Presidents have been changed to Executive Vice President as of March 1, 2017. He joined Turkcell as Project Manager in 2000. Previously, he worked as project supervisor and manager at Turkcell Project Management office between 2000 and 2009. He served as Chief Information Technologies Officer in lifecell between 2009 and 2010 and in Turkcell Superonline between 2010 and 2011. Prior to his recent appointment, he has been serving as director of Customer Relations Management and Business Intelligence Solutions (CRM & BIS). Serkan Ozturk graduated from Middle East Technical University Electrical and Electronics Engineering department. He received his MBA degree

from Istanbul University.

*Aziz Gediz Sezgin*, born in 1966, joined Turkcell as Network Engineer in 1995 and was appointed as the Senior Vice President of Network Technologies in October 2015. The titles of our Company's Senior Vice Presidents have been changed to Executive Vice President as of March 1, 2017. Previously, he was Senior Vice President of Information and Communication Technologies, Chief Information and Communication Technologies Officer, Director of Application Operations, and Director of Service Network under the ICT Function, and held various executive positions in the Technology Function. Mr. Sezgin started his career at Alcatel Teletas in 1991. He graduated from Istanbul Technical University in Electronics and Communication Engineering and received his Master's degree from the same university.

**Table of Contents**

*Ali Turk*, born in 1977, was appointed as Senior Vice President of Supply Chain Management in May 2016. The titles of our Company's Senior Vice Presidents have been changed to Executive Vice President as of March 1, 2017. Mr. Turk started his career at Basak Hayat Sigorta in 1999. Between 2002 and 2007, he held various management positions responsible for logistics planning, warehouse and supply chain management processes at Ulker Group Companies. Between 2007 and 2011, he worked at Ceva Lojistik as Warehouse and Value Added Operations group manager. Joining Turkish Airlines in 2011 as Cargo Operations Vice President, Mr. Turk has served as Turkish Airlines Cargo Operations President since 2012. Ali Turk graduated from the Industrial Engineering Department of Istanbul Technical University in 1999 and completed Istanbul Technical University Executive MBA program in 2001.

*Aysem Ertopuz Deobler*, born in 1970, joined Turkcell in January 2016 as Strategic Planning Director and was appointed as Senior Vice President of Digital Services and Solutions in November 2016. The titles of our Company's Senior Vice Presidents have been changed to Executive Vice President as of March 1, 2017. She started her career at Arcelik A.S., where she had served as Quality System Engineer between 1993 and 1997. She started to work in Arthur Andersen in 1997 as Strategic Consultancy Services Manager. Joining Cisco's EMEA Region Organization in 2001 in Belgium, Aysem Ertopuz assumed managerial positions in several functions including Strategic Planning, Business Intelligence, Operations and Global Customer Management. She served as manager of the Business Intelligence Group within Cisco's New York-based Global Sales Strategy and Planning organization between 2006 and 2015, focusing on the fields of Service Providers sector, market and competition dynamics, business strategy and performance, and utilization of digital services in new business models. Aysem Ertopuz graduated from the Middle East Technical University Industrial Engineering Department and received her MBA degree from the New York University, Stern School of Business.

**6.B Compensation**

The compensation paid to members of the Board of Directors for their service on the Board is approved by the shareholders at General Assemblies. In accordance with the Company's corporate governance practices, the Board, although it has no final authority on remuneration, upon the recommendation of the Compensation Committee may decide on a proposal to the General Assembly as to whether Board members will be remunerated, and if such is the case, the form and amount of compensation to be paid to the Board members. At our Annual General Assembly held on April 29, 2010, it was decided that our Chairman would receive a net sum of 250,000 per year and each Board member would receive a net sum of 100,000 per year for the period of their service, effective February 25, 2010.

For the year ended December 31, 2016, we provided, paid and accrued an aggregate of approximately TRY 60.5 million to our key management personnel including: indemnities, salaries, bonuses and other benefits. There was no deferred or contingent compensation accrued for the year payable to executive officers and members of the Board of Directors other than that already included in the TRY 60.5 million. A cash-settled long-term incentive plan offered to the management of Turkcell and group companies was introduced January 2016, but no accruals had been made at year-end. We have Directors, and Officers, Liability Insurance that covers our directors and officers from liabilities that arise in connection with performing their duties and our liabilities in connection with our directors and officers' performance of their duties. The coverage amount is \$400 million, and there are a number of insurers, each covering a different layer of the policy. Directors and Officers Liability insurance is provided by Mapfre Genel Sigorta A.S., an insurance company in Turkey, whereas reinsurance protection is provided by London-based markets. The policy will expire on September 2, 2017, and we will consider renewing its insurance limit based on the terms and conditions offered.

**6.C Board Practices**

Under Turkish Commercial Code and our Articles of Association, our Board of Directors is responsible for our management. The Articles of Association provide for a Board of Directors consisting of seven members. Members of our Board of Directors are generally appointed for a term of three years. However, in a series of resolutions in 2013, the CMB appointed new members to our Board, who shall remain members until new members are elected or until the CMB announces a new resolution.

For more information on our directors and the period during which each director has served on the board, see Item 6.A. Directors and Senior Management .

---

**Table of Contents**

**Committees of the Board of Directors**

***a. The Audit Committee***

We are required under Turkish laws and regulations, U.S. securities laws and regulations and the rules of the New York Stock Exchange ( NYSE ) to have an Audit Committee of the Board of Directors appointed from among the independent members of the Board of Directors. Our Audit Committee currently has three members: Mr. Ahmet Akca, Mr. Mehmet Hilmi Guler and Mr. Atilla Koc. Mr. Akca is the Chairman of the Audit Committee. All of the members are considered independent under the U.S. Sarbanes-Oxley Act of 2002, the rules promulgated thereunder by the U.S. Securities and Exchange Commission, the applicable rules of the NYSE and the CMB Corporate Governance Principles. Mr. Ahmet Akca, Mr. Mehmet Hilmi Guler and Mr. Atilla Koc are relying on Rule 10A-3(b)(1)(iv)(B).

Similar to the Swiss Code, board committees in Turkish law merely have a decision-shaping , rather than decision-taking role. Additionally, as per a decision of the Board of Directors, the responsibility of the Audit Committee members is also considered as a joint responsibility of all Board members.

The principal duties of the Audit Committee include the following:

assisting the board s oversight of the quality and integrity of our financial statements and related disclosure;

overseeing the implementation and efficiency of our accounting system;

pre-approving the appointment of and services to be provided by our independent auditors;

preparing and monitoring the agreement between us and the independent auditor and overseeing the performance and efficiency of our independent audit system and internal audit mechanisms; and

establishing procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting control systems or auditing matters and establishing procedures for the confidential, anonymous submission by our employees of concerns regarding questionable accounting or auditing matters.

***b. The Corporate Governance Committee***

The Corporate Governance Committee, based on the CMB s corporate governance principles, mainly assists the Board of Directors with the development and implementation of our corporate governance principles and presents if needed to the Board of Directors remedial proposals to that end. Duties and working principles of the Corporate Governance Committee are determined within the framework of the regulations, provisions and principles in the Turkish Commercial Code, Capital Market Law, Articles of Association of the Company and Capital Market Board s Corporate Governance Principles . In the relations between the Company and our shareholders, the Committee assists the board. To that end, it oversees the investor relations activities.

The current members are Mr. Mehmet Hilmi Guler, Mr. Mehmet Bostan, Mr. Bekir Pakdemirli and Mr. Zeynel Korhan Bilek, Investor Relations and Merger and Acquisitions Director, and Mr.Emre Alpman, Capital Markets and

Compliance Principal. Mr. Guler is the Chairman of the Corporate Governance Committee. Mr. Zeynel Korhan Bilek and Emre Alpman were appointed members of the Corporate Governance Committee by a CMB communiqué requirement and they were appointed on November 2, 2016 and January 23, 2017 respectively.

***c. The Candidate Nomination Committee***

On April 27, 2012, the Candidate Nomination Committee was established in accordance with the CMB corporate governance principles to perform independent board member candidate nomination and performance assessment processes. The current members are Mr. Ahmet Akca, Mr. Mehmet Hilmi Guler, Mr. Atilla Koc, Mr. Mehmet Bostan and Mr. Bekir Pakdemirli. Mr. Akca is the Chairman of the Candidate Nomination Committee.



**Table of Contents**

***d. The Compensation Committee***

On December 19, 2012, in conformity with the CMB corporate governance principles, our Board established a Compensation Committee to operate under our Board of Directors. The current members are Mr. Atilla Koc, Mr. Mehmet Hilmi Guler and Mr. Mehmet Bostan. Mr. Koc is the Chairman of the Compensation Committee. The Board also adopted the Compensation Committee's Charter and approved that the Compensation Committee shall execute the duties relating to compensation issues which were earlier granted to the Corporate Governance Committee by the Corporate Governance Committee Charter and the Compensation Committee shall be authorized in lieu of the Corporate Governance Committee in Total Remuneration Policy for the Board of Directors and Top Executives adopted by our Board. The Committee determines the remuneration principles that apply to the Board members and senior management taking into account the long-term strategic goals of the Company. It sets out the remuneration criteria for the Board members and senior management's performance and makes compensation recommendations to the Board.

***e. The Early Detection of Risks Committee***

The Early Detection of Risks Committee has been established in conformity both with the new Turkish Commercial Code and CMB corporate governance principles to assist the Board in early detection of risks that may jeopardize the Company's existence, development and continuation, and to assist the Board in taking the necessary measures and remedial actions to manage such risks. The current members are Mr. Mehmet Hilmi Guler, Mr. Mehmet Bostan and Mr. Bekir Pakdemirli. Mr. Guler is the Chairman of the Early Detection of Risks Committee.

On January 28, 2016 the Board has adopted new charters relating to all of the above mentioned committees.

**Table of Contents****6.D Employees**

From our formation in 1993, we have grown from approximately 90 employees to 18,999 employees as of December 31, 2016. Due to our customer growth and the increasing need for competent employees, we focus on the quality of our recruitment. The following table sets forth the number of employees by activity employed by us at December 31, 2016, 2015 and 2014.

<b>Turkcell</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Board of Directors Office	15	14	
Group Internal Audit	46	41	19
CEO Office	13	13	9
Legal & Regulation	115	92	92
Business Support	348	336	
Finance	239	233	298
Strategy	31	28	
Marketing	180	270	
Sales	1,061	1,091	
Technology Group	1,619	1,550	
Customer Experience Management	124		
Products & Services	79		65
International Business			11
Consumer Sales			331
Consumer Marketing			252
Corporate Business			798
Information & Communication Technologies			596
Network Technologies			643
Group Human Resources			194
Group Strategy & Strategic Planning			5
Investor Relations			6
Corporate Communication		38	
Turkcell Academy		50	
Customer Services		95	
<b>Subtotal</b>	<b>3,870</b>	<b>3,851</b>	<b>3,319</b>
<b>Subsidiaries</b>			
Turkcell Global Bilgi	11,221	9,179	7,880
lifecell LLC	1,196	1,037	1,108
Belarusian Telecom	366	355	419
Global Bilgi LLC	910	836	798
Turkcell Superonline <sup>1</sup>	33	26	670
Turkcell Teknoloji	775	712	766
Kibris Telekom	208	208	168
Others <sup>2</sup>	416	445	502
<b>Subtotal</b>	<b>15,129</b>	<b>12,798</b>	<b>12,311</b>
<b>Total</b>	<b>18,999</b>	<b>16,649</b>	<b>15,630</b>

We remain confident that high levels of subscriber satisfaction will be possible with continued investment in our people. To that end we continue to strive to attract the best talent in the market.

We are able to recruit highly qualified employees due to our leader position in the Turkish mobile communication market and our strong corporate identity. Stringent hiring and training standards have resulted in a professional organization with high-caliber employees within a challenging workplace.

With regard to employee compensation and benefits, the major principles of our policy are to preserve internal equity and external competitiveness and reflect individual performance in compensation packages.

Significant factors involved in the process of determining compensation and benefits for our employees are our grading structure (based on the Hay Grading system), market movement data and individual performance.

- <sup>1</sup> As of August 2015, main functions of Turkcell Superonline such as Sales, Marketing, Network and Technology are centralized under Turkcell related functions.
- <sup>2</sup> Others include the following subsidiaries: Inteltek Internet Teknoloji Yatirim ve Danismanlik Ticaret A.S., Global Tower, Uktower, Azerinteltek and Turkcell Satis ve Dagitim A.S., Turkcell Odeme Hizmetleri and Lifetech.

**Table of Contents**

We make salary adjustments once yearly. Principal factors in salary adjustments are market movements and economic indicators (e.g., the rate of inflation). We pay performance bonuses quarterly to sales employees and annually to all other employees in accordance with individual and company performance results. Our performance evaluation system evaluates the whole year performance of our employees through target setting-based on strategic objectives and 360-degree evaluation. Benefits packages are designed in line with the local market practice and linked to grade bands/levels where the benefits package improves as the grade band/level increases. We run a flexible benefits plan that allows our employees to select from a pool of choices that suit them such as several shopping and travel vouchers, allowance for children and payment to the Defined Contribution Plan (the "DCP"). The DCP is a voluntary pension system in which we and the employee make equal contributions. After a vesting period of three years, the employee gets ownership of the contribution we made. The DCP covers all employees who have been working with us for a minimum of six months. Starting from January 2016, we have launched a long-term incentive plan offered to the management of Turkcell and group companies. The long-term incentive plan is subject to company performance measures and linked to our share price performance.

Each of our employees undergoes an orientation program incorporating classroom training and e-learning training. The training provides employees with information concerning corporate culture and ethics, an introduction to our services, basic mobile communications knowledge and functions of departments. Each employee has the opportunity to participate in the individual, organizational, functional and managerial development programs after regular analyses of his or her training needs. In addition, each employee receives specific training for his or her particular job.

Our employees are not members of any union, and there is no collective bargaining agreement with our employees. We have not experienced any work stoppages.

**6.E Share Ownership**

Based on reporting made to us in March 2017, we believe that the aggregate amount of shares owned by our Board members and senior officers at such time was 88,900 ordinary shares. No individual Board member or senior officer owned 1% or more of our outstanding shares.

**ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS****7.A Major Shareholders**

The following table sets forth our major shareholders' ordinary share ownership representing 51.05% of our company's capital. This information is current as of March 10, 2017, based on the information provided by Central Registry Agency and company sharebook. Our shareholders do not have different voting rights.

Name and Address of Owner	Nominal TRY Value of Shares Owned	Percent of Class
<b>Turkcell Holding A.S.</b> <sup>(1)</sup> Buyukdere Cad. Yapi Kredi Plaza A Blok Kat: 15 34330, Levent, Istanbul, Turkey	1,122,000,000.238	51.00%

<b>Cukurova Holding A.S.</b>	995,509.429	0.05%
Buyukdere Cad.		
Yapi Kredi Plaza		
A Blok Kat: 15		
34330, Levent, Istanbul, Turkey		
<b>Shares Publicly Held<sup>(2)</sup></b>	1,077,004,490.333	48.95%
<b>Total</b>	2,200,000,000	100%

- (1) 52.91% of Turkcell Holding A.S. shares are owned by Cukurova Telecom Holdings Limited. 51% of Cukurova Telecom Holdings Limited's shares are owned by Cukurova Finance International Limited and 49% are owned by Alfa Telecom Turkey Limited. For more information, see Item 3.D Risk Factors Turkcell's complex ownership structure and ongoing disagreements among our main shareholders have adversely impacted and may continue to impact decision-making on important matters. These ongoing disputes may lead to further regulatory or legal actions, and affect the ownership and control of our shares .

---

**Table of Contents**

(2) We calculate shares publicly held by deducting from total shares outstanding those shareholders named above. However, a different level of shares publicly held is arrived at when calculating according to Turkish regulations, see Free Float Definition Rules in Item 10.B. Memorandum and Articles of Association Capital Structure Free Float Definition Rules . On December 6 and 7, 2016, Sonera Holding BV applied to Central Registry Agency to convert its Turkcell stake into tradable shares with a nominal value of TRY 287,632,179.557, which is 13.07% of Turkcell. These shares are now publicly held. Based on public filings of Telia Company, we understand that approximately 0.94% of the shares they own in our Company is also a part of float, which is in addition to 13.07% of Turkcell shares (for a total of 14.02%). According to an announcement made by Silchester International Investors LLP on Borsa Istanbul's Public Disclosure Platform on November 8, 2016, it held 5.04% of our publicly held shares. As of March 10, 2017, we do not have further information about the shareholding status of Silchester International Investors LLP.

As of March 10, 2017, Turkcell had 58,925,902 ADRs outstanding held by 52 registered ADR holders. To the best of our knowledge, as of December 31, 2016, in accordance with the loan agreements signed between our shareholders and various banks, 0.05% of shares having a nominal value of TRY 995,509.429 have been pledged by our shareholders as security in favor of such banks.

Muflis Bilka Kaynak Iletisim San ve Tic. A.S. completed the sale of its 137,199.575 shares in our Company through the Central Registry Agency as of March 30, 2012. These shares are now classified as publicly held shares of the Company and Muflis Bilka is therefore no longer listed as an ordinary shareholder.

On January 25, 2013, MV Holding registered 26,021,712.590 shares through the Central Registry Agency. These shares are now classified as publicly held shares of the Company and MV Holding is therefore no longer listed as an ordinary shareholder.

On December 6 and 7, 2016, Sonera Holding B.V. registered 287,632,179.557 shares through the Central Registry Agency. These shares are now classified as publicly held shares of the Company and Sonera Holding B.V. is therefore no longer listed as an ordinary shareholder.

## **7.B Related Party Transactions**

We have entered into agreements with our executive officers and with several of our current and former shareholders or affiliates of shareholders. We believe that all of such agreements are on terms that are comparable to those that would be available in transactions with unrelated parties. Our policy is to seek price quotes for services and goods we purchase and select the most favorable price. Additionally, our Board has adopted the Rules to be Applied to Related Parties in Purchasing/Selling Assets and Services along with Transfers of Liabilities to be applied by the relevant employees within the company and its group companies on November 22, 2014. For a discussion of our Related Party Transactions for fiscal year 2016, see Note 38 to our Consolidated Financial Statements.

## **7.C Interests of Experts and Counsel**

Not Applicable.

## **ITEM 8. FINANCIAL INFORMATION**

### **8.A Consolidated Statements and Other Financial Information**

Audited Consolidated Financial Statements as of December 31, 2016, 2015 and 2014, and for each of the years in the three-year period ended December 31, 2016, are included in Item 18. Financial Statements .

Our Company's Board of Directors decided to appoint PwC Bagimsiz Denetim ve Serbest Muhasebeci Mali Musavirlik A.S (formerly known as Basaran Nas Bagimsiz Denetim ve Serbest Muhasebeci Mali Musavirlik A.S.) (PricewaterhouseCoopers) as the independent audit firm to audit our accounts and operations for the year 2017. The decision will be submitted to the approval of our shareholders at the next Annual General Assembly Meeting of our Company.

## **I. Legal Proceedings**

For a discussion of the various claims and legal actions in which we are involved, see Note 37 (Commitments and Contingencies) to our Consolidated Financial Statements in this Form 20-F. This includes

## **Table of Contents**

disputes with the Turkish Treasury, the Ministry of Transport, Maritime Affairs and Communications and ICTA on Treasury Share amounts payable by us and with the Turkish tax authorities regarding Special Communication Tax, an ICTA investigation of subscriber numbers as they relate to calculation of radio usage fees, a Competition Board investigation alleging abuse of market position and various other matters.

## **II. Dividend Policy**

The 2016 General Assembly Meeting was held on March 29, 2016 and during the meeting a dividend distribution for the year ended December 31, 2015 was proposed, amounting to TRY 1,200,000,000 (equivalent to \$319.8 million as of March 10, 2017), which represented approximately 58% of distributable net income for the relevant year. This distribution was not approved at the General Assembly Meeting held in 2016. There is no Board of Directors resolutions for the dividend distribution for 2016 as of the filing date of this document.

We have adopted a dividend policy, which is included in our Corporate Governance Guidelines. As adopted, our general dividend policy is to pay dividends to shareholders with due regard to trends in our operating performance, financial condition and other factors. Since 2004, the Board of Directors has endeavored to distribute cash dividends of at least 50% of our distributable net profits per fiscal year, although the payment of dividends remains subject to our cash flow requirements, applicable Turkish laws and the approval of, or amendment by, the Board of Directors and the General Assembly of Shareholders.

In order to comply with the Capital Markets Board's Communiqué on Dividends II-19.1 dated January 23, 2014, the Turkcell Board of Directors amended its dividend distribution policy proposal in February 2014, as stated below, which was approved by the Ordinary General Assembly held on March 26, 2015:

*The Company shall target a dividend payout of at least 50% of its distributable net income as cash. This policy will be subject to the Company's cash projections, business outlook, investment plans and capital market conditions. The actual dividend decision will be made for each fiscal year separately with the approval of the General Assembly of Shareholders. Dividend distribution shall be started on a date to be determined by the General Assembly of Shareholders which shall not be later than the end of the year in which the General Assembly convenes. The Company, in accordance with laws and regulations, may consider distributing advance dividends or making the dividend payment in equal or unequal installments.*

*Additionally, in order to create added value for its shareholders, the Company may also consider share repurchase programs depending on the conditions set forth above and applicable regulation.*

In accordance with Turkish law, the distribution of profits and the payment of an annual dividend with respect to the preceding financial year are subject to a recommendation which may be made by the Board of Directors each year for approval by the shareholders at the annual general assembly. The Board may decide whether or not to recommend a distribution of profits together with the amount of dividends, and the shareholders, through the general assembly, may accept, amend or reject such proposal, if any. Dividends are payable on a date proposed by the Board of Directors and determined at the general assembly of shareholders, which date, under the CMB requirements, must be earlier than the end of the financial year in which the general assembly decides on dividend distribution. However, the CMB is authorized to designate another deadline for distribution of dividends in any given year.

Annual profits are calculated and distributed in accordance with our Articles of Association after deduction from our annual revenues of all expenses, depreciation, taxes, required reserves and any losses from the previous years.

Pursuant to CMB regulations, dividend distributions of publicly held companies are regulated as follows.



From the distributable net dividend calculated as per the CMB's regulations, the entire amount calculated according to the CMB regulations regarding the requirement of minimum dividend distribution shall be distributed in the event such amount can be covered by the distributable net dividend in the statutory records. In the event the entire amount cannot be covered by the distributable net dividend in the statutory records, the total distributable net dividend in the statutory records shall be distributed. In the event there is net loss in the financial statements prepared as per the CMB regulations or statutory records, there shall be no dividend distribution.

The new Capital Markets Law, which came into force on December 30, 2012, stipulates that public companies shall distribute dividends in line with their dividend policy determined by their general assembly and

## **Table of Contents**

in conformity with the relevant legislation. However, the new law entitles the Board to regulate dividends. The CMB also published a Communiqué on Dividends (II-19.1) on January 23, 2014 which entered into force on February 1, 2014. Within the scope of the Communiqué, companies shall distribute dividends through a general assembly resolution in accordance with current legislation and the policies of the company. As per the Communiqué, dividends may be distributed in installments in case a general assembly resolution is adopted in this regard. The Communiqué also sets out the principles and procedures for the distribution of dividends. This new Communiqué revoked the Communiqué on the Principles Regarding the Distribution of Dividends and Interim Dividends to be Followed by Publicly Held Joint Stock Companies subject to the Capital Markets Law Serial: IV No: 27, dated November 13, 2001.

To the extent we declare dividends in the future, we will pay those dividends in Turkish Lira. In the case of ordinary shares held in the form of ADSs, dividends will be converted into U.S. Dollars by the depositary for the ADSs, to the extent it can do so on a reasonable basis, and will be distributed to the holders of the ADSs. Because exchange rates between the Turkish Lira and the U.S. Dollar fluctuate continuously, a holder of ADSs will be subject to currency fluctuation generally, but particularly between the date on which dividends are declared and the date dividends are paid. Under current Turkish regulations, dividends or other distributions paid in respect of the ordinary shares or ADSs generally will be subject to withholding taxes. See Item 10E. Taxation .

### **8.B Significant Changes**

Not applicable.

## **ITEM 9. THE OFFER AND LISTING**

### **9.A Offer and Listing Details**

Our capital consists of ordinary shares. Pursuant to an amendment in Turkish Capital Markets Law and a communiqué issued by the CMB, our shares traded on the Borsa Istanbul were dematerialized as of November 2005. For detailed information on the dematerialization of our shares, see Item 10.B. Memorandum and Articles of Association Transfer of Shares .

Our ordinary shares are traded on the Borsa Istanbul under the symbol TCELL and our ADSs are traded on the NYSE under the symbol TKC . Currently two ADSs represent five of our ordinary shares. Our ADSs are evidenced by American Depositary Receipts ( ADRs ). On July 6, 2011, we signed an amended and restated Deposit Agreement (the Deposit Agreement ) with Citibank N.A. ( Citibank ), as depositary (the Depositary ), Turkcell and holders of ADRs, which transferred our ADR program from JPMorgan Chase Bank to Citibank.

Since January 1, 2006, capital gains realized without meeting a one-year holding period are subject to a withholding tax in Turkey. On July 7, 2006, a provision was added to article 1/a of Code 5527 stating that foreign-based taxpayers, natural persons and corporations are subject to 0% tax. See Item 10.E. Taxation .

**Table of Contents**

The table below sets forth, for the periods indicated, the reported high and low closing quotations (as extracted from Bloomberg) on the NYSE and the Borsa Istanbul. All quotations have been adjusted to take into account all dividends we have issued in the form of shares and cash.

	New York Stock Exchange (\$ per ADS)		Borsa Istanbul (TRY per Ordinary Share)	
	High	Low	High	Low
<b>Annual information for the past five years</b>				
2016	10.80	6.37	12.45	8.89
2015	14.35	8.38	13.55	9.90
2014	14.42	10.48	12.81	9.36
2013	15.43	11.25	11.07	8.86
2012	14.02	9.41	10.07	7.03
<b>Quarterly information for the past two years - 2016</b>				
First Quarter	10.78	7.86	12.45	9.42
Second Quarter	10.80	8.60	12.12	10.03
Third Quarter	9.77	7.99	11.31	9.71
Fourth Quarter	8.22	6.37	10.15	8.89
<b>Quarterly information for the past two years - 2015</b>				
First Quarter	14.35	10.21	13.55	10.81
Second Quarter	12.02	10.53	12.65	11.15
Third Quarter	11.90	8.68	12.70	10.55
Fourth Quarter	10.66	8.38	12.20	9.90
<b>Monthly information for most recent six months</b>				
October 2016	8.22	7.91	10.15	9.75
November 2016	7.83	6.60	9.81	9.03
December 2016	6.90	6.37	9.75	8.89
January 2017	7.51	6.67	11.40	9.37
February 2017	8.46	7.36	12.01	10.99
March 2017 (as of March 10, 2017)	8.41	8.08	12.45	12.08

Fluctuations in the exchange rate between the Turkish Lira and the U.S. Dollar will affect any comparisons of ordinary share prices and ADS prices.

On March 10, 2017, the closing price per ordinary share on the Borsa Istanbul was TRY 12.09 and per ADS on the NYSE was \$8.18. The Depositary confirmed that we had 60,170,840 ADRs outstanding as of the close of business on December 31, 2016. We had 58,925,902 ADRs outstanding as of the close of business March 10, 2017.

**9.B Plan of Distribution**

Not applicable.

**9.C Markets**

Our ADSs are traded on the NYSE under the symbol TKC and our ordinary shares are traded on the Borsa Istanbul under the symbol TCELL .

**9.D Selling Shareholders**

Not applicable.

**9.E Dilution**

Not applicable.

**9.F Expenses of the Issue**

Not applicable.

**Table of Contents**

**ITEM 10. ADDITIONAL INFORMATION**

**10.A Share Capital**

Not applicable.

**10.B Memorandum and Articles of Association**

**I. General**

We are registered in the Istanbul Trade Registry under number 304844. Pursuant to Article 3 of our Articles of Association, as amended on January 30, 2009, at the Extraordinary General Assembly, we are incorporated primarily for the provision of any telephone, telecommunication and similar services in compliance with the Telegraph and Telephone Law number 406 and services stated in the GSM Pan Europe Mobile Telephone System bid that was signed with the Ministry of Transport, Maritime Affairs and Communications and to operate within the authorization regarding the IMT-2000/UMTS services and the infrastructure.

**II. Board Members**

**a. General**

According to our Articles of Association, the Board of Directors is comprised of seven members elected by the general assembly. An increase in the number of members of the Board of Directors must be approved by the general assembly. However, in a series of resolutions in 2013, the CMB appointed new members to our Board, who shall remain members until new members are elected or until the CMB announces a new resolution. With the new Turkish Commercial Code Act number 6102 ( TCC ), which came into force on July 1, 2012, the requirement of having a share of company in order to become a member of Board of Directors has been abolished. The individuals who do not have any shares in the company have been provided an opportunity to be elected as members of the Board of Directors and carry out such duty. Additionally, the TCC mandated that the Board members who have been elected as a representative of a legal entity be required to resign and that the new Board members (as individuals or representatives of the legal entity) be required to be appointed in their place until October 1, 2012 at the latest. Currently none of the directors on our Board are either representatives of shareholders that are legal entities or shareholders themselves.

The TCC does not require a Board member to be a Turkish citizen. There is no minimum age for the directors, provided that a Board member has reached the age of majority, which is 18, and there is no mandatory retirement age under applicable law. The conditions to be a Board member are regulated by the new TCC and the conditions to be an independent board member are regulated by the related CMB legislation.

**b. Board Members Interest**

The TCC forbids a Board member to enter into a transaction with us in any area relating to business, either on the Board member's own behalf or on behalf of someone else, thus preventing the abuse of duty by Board members and protecting our interests (TCC Article 395) without the authorization of the general assembly. Our general assembly may authorize our Board members to enter into these types of transactions through a specific provision in our Articles of Association, or our general assembly may grant such a right on a yearly basis.

Interested Board members cannot participate in and sign such resolutions. If we suffer any loss because of a Board member's failure to raise such an issue, the Board member shall be held liable to compensate us for the loss incurred due to such matters related to relatives.

Under TCC Article 396, without the authorization of the general assembly, the Board members are barred from participating in similar commercial activities outside our Company. Board members cannot become shareholders with unlimited liability or become Board members of companies active in similar types of business. A specific provision in our Articles of Association or our general assembly may grant such a right on a yearly basis.

Furthermore, based on the Corporate Governance Communiqué numbered II-17.1, which was published in the Official Gazette dated January 3, 2014, replacing the previous regulatory framework, in cases where shareholders having a management control, members of the board of directors, managers with administrative liability and their spouses, or relatives by blood or marriage up to second degree, conduct a significant transaction with the company or its subsidiaries which may cause a conflict of interest, and/or conduct a transaction on behalf of themselves or a third party, which is in the field of activity of the company or its

---

**Table of Contents**

subsidiaries, or become an unlimited shareholder to a corporation which operates in the same field of activity as the company or its subsidiaries, such transactions need to be included in the general assembly agenda as a separate item for providing detailed information at the general assembly meeting on the matter and need to be recorded in the minutes of the meeting.

***c. Compensation***

Any remuneration payable to Board members in relation to their Turkcell board membership shall be determined by our general assembly. The Board of Directors has no authority to determine such remuneration. At our Annual General Assembly held on April 29, 2010, it was decided that our Chairman would receive a net sum of 250,000 per year and each Board member would receive a net sum of 100,000 per year for the period of their service, effective February 25, 2010.

According to a CMB Communiqué Serial: IV, No: 56 Concerning the Establishment and Implementation of the Corporate Governance Principles, which was published in the Official Gazette dated December 30, 2011, a written Remuneration Policy for Board members and senior management was prepared. This Policy was posted on the company's website and submitted at the Annual General Assembly as a separate agenda item for information. The Corporate Governance Communiqué numbered II-17.1, which was published in the Official Gazette dated January 3, 2014 and replaced the Communiqué Serial: IV, No: 56, kept this requirement as a mandatory corporate governance principle dealing with Financial Rights of Board Members and Executives Having Administrative Responsibility. The Annual General Assembly meeting of our Company pertaining to the years 2010, 2011, 2012, 2013, and 2014 has been convened on March 26, 2015 and 2015 has been convened on March 29, 2016. The same item was on the agenda for the Annual General Assembly meeting held in 2016 and shareholders have been informed; however there was no proposal on the remuneration and therefore no voting took place. Payment plans such as stock options or those based on company performance are not used in the remuneration of independent Board members. Remuneration of independent board members must safeguard the independency level.

***d. Borrowing Power***

To the extent the relevant provisions of Turkish law allow, the Board of Directors of our Company is the body entitled to, directly or through representatives authorized by the Board of Directors, resolve to exercise our powers to borrow money or give any form of guarantee or surety relating to our or any third party's obligations. The CMB adopted a rule on September 9, 2009, which was announced in its weekly bulletin in connection with credit extensions, that public companies can provide guarantees or pledges, including mortgages, to third parties, provided such third party (i) is fully consolidated in the company's financial statements or (ii) the ordinary business operations of the company directly requires providing guarantees, pledges or mortgages. At the Ordinary General Assembly held on April 29, 2010, Article 3 entitled Purpose and Subject Matter of Turkcell's Articles of Association was amended in line with CMB's rule dated September 9, 2009. Under our Articles of Association, our Board of Directors is authorized to issue debentures and other securities subject to the TCC, Turkish Capital Markets Law and other relevant legislation. Under Turkish Capital Markets Law, the total value of capital market instruments shall not exceed the amount specified by the CMB, for each type of instrument. However, as a general rule, the total value of debentures and other debt instruments that a publicly held company may issue as capital market instruments may not exceed the balance remaining after deducting the losses, if any, from the total sum of the outstanding and paid-up capital as shown on the latest independently audited financial statements submitted to the CMB, plus reserves and the revaluation fund stated in the latest financial statement approved by the general assembly. Pursuant to Article 3 of our Articles of Association, as amended on October 2, 2009 at the Extraordinary General Assembly, and as effective on October 7, 2009, we can extend credits to companies in which we have direct or indirect shareholding interest, both in Turkey and overseas, as well as to our main company and group companies, in Turkish Lira or other foreign currencies, on the condition that

such extensions do not conflict with applicable laws and regulations. In addition, the TCC similarly allows group companies to extend credits and guarantees to each other without abusing their authority. The Corporate Governance Communiqué numbered II-17.1, which was published in the Official Gazette dated January 3, 2014, incorporated the rule which was announced in its weekly bulletin on September 9, 2009 in its Article 12. Furthermore, as per Article 12, board resolutions with regard to providing guarantees or pledges including mortgages within the framework of ordinary business operations of the company should be signed by the majority of independent board members. In case the majority of independent board members do not approve the resolution, dissenting opinions should be announced to the public. In such resolutions, related board members, if any, could not participate to the relevant board meeting. The CMB further took a decision which is published in its weekly bulletin on January 27, 2016 according to which it is concluded that providing by non-public affiliates to public parent companies of any guarantees, pledges including mortgages is not conflicting with Article 12.



---

**Table of Contents*****e. CMB Rules Regarding Transactions with Related Parties***

Initially, based on the CMB Communiqué Serial IV, No. 56, dated December 30, 2011, the approval of the majority of the independent members was necessary for any and all kinds of related party transactions of the company (related parties referred in the Communiqué will be determined in accordance with the Turkish Accounting Principles No. 24, equivalent of IAS 24), as well as for the resolutions of the board of directors with respect to giving guarantees, pledges and mortgages in favor of third parties. The CMB in a further announcement clarified that listed companies could adopt one board/general assembly resolution for the execution of transactions of a continuous and extensive nature with related parties unless the terms of those transactions had changed. In the event such changes occur, new board/general assembly resolutions will be needed. The new Capital Markets Law dated December 30, 2012 empowered the CMB to determine the nature of such transactions. Accordingly, the CMB with its Communiqué Serial IV, No. 63 dated February 22, 2013 restricted the scope and set out that only material related party transactions, as opposed to all kinds of transactions, shall be submitted to the approval of independent members. In cases where the majority of the independent members do not approve such material transaction, the case shall be disclosed to the public in a manner covering sufficient information with respect to the transaction within the scope of public disclosure arrangements, and the transaction shall be submitted to the general assembly for approval. During such general assembly meetings, a resolution shall be adopted by vote in which the parties to the transaction as well as the individuals related thereto are not entitled to vote. Meeting quorum shall not be necessary for the general assembly meetings to be held for those cases. Such resolutions shall be adopted by simple majority of the attendees having the right to vote. The Company shall incorporate related mandatory provisions of the said Communiqué in its Articles of Association (along with other mandatory provisions relating to corporate governance, see Item 16.G. Corporate Governance ). The Corporate Governance Communiqué numbered II-17.1, which was published in the Official Gazette dated January 3, 2014, defined the materiality as set out by the Communiqué Serial IV, No. 63. Accordingly, a 10% threshold will be applied in comparison with the relevant criteria such as total annual assets, annual revenues or market value of the company. When a transaction's amount is above this 10% threshold, the majority vote of independent board members will be sought. Additionally, in order to ensure internal compliance with the CMB's related party transactions, our Board has adopted the Rules to be Applied to Related Parties in Purchasing/Selling Assets and Services along with Transfers of Liabilities to be applied by the relevant employees within the company and its group companies on November 22, 2014.

**III. Capital Structure*****a. General***

Our Board of Directors has adopted the authorized share capital system which, under Turkish law, allows us to increase our issued share capital up to the authorized share capital amount upon resolution by our Board and without need for further shareholder approval. On January 23, 2008, the CMB amended its Communiqué on principles regarding the registered capital system. According to this amendment, the registered capital ceiling authorization given by the CMB shall be valid for five years, including the year in which the authorization is granted. As this five-year term ended in January 23, 2013, as in 2014, the Company applied for the CMB's authorization in order to determine its capital ceiling for a five-year term between 2016 and 2020, however the amendment of Articles of Association reflecting the capital ceiling was not approved in the General Assembly Meeting held on March 29, 2016. The agenda of the General Assembly Meeting to be held on March 30, 2017 also includes the relevant item in order to determine the capital ceiling for a five-year term between 2017 and 2021. In an effort to harmonize new legislation with the Capital Markets Law numbered 6362, which entered into force on December 30, 2012, the CMB released the Communiqué on the Registered Capital System II-18.1 which became effective on December 25, 2013. The new Communiqué mostly includes regulations in line with the former Communiqué (Serial: VI, No: 38) and de facto practice of the CMB. As for the determination of the ceiling, the new Communiqué contemplates a limitation for the

ceiling and states that the registered capital ceiling shall not be more than five times the issued capital or the equity, whichever is higher. The new Communiqué also sets out that the registered capital ceiling may be exceeded once within the scope of each ceiling (i) through conversion of all kinds of internal resources and dividends into the share capital; and (ii) as a result of transactions requiring general assembly resolutions such as mergers and spin-offs. However, both the former legislation and the new Communiqué provide that the registered capital ceiling may not be exceeded with capital increases through cash. As in the former regime, the registered capital ceiling approved by the CMB is valid for five years including the year in which the approval is granted. Upon the expiry of the term, even if the registered capital ceiling has not been reached, in order for the board of directors to adopt a capital increase resolution, the board of directors must obtain authorization for a new period at the first general assembly upon the approval of the CMB for the same ceiling or a new ceiling. The term of this authorization may be

---

**Table of Contents**

extended for five year periods through a general assembly resolution. In the event such authorization is not obtained, the new Communiqué emphasizes that companies may not realize a capital increase through a board of directors resolution, whereas under the former Communiqué, companies were deemed to be excluded from the registered capital system. The increase of the registered capital ceiling, extension of the permission period, capital increase and relevant resolutions of the board of directors shall be disclosed to the public within the framework of the CMB disclosure rules.

***b. Preemption Rights***

We may increase our capital only through the issuance of new shares, and such issuances may come in the form of a rights offering or a bonus issue. Under Turkish law, existing shareholders are entitled to subscribe for new shares, also known as preemption rights, in proportion to their respective shareholdings each time we undertake a capital increase. Our Board of Directors will generally recommend that new shares be issued at prices equal to their nominal value, which entitles the existing shareholders to subscribe for shares at a significant discount from their current market price. The exercise of preemption rights by shareholders must be made within a subscription period which we announce, which may not be less than 15 days nor more than 60 days after the issuance of the preemption rights circular. Shareholders who do not wish to subscribe for new shares may sell their rights on the Borsa Istanbul ( BIST ). Any shares not subscribed for by the existing shareholders or purchasers of the rights coupons are sold on the BIST at the current market price. Any differences between the rights issue price and the price realized for the shares on the BIST would accrue to our surplus account. Preemption rights of shareholders related to a rights offering may be restricted wholly or in part either by an affirmative vote of the holders of a majority of the outstanding shares at an ordinary or extraordinary general assembly or a resolution adopted by the Board of Directors to such effect, provided that such authority is conferred upon the Board of Directors. CMB rules stipulate that such authority may be conferred upon the Board of Directors of companies that have received permission from the CMB to adopt the authorized capital system. As per the new Communiqué on the Registered Capital System II-18.1, the General Assembly shall approve the amendments to the articles of association with respect to granting authorization to the board of directors to restrict the pre-emptive rights of the shareholders to acquire new shares. Contrary to the former Communiqué, the new Communiqué has not foreseen a meeting quorum. With regard to the decision quorum, the former Communiqué differentiated between companies making an initial public offering and public companies, whereas the new Communiqué has not stipulated any such distinction. Accordingly, the new Communiqué regulates that shareholders holding 2/3 of the shares having voting rights shall provide affirmative votes. In addition, the new Communiqué has prescribed that if at least shareholders holding half of the voting shares are present at the meeting, the decision quorum shall be the majority of the shares participating in the meeting.

By the amendment to the Articles of Association, we have conferred such authority on our Board of Directors. The CMB further requires that the right of the Board of Directors to restrict the preemption rights of shareholders applies equally with respect to all shareholders. Under Turkish law, bonus issues may be undertaken in order to convert all or a portion of the revaluation fund and reserves of a company into share capital.

***c. Dividend Distribution and Allocation of Profits***

Our Board of Directors recommends annual dividends, which then must be approved by our shareholders at their annual general assembly. Dividends are payable on a date determined at the annual general meeting. Under current rules, the Board of Directors may decide whether or not to recommend a distribution of dividends, and our shareholders at our annual general meeting may decide whether or not to distribute dividends in any year. According to new Capital Markets law, we may freely determine the amount of dividends to be distributed based on the Dividend Policy, pursuant to applicable Turkish laws and upon the approval of, or amendment by, the Board of Directors and the General Assembly of Shareholders. The Board decides whether or not to recommend an allocation of profits, as

well as the amount of dividends, and the shareholders, through the general assembly, may accept, amend or reject such proposal, if any.

The new dividend distribution regime is governed by a CMB Communiqué on Dividends II-19.1 which was published in the Official Gazette dated January 23, 2014, numbered 28891, which entered into force on February 1, 2014. Within the scope of the Communiqué, companies shall distribute dividends through a general assembly resolution in accordance with current legislation and the policies of the company. As per the Communiqué, dividends may be distributed in installments in case a general assembly resolution is adopted in this regard. The Communiqué has also determined the principles and procedures for the distribution of dividends. The CMB allows public companies the possibility of choosing the timing and payment method of the dividend distribution on the condition that the company's own dividend policy should regulate this. In any case, according

## **Table of Contents**

to the new Communiqué, distribution should commence until the end of the financial year in which the general assembly decided on distributing a dividend.

In order to comply with this Capital Markets Board's Communiqué, the Turkcell Board of Directors amended its dividend distribution policy proposal in February 2014, as stated below, and approved by the Ordinary General Assembly held on March 26, 2015:

*The Company shall target a dividend payout of at least 50% of its distributable net income as cash. This policy will be subject to the Company's cash projections, business outlook, investment plans and capital market conditions. The actual dividend decision will be made for each fiscal year separately with the approval of the General Assembly of Shareholders. Dividend distribution shall be started on a date to be determined by the General Assembly of Shareholders which shall not be later than the end of the year in which the General Assembly convenes. The Company, in accordance with laws and regulations, may consider distributing advance dividends or making the dividend payment in equal or unequal installments.*

*Additionally, in order to create added value for its shareholders, the Company may also consider share repurchase programs depending on the conditions set forth above and applicable regulation.*

In parallel with the new Capital Markets Law, the new Communiqué on Dividends sets ground rules for donations: articles of association of public companies should contemplate it and an annual limit should be determined by the general assembly. On February 24, 2015, within the framework of the CMB regulations, our Board has resolved that, by means of determining the upper limit for the total amount of donations to be made by the Company within the year 2015 as up to 0.2% of our Company's revenue included in the annual consolidated financial tables relating previous fiscal year announced to the public pursuant to CMB regulations, this abovementioned upper limit is approved by General Assembly of our Company. On January 28, 2016, our Board of Directors has resolved to determine the upper limit for the total amount of donations to be made by our Company within the year 2016 as up to 1% of our Company's revenue as set forth in the annual consolidated financial statements for the previous fiscal year as announced to the public pursuant to Capital Markets Board regulations. This limit is approved at the General Assembly of our Company held on March 29, 2016.

Dividends are payable by transfer to the account of the shareholders with a bank in Turkey corresponding to the relevant portion of their shares. Shareholders' entitlement to cash dividends remains in effect for a period of five years following the date of the general assembly approving such distribution, after which time they are transferred to the Turkish government.

Part of our remaining net profit may be distributed to our shareholders as a second dividend or retained by us as retained earnings, all at the discretion of our general assembly.

For additional details regarding our dividend policy see Item 8.A. Consolidated Statements and Other Financial Information Dividend Policy .

### **d. Voting Rights**

Shareholders are entitled to one vote per share on all matters submitted to a vote of our shareholders.

CMB Communiqué Serial IV, No. 56 dated December 30, 2011 (see Item 16.G. Corporate Governance for further information), initially stated that transactions considered as material (transfer, acquisition or lease of all or significant portion of company assets or constitution of limited property right there on; providing concession or changing content

or subject of existing concessions and being delisted) under certain conditions those material transactions will need to be approved by the general assembly. In the event that parties to such transactions are related parties, such related parties shall not vote at the general assembly. The new Capital Markets law dated December 30, 2012 further expanded the scope of material transactions, which were exhaustively enumerated by the aforementioned Communiqué by adding the term like at the beginning of the enumeration. However, the topic has once again been regulated by another CMB Communiqué Serial IV, No. 63 dated February 22, 2013, and the term of material transactions with regard to the implementation of Corporate Governance Rules is again exhaustively defined in parallel with the Communiqué dated 2011.

The CMB issued the Communiqué No. II-23.1 on Common Principles Regarding Material Transactions and the Right of Separation (published in the Official Gazette dated December 24, 2013, No. 28861). Material

## **Table of Contents**

transactions of public companies are exhaustively enumerated. Some of the issues covered by the Communiqué are listed below:

procedures and principles applicable to the material transactions of publicly held companies;

exercise of the right of separation in relation to the material transactions and the cases where the right of separation is not applicable;

pricing of the right of separation in non-listed companies;

mandatory tender offer in connection with the material transactions; and

mandatory meeting and decision quorums applicable to general assembly meetings with regard to material transactions.

### ***e. Transfer of Shares***

Subject to the limitations described below, shares may be sold and transferred by endorsement and delivery.

In practice, shares in registered form traded on the BIST are represented by the share certificates endorsed in blank, enabling such shares to be transferred as if they were in bearer form. As per the amendment in the then in force Capital Markets Law and a communiqué issued by the CMB in this respect, our Company's shares traded at the Borsa Istanbul were dematerialized as of November 2005.

Legal and actual dematerialization of the share certificates commenced on November 28, 2005. Beginning from November 28, 2005, it is prohibited for companies registered on the ISE to issue new share certificates, in consideration of rights issues or bonus issues. The new shares arising out of capital increases shall be transferred to the accounts of the rightful owners by registration.

A seven-year term given for the dematerialization of physical shares ended on December 31, 2012 and physical shares which were not delivered for dematerialization were supposed to become the property of the Company. However, according to the new Capital Markets Law which came into force on December 30, 2012, such undelivered physical shares are now transferred to the Investor Compensation Center and sold three months following the transfer on the Investor Compensation Center's accounts. However, the Turkish Constitutional Court in its decision published in the Official Gazette on November 12, 2015, nullified the provisions of the Capital Markets Law regarding the ownership transfer of such undelivered physical shares to the Investor Compensation Center on the ground that such language contradicted with Art. 13 (Restriction of fundamental rights and freedoms) and Art. 35 (Right to property) of the Constitution. As a result of this decision, the CMB regulated the process of payment to the investors whose share ownership has been transferred to the ICC. This regulation has been published in the Official Gazette dated September 7, 2016 numbered 29824.

Concerning registration of share transfers, the Company will take into account the Central Registry Agency's data without requiring any application from the interested parties. Provisions regarding the nominal values of the share

certificates of the Company are regulated in the temporary article of the Company's Articles of Association and such article was approved at the Ordinary General Assembly Meeting on April 29, 2005. The temporary article reads as follows:

Decree 32 on the Protection of the Value of the Turkish Currency issued in August 1989, as amended from time to time, provides that persons not resident in Turkey may purchase and sell our shares, provided that such purchase is effected through a bank or broker authorized pursuant to applicable Turkish capital markets legislation. Turkish capital markets legislation requires that shares of a company quoted on a Turkish securities exchange be traded exclusively on such exchange. The CMB has indicated that this requirement applies only to intermediary institutions licensed for trading on the stock exchange and to trade orders placed with them by investors. Accordingly, our shareholders that are not resident in Turkey may transfer such shares only on the ISE. This requirement does not apply to transfers of ADSs.

Under Turkish law, in the event that one of our shareholders transfers shares to any other shareholder or to any other third party investor, either foreign or local, the Foreign Investment General Directorate ( FIGD ) must be notified within one month of the transfer of shares.

Under Article 8 of the Electronic Communications Law, electronic communications services is rendered and/or electronic communications network or infrastructure is established and operated following the



---

**Table of Contents**

authorization made by the ICTA. Authorization is granted through the notification made in accordance with the principles and procedures determined by the ICTA, in case the resource allocation is not necessary, or given of usage right, in case the resource allocation, which means allocation of frequency, satellite position etc., is necessary. Furthermore, under the Authorization Regulation Regarding Telecommunication Services and Infrastructure Regulation, the ICTA must be notified in case of any share transfers within one month of the transfer of shares at the latest and in the event that the share transfer results in a change in control, such transfer of our shares by any of our shareholders should be realized with the written permission of the ICTA.

Under our Articles of Association, the Board of Directors is entitled to restrict the transfer of shares to foreigners in order to comply with Turkish shareholding requirements under Turkish law.

***f. Disclosure of Beneficial Interests in the Shares***

The Turkish Regulation on public disclosure of listed companies was regulated by the CMB Communiqué Serial VIII, No. 54 on Principles Regarding Public Disclosure of Material Events dated February 2009. The CMB released a new Communiqué on Public Disclosure of Material Events (II-15.1) which was published in the Official Gazette dated January 23, 2014, numbered 28891, which entered into force on February 23, 2014. The CMB has amended the Communiqué No. II-15.1 as of February 10, 2017. Insider information, which means any non-public information that may possibly affect the value of capital market instruments and investors' decisions, is required to be disclosed immediately by listed companies. Shareholders' disclosure requirement would arise if they exceed the shareholding ratios established in the Communiqué II-15.1 (5%, 10%, 15%, 20%, 25%, 33%, 50%, 67% and 95%). Disclosure of insider information may be delayed to protect the legitimate interests of the company without causing market manipulation. For those that have administrative responsibilities in Turkcell (including Board members and high-ranked executives), or are closely related persons and partners (whether natural or legal persons) of issuers that purchase and sell Turkcell's capital market instruments (including, but not limited to, Turkcell shares), such transactions will need to be declared to the Borsa Istanbul; however, according to the Communiqué II-15.1, if the cumulative amount of the above-mentioned Turkcell transactions in a calendar year does not exceed TL 250,000, such declaration will not be needed. This upper limit represents the total amount of all transactions made by both Board members/high-ranked executives and their closely related persons of the company and that of its subsidiaries which represent more than 10% of the total assets according to the latest annual financial statements of the company. Closely related persons means: wives/husbands, children and individuals sharing the same residence at the time of transaction and corporations; legal entities run by, directly/indirectly controlled by or whose economic interests are similar with that of Board members; and high-ranked executives of the Company. The CMB by its decision dated June 27, 2014 issued new guidelines that is also amended on February 10, 2017 for the announcement of material events for public companies based on Article 27 of the Communiqué II-15.1, thus repealing the old guidance which was prepared in conformity with the Communiqué Serial VIII, No:54.

In addition, the CMB adopted a short-swing-profit rule for company executives. The CMB has published the Communiqué No. VI-103.1 Regarding Managers' Payment of Net Purchase and Sale Gains to the Issuers (published in the Official Gazette dated December 12, 2013, No. 28849). The Communiqué VI 103.1 relies on the Capital Markets Law Article 103/4 and indicates that (i) the board members and the committee members of an issuer, (ii) the persons with administrative responsibilities at the issuer and (iii) the persons that have the power to determine and control the issuer's financial and operational policies, decisions or targets directly or indirectly, shall pay the net gains they have obtained through the purchases and sales within the same six-month period. It is indicated in the Communiqué VI 103.1 that the purpose of this regulation is to remove the inequality of opportunity between the persons who receive insider information about the issuers easier and faster due to their positions and the investors that reach the insider information after public disclosure.

In addition, according to the Communiqué on Voluntary and Mandatory Tender Offers ( Communiqué Serial IV No. 44 ) issued by the CMB on September 2, 2009, the mandatory tender offer shall be triggered when, directly or indirectly, more than 50% of our Company s shareholding is acquired or management control of a public company is taken over through acquiring (i) the necessary number of shares granting the right to elect or (ii) privileged shares allowing the nomination of the majority of the board of directors. Communiqué Serial IV No. 44 also stipulates certain circumstances which will not trigger a mandatory offer, such as management control changes of the company by a voluntary tender offer and share transfers by privileged shareholders with management control or persons acting together resulting in a possession of more than 50% of the capital or voting rights. The new Capital Markets Law incorporates those rules under its relevant provisions. The Communiqué on Tender Offer (II-26.1) which repeals the Communiqué Serial: IV No: 44 was published by the Capital Markets Board in the Official Gazette dated January 23, 2014, numbered 28891, which entered into force

---

**Table of Contents**

on the date of its publication. Through the Communiqué, the procedures and principles regarding mandatory and voluntary tender offers as a result of a change in management control have been regulated in compliance with the new Capital Markets Law No. 6362. Moreover, the definition of management control has been regulated as the direct or indirect acquisition of more than 50% of the share capital or the voting rights individually or collectively. Holding more than fifty percent of the voting rights of a corporation directly or indirectly, alone or jointly with persons acting in concert, or regardless of such percentage, holding privileged shares enabling their holder to elect a simple majority of the total number of the members of the board of directors or to nominate for the said number of directors in the general assembly meeting, is considered and treated as an acquisition of control.

The Communiqué on Tender Offer (II-26.1) was modified on February 27, 2015 and the following situation has been added amid cases where a mandatory tender offer will not be triggered. Following the purchase by a third party of a portion of the shares of a controlling shareholder, on the condition that this third party has 50% or less of voting rights of the company, should such third party share equally or less than the management control of the company with this controlling shareholder by virtue of a written agreement, this situation is not considered a trigger for a mandatory tender offer for this third party.

In parallel, the Capital Markets Law No. 6362 introduces a squeeze-out right: in the event the shareholding of a shareholder reaches a threshold, which shall be determined by secondary legislation of the CMB, such shareholder shall have the right to purchase the shares of the minority shareholders and the minority shall have the right to sell their shares. The CMB released the Communiqué on Squeeze-Out Rights and Statutory Put Option Rights (II-27.1) on January 2, 2014 in the Official Gazette numbered 28870, which became effective as of July 1, 2014. This Communiqué was replaced with the Communiqué II-27.2 which entered into force upon its publication in the Official Gazette dated November 12, 2014 and numbered 29173 (the new Communiqué). According to the Communiqué II-27.1, if the controlling shareholder, directly or indirectly, holds at least 95% of the voting rights in a public company as a result of a mandatory tender offer or by any other means, the controlling shareholder has the right to squeeze out all other shareholders regardless of whether they hold privileged shares. As per the new Communiqué, in the event that a shareholder holds at least 98% of the voting rights in a public company either as a result of a mandatory tender offer or by any other means, or if the controlling shareholder already satisfying this threshold acquires an additional share, the controlling shareholder will be entitled to the right to squeeze-out all other shareholders. Once the squeeze-out right arises, the remaining minority shareholders will be entitled to the right to sell-out their shares. The new Communiqué also stipulates a transition period. Accordingly, the threshold of 95% shall continue to apply to squeeze-out rights that arose before December 31, 2014 and a new threshold of 97% shall apply to squeeze-out rights that will arise thereafter until December 31, 2017. The new Communiqué regulates the squeeze-out and the put option rights under the same provision. Accordingly, the controlling shareholder is obliged to make a public disclosure, if and when the controlling shareholders' shareholding ratio reaches at least 98% of the voting rights or acquires additional shares to enhance its status. The remaining minority shareholders are entitled to exercise their sell-out rights within three months following the public disclosure. The three-month period is statutory and the sell-out rights of the minority shareholders shall expire at the end of such period. The minority shareholder willing to exercise its sell-out right shall notify the public company in writing of its request. The board of directors shall procure the preparation of a valuation report in order to determine the purchase price for the minority shares within one month upon the sell-out request. Upon application of the controlling shareholder for exercising the squeeze-out right, and approval of the board of directors about the fulfillment of the conditions for exercising the squeeze-out right, the company shall apply to the CMB for issuance of new shares to replace the cancelled ones. A delisting application to the relevant stock exchange is also required. All payment and settlement transactions shall be conducted via the Central Registration Agency. The controlling shareholder shall deposit the share purchase amount to the company's account, within three business days following the notification made by the company at the latest, and the company shall transfer such amount to the relevant minority shareholders' account on the second succeeding business day to complete the share transfer transactions. As for the calculation of the purchase price, the

purchase price during exercising of the squeeze-out right shall be equivalent to the average of the weighted daily stock market price within the 30-day period prior to the disclosure stating that the controlling shareholder has reached at least 98% of the voting rights or acquired additional shares for traded shares. The Communiqué refers to a fair price for the exercise of the sell-out right. Accordingly, (i) the price determined for the squeeze-out right; (ii) the price determined per each share group through a valuation report; (iii) the price of a mandatory tender offer within the year preceding the public disclosure of control, if any; and (iv) the average of the weighted average prices on the exchange pertaining to the previous six months, previous year and previous five years shall be compared. The highest value shall be determined as the purchase price when the sell-out right is exercised. The controlling shareholder is required to make a public disclosure if and when (i) the voting rights held by it exceed or fall below 98% of the total voting rights in the company; or (ii) it acquires additional shares

**Table of Contents**

when it already holds 98% or more of the voting rights. Additionally, the controlling shareholder is also obliged to make a public disclosure, if and when it decides to exercise the squeeze-out right. The company as well is obliged to disclose the (i) squeeze-out right requests, the procedure of squeeze-out and the results of the squeeze-out; (ii) application of a sell-out right including the total number of shareholders making an application for exercising their sell-out rights, the percentages of their voting rights, and the total price to be paid for the exercised sell-out rights; (iii) the results of valuation reports for determining the share price and (iv) the results of exercising the sell-out right including information on the number of shareholders who have used such right and their voting right percentages and the voting right percentage of the controlling shareholder.

***g. Free Float Definition Rules***

While 48.95% of our shares are listed on the stock exchange, the number of our Company's free floating shares as of March 10, 2017 was 765,960,424.48 according to the Report on Free Float Ratios released by the Central Registry Agency in accordance with the Capital Markets Board's decision 21/655 of July 23, 2010, as amended by its decision 24/729 of August 18, 2010, and its free float ratio was 34.81.%. The difference between these rates results from the exclusion of shares which are: i. held by a public entity, ii. held by the company's incorporators and its affiliates (companies subject to consolidation), iii. held by shareholders who may be a natural person or a corporate body and control at least 10% of the Company's capital (following the amendment by the CMB's decision 31/1059 of October 30<sup>th</sup>, 2014), iv. held by a) the members of the Company's Board of Directors and the Board of Auditors, b) General Manager or executives who are equal to or superior to a general manager in terms of their powers and functions, c) senior executives who report to General Manager or executives who are equal to or superior to a general manager in terms of their powers and functions, v. owned by the savings funds or foundations of companies, vi. provided as equity capital pursuant to regulations applicable to the capital markets legislation or as a collateral in respect of a margin trading or as a collateral except the ones which are given as a collateral only for Central Depository Bank markets, vii. which are legally restricted and cannot be subject to purchase and sale, viii. prohibited, ix. seized in the definition of free float ratio. On December 6 and 7, 2016, Sonera Holding BV applied to Central Registry Agency to convert its Turkcell stake into tradable shares with a nominal value of TRY 287,632,179.557, which is 13.07% of Turkcell. These shares are now publicly held but excluded from free float ratio. The difference may result from one or more situations described in the decision and it is not possible for our Company to know it.

***h. Trading Rules***

According to the CMB Communiqué II-17.1 on Corporate Governance, public companies whose shares are traded on the National Market, Second National Market and Collective Products Market of the exchange shall be divided into three groups in accordance with their systemic significance considering their market values and the market values of the shares in active circulation. The average of the closing prices in the second session of the last trading days of March, June, September and December and the rates of the shares in active circulation is the basis of the calculation of the market price and the price of the shares in active circulation. In cases where different share groups of the same company are traded on the exchange, all of such groups shall be taken into consideration. This calculation shall be made by the CMB each year in January to determine the groups in which the corporations are included and the list shall be published by the Board Bulletin. In this regard, the numerical thresholds to be used for grouping are set forth below:

a) First group: Companies whose average market value is above TRY 3 billion and average market value in actual circulation is above TRY 750 million;

b) Second group: Companies among those excluded from the first group, the average market value of which is above TRY 1 billion and average market value in actual circulation is above TRY 250 million.

c) Third group: Companies among those excluded from the first and second groups, the shares of which are traded on National Market, Second National Market and Collective Products Market.

**Table of Contents**

Accordingly, the CMB by its decision numbered 31/1080 and dated October 30, 2014 determined the following thresholds and measures, which are effective as of January 2, 2015:

Group	Value of the Shares in active circulation (TRY)	Market Maker or Liquidity Builder	Current or Additional Measures			
			Trading Method	Margin Trading or Short Selling	Equity Ratio of Short Settlement	Gross Settlement Method
A	30 Million		Continuous		General	
B	and above 10 - 30 Million		Auction Continuous	YES	Provisions	NO
			Auction Continuous	YES	100%	NO
C	Below 10 Million	YES	Auction Uniform	NO	100%	NO
		NO	Price			

According to the latest CMB decision, Turkcell is listed under Group A companies.

**i. Protection of Minority Shareholders**

Under Turkish securities law, minority shareholders, defined as those who hold 5% or more of our share capital, have the right, among other things, to request our Board of Directors to:

invite the shareholders to an extraordinary general assembly;

request that a matter be included on the agenda at both ordinary and extraordinary general assembly;

request the appointment of special auditors; if the general assembly rejects this request, minority shareholders may apply to the court for the appointment of a special auditor;

take action against Board members who have violated the Turkish Commercial Code or the articles of association of a company or who have otherwise failed to perform their duties;

pursuant to the TCC, provided there is a good reason, minority shareholders may claim from the competent court to rule in favor of dissolution of the Company; and

if provided by the Articles of Association of the Company, certain minority groups may be represented at the Board of Directors.

According to the new Capital Markets Law, in the event a shareholder votes against a material transaction in a general assembly meeting, as briefly described above, such shareholder obtains a right to exit from the company by selling his/her shares. If the shareholder uses that right, the company is required to purchase the shareholder's shares.

**j. Liquidation**

In the event of liquidation, our shareholders are entitled to participate in any surplus in proportion to their shareholdings.

**k. Changes in Capital Structure**

Any increase in our Company's registered capital ceiling requires an amendment to our Articles of Association and therefore shareholder approval through a general assembly. Such amendment is subject to the prior approval of the Ministry of Customs and Trade and the CMB. Our Board of Directors may also restrict the rights of existing shareholders and offer new shares to third parties. Changes in the voting and dividend rights of our shareholders require an amendment to our Articles of Association and approval by the general assembly. Such amendment is also subject to the prior approval of the Ministry of Customs and Trade and the CMB. Furthermore, under the Turkish Commercial Code, during the general assembly meetings held to amend the articles of association of a joint stock company, each share shall be entitled to only one vote, even if otherwise is provided under its articles of association.

Any decrease in our share capital requires an amendment to our Articles of Association. If we undertake to cancel our shares, we must notify any existing creditors, and within two months of notification, they may request payment or, if their receivables are not due and payable, we must create a security interest in their favor. Capital reduction is rarely applied in Turkey.



## **Table of Contents**

### ***I. Share Buy-Backs***

The new TCC contains several rules enabling Turkish companies to repurchase their own shares if they satisfy certain conditions. Accordingly, shares representing up to 10% of the total share capital of the company may be acquired by the company itself. Before the entry into force of the new TCC, the CMB had taken an anticipatory step by enabling listed companies to buy back their own shares. The CMB announced this on August 11, 2011, in its Weekly Bulletin numbered 2011/32, and this announcement describes in detail the procedures and principles which apply to such buy-back transactions.

In accordance with the new Capital Markets Law dated December 30, 2012, the Communiqué on Share Buyback numbered II-22.1 was published in the Official Gazette on January 3, 2014. The Communiqué regulates the principles and procedures of share buybacks or the establishment of pledges over their own shares by public companies. Essentially, the Communiqué governs the principles regarding the (i) share buybacks of public companies or accepting their own shares as pledges; (ii) sell-out of repurchased shares or their amortization; (iii) public disclosure of such transactions; and (iv) safe harbor provisions where share buybacks will not be deemed insider trading or manipulation of the market.

On February 18, 2016 a buyback plan of up to TRY 200 million was announced to be submitted for the approval of the shareholders at the Ordinary General Assembly for 2015; however the proposal made during the General Assembly held on March 29, 2016 was rejected.

Our Company's Board of Directors has authorized the management to execute share buy-back transactions, within the scope of the announcements dated July 21, 2016 and July 25, 2016 made by the Capital Markets Board.

### ***m. General Assemblies***

Right holders, who have a right to attend the general assembly meetings, can attend such meetings by electronic means pursuant to article 1527 of the new TCC. Pursuant to the Communiqué on Electronic General Assembly Meetings held in Joint Stock Companies, the Company shall invite the right holders to attend, to deliver an opinion and to vote by electronic means, either setting up the electronic general assembly system; or purchase related services from the system providers that are specifically found for such purposes.

According to the new TCC, the general assembly meeting procedures should be regulated under the Internal Guidelines to be approved by the general assembly and registered at the Trade Registry. Accordingly, general assembly meeting procedures shall be executed with the related provisions of the Turkish Commercial Code, Articles of Association and the Internal Guidelines.

The following matters are among the ones required by the TCC and our Articles of Association to be included on the agenda of ordinary general assembly meeting:

review of the annual reports of our Board of Directors and the auditors;

the approval, amendment or rejection of the statement of financial position and statement of profit and loss prepared for the preceding financial year, the release of our Board of Directors from liability in respect of actions taken by them in the preceding financial year, and the proposals of our Board of Directors for the

allocation and distribution of any of our net profits;

the approval of the remuneration of the Board members; and

the re-election or replacement of directors and/or auditors whose terms of office have expired.

Shareholders representing at least 5% of our share capital may, by written notice, require any additional matters to be included on the agenda for discussion at any of our general assemblies.

Notices covering general assemblies (including postponements and rescheduling), which include the agenda of any such general assembly, must be published in the Trade Registry Gazette and Turkish local newspaper published where the headquarter of our Company is located, determined by us, at least two weeks before the date fixed for the meeting in accordance with the TCC and three weeks before the date fixed for the meeting in accordance with CMB regulation. The TCC requires us to send notice of any general assembly by registered mail to each person registered in our books as a holder of shares and to those shareholders who have deposited at least one share certificate representing shares with us and have indicated a notice address. Under the Capital Markets Law, such notice requirement does not apply to holders of registered shares, which are also traded in the stock market.

## **Table of Contents**

Any shareholder holding any of our shares (excluding ADRs) and wishing to attend general assembly meetings to vote must present his/her identification document to our Head Office before the start of the meeting in order to obtain an entry permit for that meeting. Holders of the non-public registered shares in our share book of registered shares need not comply with such requirement to attend a general assembly. Any shareholder not wishing to attend any such general assembly in person may appoint another person as a proxy. Shareholders attending the general assembly meeting by electronic means should follow the procedures established by the related legislation.

Except as set out by the provisions of the TCC and our Articles of Association, the required quorum at any general assembly is shareholders representing at least one-quarter of the share capital. If such quorum is not present when a general assembly is convened, the meeting shall be adjourned, in which event the meeting is reconvened within a month, with shareholders or their proxies present at such meeting. Resolutions of general assembly meetings must be passed by a majority of the shareholders or their proxies present at such meetings.

As per the new Capital Markets Law, unless a higher quorum is accepted in the articles of association of public companies, affirmative votes of two-thirds of shareholders representing the share capital present at the general assembly (and this, without requiring a quorum) is needed for the following decisions: restricting preemptive rights of shareholders, authorizing the Board to restrict such preemptive rights in a registered capital system and reduction of the share capital and material transactions of the company as defined by the law. Nevertheless, if shareholders representing at least half of the company share capital are present at the meeting, simple majority decides unless a higher quorum is accepted by the articles of association.

In addition, the new Capital Markets Law stipulates that the CMB may require including some topics in the general assembly agenda to be discussed by the general assembly or to inform the shareholders at the general assembly.

According to our Articles of Association, the meeting quorum requirement at general assemblies is 51% of our share capital. Resolutions of our general assemblies must be passed by the shareholders (or their proxies) representing the majority of the votes of the shareholders present at that meeting.

The quorum requirement at general assemblies convened to increase our share capital ceiling is 51% of our share capital. Resolutions of general assemblies relating to capital increases must be passed by a majority of our shareholders or their proxies present at such meeting.

The meeting quorum requirement at general assemblies convened to amend our Articles of Association (excluding capital ceiling increase) is two-thirds of our share capital. Resolutions of our general assemblies to amend our Articles of Association (excluding capital ceiling increase) shall be passed by the shareholders (or their proxies) representing at least 2/3 of the votes of the shareholders present at that meeting.

Changing our jurisdiction or increasing the obligations of the shareholders requires unanimous shareholder approval.

## **10.C Material Contracts**

We are not a party to any material contracts other than those entered into in the ordinary course of business, except with regard to the settlement of certain legal disputes. For information regarding these settlements, see Item 8.A. Consolidated Statements and Other Financial Information Note 36 (Guarantees and purchase obligations) to our Consolidated Financial Statements in this Form 20-F.

## **10.D Exchange Controls**

Banks in Turkey set their own foreign exchange rates independently of those announced by the Central Bank. Pursuant to Decree 32 on the Protection of the Value of the Turkish Currency, most recently amended in 2003, the government eased and ultimately abolished restrictions on the convertibility of the Turkish Lira for current account and nonresident capital account transactions by facilitating exchange of the proceeds of transactions in Turkish securities by foreign investors, which enabled Turkish citizens to purchase securities on foreign exchanges. These changes also permitted residents and nonresidents to buy foreign exchange without limitation and to transfer such foreign exchange abroad without ministerial approval.

Turkish citizens are permitted to buy unlimited amounts of foreign currency from banks and to hold foreign exchange in commercial banks. Capital transfers outside Turkey of more than \$5 million still require approval of

**Table of Contents**

the Turkish government. Although we believe it is unlikely that exchange controls will be reintroduced in the near term, any such exchange controls may materially adversely affect our results of operations.

As of December 31, 2016, exchange restrictions and state controls exist in some jurisdictions in which Turkcell operates. The local currencies of Turkcell's subsidiaries in both Ukraine and Belarus are not convertible outside of their respective countries. Future movements of exchange rates will affect the carrying values of Turkcell's assets and liabilities. The translation of underlying local currency amounts into TRY in Turkcell's Consolidated Financial Statements should not be construed as a representation that such local currency amounts have been, could be or will in future be converted into TRY at the exchange rates shown or at any other exchange rate.

As of December 31, 2016, significant exchange restrictions and state controls exist in most jurisdictions in which Fintur operates. The local currencies of Fintur subsidiaries in Kazakhstan, Azerbaijan, Georgia and Moldova are not convertible outside of their respective countries. Future movements of exchange rates will affect the carrying values of the Fintur's assets and liabilities. The translation of underlying local currency amounts into USD in Fintur's consolidated financial statements should not be construed as a representation that such local currency amounts have been, could be or will in future be converted into USD at the exchange rates shown or at any other exchange rate.

**10.E Taxation**

The following discussion is a summary of the material Turkish and United States federal income tax considerations relating to the ownership and disposition of our shares or ADSs. The discussion is based on current law and is for general information only. The discussion does not address all possible tax consequences relating to the ownership and disposition of shares, or ADSs, and holders are urged to consult their tax advisors regarding the applicable tax consequences of holding and disposing of the shares or ADSs based on their particular circumstances.

The discussion is based upon laws and relevant interpretations thereof in effect as of the date of this annual report, all of which are subject to change, possibly with retroactive effect. This summary is also based in part on representations of the Depositary and assumes that each obligation provided for in, or otherwise contemplated by, the Deposit Agreement or any related document will be performed in accordance with the terms of such agreement.

**I. Republic of Turkey Taxation**

The following summary of Turkish tax law as in force on the date of this annual report describes the principal tax consequences for Turkish residents and U.S. holders (as defined below in "Taxation United States Federal Income Taxation") of the ownership and disposition of shares and ADSs. It is not a complete description of all the possible tax consequences of such ownership and disposition. Shareholders should consult their own tax advisors concerning the Turkish and other tax consequences applicable in their particular situations.

**a. Corporate Taxation**

A corporation that has its legal and/or business center in Turkey (a "Resident Corporation") is subject to a corporate tax, which is levied at 20% on such corporation's taxable income. Resident Corporations are required to pay an advance corporation tax, also at 20%, on a quarterly basis.

**b. Taxation of Dividends**

In the event that a Resident Corporation distributes dividends to individual shareholders (resident or non-resident), or to non-resident corporations that do not have a permanent establishment (fixed place of business or permanent

representative) in Turkey (and are not subject to rate-reducing provisions in applicable bilateral tax treaties), a 15% withholding tax is payable by the Resident Corporation on behalf of its shareholders. In the event that Resident Corporations distribute dividends to resident legal entities or to non-resident legal entities that have a permanent establishment in Turkey, such distributions are not subject to withholding tax.

Cash dividends received by Resident Corporations from other Resident Corporations are not subject to corporate tax. Dividends in cash received by resident individuals from Resident Corporations are subject to a withholding tax at the rate of 15% (as discussed above) and must file an annual income tax declaration. The

**Table of Contents**

withholding tax amount shall be deducted from the annual income tax. 50% of the dividend income received by resident individuals from Resident Corporations is exempt from the annual income declaration. The remaining 50% must be declared if it exceeded TRY 30,000 in 2017 and 2016, TRY 29,000 in 2015, TRY 27,000 in 2014.

Under the Income Tax Treaty between the United States of America and the Republic of Turkey, signed March 28, 1996 (the Treaty), the withholding tax rate is limited to 20% (including the surcharges on dividends paid by a Turkish Resident Corporation) of the gross amount of the dividends unless the beneficial owner of shares is a company which owns at least 10% of the voting stock of the company paying the dividends (in which case the rate would be limited to 15%). Because the current withholding tax rate applicable to publicly-traded corporations, such as Turkcell, is only 15%, the Treaty does not affect the current rate of Turkish withholding tax for U.S. holders. Cash dividends paid on ordinary shares or ADSs to a U.S. holder that does not have a permanent representative or place of business in Turkey will not be subject to taxation in Turkey, except in respect of the 15% income withholding tax discussed in the previous section. The distribution of dividends in kind (*i.e.*, bonus shares) is not subject to a withholding tax, and such dividends in kind are not subject to an income declaration.

***c. Taxation of Capital Gains******(i) Gains realized by Residents***

For shares acquired on or after January 1, 2006:

Gains realized by resident individuals on the sale of shares traded on the Borsa Istanbul (such as Turkcell shares) or ADSs that represent shares traded on the Borsa Istanbul (such as Turkcell ADSs) to residents or non-residents are exempt from income tax, provided that the holding period of such shares or ADSs exceeds one year. Where this holding period has not been met, there is a withholding tax from the gains derived from capital. The current rate for such withholding tax is 0%.

Gains realized by Resident Corporations on the sale of shares traded on the Borsa Istanbul (such as Turkcell shares) or ADSs that represent shares traded on the Borsa Istanbul (such as Turkcell ADSs) to residents or non-residents shall benefit from the withholding exemption, if a one-year holding period is met. However, where this holding period has not been met, there is a withholding tax from the gains derived from capital gains. The current rate for such withholding tax is 0%.

Gains realized by Resident Corporations on the sale of shares or to residents or non-residents must be included in corporate income and are subject to the applicable corporate tax. Upon fulfillment of the stated conditions in Article 5 of the Corporate Tax Law, 75% of capital gains derived from the sale of the shares will be exempt from corporate income tax.

For shares acquired before January 1, 2006:

Capital gains derived from shares held by an investor (both individuals and corporations) for over three months are not subject to any withholding tax.

Gains realized by Resident Corporations on the sale of shares are subject to the applicable corporate tax. Upon fulfillment of the stated conditions in Article 5 of the Corporate Tax Law, 75% of capital gains deriving from the sale of the shares will be exempt from corporate income tax.

***(ii) Gains realized by U.S. holders***

U.S. holders that do not have a permanent establishment in Turkey are exempt from Turkish tax on capital gains generated from the sale of shares quoted on an exchange, such as Turkcell shares, under Article 13 of the Treaty. U.S. resident legal entities having a permanent establishment (fixed place of business or permanent representative) in Turkey generally are subject to tax in Turkey on capital gains arising from the sale of such shares and should consult their own Turkish tax advisors as to the rules applicable to them. As of July 7, 2006, the withholding tax rate applicable to non-resident holders of shares has been reduced to 0%.

U.S. holders who invest via ADSs will not have to comply with any procedures to avoid withholding tax, since gains derived from Turkcell ADSs are not generated in Turkey. However, U.S. holders who hold their shares directly in Turkey must comply with certain procedures to establish their exemption from Turkish capital gains withholding tax and are urged to consult their own tax advisors in this regard.



**Table of Contents**

In addition, certain rules and procedures may need to be complied with in order to avoid Turkish withholding tax upon the conversion of ADSs to shares and from shares to ADSs in Turkey. U.S. holders are urged to consult their own tax advisors in this regard.

Pursuant to a Turkish Constitutional Court decision, which annulled the income tax provision regulating the 0% withholding application on capital gains for non-resident individuals and corporations, the withholding tax regime has once again become subject to regulation pursuant to a law numbered 6009, which came into force on August 1, 2010. Pursuant to this new regulation, a 10% withholding on capital gains is applied to individual investors and a 0% withholding is applied to corporate investors, irrespective of the residency status. Non-resident corporate deposit receipt holders (depositories of our ADR facility) are included within the scope of corporate investors. Non-resident investors of Turkcell ADRs will be subject to 0% withholding, provided that the depository of our ADR facility is a corporate body. The Turkish Council of Ministers has the authority to raise the withholding levels to 5 percentage points.

***d. Taxation of Investment and Mutual Funds******(i) Taxation on the Fund Level:***

The gains realized from portfolio investment activities by resident Investment and Mutual Funds are exempt from corporate tax but are subject to withholding tax for the gains of stocks held and bonds/bills issued before January 1, 2006. Withholding tax rates are as follows:

if the institutions maintain a minimum of 25% of their portfolios invested in Turkish equity shares on a monthly weighted average basis, the applicable rate of withholding tax is 0%; and

if the percentage of Turkish equity shares in the portfolios of such institutions is below 25% during any month during the year, the applicable rate of withholding tax is 10%.

Gains from stocks purchased after January 1, 2006 and/or bonds and bills issued after January 1, 2006 are subject to withholding of 0%.

A non-resident Investment or Mutual Fund may also qualify for this taxation regime if it appoints a permanent representative in Turkey, registers with the Turkish tax office, maintains legal books and meets the other tax requirements in Turkey.

***(ii) Taxation on the Investor Level:***

The gains realized by investors for participating within FUND are subject to taxation depending on the date of purchase of the FUND by the individual investors.

For FUND shares purchased before January 1, 2006, gains are not subject to income tax withholding. Capital gains received by individuals are computed by deducting the original cost of the shares after the application of a cost adjustment (which uses the Producer Price Index determined by the Turkish Statistical Institute to eliminate gains arising solely from inflation), from the amount received upon the sale or disposition of

the shares. Total capital gains are subject to declaration on income tax returns if they exceeded TRY 24,000 in 2017 and 2016, TRY 23,000 in 2015 and TRY 21,000 in 2014, TRY 21,000 in 2013 and are required to be declared in compliance with the Turkish Tax Regime. For FUND shares purchased after January 1, 2006:

1. If the FUND maintains at least 51% of the portfolio invested in the Borsa Istanbul Market and is held for more than a one-year period, gains shall not be subjected to withholding. Such gains shall be declared in compliance with the Turkish Tax Regime.
2. If the FUND does not meet the conditions above, gains shall be subject to withholding at 10% for resident investors. In cases where non-resident investors can certify their own residency status, 0% withholding shall be applied.
3. Pursuant to a Turkish Constitutional Court decision, which annulled the income tax provision regulating the 0% withholding application on capital gains for non-resident individuals and corporations, the withholding tax regime has once again become subject to regulation pursuant to a law numbered 6009, which came into force on August 1, 2010. Pursuant to this new regulation, a 10% withholding on capital gains is applied to individual investors and a 0% withholding is applied to corporate investors, irrespective of the residency status. Non-resident corporate deposit

---

**Table of Contents**

receipt holders (depositories of our ADR facility) are included within the scope of corporate investors. Non-resident investors of Turkcell ADRs will be subject to 0% withholding, provided that the depository of our ADR facility is a corporate body.

***e. Stamp Taxes***

According to the Turkish Stamp Tax Law (Law No. 488), all agreements and documents specified in the law with a monetary value indicated thereon are subject to a stamp tax with rates from 0.189% to 0.948%, which is calculated on the aggregate amount of such agreement or document. Stamp tax to be calculated for a particular PAPER was capped at a maximum of TRY 1,487,397.70 per original in 2013 and TRY 1,545,852.40 per original in 2014, TRY 1,702,138.00 per original in 2015 TRY 1,797,117.30 per original in 2016 and will be capped at a maximum of TRY 1,865,946.80 per original in 2017.

**II. United States Federal Income Taxation**

The following discussion is a summary of the material U.S. federal income tax considerations applicable to the ownership and disposition of shares or ADSs by you, if you are a U.S. holder. In general you will be a U.S. holder if:

you are the beneficial owner of our shares or ADSs;

you are either (i) an individual resident or citizen of the United States, (ii) a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) created in or organized under the laws of the United States, any state thereof or the district of Columbia, (iii) an estate whose income is subject to U.S. federal income taxation regardless of its source, or (iv) a trust if a U.S. court can exercise primary supervision over the administration of the trust and one or more U.S. persons are authorized to control all substantial decisions of the trust;

you own our shares or ADSs as capital assets (which generally means for investment purposes);

you own directly, indirectly or by attribution less than 10% of our outstanding share capital or voting stock;

you are fully eligible for benefits under the Limitation on Benefits article of the Treaty; and

you are not also a resident of Turkey for Turkish tax purposes.

The Treaty benefits discussed generally are not available to holders who hold shares or ADSs in connection with the conduct of business through a permanent establishment, or the performance of personal services through a fixed base, in Turkey.

If a partnership (including for this purpose any entity or arrangement treated as a partnership for U.S. federal income tax purposes) holds shares or ADSs, the tax treatment of a partner generally will depend upon the status of the partner and the activities of the partnership. A partner in a partnership that holds shares or ADSs is urged to consult its own tax advisor regarding the specific tax consequences of owning and disposing of its shares or ADSs.

The summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to any particular holder, including tax considerations that arise from rules of general application or that are generally assumed to be known by U.S. holders. This summary is based on provisions of the Internal Revenue Code of 1986, as amended (the Code), existing and proposed U.S. Treasury Regulations, rulings, administrative pronouncements, judicial decisions and the Treaty, all as of the date of this annual report. All of these authorities are subject to change, possibly with retroactive effect, and to differing interpretations. In addition, this summary does not discuss all aspects of U.S. federal income taxation that may be applicable to investors in light of their particular circumstances or to U.S. holders who are subject to special treatment under U.S. federal income tax law, including insurance companies, U.S. expatriates, dealers in stocks or securities, banks or financial institutions, tax-exempt organizations, regulated investment companies, retirement plans, traders in securities who elect to apply a mark-to-market method of accounting, persons who acquired their shares pursuant to the exercise of employee stock options or otherwise as compensation, persons holding shares as part of a straddle, hedging or conversion transaction, persons subject to the alternative minimum tax, and persons having a functional currency other than the U.S. Dollar.

U.S. holders are urged to consult with their own tax advisors regarding the tax consequences of the ownership or disposition of shares or ADSs, including the effects of federal, state, local, foreign and other tax laws with respect to their particular circumstances.

---

**Table of Contents****a. Dividends**

If we make distributions to you, you generally will be required to include in gross income as dividend income the amount of the distributions paid on the shares (including the amount of any Turkish taxes withheld in respect of such dividend as described above in Taxation Republic of Turkey Taxation ). Dividends paid by us will not be eligible for the dividends-received deduction applicable in some cases to U.S. corporations.

Any dividend paid in Turkish Lira, including the amount of any Turkish taxes withheld therefrom, will be includible in your gross income in an amount equal to the U.S. Dollar value of the Turkish Lira calculated by reference to the spot rate of exchange in effect on the date the dividend is received by you, in the case of shares, or by the Depository, in the case of ADSs, regardless of whether the Turkish Lira are converted into U.S. Dollars. Any gain or loss resulting from currency exchange fluctuations during the period from the date the dividend is includible in your gross income to the date such payment is converted into U.S. Dollars generally will be treated as U.S. source ordinary income or loss. Special rules govern, and elections are available to, accrual method taxpayers to determine the U.S. Dollar amount includible in income in the case of taxes withheld in a foreign currency. Accrual basis taxpayers are urged to consult their own tax advisors regarding the requirements and elections applicable in this regard.

Any dividends paid by us to you with respect to shares or ADSs will be treated as foreign-source income and generally will be categorized as passive category income or, in the case of certain U.S. holders, general category income for foreign tax credit purposes.

Subject to limitations, you may elect to claim a foreign tax credit against your U.S. federal income tax liability for Turkish income tax withheld from dividends received in respect of shares or ADSs. The rules relating to the determination of the foreign tax credit are complex. Accordingly, you should consult your own tax advisor to determine whether and to what extent you would be entitled to the credit. If you do not elect to claim a foreign tax credit, you may instead claim a deduction for Turkish income tax withheld, but only for a year in which you elect to do so with respect to all foreign income taxes. A deduction does not reduce tax on a dollar-for-dollar basis like a credit, but the deduction for foreign taxes is not subject to the same limitations applicable to foreign tax credits.

Certain non-corporate U.S. holders (including individuals) are eligible for reduced rates of U.S. federal income tax in respect of qualified dividend income received. For this purpose, qualified dividend income generally includes dividends paid by a non-U.S. corporation if, amongst other things, the U.S. holder meets certain minimum holding periods and the non-U.S. corporation satisfies certain requirements, including that either (i) the shares (or ADSs) with respect to which the dividend income has been paid are readily tradable on an established securities market in the United States or (ii) the non-U.S. corporation is eligible for the benefits of a comprehensive U.S. income tax treaty (such as the Treaty) which provides for the exchange of information. We currently believe that dividends paid with respect to our shares and ADSs should constitute qualified dividend income for U.S. federal income tax purposes, and we anticipate that our dividends will be reported as qualified dividends on Forms 1099-DIV delivered to U.S. holders. In computing foreign tax credit limitations, non-corporate U.S. holders may take into account only a portion of a qualified dividend to reflect the reduced U.S. tax rate applicable to such dividend. Each U.S. holder of shares or ADSs is urged to consult its own tax advisor regarding the availability to it of the reduced dividend tax rate in light of its own particular situation and regarding the computations of its foreign tax credit limitation with respect to any qualified dividend income paid by us, as applicable.

The U.S. Treasury has expressed concerns that parties to whom ADSs are released may be taking actions that are inconsistent with the claiming of foreign tax credits or reduced tax rates in respect of qualified dividends by U.S. holders of ADSs. Accordingly, the discussion above regarding the creditability of Turkish withholding tax on dividends or the availability of qualified dividend treatment could be affected by future actions that may be taken by

the U.S. Treasury with respect to ADSs.

***b. Sale, Exchange or other Disposition of Shares or ADSs***

Upon the sale, exchange or other disposition of shares or ADSs, you generally will recognize capital gain or loss equal to the difference between the amount realized on the disposition and your adjusted tax basis in your shares or ADSs (as determined in U.S. Dollars). Gain or loss upon the disposition of shares or ADSs generally will be U.S.-source gain or loss, and will be treated as long-term capital gain or loss if, at the time of the disposition, your holding period for the shares or ADSs exceeds one year. If you are an individual, capital gains generally will be subject to U.S. federal income tax at preferential rates if specified minimum holding periods are met. The deductibility of capital losses is subject to significant limitations.

---

**Table of Contents**

The surrender of ADSs in exchange for shares pursuant to the Deposit Agreement governing the ADSs will not be a taxable event for U.S. federal income tax purposes. Accordingly, you will not recognize any gain or loss upon such surrender.

***c. Net Investment Income Tax***

Certain U.S. holders that are individuals, estates or trusts and whose income exceeds certain thresholds generally will be subject to a 3.8% tax on net investment income, including, among other things, dividends on, and gains from the sale or other taxable disposition of, our shares or ADSs, subject to certain limitations and exceptions. You should consult your own tax advisor regarding the effect, if any, of such tax on your ownership and disposition of our shares or ADSs.

***d. Passive Foreign Investment Company Status***

We currently believe that we were not a passive foreign investment company (a PFIC) for U.S. federal income tax purposes for the taxable year ending December 31, 2016. However, this conclusion is a factual determination that must be made annually and thus may be subject to change. A non-U.S. corporation will be classified as a PFIC for any taxable year if at least 75% of its gross income consists of passive income (such as dividends, interest, rents, royalties or gains on the disposition of certain minority interests), or at least 50% of the average value of its assets consists of assets that produce, or are held for the production of, passive income. If we were characterized as a PFIC for any taxable year, you would suffer adverse tax consequences. These consequences may include having gains realized on the disposition of shares or ADSs treated as ordinary income rather than capital gains, and being subject to punitive interest charges on certain dividends and on the proceeds of the sale or other disposition of the shares or ADSs. Furthermore, dividends paid by a PFIC would not be qualified dividend income (as discussed above) and would be taxed at the higher rates applicable to other items of ordinary income. You should consult your own tax advisor regarding the potential application of the PFIC rules to us and to your ownership of our shares or ADSs.

***e. U.S. Information Reporting and Backup Withholding***

Dividend payments with respect to shares or ADSs and proceeds from the sale, exchange, redemption or other disposition of shares or ADSs may be subject to information reporting to the Internal Revenue Service (the IRS) and possible U.S. backup withholding at a current rate of 28%. Certain exempt recipients (such as corporations) are not subject to these information reporting requirements. Backup withholding will not apply, however, to a holder who furnishes a correct taxpayer identification number or certificate of foreign status and makes any other required certification or who is otherwise exempt from backup withholding. U.S. persons who are required to establish their exempt status generally must provide IRS Form W-9 (Request for Taxpayer Identification Number and Certification). Non-U.S. holders generally will not be subject to U.S. information reporting or backup withholding. However, such holders may be required to provide certification of non-U.S. status (generally on IRS Form W-8BEN or W-8BEN-E, as applicable) in connection with payments received in the United States or through certain U.S.-related financial intermediaries.

Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against a holder's U.S. federal income tax liability, and a holder may obtain a refund of any excess amounts withheld by filing the appropriate claim for refund with the IRS and furnishing any required information.

In addition, U.S. holders should be aware of annual reporting requirements with respect to the holding of certain foreign financial assets, including our shares and ADSs that are not held in an account maintained by certain types of financial institutions, if the aggregate value of all of such assets exceeds \$50,000 (or \$100,000 for married couples

filing a joint return). You should consult your own tax advisor regarding the application of the information reporting and backup withholding rules to our shares and ADSs and the application of the annual reporting requirements to your particular situation.

**10.F Dividends and Paying Agents**

Not Applicable.

**10.G Statement by Experts**

Not Applicable.



## **Table of Contents**

### **10.H Documents on Display**

Reports and other information of Turkcell can also be inspected without charge and copied at prescribed rates at the public reference facility maintained by the SEC in Room 1580, 100 F Street, N.E., Washington, D.C. 20549. Copies of these materials are also available by mail from the Public Reference Section of the SEC, at 100 F Street, N.E., Washington D.C. 20549, at prescribed rates.

### **10.I Subsidiary Information**

Not Applicable.

## **ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

### **I. Overview**

We are exposed to foreign exchange rate risks because our income, expenses, assets and liabilities are denominated in a number of different currencies, primarily Turkish Lira, U.S. Dollars, Euros, Ukrainian Hryvnia, Azerbaijani Manat and Belarusian Rubles. In particular, a substantial majority of our debt obligations and equipment expenses are currently, and are expected to continue to be, denominated in U.S. Dollars and Euros, while the revenues generated by the corresponding activities are denominated in other currencies, in particular the Turkish Lira, Ukrainian Hryvnia and Belarusian Rubles. Similarly, we are subject to market risk deriving from changes in interest rates that may affect the cost of our financing and also liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. We provide a detailed analysis of our foreign exchange interest rate and liquidity risks in Note 34.

#### ***a. Foreign Exchange Risk Management***

Our functional currency is the TRY for operations conducted in Turkey, but certain revenues, purchases, operating costs and expenses and resulting receivables and payables are denominated in a number of different currencies. In particular, a substantial majority of our debt obligations and equipment expenses are currently, and are expected to continue to be, denominated in U.S. Dollars, and Euros, while the revenues generated by the corresponding activities are denominated in other currencies, in particular the Turkish Lira, Ukrainian Hryvnia and Belarusian Rubles. Transactions denominated in foreign currencies are recorded at the exchange rates prevailing at the dates of the transactions. Assets and liabilities denominated in foreign currencies are converted into functional currency at the exchange rates prevailing at the reporting date, with the resulting exchange differences recognized in the determination of net income. In 2015, net foreign exchange losses were mainly attributable to the foreign exchange losses in Belarusian Telecom operating in Belarus and in lifecell operating in Ukraine and amounted to TRY 1,197.7 million, resulting from transactions related to foreign exchange effects. Foreign exchange losses from Belarusian Telecom and lifecell exclude foreign exchange losses arising in the foreign operations individual financial statements which have been recognized directly in equity in the foreign currency translation differences in the consolidated financial statements in accordance with accounting policy for net investment in foreign operations.

Market risk-sensitive instruments consist of loans and borrowings mainly denominated in foreign currencies (substantially in U.S. Dollars and Euros) totaling TRY 9,781.2 million, which represents the majority of total indebtedness as of December 31, 2016.

To manage and hedge our foreign exchange risk more effectively, we used currency swaps, participating cross currency swap contracts, currency forward contracts and we may enter into forward transactions and currency swap

contracts and participating cross currency swap contracts in the future as well. In addition, in order to take advantage of market volatility in the foreign exchange markets and increase the yield on our free cash, we may enter into option transactions to buy or sell certain currencies, allowing us to mitigate our exposure to negative foreign exchange rate swings. As of December 31, 2016 we had currency and participating cross currency swap contracts including EUR-TL participating cross currency swap contracts, EUR put and call options, amounting to a total nominal value of EUR 500 million and also USD-TL participating cross currency swap contracts and put and call options amounting to a total nominal value of USD 250 million. Regarding this participating cross currency swap contract, TL 40.367 million accrual of interest expense and TL 8.220 million accrual of interest income has been reflected in the financial statements as of December 31, 2016. The basis for our sensitivity analysis to measure foreign exchange risk is an aggregate corporate-level currency exposure. The aggregate foreign exchange exposure is composed of all our assets and liabilities denominated in foreign currencies. This analysis excludes net foreign currency investments. It is estimated that a general increase of 10%

**Table of Contents**

in the value of TRY, Ukrainian Hryvnia and Belarusian Rubles, against other foreign currencies, would have decreased our profit before income tax by approximately TRY247.4 million for the year ended December 31, 2016. These aforementioned assumptions are hypothetical and the actual results may differ substantially from the projected figures.

All hedging transactions have been authorized and executed pursuant to clearly defined policies and procedures, which provide that the transaction is entered into to protect us from fluctuations in currency values. Analytical techniques are used to manage and monitor foreign exchange risk, which includes market valuation and sensitivity analysis. In addition, we keep a significant proportion of our monetary assets in U.S. Dollars/Euros to reduce our currency exposure.

***b. Interest Rate Risk Management***

We are exposed to variations in interest rates, primarily in Euros, U.S. Dollars and TRY and UAH denominated debt and investments, which may affect the amounts of future interest income or expenses (reinvestment risk or cash flow risk) and also cause changes in the values of our interest-bearing assets, which have already been added to the statement of financial position. We manage interest rate risk by financing non-current assets with long-term debt with variable interest rates and equity. To hedge our interest rate risk, we utilize interest rate derivative structures considering the market levels.

**Table of Contents**

The following table sets forth the carrying amount and fair value of loans, maturities and average effective interest rates for bank loans.

Effective interest rate	Total carrying amount	December 31, 2016					Fair Value	Effective interest rate	Total carrying amount	December 31, 2015			
		2017	2018	2019	2020 thereafter	2016				2017	2018	2019 thereafter	
20.7%	0.1	0.1				0.1	20.5%	0.1	0.1				
3.4%	48.0	6.5	5.5	5.6	30.4	48.0	3.4%	41.8	5.3	4.1	4.3	28.1	
11.9%	5.6	2.0	1.7	1.3	0.6	5.6	11.9%	6.2	1.9	1.6	1.3	1.4	
							29.1%	311.7	311.7				
12.1%	1,819.9	1,750.0	69.9			1,819.9	10.2%	507.8	156.6	351.2			
15.0%	407.2	407.2				407.2	24.4%	130.1	130.1				
3.2%	1,984.5	281.6	602.4	566.9	533.6	1,984.5	3.1%	189.5	5.9	183.6			
2.3%	3,593.1	75.0	691.7	807.9	2,018.5	3,593.1	2.4%	1,585.9	33.8	34.5	33.7	1,483.9	
5.8%	1,683.7	94.5	89.0	83.9	1,416.3	1,682.2	5.8%	1,441.1	81.0	76.3	71.8	1,212.0	
10.7%	239.0	239.0				239.0							
	9,781.1	2,855.9	1,460.2	1,465.6	3,999.4	9,779.6		4,214.2	726.4	651.3	111.1	2,725.4	

**Table of Contents**

For contractual cash flows and nominal interest of bank loans, see Note 28 and Note 34 to our audited Consolidated Financial Statements included in Item 18. Financial Statements of this annual report on Form 20-F.

We use sensitivity analysis techniques to measure and assess our interest rate risk. The basis for the sensitivity analysis is an aggregate corporate-level interest rate exposure composed of interest-bearing investments and interest-bearing debts. When we assume a 1 percentage point increase in interest rates for all maturities from their levels as of December 31, 2016, with all other variables held constant, our profit before income tax decreases by TRY55.8 million.

**ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

The Depositary may collect from (i) each person to whom ADSs are issued, including, without limitation, issuances against deposits of Shares, issuances in respect of Share Distributions, Rights and Other Distributions (as such terms are defined in the form of ADR certificate), issuances pursuant to a stock dividend or stock split declared by the Company, or issuances pursuant to a merger, exchange of securities or any other transaction or event affecting the ADSs or the Deposited Securities and (ii) each person surrendering ADSs for withdrawal of Deposited Securities or whose ADSs are cancelled or reduced for any other reason, U.S. \$5.00 for each 100 ADSs (or portion thereof) issued, delivered, reduced, cancelled or surrendered (as the case may be). The Depositary may sell (by public or private sale) sufficient securities and property received in respect of Share Distributions, Rights and Other Distributions prior to such deposit to pay such charge. These terms are set forth in Paragraph 7 of the Form of ADR certificate.

On July 6, 2011, we signed an amended and restated Deposit Agreement (the *Deposit Agreement*) with Citibank N.A. ( *Citibank* ), as depositary (the *Depositary* ), Turkcell and holders of American Depositary Receipts, which transferred our ADR program from JPMorgan Chase Bank ( *JPMorgan* ) to Citibank. On July 1, 2016 the term was extended by another 5 years, until July 6, 2021.

As provided for in the American Depositary Receipt included as Exhibit A to the Deposit Agreement, holders of American Depositary Shares may be charged, directly or indirectly, the following amounts in relation to the ownership of depositary receipts held in the Company's ADR Program, which are payable to the Depositary:

<b>Service</b>	<b>Rate</b>	<b>By Whom Paid</b>
(1) Issuance of ADSs upon deposit of Shares (excluding issuances as a result of distributions described in paragraph (4) below).	Up to U.S. \$5.00 per 100 ADSs (or fraction thereof) issued.	Person depositing Shares or person receiving ADSs.
(2) Delivery of Deposited Securities against surrender of ADSs.	Up to U.S. \$5.00 per 100 ADSs (or fraction thereof) surrendered.	Person surrendering ADSs for the purpose of withdrawal of Deposited Securities or person to whom Deposited Securities are delivered.
(3) Distribution of cash dividends or other cash distributions ( <i>i.e.</i> , sale of rights and other entitlements).	Up to U.S. \$5.00 per 100 ADSs (or fraction thereof) held.	Person to whom distribution is made.

(4) Distribution of ADSs pursuant to (i) stock dividends or other free stock distributions, or (ii) exercise of rights to purchase additional ADSs.	Up to U.S. \$5.00 per 100 ADSs (or fraction thereof) held.	Person to whom distribution is made.
(5) Distribution of securities other than ADSs or rights to purchase additional ADSs ( <i>i.e.</i> , spin-off shares).	Up to U.S. \$5.00 per 100 ADSs (or fraction thereof) held.	Person to whom distribution is made.
(6) Depositary Services.	Up to U.S. \$5.00 per 100 ADSs (or fraction thereof) held on the applicable record date(s) established by the Depositary.	Person holding ADSs on the applicable record date(s) established by the Depositary.

**Table of Contents****I. Direct Payments made by Citibank to Turkcell**

Citibank, as depositary, has agreed to reimburse certain reasonable expenses related to our ADR program and incurred by us in connection with such program. In 2016, the Depositary, as part of its agreement, reimbursed Turkcell \$1,948,666.57 on an accrual basis. The amounts the Depositary has reimbursed and will reimburse are not necessarily related to the fees collected by the depositary from ADR holders. The table below sets forth the type of expenses that Citibank has reimbursed.

<b>Category of Expenses</b>	<b>Amount Reimbursed in 2016</b>	
Investor Relations <sup>(1)</sup>	\$	1,948,666.57

- (1) This type of expense includes activities tailored to increase the company's ADR program, including, but not limited to, roadshows and training in the U.S., legal costs connected with 20-F filing and ongoing SEC compliance and legal requirements and listing fees.

**II. Indirect Payments made by Citibank to Turkcell**

As part of its service to Turkcell, Citibank has agreed to waive fees for the standard costs associated with the administration of our ADR program and associated operating expenses estimated to total \$67,167.31. The table below sets forth the fees that Citibank has agreed to waive and/or expenses that Citibank has agreed to pay in the year ended December 31, 2016.

<b>Category of Expenses</b>	<b>Amount Waived or Paid by Citibank for the period January 1, 2016 through December 31, 2016</b>	
Third-party expenses paid directly	\$	61,446.85
Fees waived	\$	5,720.46

**ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

Not applicable.

**ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS**

Not applicable.

**ITEM 15. CONTROLS AND PROCEDURES**

(a) *Disclosure Controls and Procedures.* The Chief Executive Officer and the Chief Financial Officer, after evaluating the effectiveness of the Company's disclosure controls and procedures (as defined in U.S. Exchange Act

Rule 13a-15(e)) as of the end of the period covered by this Form 20-F, have concluded that, as of such date, the Company's disclosure controls and procedures were effective at a reasonable assurance level.

(b) *Management's Annual Report on Internal Control over Financial Reporting.* The management of Turkcell is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934), and for performing an assessment of the effectiveness of internal control over financial reporting as of December 31, 2016. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with applicable generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that:

1. Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
2. Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with applicable generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
3. Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.



**Table of Contents**

Internal control over financial reporting has inherent limitations. It is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. In addition, it can be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements will not be prevented or detected on a timely basis by internal controls over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design safeguards to reduce, though not eliminate, this risk.

Management assessed the effectiveness of the internal control over financial reporting as of December 31, 2016 based on criteria established in the Internal Control-Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission ( COSO ). Based on its assessment and those criteria, management has concluded that the Company s internal control over financial reporting was effective at the reasonable assurance level as of December 31, 2016.

The effectiveness of our internal control over financial reporting as of December 31, 2016 has been audited by PwC Bagimsiz Denetim ve Serbest Muhasebeci Mali Musavirlik A.S. ( PwC ), our independent registered public accounting firm in Turkey, as stated in their attestation report, which appears below under Item 15(c), Report of the Independent Registered Audit Company.

*(c) Attestation Report of the Independent Audit Company.*

PwC Bagimsiz Denetim ve Serbest Muhasebeci Mali Musavirlik A.S., the independent public accounting firm that audited the consolidated financial statements included in this annual report, has audited the effectiveness of internal control over financial reporting as of December 31, 2016. Their attestation report on internal control over financial reporting is included at page F-1 herein.

**Table of Contents**

(d) *Changes in Internal Control over Financial Reporting.* There were no changes in connection with the evaluation required by Rule 13a-15(d) and Rule 15d-15 in the Company's internal control over financial reporting that occurred during the year ended December 31, 2016, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. This conclusion has been made at a reasonable assurance level.

**ITEM 16.****16.A Audit Committee Financial Expert**

Currently no independent Audit Committee member is an audit committee financial expert, as that term is defined by the SEC in its final rules implementing Section 407 of the Sarbanes-Oxley Act of 2002, because, after self-evaluation, our Audit Committee members did not consider themselves, individually, as an audit committee financial expert. However, our Audit Committee members and our Board of Directors believe that our Audit Committee members are nonetheless qualified to carry out their duties on the Audit Committee given their experience and other qualifications in financial matters.

**16.B Code of Ethics**

We have adopted a code of ethics that applies to our Chief Executive Officer, Chief Financial Officer, and other executive officers and financial officers. This code of ethics is posted on our website, [www.turkcell.com.tr](http://www.turkcell.com.tr).

**16.C Principal Accountant Fees and Services**

PwC served as our independent registered public accountant for financial year 2016 ended December 31, 2016 and Deloitte served as our independent registered public accountants in Turkey for financial years ended December 31, 2015 and 2014. Our audited financial statements for the three year period ended December 31, 2016 appear in this annual report on Form 20-F. At our general meeting of shareholders which occurred on March 29, 2016, and January 30, 2017, PwC was appointed as our independent auditors for our 2016 and 2017 fiscal years respectively.

The following table presents the aggregate fees for professional services and other services rendered by our auditors to us in 2016, 2015 and 2014.

	<b>2016</b>	<b>2015</b>	<b>2014</b>
	<b>(Million TRY)</b>		
Audit Fees <sup>(1)</sup>	3.7	4.6	4.3
Audit-Related Fees <sup>(2)</sup>	1.0	0.6	
Tax Fees		0.1	0.1
All Other Fees <sup>(3)</sup>			
<b>Total</b>	<b>4.7</b>	<b>5.3</b>	<b>4.4</b>

(1) Audit Fees consist of fees billed for professional services pertaining to the audit of the Company's annual financial statements or services that are normally provided by the principal accountant in connection with statutory or regulatory filings or engagements.

- (2) Audit-Related Fees consist of mainly Global Tower IPO audit procedures in 2016 and comfort letter related costs for our bond issuance that are reasonably related to the performance of the audit or review of the Company's financial statements for previous periods.
- (3) All Other Fees consist of fees billed for products and services other than services provided under Audit Fees, Audit-Related Fees and Tax Fees.

**a. *Audit Committee Pre-approval Policies and Procedures***

Our Audit Committee has pre-approved all work performed by our external auditors for the year 2016 and it has not adopted blanket pre-approval policies and procedures.

**16.D Exemptions from the Listing Standards for Audit Committees**

Not applicable.

**Table of Contents****16.E Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share (in TRY)	(c) Total Number of Shares Purchased as Part of Publicly Announced Plan or Program (Cumulative)		(d) TRY Value of Shares that May Be Purchased Under the Plan or Program <sup>(1)</sup>
			Announced	Plan or Program	
24-31 August 2016	1,301,575	9.89	1,301,575		137,125,151
1-30 September 2016	976,597	9.80	2,278,172		127,550,180
4 October 2016	155,000	9.76	2,433,172		126,037,370
4-30 November 2016	1,312,640	9.39	3,745,812		113,717,341
1-30 December 2016	3,069,751	9.55	6,815,563		84,393,833

(1) This calculation does not include Eurobond buy-back transactions. Between November 31, 2016 and December 28, 2016 our Company purchased Eurobonds (XS1298711729) with a total nominal value of USD 18 million (amounting to approximately TRY 57 million) therefore the TRY Value of Shares that May Be Purchased Under the Plan or Program should be reduced by purchased Eurobonds amount. These amounts also do not include the Board's buyback decision on January 30, 2016.

On July 27, 2016, the Company's Board of Directors has authorized the management to execute share buy-back transactions, within the scope of the announcements dated July 21, 2016 and July 25, 2016 made by the Capital Markets Board. The purpose is to protect Turkcell investors against potentially negative reflections on Turkey that may arise due to the instability perception in the short and medium term subsequent to the recent events on and after July 15, 2016, and/or due to potential global macroeconomic volatilities. In this context, it has been resolved that the maximum fund amount set aside for share buy-backs will be TRY150,000,000, and the maximum share number to be bought back will be determined so as not to exceed this amount. This amount is also used for Eurobond buy-backs.

On January 30, 2016, the Company's Board of Directors has decided to increase the above mentioned fund amount to TRY300 million in order to be utilized for share buy-backs, including American Depositary Receipts (ADRs) being traded at the New York Stock Exchange (NYSE). In 2017, the Company has not yet utilized this fund.

**16.F Change in Registrant's Certifying Accountant**

Incorporated by reference to our annual report on Form 20-F filed on March 18, 2016.

**16.G Corporate Governance****I. Significant Differences in Corporate Governance Practices**

Matters related to corporate governance in Turkey are regulated by the new Turkish Commercial Code (TCC), which came into force on July 1, 2012 and the new law and regulations and communiqués of the CMB, the regulatory and supervisory authority, all of which are binding upon publicly held companies.

In addition, corporate governance practices in Turkey are also guided by the Corporate Governance Principles of the CMB (the CMB Principles), which took effect on a comply or explain basis on January 1, 2004. Effective from 2005, the CMB requires listed companies to incorporate in their annual reports a Corporate Governance Compliance Report

which compares the CMB Principles to the Corporate Governance principles under which the Company operates. This report is posted on our website, [www.turkcell.com.tr](http://www.turkcell.com.tr).

Effective in 2011, by way of various communiqués, the CMB revised its corporate governance principles with a view to strengthening the governance practices of listed companies. As a result, the CMB left the comply or explain approach to a limited extent and required listed companies to comply with certain corporate governance principles on a compulsory basis by June 30, 2012. In a further Communiqué dated September 13, 2012, the CMB empowered itself, effective until December 31, 2012, to take legal action before the relevant first instance court with a view to assure compliance with its corporate governance rules. No legal action has been taken there against our Company to the best of our knowledge. The new Capital Markets Law came into force on December 30, 2012. The Capital Markets Board is entitled by Article 17/2 to make decisions and perform actions accordingly on its own initiative in case time-bound compliance requirements relating to its corporate governance principles are not met in due time.

**Table of Contents**

In a further Communiqué dated April 6, 2013, the CMB amended the corporate governance principles. The following rules have been added to the Communiqué:

If some or all of the Board members' terms have ended and thereby compliance with the mandatory CMB Corporate Governance Rules cannot be established, the CMB will require the Board to call a general assembly meeting which must be held within 30 days. If a general assembly meeting cannot be called or a positive result cannot be reached at the general assembly meeting, the CMB, as per the new Capital Markets Law, will have the right to directly appoint the minimum number of Board members that meet independence criteria to achieve the necessary meeting and decision quorums. Those members' terms of office will last until new appointments are made in accordance with the legislation. The new Board members will then make the necessary amendments to the Articles of Association to be in line with the mandatory CMB Corporate Governance Rules upon the approval of the CMB, which will be registered at the Trade registry.

If there are enough Board members to achieve such compliance, but there is not a positive result (at the Board or the general assembly meeting), then the CMB allows companies 30 days to take the necessary action. If the necessary action to ensure compliance cannot be realized within the given period, the CMB will have the right to directly appoint the minimum number of Board members that meet independence criteria to achieve the necessary meeting and decision quorums. The new Board will then make the necessary amendments to the Articles of Association to be in line with the mandatory CMB Corporate Governance Rules upon the approval of CMB, which will be registered at the Trade Registry.

The Corporate Governance Communiqué numbered II-17.1, which was published in the Official Gazette dated January 3, 2014 kept the above-mentioned second rule and removed the first one.

The following summarizes new mandatory CMB requirements that would apply to our Company.

The main mandatory rules relating to board membership and board structure include:

The number of independent members in the Board shall not be less than one third of the total number of the members of the Board of Directors. In calculating the number of independent board members, a fraction would be rounded up to the nearest integer. In any case the number of the independent board members shall not be less than two. The term of office of independent members of the board of directors is up to three years. Such members are eligible to be nominated again and re-elected.

Companies in the first group are required to notify the CMB of the independent member candidates at least 60 days prior to the planned General Assembly meeting at which the members will be elected. The CMB, having evaluated the independence of the candidates, is required to disclose its approval/disapproval within the next 30 days. Companies classified in the other two groups are not required to seek CMB approval. In view of the current relations between our controlling shareholders, our nomination process is currently handled directly by the CMB.

The CMB has updated its independence criteria for independent board members.

The following Board committees shall be established by listed companies:

Audit Committee (already existing at Turkcell Board level);

Corporate Governance Committee (already existing at Turkcell Board level);

Candidate Nomination Committee (already existing at Turkcell Board level);

Early Detection of Risks Committee (already existing at Turkcell Board level); and

Remuneration Committee (already existing at Turkcell Board level).

Committees should consist of two members at least. It is mandatory that both (in case of two-member committees) or the majority of the members of the committees be non-executive board members. Expert people who are not board members may be elected as committee members except for the Audit Committee. All of the members of the Audit Committee and the chairmen of the other committees shall be elected among the independent board members. The chief executive officer/general manager should not hold a position at the committees. Terms of reference, working principles and members of the committees shall be determined and disclosed to the public by the board of directors.

---

**Table of Contents**

Mandatory rules relating to enhanced shareholder information:

General Assembly call content has been enhanced.

A written remuneration policy for board members and senior management must be prepared. This policy must be posted on the company's website and submitted at the ordinary General Assembly as a separate agenda item for information. Payment plans, such as stock options or those based on company performance, are not used in the remuneration of independent board members. Remuneration of independent board members must safeguard their level of independence.

There are mandatory rules relating to material transactions and related party transactions/guarantees to third parties.

**Internal Corporate Governance Mechanisms Revamped:**

On January 28, 2016, our board has adopted new charters for the audit, corporate governance, candidate nomination, compensation and early detection of risks committees along with Turkcell Group Anti Bribery and Anti-Corruption Policy. The same day, our board has also adopted Turkcell's Internal Directive on the Operations of the Board of Directors.

Below is a summary of the significant differences between our corporate governance practices and those that would apply to U.S. companies under the NYSE corporate governance rules as of March 10, 2016:

**NYSE Corporate Governance Rule for U.S. Issuers**

*Listed companies must have a majority of independent directors.*

**Our Practice as a Foreign Private Issuer**

Our Board currently has three members who are deemed to meet the independence standards of both the SEC and CMB Principles. Under the CMB Principles, it is required to have a board comprised of at least one-third independent members (or, in any event, two members).

In a series of resolutions dated March 11, August 15, and September 13, 2013, the CMB announced the replacement of members of Turkcell's Board of Directors with the following new members: Atilla Koc, Mehmet Hilmi Guler, Ahmet Akca (all of whom serve as independent board members), Mehmet Bostan, Bekir Pakdemirli, Jan Erik Rudberg and Erik Belfrage. See Item 6. Directors, Senior Officers and Employees Directors and Senior Management Board Members .

Ahmet Akca, Atilla Koc and Mehmet Hilmi Guler have been appointed by the CMB as independent board



*The non-management directors of each company must meet at regularly scheduled executive sessions without management.*

members. However the other board members comply with the CMB's independence standards in accordance with the CMB's related announcements.

Turkish law does not make any distinction between management and non-management directors. However there is a distinction between executive/nonexecutive board members. Our board members are all non executive members. Members of the board who are not also members of management do not meet in regularly scheduled executive sessions.

---

**Table of Contents**

**NYSE Corporate Governance Rule for U.S. Issuers**

*Listed companies must have a nominating/corporate governance committee composed entirely of independent directors, with a written charter that provides for (i) minimum duties, which are to identify individuals qualified to become board members, consistent with criteria approved by the board, and to select, or to recommend that the board select, the director nominees for the next annual meeting of shareholders; develop and recommend to the board a set of corporate governance guidelines applicable to the corporation; and oversee the evaluation of the board and management; and (ii) an annual performance evaluation of the committee.*

*Listed companies must have a compensation committee composed entirely of independent directors, with a written charter that covers certain minimum specified duties.*

*Listed companies must have an audit committee that satisfies requirements set forth in Exchange Act Rule 10A-3 and additional requirements, including: (i) a minimum of three members; (ii) independence as defined in NYSE Rule 303A.02; and (iii) a written charter that addresses minimum duties in addition to those required by Exchange Act Rule 10A-3.*

**Our Practice as a Foreign Private Issuer**

On June 23, 2004, our Board of Directors established a Corporate Governance Committee. Both Corporate Governance and Candidate Nomination Committees have their written charters which were renewed by the Board of Directors on January 28, 2016, specifying their duties. According to the CMB Principles, only committee chairs are required to be independent as defined by the Principles themselves.

The charter substantially satisfies the minimum requirements of the NYSE corporate governance rules.

On December 19, 2012, in conformity with the Capital Markets Board's Communiqué then in force, our Board decided to establish a Compensation Committee to operate under our Board of Directors. The Board also adopted the Compensation Committee's Charter which was renewed by the Board on January 28, 2016. The Board approved that the Compensation Committee shall execute the duties relating to compensation issues which were earlier granted to the Corporate Governance Committee by the Corporate Governance Committee Charter and the Compensation Committee shall be authorized in lieu of the Corporate Governance Committee in Total Remuneration Policy of the Board of Directors and Top Executives adopted by our Board.

Our Audit Committee currently has three members: Mr. Ahmet Akca, Mr. Mehmet Hilmi Guler and Mr. Atilla Koc. All of the members are considered independent under the U.S. Sarbanes Oxley Act of 2002, the rules promulgated thereunder by the U.S. Securities and Exchange Commission, the applicable rules of the NYSE and the updated CMB Corporate Governance Principles.

The Audit Committee members are independent Board members as required by the relevant CMB Communiqué which is binding upon public companies in Turkey. Effective June 30, 2012, all listed companies in Turkey must have audit committees composed of independent board members. We are currently in compliance. Under Turkish law, our entire Board of Directors is responsible for all decisions; as a result, the Audit Committee's duties are advisory. Pursuant to Turkish law, our external auditor is nominated by the Board of Directors upon advice of

the Audit Committee and approved by our general assembly of shareholders.

---

**Table of Contents**

**NYSE Corporate Governance Rule for U.S. Issuers**

**Our Practice as a Foreign Private Issuer**

The Audit Committee revised its charter, effective June 20, 2005 and reviewed both Turkcell Common Values and Business Ethics Document and Implementation of Turkcell Common Values and Business Ethics Rules in order to comply with the requirements of applicable CMB legislation and Exchange Act Rule 10A-3 and NYSE 303A.06. There was a second revision, effective July 21, 2006, to reconsider membership criteria. The third revision occurred on January 28, 2016. Our Audit Committee charter satisfies the requirements of the CMB. The charter does not provide for: an audit committee report to be included in Turkcell's annual proxy statement as it is not subject to the SEC proxy requirements; a review with the independent auditor of problems or difficulties and management's responses thereto, although such review is not prohibited by the charter; the discussion of policies with respect to risk assessment and risk management, although such discussion is not prohibited by the charter; the review by the committee of Turkcell's earnings releases or financial information or earnings guidance provided to analysts and ratings agencies; or the setting of clear hiring policies for employees or former employees of the independent auditors, although it does provide that the Audit Committee shall ensure that the independent auditors remain independent and avoid any conflicts of interest while performing their duties.

*Listed companies must adopt and disclose corporate governance guidelines that cover certain minimum specified subjects.*

We are not required specifically by the CMB Principles to adopt corporate governance guidelines. However, our Board of Directors has adopted Corporate Governance Guidelines and posted a summary on its official website [www.turkcell.com.tr](http://www.turkcell.com.tr). Our corporate governance guidelines largely cover the subjects requested by the NYSE corporate governance standards except director qualification standards and director compensation.

We have further adopted an internal directive on the operations of the board of directors in order to regulate the operations of the board and principles on the exercise of its duties and authorities, and to increase cooperation with management in order to fulfill the Company's duties as stipulated by the legislation faster,

efficiently and easily, and to ensure exercise of authorities granted and eliminate reservations while exercising authority. The new Internal directive mainly covers subjects related to board and management structure, relationships between them, working principles of the board, duties and responsibilities and other related subjects.

**Table of Contents**

**16.H Mine Safety Disclosure**

Not applicable.

**ITEM 17. FINANCIAL STATEMENTS**

We have responded to Item 18 in lieu of responding to this item.

**ITEM 18. FINANCIAL STATEMENTS**

Our audited Consolidated Financial Statements as of December 31, 2016, and for each of the years in the three-year period ended December 31, 2016, are filed as part of this annual report, on pages F-3 through F-98.

**ITEM 19. EXHIBITS**

**EXHIBIT**

<b>NUMBER</b>	<b>DESCRIPTION</b>
1.1	Articles of Association of Turkcell Iletisim Hizmetleri A.S.
8.1	Subsidiaries of Turkcell.
12.1	Certification of Kaan Terzioglu, Chief Executive Officer of Turkcell Iletisim Hizmetleri A.S., pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
12.2	Certification of Bulent Aksu, Chief Financial Officer of Turkcell Iletisim Hizmetleri A.S., pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
13.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Table of Contents

**SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Date: March 20, 2017

By: TURKCELL ILETISIM HIZMETLERI A.S.  
/s/ Muhterem Kaan Terziođlu  
**Muhterem Kaan Terziođlu**  
**Chief Executive Officer**

Date: March 20, 2017

By: /s/ Bulent Aksu  
**Bulent Aksu**  
**Chief Financial Officer**

**Table of Contents**

**Index to Consolidated Financial Statements**

	<b>Page</b>
<b>Consolidated Financial Statements of Turkcell Iletisim Hizmetleri A.S.</b>	
<u>Reports of Independent Registered Public Accounting Firms</u>	F-1
<u>Consolidated Statement of Financial Position as at December 31, 2016 and 2015</u>	F-3
<u>Consolidated Statement of Profit or Loss for the years ended December 31, 2016, 2015 and 2014</u>	F-4
<u>Consolidated Statement of Comprehensive Income for the years ended December 31, 2016, 2015, and 2014</u>	F-5
<u>Consolidated Statement of Changes in Equity for the year ended December 31, 2016</u>	F-6
<u>Consolidated Statement of Cash Flows for the years ended December 31, 2016, 2015, and 2014</u>	F-7
<u>Notes to Consolidated Financial Statements</u>	F-8



---

**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders of Turkcell İletişim Hizmetleri A.Ş.

In our opinion, the accompanying consolidated statement of financial position and the related consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows present fairly, in all material respects, the financial position of Turkcell İletişim Hizmetleri A.Ş. and its subsidiaries at December 31, 2016, and the results of their operations and their cash flows for the year then ended in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Annual Report on Internal Control Over Financial Reporting appearing on Item 15 of the 2016 Annual Report to Shareholders. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

We also have audited the adjustments to reflect the discontinued operations to the 2015 and 2014 financial statements, as described in Note 17. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2015 and 2014 financial statements of the company other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2015 and 2014 financial statements taken as a whole.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become

inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PwC Bağımsız Denetim ve

Serbest Muhasebeci Mali Müşavirlik A.Ş.

Istanbul, Turkey

March 20, 2017

F-1

**Table of Contents**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of

Turkcell İletişim Hizmetleri A.Ş.

Istanbul, Turkey

We have audited, before the effects of the retrospective adjustments for the discontinued operations as discussed in Note 17 to the consolidated financial statements, the consolidated statements of financial positions Turkcell İletişim Hizmetleri A.Ş. ( the Company ) and its subsidiaries (together the Group ) as at December 31, 2015, and the related consolidated statements of profit or loss, profit and loss and other comprehensive income, and cash flows for the years ended December 31, 2015 and 2014 (the 2015 and 2014 consolidated financial statements before the effects of the retrospective adjustments discussed in Note 17 to the consolidated financial statements are not presented herein). These financial statements are the responsibility of the Group s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such 2015 and 2014 consolidated financial statements, before the effects of the retrospective adjustments for the discontinued operations as discussed in Note 17 to the consolidated financial statements, present fairly, in all material respects, the financial position of the Group as at December 31, 2015, and the results of their operations and their cash flows for the years ended December 31, 2015 and 2014, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We were not engaged to audit, review, or apply any procedures to the retrospective adjustments for the discontinued operations as discussed in Note 17 to the consolidated financial statements and, accordingly, we do not express an opinion or any other form of assurance about whether such retrospective adjustments are appropriate and have been properly applied. Those retrospective adjustments were audited by other auditors.

/s/ DRT BAGIMSIZ DENETİM VE SERBEST MUHASEBECİ MALİ MUSAVİRLİK A.S.

DRT BAGIMSIZ DENETİM VE SERBEST MUHASEBECİ MALİ MUSAVİRLİK A.S.

Member of **DELOITTE TOUCHE TOHMATSU LIMITED**

Istanbul, Turkey

March 18, 2016

**Table of Contents****TURKCELL ILETISIM HIZMETLERI AS****CONSOLIDATED STATEMENT OF FINANCIAL POSITION****As at 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts. Currencies other than Turkish Liras are expressed in thousands unless otherwise indicated.)

	Note	31 December 2016	31 December 2015
<b>Assets</b>			
Property, plant and equipment	13	8,195,705	6,821,494
Intangible assets	14	8,235,989	8,232,637
<i>GSM and other telecommunication operating licenses</i>		<i>6,160,536</i>	<i>6,505,739</i>
<i>Computer software</i>		<i>1,838,409</i>	<i>1,570,346</i>
<i>Other intangible assets</i>		<i>237,044</i>	<i>156,552</i>
Investment properties	15	46,270	49,572
Other non-current assets	18	575,234	441,940
Investments accounted for using the equity method	16		981,939
Trade receivables	20	235,393	836,256
Receivables from financial services	21	909,466	
Deferred tax assets		51,255	48,615
<b>Total non-current assets</b>		<b>18,249,312</b>	<b>17,412,453</b>
Inventories	22	131,973	75,471
Due from related parties	38	5,861	11,760
Trade receivables and accrued income	20	3,289,904	4,098,928
Receivables from financial services	21	1,486,906	
Other current assets	23	770,135	1,689,686
Derivative instruments	33	390,958	216
Cash and cash equivalents	24	6,052,352	2,918,796
<b>Subtotal</b>		<b>12,128,089</b>	<b>8,794,857</b>
<b>Assets classified as held for sale</b>	17	<b>1,222,757</b>	
<b>Total current assets</b>		<b>13,350,846</b>	<b>8,794,857</b>
<b>Total assets</b>		<b>31,600,158</b>	<b>26,207,310</b>
<b>Equity</b>			
Share capital		2,200,000	2,200,000
Share premium		269	269

Treasury shares (-)	25	(65,607)	
Additional paid in capital		35,026	35,026
Reserves		1,102,896	861,111
Remeasurements of employee termination benefit		(41,786)	(14,320)
Retained earnings		12,780,967	11,272,731
<b>Total equity attributable to equity holders of Turkcell Iletisim Hizmetleri AS</b>		<b>16,011,765</b>	<b>14,354,817</b>
<b>Non-controlling interests</b>		<b>56,632</b>	<b>64,085</b>
<b>Total equity</b>		<b>16,068,397</b>	<b>14,418,902</b>
<b>Liabilities</b>			
Borrowings	28	6,935,102	3,487,786
Employee benefits	29	164,553	114,869
Provisions	31	187,541	130,619
Other non-current liabilities	27	427,547	366,670
Trade and other payables			1,270,610
Deferred tax liabilities	19	458,160	113,437
<b>Total non-current liabilities</b>		<b>8,172,903</b>	<b>5,483,991</b>
Borrowings	28	2,846,060	726,454
Current tax liabilities		71,638	12,855
Trade and other payables	32	4,101,991	5,283,070
Due to related parties	38	11,201	6,555
Deferred revenue	29	93,800	121,078
Provisions	30	192,442	152,115
Derivative instruments	33	41,726	2,290
<b>Total current liabilities</b>		<b>7,358,858</b>	<b>6,304,417</b>
<b>Total liabilities</b>		<b>15,531,761</b>	<b>11,788,408</b>
<b>Total equity and liabilities</b>		<b>31,600,158</b>	<b>26,207,310</b>

The accompanying notes on page F-10 to F-98 are an integral part of these consolidated financial statements.

Table of Contents

## TURKCELL ILETISIM HIZMETLERI AS

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2016

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts. Currencies other than Turkish Liras are expressed in thousands unless otherwise indicated.)

	Note	2016	2015	2014
Revenue	7	14,100,863	12,769,415	12,043,587
Direct costs of revenue	12	(9,166,384)	(7,769,483)	(7,383,947)
<b>Gross profit from non-financial operations</b>		<b>4,934,479</b>	<b>4,999,932</b>	<b>4,659,640</b>
Revenue from financial services	7	184,698		
Direct costs of revenue from financial services	12	(70,223)		
<b>Gross profit from financial operations</b>		<b>114,475</b>		
<b>Gross profit</b>		<b>5,048,954</b>	<b>4,999,932</b>	<b>4,659,640</b>
Other income	8	78,569	44,454	58,929
Selling and marketing expenses	12	(1,910,947)	(1,901,859)	(1,974,608)
Administrative expenses	12	(721,849)	(625,279)	(562,694)
Other expenses	8	(312,801)	(270,446)	(135,177)
<b>Operating profit</b>		<b>2,181,926</b>	<b>2,246,802</b>	<b>2,046,090</b>
Finance income	10	1,064,794	756,039	955,401
Finance costs	10	(1,237,593)	(799,514)	(1,246,986)
<b>Net finance costs</b>		<b>(172,799)</b>	<b>(43,475)</b>	<b>(291,585)</b>
Monetary gain / (loss)				205,068
Share of profit of equity accounted investees				4,466
<b>Profit before income tax</b>		<b>2,009,127</b>	<b>2,203,327</b>	<b>1,964,039</b>
Income tax expense	11	(423,160)	(667,112)	(730,444)
<b>Profit from continuing operations</b>		<b>1,585,967</b>	<b>1,536,215</b>	<b>1,233,595</b>
<b>Profit/ (loss) from discontinuing operations</b>		<b>(42,164)</b>	<b>367,336</b>	<b>202,821</b>

<b>Profit for the year</b>		<b>1,543,803</b>	<b>1,903,551</b>	<b>1,436,416</b>
<b>Profit / (loss) attributable to:</b>				
Owners of Turkcell Iletisim Hizmetleri AS		1,492,088	2,067,654	1,864,640
Non-controlling interests(*)		51,715	(164,103)	(428,224)
<b>Profit for the year</b>		<b>1,543,803</b>	<b>1,903,551</b>	<b>1,436,416</b>
Basic earnings per share- Total group (in full TL)	26	0.68	0.94	0.85
Basic earnings per share- from continuing operations (in full TL)	26	0.70	0.77	0.76

(\*) Profit attributable to non-controlling interests solely derives from continuing operations.

The accompanying notes on page F-10 to F-98 are an integral part of these consolidated financial statements.

**Table of Contents****TURKCELL ILETISIM HIZMETLERI AS****CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME****For the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts. Currencies other than Turkish Liras are expressed in thousands unless otherwise indicated.)

	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Profit for the year</b>	<b>1,543,803</b>	<b>1,903,551</b>	<b>1,436,416</b>
<b>Other comprehensive income / (expense):</b>			
<b>Items that will not be reclassified to profit or loss:</b>			
Remeasurements of employee benefits	(34,532)	(13,466)	(819)
Income tax relating to remeasurements of employee termination benefits	7,066	2,563	196
	(27,466)	(10,903)	(623)
<b>Items that may be reclassified to profit or loss:</b>			
Changes in cash flow hedge reserve		719	1,089
Exchange differences on translation of foreign operations	63,920	166,730	477,592
Exchange differences arising from discontinuing operations	154,552	(551,196)	(9,114)
Income tax relating to these items	(87,381)	(5,749)	(3,646)
	131,091	(389,496)	465,921
<b>Other comprehensive (loss) / income for the year, net of income tax</b>	<b>103,625</b>	<b>(400,399)</b>	<b>465,298</b>
<b>Total comprehensive income for the year</b>	<b>1,647,428</b>	<b>1,503,152</b>	<b>1,901,714</b>
<b>Total comprehensive income/ (loss) attributable to:</b>			
Owners of Turkcell Iletisim Hizmetleri AS	1,594,465	1,616,867	2,098,610
Non-controlling interests	52,963	(113,715)	(196,896)
<b>Total comprehensive income for the year</b>	<b>1,647,428</b>	<b>1,503,152</b>	<b>1,901,714</b>
<b>Total comprehensive income/ (expense) attributable to the owners arises from:</b>			
Continuing operations	1,496,209	1,798,094	1,711,654
Discontinued operations	98,256	(181,227)	190,060
	<b>1,594,465</b>	<b>1,616,867</b>	<b>1,901,714</b>



The accompanying notes on page F-10 to F-98 are an integral part of these consolidated financial statements.

F-5

Table of Contents

## TURKCELL ILETISIM HIZMETLERI AS

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts. Currencies other than Turkish Liras are expressed in thousands unless otherwise indicated.)

Share Capital	Treasury Shares	Additional Paid-in Capital	Share Premium	Attributable to equity holders of the Company							Retained Earnings	Total	Non-Controlling Interests
				Legal Reserve (*)	Cash Flow Hedge Reserves (*)	Interest Put Option (*)	Reserve for Non-Controlling Measurements of Employee Benefits	Foreign Currency Translation Reserve					
2,200,000		35,026	269	839,284	(1,808)	(762,081)	(2,794)	38,356	12,570,414	14,916,666	(181,500)		
									1,864,640	1,864,640	(428,200)		
						(78,394)		311,898		233,504	231,300		
							(623)			(623)			
					1,089					1,089			
					1,089	(78,394)	(623)	311,898		233,970	231,300		

				1,089	(78,394)	(623)	311,898	1,864,640	2,098,610	(196,8
										(8,1
								(3,896)	(3,896)	3,8
					82,043				82,043	
2,200,000	35,026	269	839,284	(719)	(758,432)	(3,417)	350,254	14,431,158	17,093,423	(382,7
2,200,000	35,026	269	839,284	(719)	(758,432)	(3,417)	350,254	14,431,158	17,093,423	(382,7
								2,067,654	2,067,654	(164,1
					(229,173)		(211,430)		(440,603)	50,3
							(10,903)		(10,903)	
				719					719	
				719	(229,173)	(10,903)	(211,430)		(450,787)	50,3

				<b>719</b>	<b>(229,173)</b>	<b>(10,903)</b>	<b>(211,430)</b>	<b>2,067,654</b>	<b>1,616,867</b>	<b>(113,7</b>
			372,068					(372,068)		
								(3,925,000)	(3,925,000)	(100,5
					498,540				498,540	
								(929,013)	(929,013)	661,0
<b>2,200,000</b>	<b>35,026</b>	<b>269</b>	<b>1,211,352</b>	<b>(489,065)</b>	<b>(14,320)</b>	<b>138,824</b>	<b>11,272,731</b>	<b>14,354,817</b>	<b>64,0</b>	
<b>2,200,000</b>	<b>35,026</b>	<b>269</b>	<b>1,211,352</b>	<b>(489,065)</b>	<b>(14,320)</b>	<b>138,824</b>	<b>11,272,731</b>	<b>14,354,817</b>	<b>64,0</b>	
								1,492,088	1,492,088	51,7
					(133,222)		263,065		129,843	1,2
									(27,466)	(27,466)
					(133,222)	(27,466)	263,065		102,377	1,2
					(133,222)	(27,466)	263,065	1,492,088	1,594,465	52,9
			(16,148)					16,148		(51,4

					128,090				128,090	
										(9,000)
	(65,607)								(65,607)	
2,200,000	(65,607)	35,026	269	1,195,204	(494,197)	(41,786)	401,889	12,780,967	16,011,765	56,000

(\*) Included in Reserves in the consolidated statement of financial position.  
 The accompanying notes on page F-10 to F-98 are an integral part of these consolidated financial statements.

Table of Contents**TURKCELL ILETISIM HIZMETLERI AS****CONSOLIDATED STATEMENT OF CASH FLOWS****For the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts. Currencies other than Turkish Liras are expressed in thousands unless otherwise indicated.)

	Note	2016	2015	2014
<b>Cash flows from operating activities</b>				
Profit before income tax from				
Continuing operations		1,585,967	1,536,215	1,233,595
Discontinued operations		(42,164)	367,336	202,821
<b>Profit before income tax including discontinued operations</b>		<b>1,543,803</b>	<b>1,903,551</b>	<b>1,436,416</b>
<b>Adjustments for:</b>				
Depreciation and impairment of fixed assets and investment property	13	1,281,539	1,118,499	1,157,720
Amortization of intangible assets	14	921,812	549,251	481,737
Net finance (income)	10	(117,598)	(515,040)	(855,645)
Fair value gains on derivative financial instruments		(383,452)		
Income tax expense	11	423,160	667,112	730,444
(Gain) on sale of property, plant and equipment		(25,010)	(13,141)	(10,158)
Unrealized foreign exchange (loss)/ gain on operating assets		545,287	579,372	943,303
Provisions	31	197,543	196,588	155,931
Share of profits/ (losses) of discontinued operations		42,164	(367,336)	(202,821)
Share of profit of equity accounted investees				(23,627)
Loss on sale of A-tel				902
Negative goodwill				(2,085)
Reversal of provision for equity accounted investees				(19,161)
Deferred revenue	30	(20,350)	8,095	(24,935)
		<b>4,408,898</b>	<b>4,126,951</b>	<b>3,768,021</b>
Change in trade receivables	20	1,197,053	(821,208)	(1,156,196)
Change in due from related parties	38	7,514	3,907	7,838
Change in receivables from financial operations	21	(2,396,372)		
Change in inventories	22	(62,090)	(4,526)	(2,541)
Change in other current assets	23	643,444	(771,583)	(77,524)
Change in other non-current assets	18	78,770	(70,030)	(31,927)
Change in due to related parties	38	4,302	(20,530)	3,131
Change in trade and other payables	32	(2,733,901)	348,472	191,011
Change in other non-current liabilities	27	(14,477)	(14,088)	29,045
Change in employee benefits	29	15,151	5,125	12,842

Edgar Filing: TURKCELL ILETISIM HIZMETLERI A S - Form 20-F

Change in other working capital		29,286	23,423	(51,806)
		<b>1,177,578</b>	<b>2,805,913</b>	<b>2,691,894</b>
Interest paid		(434,521)	(153,529)	(94,107)
Income tax paid		(135,920)	(751,078)	(699,293)
Dividends received from discontinued operations				92,263
<b>Net cash generated by operating activities</b>		<b>607,137</b>	<b>1,901,306</b>	<b>1,990,757</b>
<b>Cash flows from investing activities</b>				
Acquisition of property, plant and equipment	13	(2,572,401)	(2,135,358)	(1,553,590)
Acquisition of intangible assets	14	(855,097)	(2,461,612)	(575,885)
Proceeds from sale of property, plant and equipment		49,639	24,192	28,094
Acquisition of subsidiary net off cash acquired				(27,900)
Proceeds from currency option contracts			1,070	2,770
Payment of currency option contracts premium				(33)
Proceeds from sale of A-tel				597
Change in property, plant and equipment advances		(209,686)	228,070	(236,042)
Change in financial assets			19,350	38,336
Interest received		610,837	761,328	945,663
<b>Net cash used in investing activities</b>		<b>(2,976,708)</b>	<b>(3,562,960)</b>	<b>(1,377,990)</b>
<b>Cash flows from financing activities</b>				
Acquisition of non-controlling interest			(267,920)	
Capital decrease in subsidiaries		(9,000)		
Proceeds from issuance of loans and borrowings		9,381,318	4,866,381	4,736,913
Proceeds from issuance of bonds		167,500	1,439,862	
Repayment of borrowings		(4,932,768)	(6,551,001)	(4,635,652)
Dividends paid		(51,416)	(4,025,515)	(8,172)
Treasury shares		(65,607)		
Change in non-controlling interest				(75)
Decrease/(increase) in cash collateral related to loans		349,004	(349,243)	
<b>Net cash generated by/ (used in) financing activities</b>		<b>4,839,031</b>	<b>(4,887,436)</b>	<b>93,014</b>
<b>Net increase/ (decrease) in cash and cash equivalents</b>		<b>2,469,460</b>	<b>(6,549,090)</b>	<b>705,781</b>
<b>Cash and cash equivalents at 1 January</b>		<b>2,918,796</b>	<b>9,031,881</b>	<b>8,128,418</b>
<b>Effects of foreign exchange rate fluctuations on cash and cash equivalents</b>		<b>664,096</b>	<b>436,005</b>	<b>197,682</b>
<b>Cash and cash equivalents at 31 December</b>	24	<b>6,052,352</b>	<b>2,918,796</b>	<b>9,031,881</b>

The accompanying notes on page F-10 to F-98 are an integral part of these consolidated financial statements.

**Table of Contents**

**TURKCELL ILETISIM HIZMETLERI AS**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts. Currencies other than Turkish Liras are expressed in thousands unless otherwise indicated.)

**Notes to the consolidated financial statements**

	<b>Page</b>
<b><u>1. Reporting entity</u></b>	<b>F-10</b>
<b><u>2. Basis of preparation</u></b>	<b>F-11</b>
<b><u>3. Significant accounting policies</u></b>	<b>F-16</b>
<b><u>4. Determination of fair values</u></b>	<b>F-40</b>
<b><u>5. Financial risk management</u></b>	<b>F-41</b>
<b><u>6. Operating segments</u></b>	<b>F-44</b>
<b><u>7. Revenue</u></b>	<b>F-48</b>
<b><u>8. Other income and expenses</u></b>	<b>F-48</b>
<b><u>9. Personnel expenses</u></b>	<b>F-49</b>
<b><u>10. Finance income and costs</u></b>	<b>F-49</b>
<b><u>11. Income tax expense</u></b>	<b>F-50</b>
<b><u>12. Expenses by nature</u></b>	<b>F-52</b>
<b><u>13. Property, plant and equipment</u></b>	<b>F-53</b>
<b><u>14. Intangible assets</u></b>	<b>F-54</b>
<b><u>15. Investment property</u></b>	<b>F-58</b>
<b><u>16. Investments accounted for using the equity method</u></b>	<b>F-60</b>
<b><u>17. Asset held for sale discontinued operation</u></b>	<b>F-61</b>
<b><u>18. Other non-current assets</u></b>	<b>F-62</b>
<b><u>19. Deferred tax assets and liabilities</u></b>	<b>F-63</b>
<b><u>20. Trade receivables and accrued income</u></b>	<b>F-64</b>
<b><u>21. Receivables from financial services</u></b>	<b>F-64</b>



<b><u>22. Inventory</u></b>	<b>F-65</b>
<b><u>23. Other current assets</u></b>	<b>F-65</b>
<b><u>24. Cash and cash equivalents</u></b>	<b>F-65</b>
<b><u>25. Equity</u></b>	<b>F-66</b>
<b><u>26. Earnings per share</u></b>	<b>F-68</b>
<b><u>27. Other non-current liabilities</u></b>	<b>F-68</b>
<b><u>28. Borrowings</u></b>	<b>F-69</b>
<b><u>29. Employee benefits</u></b>	<b>F-71</b>
<b><u>30. Deferred revenue</u></b>	<b>F-71</b>
<b><u>31. Provisions</u></b>	<b>F-72</b>
<b><u>32. Trade and other payables</u></b>	<b>F-73</b>
<b><u>33. Derivative instruments</u></b>	<b>F-74</b>

**Table of Contents**

**TURKCELL ILETISIM HIZMETLERI AS**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts. Currencies other than Turkish Liras are expressed in thousands unless otherwise indicated.)

	<b>Page</b>
<b><u>34. Financial instruments</u></b>	<b>F-75</b>
<b><u>35. Operating leases</u></b>	<b>F-83</b>
<b><u>36. Guarantees and purchase obligations</u></b>	<b>F-84</b>
<b><u>37. Commitments and contingencies</u></b>	<b>F-84</b>
<b><u>38. Related parties</u></b>	<b>F-91</b>
<b><u>39. Subsidiaries</u></b>	<b>F-95</b>
<b><u>40. Subsequent events</u></b>	<b>F-97</b>

---

**Table of Contents**

**TURKCELL ILETISIM HIZMETLERI AS**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts. Currencies other than Turkish Liras are expressed in thousands unless otherwise indicated.)

**1. Reporting entity**

Turkcell Iletisim Hizmetleri Anonim Sirketi (the Company) was incorporated in Turkey on 5 October 1993 and commenced its operations in 1994. The address of the Company's registered office is Maltepe Aydınevler Mahallesi İnönü Caddesi No: 20, Kucukyali Ofispark / Istanbul. It is engaged in establishing and operating a Global System for Mobile Communications ( GSM ) network in Turkey and regional states.

In April 1998, the Company signed a license agreement (the 2G License ) with the Ministry of Transport, Maritime Affairs and Communications of Turkey (the Turkish Ministry ), under which it was granted a 25 year GSM license in exchange for a license fee of \$500,000. The License permits the Company to operate as a stand-alone GSM operator and releases it from some of the operating constraints in the Revenue Sharing Agreement, which was in effect prior to the 2G License. Under the 2G License, the Company collects all of the revenue generated from the operations of its GSM network and pays the Undersecretariat of Treasury (the Turkish Treasury ) a treasury share equal to 15% of its gross revenue from Turkish GSM operations. The Company continues to build and operate its GSM network and is authorized to, among other things, set its own tariffs within certain limits, charge peak and off-peak rates, offer a variety of service and pricing packages, issue invoices directly to subscribers, collect payments and deal directly with subscribers. Following the 3G tender held by the Information Technologies and Communications Authority ( ICTA ) regarding the authorization for providing IMT-2000/UMTS services and infrastructure, the Company has been granted the A-Type license (the 3G License ) providing the widest frequency band, at a consideration of EUR 358,000 (excluding Value Added Tax ( VAT )). Payment of the 3G license was made in cash, following the necessary approvals, on 30 April 2009.

On 26 August 2015, Authorization Tender on IMT Services and Infrastructure publicly known as 4.5G license tender, was held by the ICTA and the Company was awarded with a total frequency band of 172.4 MHz for 13 years. The tender price is EUR 1,623,460 (excluding VAT of 18%). IMT authorization period expires on 30 April 2029 and operators were able to commence service delivery for 4.5G starting from 1 April 2016. 2x1.4 MHz frequency band in 900MHz spectrum and 2 units of 2x5 MHz frequency bands in 2100 MHz spectrum were commenced on 1 December 2015, while remaining packages were commenced on 1 April 2016. For details please refer to Note 14.

On 25 June 2005, the Turkish Government declared that GSM operators are required to pay 10% of their existing monthly treasury share to the Turkish Ministry as a universal service fund contribution in accordance with Law No: 5369. As a result, starting from 30 June 2005, the Company started to pay 90% of the treasury share to the Turkish Treasury and 10% to the Turkish Ministry as universal service fund.

In July 2000, the Company completed an initial public offering with the listing of its ordinary shares on the Istanbul Stock Exchange and American Depositary Shares, or ADSs, on the New York Stock Exchange.

The Company's parent is Turkcell Holding A.S., which holds 51.0% of the Company's shares as of 31 December 2016. The main shareholders of Turkcell Holding A.S. are Sonera Holding B.V. ( Sonera ), Cukurova Group and Alfa Telecom Turkey Limited ( Alfa ) according to the information obtained from public sources.

After failure to comply with corporate governance principles for election of independent board members, the CMB with its resolution dated 11 March 2013 appointed 3 independent board members. In addition, the CMB with its resolutions dated 15 August 2013 and 13 September 2013, announced the appointment of 4 members, of which 2 members were chosen from the independent nominees list submitted by Sonera, as board members who satisfy the independence criteria. All members shall serve as members until new members are elected by the general assembly or until the CMB announces a new resolution. After appointment of board members by the CMB, Turkcell board is comprised of 7 non-executive board members who satisfy the independence criteria and of which 3 are independent board members.

The consolidated financial statements of the Company as at and for the year ended 31 December 2016 comprise the Company and its subsidiaries (together referred to as the Group ) and the Group's interest in

**Table of Contents**

**TURKCELL ILETISIM HIZMETLERI AS**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts. Currencies other than Turkish Liras are expressed in thousands unless otherwise indicated.)

**1. Reporting entity (continued)**

an associate. Subsidiaries of the Company, their locations and their nature of operations are disclosed in Note 39. The Company's and each of its subsidiaries' and associate's financial statements are prepared as at and for the year ended 31 December 2016.

**2. Basis of preparation**

**(a) Statement of compliance**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS. The financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB).

The Company selected the presentation form of function of expense for the statement of profit or loss in accordance with International Accounting Standards (IAS) 1 *Presentation of Financial Statements*.

Authority for reissue and approval of consolidated financial statements belongs to the General Assembly. Consolidated financial statements are authorized for issue by the Board of Directors with the recommendation of Audit Committee of the Company.

The Group's audited consolidated financial statements prepared as at 31 December 2015 were approved by the General Assembly on 29 March 2016.

The consolidated financial statements as at and for the year ended 31 December 2016 were authorized for issue by the Board of Directors on 15 February 2017.

**(b) Basis of measurement**

The accompanying consolidated financial statements are based on the statutory records, with adjustments and reclassifications for the purpose of fair presentation in accordance with IFRSs as issued by the IASB. The financial statements have been prepared on a historical cost basis, except for derivative financial instruments measured at fair value.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for leasing transactions that are within the scope of IAS 17 *Leases*, transactions that are within the scope of IFRS 2 *Share based payments* and measurements that have some similarities with fair value but are not fair value, such as net realizable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of assets*.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

Level 3 inputs are unobservable inputs for the asset or liability.

---

**Table of Contents**

**TURKCELL ILETISIM HIZMETLERI AS**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts. Currencies other than Turkish Liras are expressed in thousands unless otherwise indicated.)

**2. Basis of preparation (continued)**

**(c) Functional and presentation currency**

The consolidated financial statements are presented in Turkish Lira ( TL ), rounded to the nearest thousand. Moreover, all financial information expressed in US Dollars ( USD or \$ ), Euro ( EUR ) and Ukrainian Hryvnia ( UAH ) and Belarusian Ruble ( BYN , formerly coded BYR ) has been rounded to the nearest thousand. The functional currency of the Company and its consolidated subsidiaries located in Turkey and Turkish Republic of Northern Cyprus is TL. The functional currency of Financell BV ( Financell ) is USD. The functional currency of Eastasian Consortium BV ( Eastasia ), Lifecell Ventures Coöperatief U.A. ( Lifecell Ventures ), Fintur Holdings BV ( Fintur ) and Turkcell Europe GmbH ( Turkcell Europe ) is EUR. The functional currency of lifecell LLC ( lifecell ), LLC Global Bilgi ( Global LLC ) and UkrTower LLC ( UkrTower ) is UAH. The functional currency of CJSC Belarusian Telecommunication Network ( Belarusian Telecom ), Lifetech LLC ( Lifetech ) and Beltower LLC ( Beltower ) is BYN. The functional currency of Azerinteltek QSC ( Azerinteltek ) is Azerbaijan Manat.

Effective from 1 July 2016, Belarusian Ruble has been redominated by 10,000 and coded as BYN , formerly known as BYR .

**(d) Use of estimates and judgments**

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are described below:

***Allowance for doubtful receivables***

The Group maintains an allowance for doubtful receivables for estimated losses resulting from the inability of the Group's subscribers and customers to make required payments. The Group bases the allowance on the likelihood of recoverability of trade and other receivables based on the aging of the balances, historical collection trends and general economic conditions. The allowance is periodically reviewed. The allowance charged to expenses is determined in respect of receivable balances, calculated as a specified percentage of the outstanding balance in each aging group, with the percentage of the allowance increasing as the aging of the receivable becomes longer.

*Useful lives of assets*

The economic useful lives and residual values of the Group's assets are determined by management at the time the asset is acquired and regularly reviewed for appropriateness. The Group defines useful life of its assets in terms of the assets' expected utility to the Group. This judgment is based on the experience of the Group with similar assets. In determining the useful life of an asset, the Group also follows technical and/or commercial obsolescence arising on changes or improvements from a change in the market. The useful lives of the GSM and other telecommunication operating licenses are based on the duration of the license agreements.

Belarusian Telecom has 10 years of special GSM and UMTS services licenses acquired on 26 August 2008. In addition, the license period has been committed and signed for an additional 10 years for a small fee. The amount of amortization on the consolidated financial statements was accounted on the assumption that the duration of the license would be extended.



**Table of Contents**

**TURKCELL ILETISIM HIZMETLERI AS**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts. Currencies other than Turkish Liras are expressed in thousands unless otherwise indicated.)

**2. Basis of preparation (continued)**

**(d) Use of estimates and judgments (continued)**

***Gross versus net presentation of revenue***

When the Group sells goods or services as a principal, income and payments to suppliers are reported on a gross basis in revenue and operating costs. If the Group sells goods or services as an agent, revenue and payments to suppliers are recorded in revenue on a net basis, representing the margin earned. Whether the Group is considered to be the principal or an agent in the transaction depends on analysis by management of both the legal form and substance of the agreement between the Group and its business partners; such judgements impact the amount of reported revenue and operating costs but do not impact reported assets, liabilities or cash flows.

***Multiple element arrangements***

In arrangements which include multiple elements where the Group acts as principal, the Group considers the elements to be separate units of accounting in the arrangement. Total arrangement consideration relating to the bundled contracts is allocated among the different units according the following criteria:

the component has standalone value to the customer; and

the fair value of the component can be measured reliably.

The arrangement consideration is allocated to each deliverable in proportion to the fair value of the individual deliverables. If a delivered element of a transaction is not a separately identifiable component, then it is accounted for as an integrated part of the remaining components of the transaction.

***Income taxes***

The calculation of income taxes involves a degree of estimation and judgment in respect of certain items whose tax treatment cannot be finally determined until resolution has been reached with the relevant tax authority or, as

appropriate, through formal legal process.

As part of the process of preparing the consolidated financial statements, the Group is required to estimate the income taxes in each of the jurisdictions and countries in which they operate. This process involves estimating the actual current tax exposure together with assessing temporary differences resulting from differing treatment of items, such as deferred revenue and reserves for tax and accounting purposes. The Group management assesses the likelihood that the deferred tax assets will be recovered from future taxable income and to the extent the recovery is not considered probable the deferred asset is adjusted accordingly.

The recognition of deferred tax assets is based upon whether it is probable that future taxable profits will be available, against which the temporary differences can be utilized. Recognition, therefore, involves judgment regarding the future financial performance of the particular legal entity in which the deferred tax asset has been recognized.

***Provisions, contingent Liabilities and contingent Assets***

As detailed and disclosed in Note 37, the Group is involved in a number of investigations and legal proceedings (both as a plaintiff and as a defendant) during the year arising in the ordinary course of business. All of these investigations and litigations are evaluated by the Group Management in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and disclosed or accounted in the consolidated financial statements. Future results or outcome of these investigations and litigations might differ from Group Management's expectations. As at the reporting date, the Group Management believes that appropriate recognition criteria and measurement basis are applied to provisions, contingent liabilities and contingent assets and that sufficient information is disclosed in the notes to enable users to understand their nature, timing and amount by considering current conditions and circumstances.

**Table of Contents**

**TURKCELL ILETISIM HIZMETLERI AS**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts. Currencies other than Turkish Liras are expressed in thousands unless otherwise indicated.)

**2. Basis of preparation (continued)**

**(d) Use of estimates and judgments (continued)**

***Annual impairment review***

The Group tests annually whether goodwill and intangible asset not yet available for use have suffered any impairment in accordance with the accounting policy stated in Note 3. Additionally, the carrying amounts of Group's nonfinancial assets are reviewed at each reporting date to determine whether there is an indication of impairment. If any indication exists the assets recoverable amount is estimated in accordance with the accounting policy stated in Note 3. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates as discussed in Note 14.

As at 31 December 2014, Astelit has impaired its assets in Crimea region amounting to TL 17,951. The risk of further annexations of Luhansk and Donetsk regions still remain as a possibility. As at 31 December 2016, the net book value of non-current assets of the Group located in Donetsk and Luhansk amounts to TL 14,450 and TL 1,198 respectively (31 December 2015: TL 20,687 and TL 2,908 respectively).

Current and potential future political and economic changes in Belarus and Ukraine could have an adverse effect on the subsidiaries operating in these countries. The economic stability of Belarus and Ukraine depends on the economic measures that will be taken by the governments and the outcomes of the legal, administrative and political processes in these countries. These processes are beyond the control of the subsidiaries established in these countries.

Consequently, the subsidiaries operating within Belarus and Ukraine may be subject to foreign currency and interest rate risks related to borrowings and the subscriber's purchasing power and liquidity and increase in corporate and personal insolvencies, that may not necessarily be observable in other markets. The accompanying consolidated financial statements contain the Group management's estimations on the economic and financial positions of its subsidiaries operating in Belarus and Ukraine. The future economic situation of Belarus and Ukraine might differ from the Group's expectations. As at 31 December 2016, the Group's management believes that their approach is appropriate in taking all the necessary measures to support the sustainability of these subsidiaries' businesses in the current circumstances.

***Fair value measurements and valuation processes***

Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes. In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 and 2 inputs are not available, the Group can engage third party qualified valuers to perform the valuation, if necessary. The management works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed in Note 34.

***Contracted handset sales***

The Company, the distributors and dealers offer joint campaigns to the subscribers which may include the sale of device by the dealer and/or distributor and a communication service to be provided by the Company. The Company does not recognize any revenue for the device in these transactions by considering the below factors:

the Company is not primary obligor for the sale of handset,

the Company does not have control over the sale prices of handsets,

the Company has no inventory risk,

the Company has no responsibility on technical compability of equipment delivered to customers

**Table of Contents**

**TURKCELL ILETISIM HIZMETLERI AS**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts. Currencies other than Turkish Liras are expressed in thousands unless otherwise indicated.)

**2. Basis of preparation (continued)**

**(d) Use of estimates and judgments (continued)**

the responsibility after sale belongs to the distributor and

the Company does not make any modification on the equipment.

**Changes in accounting policies**

Other than the adoption of the new and revised standards as explained in Note 3(v), and change in Company's reportable segments (Note 6) the Group did not make any major changes to accounting policies during the current year.

**Changes in accounting estimates**

If the application of changes in the accounting estimates affects the financial results of a specific period, the changes in the accounting estimates are applied in that specific period, if they affect the financial results of current and following periods; the accounting estimate is applied prospectively in the period in which such change is made. A change in the measurement basis applied is a change in an accounting policy, and is not a change in an accounting estimate.

The Group did not make any major changes to the accounting estimates during the current year.

**Comparative information and revision of prior period financial statements**

The consolidated financial statements of the Group have been prepared with the prior periods on a comparable basis in order to give consistent information about the financial position and performance. If the presentation or classification of the financial statements is changed, in order to maintain consistency, the financial statements of the prior periods are also reclassified in line with the related changes.

As at 31 December 2016, remeasurements of employee termination benefits and derivative instruments have been disclosed separately in financial statements, formerly disclosed under retained earnings, other current assets and

borrowings respectively.

The Company has for 2015 revised the manner in which it accounts for the cash paid to acquire the shares held by the non-controlling interest in Euroasia Telecommunications Holding BV ( Euroasia ) in its statement of cash flows and has revised its presentation of 2015, resulting in a revision in net cash used in investing activities and net cash used in financing activities in the statement of cash flows. The Company believes that the changes to prior period are immaterial. The change in the statement of cash flows will not impact the Company's previously reported statement of income, statement of comprehensive income, statement of financial positions or Cash and cash equivalents at the end of any period. The effect of the change on the statement of cash flows is as follows:

**For the year ended 31 December 2015:**

	<b>As previously reported</b>	<b>Revisions</b>	<b>As revised</b>
Net cash from operating activities	1,901,306		1,901,306
Net cash from investing activities	(3,830,880)	267,920	(3,562,960)
Net cash from financing activities	(4,619,516)	(267,920)	(4,887,436)
Cash and cash equivalents	2,918,796		2,918,796

F-15

**Table of Contents**

**TURKCELL ILETISIM HIZMETLERI AS**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts. Currencies other than Turkish Liras are expressed in thousands unless otherwise indicated.)

**3. Significant accounting policies**

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by the Group.

**(a) Basis of consolidation**

*(i) Business combinations*

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value, except that:

deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits* respectively;

liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 at the acquisition date; and

assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over

the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.



**Table of Contents**

**TURKCELL ILETISIM HIZMETLERI AS**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts. Currencies other than Turkish Liras are expressed in thousands unless otherwise indicated.)

**3. Significant accounting policies (continued)**

**(a) Basis of consolidation (continued)**

*(i) Business combinations (continued)*

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39 *Financial Instruments: Recognition and measurement* , or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* , as appropriate, with the corresponding gain or loss being recognized in profit or loss.

*(ii) Subsidiaries*

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

has power over the investee;

is exposed, or has rights, to variable returns from its involvement with the investee; and

has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;

potential voting rights held by the Company, other vote holders or other parties;

rights arising from other contractual arrangements; and

any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

**Table of Contents**

**TURKCELL ILETISIM HIZMETLERI AS**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts. Currencies other than Turkish Liras are expressed in thousands unless otherwise indicated.)

**3. Significant accounting policies (continued)**

**(a) Basis of consolidation (continued)**

*(ii) Subsidiaries (continued)*

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

*(iii) Changes in the Group's ownership interests in existing subsidiaries*

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company. In this context, the Group's ownership interest in lifecell was increased to 100% in July, 2015 and the deficit representing the difference between the non-controlling interests derecognized and the consideration paid for the acquisition of shares amounting to TL 929,013 has been reduced from retained earnings in July 2015 and attributed to the owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognized in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

*(iv) Business combinations under common control*

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are excluded from the scope of IFRS 3 *Business Combinations*. In business combinations under common control, assets and liabilities subject to business combination are accounted for at their carrying value in consolidated financial statements. Statements of profit or loss are consolidated starting from the year that the comparative financial statements are presented and financial statements of previous financial years are restated. Any positive or negative goodwill arising from such business combinations is not recognized in the consolidated financial statements. Residual balance calculated by netting off investment in subsidiary and the share acquired in subsidiary's equity accounted for as equity transactions (i.e. transactions with owners acting in their capacity as owners).

**Table of Contents**

**TURKCELL ILETISIM HIZMETLERI AS**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts. Currencies other than Turkish Liras are expressed in thousands unless otherwise indicated.)

**3. Significant accounting policies (continued)**

**(a) Basis of consolidation (continued)**

*(v) Transactions eliminated on consolidation*

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

*(vi) Non-controlling interests*

Where a put option is granted by the Group to the non-controlling interests shareholders in existing subsidiaries that provides for settlement in cash or in another financial asset, the Group recognizes a liability for the present value of the estimated exercise price of the option. The interests of the non-controlling shareholders that hold such put options are derecognized when the financial liability is recognized. The corresponding interests attributable to the holder of the puttable non-controlling interests are presented as attributable to the equity holders of the parent and not as attributable to those non-controlling interests' shareholders. The difference between the put option liability recognized and the amount of non-controlling shareholders' interests derecognized is recorded under equity.

For the business combinations after 1 January 2009, subsequent changes in the fair value of the put option liability are recognized in profit or loss

*(vii) Investments in associates and joint ventures*

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates or joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* . Under the equity method, an investment in an associate or a joint venture is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognized immediately in profit or loss in the period in which the investment is acquired.

**Table of Contents**

**TURKCELL ILETISIM HIZMETLERI AS**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts. Currencies other than Turkish Liras are expressed in thousands unless otherwise indicated.)

**3. Significant accounting policies (continued)**

**(a) Basis of consolidation (continued)**

*(vii) Investments in associates and joint ventures (continued)*

The requirements of IAS 39 are applied to determine whether it is necessary to recognize any impairment loss with respect to the Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 39 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount.

Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date the investment is classified as held for sale.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognized in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

**(b) Foreign currency**

*(i) Foreign currency transactions*

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at

the exchange rate at the end of the period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognized in the statement of profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, which are recognized directly in equity.

Exchange differences are recognized in profit or loss in the period in which they arise except for:

Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets where they are regarded as an adjustment to interest costs on those foreign currency borrowings;

Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognized in the foreign currency translation reserve and recognized in profit or loss on disposal of the net investment.

*(ii) Foreign operations*

The consolidated financial statements are presented in Turkish Liras, which is the presentation currency of the Group. The Group started to use TL as the presentation currency starting from 31 December 2015 since the majority of the Group's income and expenses are in TL.



**Table of Contents**

**TURKCELL ILETISIM HIZMETLERI AS**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts. Currencies other than Turkish Liras are expressed in thousands unless otherwise indicated.)

**3. Significant accounting policies (continued)**

**(b) Foreign currency (continued)**

*(ii) Foreign operations (continued)*

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to TL from the functional currency of the foreign operation at foreign exchange rates ruling at the reporting date. The income and expenses of foreign operations are translated to TL at monthly average exchange rates excluding foreign operations in hyperinflationary economies which are translated to TL at exchange rates at the reporting date.

The income and expenses of foreign operations in hyperinflationary economies are translated to TL at the exchange rate at the reporting date. Prior to translating the financial statements of foreign operations in hyperinflationary economies, their financial statements for the current period are restated to account for changes in the general purchasing power of the local currency. The restatement is based on relevant price indices at the reporting date.

Foreign currency differences arising on retranslation are recognized directly in the foreign currency translation reserve, as a separate component of equity. Since 1 January 2005, the Group's date of transition to IFRS, such differences have been recognized in the foreign currency translation reserve.

Goodwill and fair value adjustments to identifiable assets acquired and liabilities assumed through acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognized in other comprehensive income.

**(c) Financial instruments**

*(i) Non-derivative financial instruments*

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, borrowings, and trade and other payables.

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less.

Non-derivative financial instruments which are not recognized or designated as financial instruments at fair value through profit or loss are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below:

*Financial assets at fair value through profit or loss*

An instrument is classified as financial asset at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition.

A financial asset is classified as held for trading if:

it has been acquired principally for the purpose of selling it in the near term; or

on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at fair value through profit or loss upon initial recognition if:

such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

**Table of Contents**

**TURKCELL ILETISIM HIZMETLERI AS**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts. Currencies other than Turkish Liras are expressed in thousands unless otherwise indicated.)

**3. Significant accounting policies (continued)**

**(c) Financial instruments (continued)**

*(i) Non-derivative financial instruments (continued)*

the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract to be designated as at fair value through profit or loss.

Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the statement of profit or loss.

*Held-to-maturity financial assets*

If the Group has the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity financial assets are recognized initially at fair value plus any directly attributable transaction costs. Held-to-maturity financial assets are held-to-maturity investments that are measured at amortized cost using the effective interest method, less any impairment losses.

Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years.

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories.

The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see Note 3(h)(i)), and foreign exchange gains and losses on available-for-sale monetary items (see Note 3(b)(i)), are recognized directly in equity. When an investment is derecognized, the cumulative gain or loss in equity is transferred to the statement of profit of loss.

*Other*

Other non-derivative financial instruments are measured at amortized cost using the effective interest method, less any impairment losses.

*(ii) Derecognition of financial assets*

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

**Table of Contents**

**TURKCELL ILETISIM HIZMETLERI AS**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts. Currencies other than Turkish Liras are expressed in thousands unless otherwise indicated.)

**3. Significant accounting policies (continued)**

**(c) Financial instruments (continued)**

*(iii) Derivative financial instruments*

The Group holds derivative financial instruments to hedge its foreign currency risk exposures arising from operational, financing and investing activities. In accordance with its treasury policy, the Group engages in forward, swap, option and participating cross currency swap contracts. These derivatives are accounted as trading derivatives.

Embedded derivatives are separated from the host contract and accounted for separately if a) the economic characteristics and risks of the host contract and the embedded derivative are not closely related, b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and c) the combined instrument is not measured at fair value through profit or loss.

Also the Group enters into derivative financial instruments to manage its exposure to interest rate, including interest rate collar. Further details of derivative financial instruments are disclosed in Note 33.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently re-measured to their fair value at the end of each reporting period. The resulting gain or loss is immediately recognized in the statement of profit or loss unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in statement of profit or loss depends on the nature of the hedge relationship.

*(iv) Financial liabilities and equity instruments*

*Classification as debt or equity*

Debt and equity instruments issued by the Group are classified as either financial liabilities or as equity item in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

*Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Group's own equity instruments is recognized and deducted directly in/ from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

*Subordinated debt instruments*

The foreign subsidiaries of the Company have issued subordinated debt instruments to the Company. These instruments are treated as equity instruments in subsidiaries' separate financial statements and carried at historic cost in accordance with IAS 32 *Financial Instruments: Presentation* as it includes no contractual obligation to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the issuer.

*Financial liabilities*

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

**Table of Contents**

**TURKCELL ILETISIM HIZMETLERI AS**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts. Currencies other than Turkish Liras are expressed in thousands unless otherwise indicated.)

**3. Significant accounting policies (continued)**

**(c) Financial instruments (continued)**

*(iv) Financial liabilities and equity instruments (continued)*

*Financial liabilities at fair value through profit or loss*

Financial liabilities are classified as at fair value through profit or loss where the financial liability is either held for trading or it is designated as at fair value through profit or loss.

Financial liabilities at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the finance income and cost line items. Fair value is determined in the manner described in Note 34.

*Other financial liabilities*

Other financial liabilities, including borrowings and trade and other payables, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

*Derecognition of financial liabilities*

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

*(v) Offsetting financial assets and financial liabilities*

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

**(d) Property, plant and equipment**

*(i) Recognition and measurement*

Items of property, plant and equipment are initially stated at cost less accumulated depreciation (see below) and accumulated impairment losses (see note 3(h)(ii)). Property, plant and equipment related to the parent and subsidiaries operating in Turkey are adjusted for the effects of inflation during the hyperinflationary period which ended on 31 December 2005. Since the inflation accounting commenced on 1 January 2011, property, plant and equipment related to the subsidiaries operating in Belarus are adjusted for the effects of inflation. However, decrease in inflation rate in subsequent years led the three-year cumulative rate as of the end of 2014 to decrease to 65%. Accordingly, the economy of Belarus was considered to transit out of hyperinflationary status and 2015 is determined to be appropriate to cease applying IAS 29. Therefore, subsidiaries operating in Belarus ceased applying IAS 29 in 2015.



**Table of Contents**

**TURKCELL ILETISIM HIZMETLERI AS**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts. Currencies other than Turkish Liras are expressed in thousands unless otherwise indicated.)

**3. Significant accounting policies (continued)**

**(d) Property, plant and equipment (continued)**

*(i) Recognition and measurement (continued)*

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the asset to a working condition for its intended use and the costs of dismantling and removing the items and restoring the site on which they are located, if any. Borrowing costs related to the acquisition or construction of qualifying assets are capitalized as part of the cost of that asset.

Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Gains/losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized net within other income or other expenses in the statement of profit or loss.

Changes in the obligation to dismantle, remove assets on sites and to restore sites on which they are located, other than changes deriving from the passing of time, are added or deducted from the cost of the assets in the period in which they occur. The amount deducted from the cost of the asset shall not exceed the balance of the carrying amount on the date of change, and any excess balance is recognized immediately in the statement of profit or loss.

*(ii) Subsequent costs*

The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be

measured reliably. The carrying amount of the replaced item is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in the statement of profit or loss as incurred.

*(iii) Depreciation*

Depreciation is recognized in the statement of profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term or their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

Buildings	21	25 years
Mobile network infrastructure	4	20 years
Fixed network infrastructure	3	25 years
Call center equipment	4	8 years
Equipment, fixtures and fittings	2	10 years
Motor vehicles	4	6 years
Central betting terminals	5	10 years
Leasehold improvements	3	5 years

Depreciation methods, useful lives and residual values are reviewed at least annually unless there is an indicator of impairment.

**Table of Contents****TURKCELL ILETISIM HIZMETLERI AS****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts. Currencies other than Turkish Liras are expressed in thousands unless otherwise indicated.)

**3. Significant accounting policies (continued)****(e) Intangible assets***(i) GSM and other telecommunication operating licenses*

GSM and other telecommunication operating licenses that are acquired by the Group are measured at cost adjusted for the effects of inflation during the hyperinflationary period, where applicable, less accumulated amortization (see below) and accumulated impairment losses (see note 3(h)(ii)). GSM and other telecommunication operating licenses related to the parent and subsidiaries operating in Turkey are adjusted for the effects of inflation during the hyperinflationary period which ended on 31 December 2005. Since the inflation accounting commenced on 1 January 2011 and ceased by 1 January 2015, GSM and other telecommunication operating licenses related to the subsidiaries operating in Belarus are adjusted for the effects of inflation until 1 January 2015.

*Amortization*

Amortization is recognized in the statement of profit or loss on a straight line basis primarily by reference to the unexpired license period. The useful lives for the GSM and other telecommunication operating licenses are as follows:

GSM and other telecommunications licenses	3 – 25 years
---	--------------

*(ii) Computer software*

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software.

Costs associated with maintaining computer software programmes are recognized as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Costs include the software development employee costs and an appropriate portion of relevant overheads.

*Amortization*

Amortization is recognized in the statement of profit or loss on a straight-line basis over the estimated useful lives from the date the software is available for use. The useful lives for computer software are as follows:

Computer software	3 – 8 years
-------------------	-------------

*(iii) Other intangible assets*

Other intangible assets that are acquired by the Group which have finite useful lives are measured at cost adjusted for the effects of inflation during the hyperinflationary period, where applicable, less accumulated amortization (see below) and accumulated impairment losses (see note 3(h)(ii)). Other intangible related to the parent and subsidiaries operating in Turkey are adjusted for the effects of inflation during the hyperinflationary periods ceased by 31 December 2005. Since the inflation accounting commenced on 1 January 2011 and ceased by 1 January 2015, other intangible assets related to the subsidiaries operating in Belarus are adjusted for the effects of inflation until 1 January 2015.

Indefeasible Rights of Use ( IRU ) correspond to the right to use a portion of the capacity of an asset granted for a fixed period of time. IRUs are recognized as an intangible asset when the Group has specific indefeasible right to use an identified portion of the underlying asset and the duration of the right is the major part of the underlying asset s economic life. IRUs are amortized over the shorter of the expected period of use and the life of the contract.

**Table of Contents**

**TURKCELL ILETISIM HIZMETLERI AS**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts. Currencies other than Turkish Liras are expressed in thousands unless otherwise indicated.)

**3. Significant accounting policies (continued)**

**(e) Intangible assets (continued)**

*(iv) Subsequent expenditure*

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset (that is purchased from independent third parties) to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in the statement of profit or loss as incurred. Capitalized costs generally relate to the application development stage; any other costs incurred during the pre and post-implementation stages, such as repair, maintenance or training, are expensed as incurred.

Borrowing costs should be capitalized as part of cost of qualifying assets. Borrowing costs eligible for capitalization may include:

interest on loans and borrowings calculated using the effective interest rate method as described in IAS 39 - *Financial Instruments: Recognition and Measurement*; and

finance charges in respect of finance leases recognized in accordance with IAS 17 *Leases*.

exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are included in the cost of that asset. Such borrowing costs are capitalized as part of the cost of the asset when it is probable that they will result in future economic benefits to the entity and the costs can be measured reliably. An entity shall cease capitalizing borrowing costs when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

An entity shall suspend capitalization of borrowing costs during extended periods in which it suspends active development of a qualifying asset.

Exchange differences arising from foreign currency borrowings should be capitalized.

The amount of borrowing costs that may be capitalized should lie between the following two amounts:

actual interest costs denominated in the foreign currency, translated at the actual exchange rate on the date on which the expense is incurred; and

notional borrowing costs based on commercial interest rates prevailing in the functional currency at the date of initial recognition of the borrowing.

*Amortization*

Amortization is recognized in the statement of profit or loss on a straight line basis over the estimated useful lives of intangible assets unless such useful lives are indefinite from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

Transmission lines	5	10 years
Central betting system operating right	7	10 years
Customer list	2	15 years
Brand name	9	10 years
Indefeasible right of use		15 years

Amortization methods, useful lives and residual values are reviewed at least annually unless there is an indicator of impairment.

**Table of Contents**

**TURKCELL ILETISIM HIZMETLERI AS**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts. Currencies other than Turkish Liras are expressed in thousands unless otherwise indicated.)

**3. Significant accounting policies (continued)**

**(e) Intangible assets (continued)**

*(iv) Subsequent expenditure (continued)*

*Goodwill*

From 1 January 2010 the Group has applied IFRS 3 (2008) *Business Combinations* in accounting for business combinations.

For acquisitions on or after 1 January 2010, the Group measures goodwill as the fair value of the consideration transferred (including the fair value of any previously-held equity interest in the acquiree) and the recognized amount of any non-controlling interests in the acquiree, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date.

When the excess is negative, a bargain purchase gain is recognized immediately in the statement of profit or loss.

*Subsequent measurement*

Goodwill is measured at cost less accumulated impairment losses if any. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment and an impairment loss on such an investment is not allocated to any asset including goodwill, that forms part of the carrying amount of the equity accounted investees.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

*(v) Internally generated intangible assets – research and development expenditure*

Computer software includes internally generated capitalized software development costs that meet the definition of an intangible asset.

Expenditure on research activities is recognized as an expense under cost of sales in the period in which it is incurred.

An internally generated intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, all of the following have been demonstrated:

The technical feasibility of completing the intangible asset so that it will be available for use or sale;

The intention to complete the intangible asset and use or sell it;

The ability to use or sell the intangible asset;

How the intangible asset will generate probable future economic benefits;

The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally generated intangible assets is the sum of expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognized, development expenditure is charged to the statement of profit or loss in the period in which it is incurred.



**Table of Contents**

**TURKCELL ILETISIM HIZMETLERI AS**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts. Currencies other than Turkish Liras are expressed in thousands unless otherwise indicated.)

**3. Significant accounting policies (continued)**

**(e) Intangible assets (continued)**

*(v) Internally generated intangible assets – research and development expenditure (continued)*

Subsequent to initial recognition, internally generated intangible assets are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets acquired separately.

*(vi) Derecognition of intangible assets*

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

**(f) Leased assets**

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset and related financial liability are measured at an amount equal to the lower of its fair value or the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

All other leases are operating leases and the leased assets are not recognized on the Group's statement of financial position.

**(g) Inventories**

Inventories are measured at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less selling expenses. The cost of inventory is determined using the weighted

average method and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. As at 31 December 2016 and 2015, inventories mainly consist of mobile phones, sim-cards, and devices.

**(h) Impairment**

*(i) Financial assets*

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in the statement of profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognized previously in equity is transferred to the statement of profit or loss.

**Table of Contents**

**TURKCELL ILETISIM HIZMETLERI AS**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts. Currencies other than Turkish Liras are expressed in thousands unless otherwise indicated.)

**3. Significant accounting policies (continued)**

**(h) Impairment (continued)**

*(i) Financial assets (continued)*

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost and available-for-sale financial assets that are debt securities, the reversal is recognized in the statement of profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognized directly in other comprehensive income. For available-for-sale equity investments carried at cost, the reversal is not permitted.

*(ii) Non-financial assets*

The carrying amounts of the Group's non-financial assets, other than inventories, and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible asset not yet available for use, the recoverable amount is estimated each year at the same time.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or group of assets (the cash-generating unit). The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a post-tax discount rate adjusted for the effects of tax cash outflows that reflects current market assessments of the time value of money and the risks specific to the asset. The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined from the cash-generating unit to which corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in the statement of profit or loss. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Goodwill that forms part of the carrying amount of an investment in an associate is not recognized separately, therefore, is not tested for impairment separately. Instead, the entire amount of the investment in an associate is tested for impairment as a single asset when there is objective evidence that the investment in an associate may be impaired.

**Table of Contents**

**TURKCELL ILETISIM HIZMETLERI AS**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts. Currencies other than Turkish Liras are expressed in thousands unless otherwise indicated.)

**3. Significant accounting policies (continued)**

**(i) Employee benefit obligations**

*(i) Retirement pay liability*

In accordance with existing labor law in Turkey, the Company and its subsidiaries in Turkey are required to make lump-sum payments to employees who have completed one year of service and whose employment is terminated without cause or who retire, are called up for military service or die. Such payments are calculated on the basis of 30 days pay up to a of maximum full TL 4,297 as at 31 December 2016, per year of employment at the rate of pay applicable at the date of retirement or termination. Termination benefits paid to key executive officers are classified in other expenses. Reserve for retirement pay is computed and reflected in the consolidated financial statements on a current basis. The reserve has been calculated by estimating the present value of future probable obligation of the Company and its subsidiaries in Turkey arising from the retirement of the employees. The retirement pay liability is calculated annually by independent actuaries using the projected unit credit method.

*(ii) Defined contribution plans*

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognized as an employee benefit expense in the statement of profit or loss when they are due.

The assets of the plan are held separately from the consolidated financial statements of the Group. The Company and other consolidated companies that initiated defined contribution retirement plan are required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement plan is to make the specified contributions.

*(iii) Share-based payment*

The Company provides a cash-settled share-based payment plan for selected employees in return for their services. For cash-settled share-based payment plan, the Company measures the services received and the liability incurred at

the fair value of the liability. Until the liability is settled, the Company remeasures the fair value of the liability at each reporting date and at the settlement date, with any changes in fair value recognised in profit or loss for the period. Cash-settled share-based payments are conditional upon meeting specified vesting conditions. As at 31 December 2016, the Company did not recognize any liability in the consolidated financial statements as vesting conditions for the year ended 31 December 2016 were not met.

**(j) Provisions**

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

*Onerous contracts*

Present obligations arising under onerous contracts are recognized and measured as a provision. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

**Table of Contents**

**TURKCELL ILETISIM HIZMETLERI AS**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts. Currencies other than Turkish Liras are expressed in thousands unless otherwise indicated.)

**3. Significant accounting policies (continued)**

**(j) Provisions (continued)**

*Dismantling, removal and restoring sites obligation*

The Group is required to incur certain costs in respect of a liability to dismantle and remove assets and to restore sites on which the assets were located. The dismantling costs are calculated according to best estimate of future expected payments discounted at a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability.

*Personnel bonus*

Provision for bonus is provided when the bonus is a legal obligation, or past practice would make the bonus a constructive obligation and the Group is able to make a reliable estimate of the obligation.

**(k) Revenue**

Revenue is recognized at the fair value of the consideration received or receivable, net of returns, trade discounts and rebates. Revenue from telecommunication services includes postpaid and prepaid revenue from, voice, data, messaging and value added services, interconnect revenue, monthly fixed fees, simcard sales and roaming revenue. Revenue from telecommunication services are recognized at the time services are rendered.

With respect to prepaid revenue, the Group generally collects cash in advance by selling scratch cards to distributors. In such cases, the Group does not recognize revenue until the subscribers use the telecommunication services. Deferred revenue is recorded under current liabilities.

Services may be bundled with other products/services and these bundled services and products involve consideration in the form of fixed fee or a fixed fee coupled with a continuing payment stream. Total arrangement considerations relating to a bundled contract is allocated among the different units accounting the following criteria:

the deliverable has standalone value to the customer; and

the fair value of the deliverable can be measured reliably.

The arrangement consideration is allocated to each deliverable in proportion to the fair value of the individual deliverables. If a delivered element of a transaction is not a separately identifiable component, then it is accounted for as an integral part of the remaining deliverable of the transactions.

Revenue allocated to products given where the Group is the principal, which is included in other revenue, is recognized when the significant risks and rewards of ownership have been transferred to the buyer, collection is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods and the amount of revenue can be measured reliably.

Revenue for device sales is recognised when the device is delivered to the end customer and the significant risks and rewards of ownership have transferred. For device sales made to intermediaries, revenue is recognised if the significant risks associated with the device are transferred to the intermediary and the intermediary has no general right to return the device to receive a refund. If the significant risks are not transferred, revenue recognition is deferred until sale of the device to an end customer by the intermediary or the expiry of any right of return.

The Company, the distributors and dealers offer joint campaigns to the subscribers which may include the sale of device by the dealer and/or distributor and a communication service to be provided by the Company. In particular campaigns, the dealer makes the handset sale to the subscribers whose instalments will be



---

**Table of Contents**

**TURKCELL ILETISIM HIZMETLERI AS**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts. Currencies other than Turkish Liras are expressed in thousands unless otherwise indicated.)

**3. Significant accounting policies (continued)**

**(k) Revenue (continued)**

collected by the Company based on the letter of undertaking signed by the subscriber. With the letters of undertaking, the dealer assigns its receivables from device sale to the distributor and the distributor assigns its receivables to the Company.

The Company pays the distributor the net present value of the instalments to be collected from the subscribers upfront and recognizes contracted receivable in its statement of financial position. The undue portion of assigned receivables from the distributors which were paid upfront by the Company is classified as undue assigned contracted receivables in trade receivables (Note 20). When monthly installment is invoiced to the subscriber, related portion is presented in receivables from subscribers . The Company collects the contracted receivables in installments during contract period and does not recognize any revenue for the device in these transactions as the Company is not the principal for the sale of handset.

Starting from 2014, the subscribers has an option to buy the handset by bank loan whose instalments will be collected by the Company on behalf of the bank. The Company does not bear any credit risk in this type of transactions. Since the Company collects the receivables during the contract period and is agent for the sale of device in this bank loan structure, the Company does not recognize any revenue for the device in these transactions.

Monthly fixed fees represent a fixed amount charged to postpaid subscribers on a monthly basis without regard to the level of usage. Fixed fees are recognized on a monthly basis when billed. Monthly fixed fees are included telecommunication services revenues for the years ended 31 December 2016 and 2015.

Revenues from betting business mainly comprised of net takings earned to a maximum of 1.4% of gross takings, as a head agent of fixed odds betting games starting from 1 March 2009 and mobile agent revenues comprised of 7.25% of mobile agency turnover after deducting VAT and gaming tax as head agent starting from 23 March 2010. Revenues from betting business are recognized at the time all the services related with the games are fully rendered. Under the agreement signed with Spor Toto Teskilat Mudurlugu AS ( Spor Toto ), Inteltek Internet Teknoloji Yatirim ve Danismanlik AS ( Inteltek ) is obliged to undertake any excess payout, which is presented on net basis.

Azerinteltek received authorization from Azeridmanservis Limited Liability Company set under the Ministry of Youth and Sport of the Republic of Azerbaijan to organize, operate, manage and develop the fixed odds and paramutual sports betting business. Since Azerinteltek acts as principal, total consideration received from the player less payout (distribution to players) and amounts collected from players on behalf of Ministry of Sports is recognized at the time all the services related with the games are fully rendered.

Azerinteltek has been authorized for the Lottery games by Azerlotereya. Azerinteltek has been generating commission revenue over Lottery games turnover through its own agencies by applying 15% commission rate according to agreement between Azerinteltek and Azerlotereya. Commission revenues are recognized at the time all the services related with the games are fully rendered.

Simcard sales are recognized upon delivery to distributors, net of returns, discounts and rebates. Simcard costs are also recognized upon sale of the simcard to the distributors. Simcard sales are included telecommunication services revenues for the years ended 31 December 2016 and 2015.

Call center revenue are recognized at the time services are rendered.

Starting from 2016 the Company and distributors started to offer the option to buy a device through Turkcell Financing loan, which will be collected by the Company. The Group carries a risk of collection in these transactions. Turkcell Finansman collects the purchased credit from the subscriber during the contract period, and does not record revenue related to the device since it is not the main contractor in the device sale. Revenue from financial services comprise of interest income generated from consumer financing activities. Interest income is recognized as it accrues, using the effective interest method.

**Table of Contents**

**TURKCELL ILETISIM HIZMETLERI AS**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts. Currencies other than Turkish Liras are expressed in thousands unless otherwise indicated.)

**3. Significant accounting policies (continued)**

**(k) Revenue (continued)**

The revenue recognition policy for other revenue is to recognize revenue as services are provided.

Volume rebates or discounts and other contractual changes in the prices of roaming and other services are anticipated, as both the payer and the recipient, if it is probable that they have been earned or will take effect. Thus, contractual rebates and discounts are anticipated, but discretionary rebates and discounts are not anticipated because the definitions of asset and liability would not be met.

**(l) Lease payments**

Payments made under operating leases are recognized in the statement of profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance cost and the reduction of the outstanding liability. The finance cost is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Lease income from operating leases where the Group is a lessor is recognised as income on a straight-line basis over the lease term. The respective leased assets are included in the balance sheet based on their nature.

*Determining whether an arrangement contains a lease*

At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfillment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Group the right to control the use of the underlying asset. At inception or upon reassessment of the arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values.

**(m) Finance income and costs**

Finance income comprises interest income on funds invested (including available-for-sale and held-to-maturity financial assets), late payment interest income, interest income on contracted receivables, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss and gains on derivative instruments that are recognized in the statement of income. Interest income is recognized as it accrues, using the effective interest method.

Finance costs comprise interest expense on borrowings, litigation late payment interest expense, unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through profit or option premium expense.

Foreign currency gains and losses are reported on a net basis. As further discussed in Note 34, the Group's exposure to foreign currency risk mainly results from cash and cash equivalents, trade receivables, borrowings, other non-current liabilities and trade and other payables.

*Borrowing costs*

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take considerable time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned by the temporary investment of the part of the borrowing not yet used is deducted against the borrowing costs eligible for capitalization.

**Table of Contents**

**TURKCELL ILETISIM HIZMETLERI AS**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts. Currencies other than Turkish Liras are expressed in thousands unless otherwise indicated.)

**3. Significant accounting policies (continued)**

**(m) Finance income and costs (continued)**

To the extent that an entity borrows funds generally and uses them for the purpose of obtaining a qualifying asset, management determines the amount of borrowing costs eligible for capitalisation by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

All other borrowing costs are recognized in the statement of profit or loss in the period in which they are incurred.

**(n) Transactions with related parties**

The definition of a related party includes the following persons and entities:

(a) A person (or a close member of that person's family) is related to the reporting entity if the person:

has control or joint control over the reporting entity

has significant influence over the reporting entity, or

is a member of the key management personnel of the reporting entity, or of a parent of the reporting entity.

(b) The reporting entity is related to another entity if:

The reporting entity and another entity are members of the same group (that is all entities within a group are related to each other)

The reporting entity is an associate or joint venture of another entity. In this case reporting entity is related to all members of the group that another entity belongs to

The reporting entity and another entity are joint ventures of the same third party

The reporting entity is a joint venture of this third party and another entity is an associate of this third party (or vice versa)

Another entity is a post-employment benefit plan for the benefit of employees of reporting entity or an entity related to reporting entity. If reporting entity is itself a post-employment benefit plan, any sponsoring employers are also related to reporting entity

Another entity is controlled or jointly controlled by a person identified in (a) above

A person who has control or joint control over reporting entity has significant influence over another entity or is a member of the key management personnel of another entity, or

Another entity (or any member of the group of which another entity is a part) provides key management personnel services to reporting entity or reporting entity's parent.

Related party transactions are transfers of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

**(o) Income taxes**

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the statement of profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

**Table of Contents**

**TURKCELL ILETISIM HIZMETLERI AS**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts. Currencies other than Turkish Liras are expressed in thousands unless otherwise indicated.)

**3. Significant accounting policies (continued)**

**(o) Income taxes (continued)**

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated statement of profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. Current tax is calculated using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that they probably will not reverse in the foreseeable future as the Group is able to control the reversal of the temporary difference. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Interest and penalties assessed on income tax deficiencies are presented based on their nature.

**(p) Earnings per share**

The Group presents basic and diluted earnings per share ( EPS ) data for its ordinary shares. Basic EPS is calculated by dividing the profit attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding excluding treasury shares during the period. Diluted EPS is equal to basic EPS because the Group does not have any convertible notes or share options granted to employees.

In Turkey, companies can raise their share capital by distributing Bonus Shares to shareholders from retained earnings. In computing earnings per share, such bonus share distributions are treated as issued shares. Accordingly, the retrospective effect for such share distributions is taken into consideration in determining the weighted-average number of shares outstanding used in this computation.

**(q) Operating segment**

An operating segment is a component of the Group that engages in business activities from which it may earn revenue and incur expenses including revenue and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are regularly reviewed by the Group management to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

The Group has aggregated its operations under two reportable segments within the year 2015 in accordance with its integrated communication and technology services strategy as Turkcell Turkey and Turkcell International which represent economical integrity.



**Table of Contents**

**TURKCELL ILETISIM HIZMETLERI AS**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts. Currencies other than Turkish Liras are expressed in thousands unless otherwise indicated.)

**3. Significant accounting policies (continued)**

**(r) Subscriber acquisition costs**

The Group capitalizes directly attributable subscriber acquisition costs when the following conditions are met:

the capitalized costs can be measured reliably;

there is a contract binding the customer for a specific period of time; and

it is probable that the amount of the capitalized costs will be recovered through revenue generated by the service contract, or, where the customer withdraws from the contract in advance, through the collection of the penalty.

Capitalized subscriber acquisition costs are amortized on a straight-line basis over the minimum period of the underlying contract. In all other cases, subscriber acquisition costs are expensed when incurred.

**(s) Government grants**

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognized in the statement of profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are transferred to the statement of profit or loss on a straight-line basis over the expected useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred recognized in profit or loss in the period in which they become receivable.

**(t) Investment property**

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at cost less accumulated depreciations and any accumulated impairment losses.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

*(i) Depreciation*

Depreciation is recognized in the statement of profit or loss on a straight-line basis over the estimated useful lives.

The estimated useful lives for the current and comparative periods are as follows:

Investment Property	25 - 45 years
---------------------	---------------

Depreciation methods, useful lives and residual values are reviewed at least annually unless there is a triggering event.

**Table of Contents**

**TURKCELL ILETISIM HIZMETLERI AS**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts. Currencies other than Turkish Liras are expressed in thousands unless otherwise indicated.)

**3. Significant accounting policies (continued)**

**(u) Non-current asset held for sale and discontinued operations**

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell.

An impairment loss is recognised for any initial or subsequent write-down of the asset to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset, but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset is recognised at the date of derecognition.

An associate or joint venture must meet the conditions to be classified as held for sale. It is first measured in accordance with applicable standards. Such standard is IAS 28, and so the share of profits and remeasurement of carrying amounts are done in accordance with normal associate and joint venture rules up to the point of classification as held for sale. The associate or joint venture is then measured in accordance with IFRS 5. It is be measured at the lower of carrying amount and fair value less costs to sell. Equity accounting is ceased from the date the held for sale criteria are met.

Non-current assets classified as held for sale are presented separately from the other assets in the balance sheet.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the statement of profit or loss.

**v) New standards and interpretations**

**(i) Amendments to IFRSs affecting amounts reported and/or disclosures in the consolidated financial statements**

None.

**ii) Standards, amendments and interpretations applicable as at 31 December 2016**

Annual improvements 2014, effective from annual periods beginning on or after 1 January 2016. These set of amendments impacts 4 standards:

IFRS 5, Non-current assets held for sale and discontinued operations regarding methods of disposal.

IFRS 7, Financial instruments: Disclosures , (with consequential amendments to IFRS 1) regarding servicing contracts.

IAS 19, Employee benefits regarding discount rates.

IAS 34, Interim financial reporting regarding disclosure of information.

Amendment to IFRS 11, Joint arrangements on acquisition of an interest in a joint operation, effective from annual periods beginning on or after 1 January 2016. This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions.

Amendment to IAS 16, Property, plant and equipment and IAS 38, Intangible assets , on depreciation and amortisation, effective from annual periods beginning on or after 1 January 2016. In this amendment the it has clarified that the use of revenue based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset

**Table of Contents**

**TURKCELL ILETISIM HIZMETLERI AS**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts. Currencies other than Turkish Liras are expressed in thousands unless otherwise indicated.)

**3. Significant accounting policies (continued)**

**v) New standards and interpretations (continued)**

**ii) Standards, amendments and interpretations applicable as at 31 December 2016 (continued)**

generally reflects factors other than the consumption of the economic benefits embodied in the asset. It is also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset.

Amendments to IAS 27, *Separate financial statements* on the equity method, effective from annual periods beginning on or after 1 January 2016. These amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

Amendment to IFRS 10 *Consolidated financial statements* and IAS 28, *Investments in associates and joint ventures*, effective from annual periods beginning on or after 1 January 2016. These amendments clarify the application of the consolidation exception for investment entities and their subsidiaries.

Amendment to IAS 1, *Presentation of financial statements* on the disclosure initiative, effective from annual periods beginning on or after 1 January 2016, these amendments are as part of the IASB initiative to improve presentation and disclosure in financial reports.

**iii) Standards, amendments and interpretations effective after 31 December 2016**

Amendments to IAS 7 *Statement of cash flows* on disclosure initiative, effective from annual periods beginning on or after 1 January 2017. These amendments introduce an additional disclosure that will enable users of

financial statements to evaluate changes in liabilities arising from financing activities. The amendment is part of the IASB's Disclosure Initiative, which continues to explore how financial statement disclosure can be improved.

Amendments IAS 12 Income Taxes, effective from annual periods beginning on or after 1 January 2017. The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. It also clarifies certain other aspects of accounting for deferred tax assets.

Amendments to IFRS 2, Share based payments on clarifying how to account for certain types of share-based payment transactions, effective from annual periods beginning on or after 1 January 2018. This amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority.

Amendment to IAS 40, Investment property relating to transfers of investment property, effective from annual periods beginning on or after 1 January 2018. These amendments clarify that to transfer to, or from, investment properties there must be a change in use. To conclude if a property has changed use there should be an assessment of whether the property meets the definition. This change must be supported by evidence.

Annual improvements 2014-2016, effective from annual periods beginning on or after 1 January 2018. These amendments impact 3 standards:

IFRS 1, First-time adoption of IFRS, regarding the deletion of short-term exemptions for first-time adopters regarding IFRS 7, IAS 19, and IFRS 10 effective 1 January 2018.

IFRS 12, Disclosure of interests in other entities regarding clarification of the scope of the standard. These amendments should be applied retrospectively for annual periods beginning on or after 1 January 2017.

**Table of Contents**

**TURKCELL ILETISIM HIZMETLERI AS**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts. Currencies other than Turkish Liras are expressed in thousands unless otherwise indicated.)

**3. Significant accounting policies (continued)**

**v) New standards and interpretations (continued)**

**iii) Standards, amendments and interpretations effective after 31 December 2016 (continued)**

IAS 28, Investments in associates and joint ventures regarding measuring an associate or joint venture at fair value effective 1 January 2018.

IFRIC 22, Foreign currency transactions and advance consideration, effective from annual periods beginning on or after 1 January 2018. This IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payments/receipts are made. The guidance aims to reduce diversity in practice

The Group is currently evaluating the impacts of the new pronouncements on its results, financial position and cash flows, which are not expected to be material, except for the following:

IFRS 15 Revenue from contracts with customers, effective from annual periods beginning on or after 1 January 2018. IFRS 15, Revenue from contracts with customers is a converged standard from the IASB and FASB on revenue recognition. The standard will improve the financial reporting of revenue and improve comparability of the top line in financial statements globally.

Amendment to IFRS 15, Revenue from contracts with customers, effective from annual periods beginning on or after 1 January 2018. These amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). New and amended illustrative examples have been added for each of those areas of guidance. The IASB has also included additional practical expedients related to transition to the new revenue

standard.

IFRS 16 Leases , effective from annual periods beginning on or after 1 January 2019, This standard replaces the current guidance in IAS 17 and is a farreaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a right-of-use asset for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

IFRS 9 Financial instruments , effective from annual periods beginning on or after 1 January 2018. This standard replaces the guidance in IAS 39. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model.

#### **4. Determination of fair values**

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.



**Table of Contents**

**TURKCELL ILETISIM HIZMETLERI AS**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts. Currencies other than Turkish Liras are expressed in thousands unless otherwise indicated.)

**4. Determination of fair values (continued)**

**(i) Investment property**

The fair value of investment property is based on valuations performed by appointed independent registered appraisers taking into account valuation methods such as *market approach, discounted cash flow ( DCF ) method, replacement cost method, or the combination of two or all of these methods* based on the applicability of the valuation method to the respective property. All these methods often provide different values for investment property, therefore the appraiser(s) reconcile the varying results and meld the results of the methods utilized in a reasonable way. Based on the valuation method utilized, appraisers estimate the value of investment property which best reflects the market conditions at the balance sheet date.

**(ii) Investments in equity and debt securities**

The fair value of financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets is determined by reference to their quoted bid price or over the counter market price at the reporting date. The fair value of held-to-maturity investments is determined for disclosure purposes only.

**(iii) Trade and other receivables and receivables from financial services**

The fair values of trade and other receivables and receivables from financial services are estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

The rate used for discounting these assets is 8.5% as at 31 December 2016 (31 December 2015: 10.75%).

**(iv) Derivatives**

The fair value of forward exchange contracts, swap contracts and option contracts are based on their listed market price, if available. If a listed market price is not available, then fair values are derived from inputs other than quoted prices that are observable for the asset or liability or are derived by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds) or option pricing models.

**(v) Non-derivative financial liabilities**

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases, the market rate of interest is determined by reference to similar lease agreements.

The rate used for discounting non-derivative financial liabilities is 8.5% as at 31 December 2016 (31 December 2015: 10.75%).

**5. Financial risk management**

The Group practice is to centrally manage the Group's predetermined capital / debt ratios by capital injection or using available credit facilities. The Group obtains short and long-term borrowings according to the Group's financial needs and market predictions. Debt instruments include commercial bank loans to money market instruments and capital market instruments such as debt securities issued which are seldom used in order to maintain diversified source of financing. The Group's financial borrowing ratios are monitored for all transactions in order to prevent any negative effect on the Group's credit ratings.

**Table of Contents**

**TURKCELL ILETISIM HIZMETLERI AS**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts. Currencies other than Turkish Liras are expressed in thousands unless otherwise indicated.)

**5. Financial risk management (continued)**

The Group has exposure to the following risks from its use of financial instruments:

Credit risk

Liquidity risk

Market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Please refer to Note 34 for additional information on the Group's exposure to risks.

**Risk management framework**

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. Additionally, the Company established a Risk Committee in accordance with the new Turkish Commercial Code effective from 1 July 2012.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

**Credit risk**

Credit risk is the risk of a financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. The Group may require collateral in respect of financial assets. Also, the Group may demand letters of guarantee from third parties related to certain projects or contracts. The Group may also demand certain pledges from counterparties if necessary in return for the credit support it gives related to certain financings.

In monitoring customer credit risk, customers are grouped according to whether they are an individual or legal entity, aging profile, maturity and existence of previous financial difficulties. Trade receivables and accrued income are mainly related to the Group's subscribers. The Group's exposure to credit risk on trade receivables is influenced mainly by the individual payment characteristics of postpaid subscribers. The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables.

This allowance includes the specific loss component that relates to individual subscribers exposures, and adjusted for a general provision which is determined based on the age of the balances and historical collection trends.

Investments are preferred to be in liquid securities. The counterparty limits are set depending on their ratings from the most credible rating agencies and the amount of their paid in capital and/or shareholders equity. Policies are in place to review the paid-in capital and rating of counterparties periodically to ensure credit worthiness.

Transactions involving derivatives are with counterparties with whom the Group has signed agreements and which have sound credit ratings.

At the reporting date, there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position.

**Table of Contents**

**TURKCELL ILETISIM HIZMETLERI AS**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts. Currencies other than Turkish Liras are expressed in thousands unless otherwise indicated.)

**5. Financial risk management (continued)**

**Credit risk (continued)**

The Group's policy is to provide financial guarantees only to subsidiaries and distributors. At 31 December 2016, TL 1,409,749 guarantees were outstanding (31 December 2015: TL 1,254,989).

**Liquidity risk**

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to manage liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. Typically, the Group ensures that it has sufficient cash and cash equivalents to meet expected operational expenses, including financial obligations.

Management monitors rolling forecasts of the Group's liquidity reserve (comprising the undrawn borrowing facilities) and cash and cash equivalents on the basis of expected cash flows. In addition, the Group's liquidity management policy involves projecting cash flows in major currencies and considering the level of liquid assets necessary to meet these, monitoring balance sheet liquidity ratios against internal and external regulatory requirements and maintaining debt financing plans.

**Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

The Group buys and sells derivatives in order to manage market risks. All such transactions are carried at within the guidelines set by the Group treasury and risk management.

***Currency risk***

The Group is exposed to currency risk on certain revenues such as wholesale revenues, purchases and certain operating costs such as roaming expenses and network related costs and resulting receivables and payables, borrowings, payable in relation to the acquisition of telecommunication license in Turkey, deferred payments related to the acquisition of Belarusian Telecom that is denominated in a currency other than the respective functional currencies of Group entities, primarily TL for operations conducted in Turkey. The currencies in which these transactions are primarily denominated are EUR and USD.

The Group holds a significant portion of cash portfolio in foreign currency to manage currency risk. Additionally, derivative financial instruments such as forward, swap and option contracts are used to hedge exposure to fluctuations in foreign exchange rates.

For the year ended 31 December 2015, TL depreciated against both USD and EUR by 25.4% and 12.7%, respectively. Whereas for the year ended 31 December 2016 TL depreciated against both USD and EUR by 21.0% and 16.8% respectively. For the year ended 31 December 2015, UAH depreciated against the USD by 52.2% compared to 31 December 2014 and 13.3% for the year ended 31 December 2016 compared to 31 December 2015. BYN depreciated against USD by 56.7% through 2015 compared to 31 December 2014 and for the year ended 31 December 2016 depreciated by 5.5% when compared to the exchange rates as at 31 December 2015.

---

**Table of Contents**

**TURKCELL ILETISIM HIZMETLERI AS**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts. Currencies other than Turkish Liras are expressed in thousands unless otherwise indicated.)

**5. Financial risk management (continued)**

**Market risk (continued)**

***Interest rate risk***

The Group's exposure to interest rate risk is related to its financial assets and liabilities. The Group manage its financial liabilities by providing an appropriate distribution between fixed and floating rate debts. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings. The use of financial derivatives is governed by the Group's policies approved by the Audit Committee, which provide written principles on the use of financial derivatives consistent with the Group's treasury and risk management strategy. The Group also closely monitored various hedging alternatives to hedge interest risk with a minimum cost. Between June-August 2016 the Group converted its floating foreign currency interest rate liabilities into fixed TL liabilities via cross currency swaps and long term options.

**6. Operating Segments**

The Group has two main reportable segments in accordance with its integrated communication and technology services strategy as Turkcell Turkey, and Turkcell International. Some of these strategic segments offer the same types of services, however they are managed separately because they operate in different geographical locations and are affected by different economic conditions.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker function is carried out by the Board of Directors, however Board of Directors may transfer the authorities, other than recognized by the law, to the General Manager and other directors.

Turkcell Turkey reportable segment includes the operations of Turkcell, Turkcell Superonline, Turkcell Satis ve Dagitim Hizmetleri A.S. ( Turkcell Satis ), group call center operations of Global Bilgi Pazarlama Danisma ve Cagri Servisi Hizmetleri A.S. ( Turkcell Global Bilgi ), Turktell Bilisim Servisleri A.S. ( Turktell ), Turkcell Teknoloji Arastirma ve Gelistirme A.S. ( Turkcell Teknoloji ), Turkcell Interaktif Dijital Platform ve Icerik Hizmetleri A.S.

( Turkcell Interaktif ), Kule Hizmet ve Isletmecilik A.S. ( Global Tower ), Rehberlik Hizmetleri Servisi A.S. ( Rehberlik ), Turkcell Odeme Hizmetleri A.S. ( Turkcell Odeme ) and Turkcell Gayrimenkul Hizmetleri A.S. ( Turkcell Gayrimenkul ). Turkcell International reportable segment includes the operations of Kibris Mobile Telekomunikasyon Limited Sirketi ( Kibris Telekom ), Eastasia, Euroasia, lifecell, Lifecell Ventures, Beltel, Belarusian Telecom, UkrTower, Global LLC, Turkcell Europe, Lifetech, Beltower and Fintur. The operations of these legal entities aggregated into one reportable segment as the nature of services are similar and most of them share similar economic characteristics. Other reportable segment mainly comprises the information and entertainment services in Turkey and Azerbaijan, non-group call center operations of Turkcell Global Bilgi and Turkcell Finansman AS ( TFS ).

In first, second and third quarter of the year 2015, the operations of Turkcell Global Bilgi were included in Turkcell Turkey reportable segment. Since the Group changed its reportable segments which are the dominant source of information to evaluate the performance and to allocate resources in the fourth quarter of 2015, group call center operations of Global Bilgi were included in Turkcell Turkey reportable segment whereas non-group call center operations of Global Bilgi were included in Other reportable segment. Since the assets and liabilities of Turkcell Global Bilgi could not be allocated to group and non-group operations and are mainly related to group operations, total assets and liabilities of Turkcell Global Bilgi are reported under Turkcell Turkey reportable segment except trade receivables.

Information regarding the operations of each reportable segment is included below. Adjusted EBITDA is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Adjusted EBITDA definition includes revenue, direct cost of revenues excluding depreciation and amortization, selling and marketing expenses and administrative expenses.



**Table of Contents****TURKCELL ILETISIM HIZMETLERI AS****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts)

**6. Operating segments (continued)**

Adjusted EBITDA is not a financial measure defined by IFRS as a measurement of financial performance and may not be comparable to other similarly-titled indicators used by other companies. Reconciliation of Adjusted EBITDA to consolidated profit before income tax and profit for the period in the accompanying notes.

	Turkcell Turkey		Turkcell International		Other		Intersegment Eliminations		Consolidated	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Consumer segment revenue	10,216,023	9,127,329							10,216,023	9,127,329
Corporate segment revenue	2,191,506	2,031,743							2,191,506	2,031,743
Turkcell Turkey revenue	380,063	321,818							380,063	321,818
Turkcell International revenue			874,692	856,147					874,692	856,147
Other segment revenue					661,923	458,563			661,923	458,563
Intersegment eliminations							(38,646)	(26,185)	(38,646)	(26,185)
<b>Total revenue</b>	<b>12,787,592</b>	<b>11,480,890</b>	<b>874,692</b>	<b>856,147</b>	<b>661,923</b>	<b>458,563</b>	<b>(38,646)</b>	<b>(26,185)</b>	<b>14,285,561</b>	<b>12,769,428</b>
Adjusted EBITDA	4,160,861	3,759,590	235,348	245,959	222,849	134,484	451	511	4,619,509	4,140,351
	(1,986,702)	(1,457,020)	(202,080)	(200,765)	(13,683)	(10,183)	(886)	218	(2,203,351)	(1,667,153)

	Turkcell Turkey		Turkcell International		Other			Intersegment Eliminations		Consolidated
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Depreciation										
Capitalization										
Capital expenditure	3,144,391	7,751,746	336,728	770,211	13,811	14,273	(270)		3,494,660	8,536,660
Net debt	(195,472)	(187,963)	(5,956)	(8,292)	(9,956)	(333)			(211,384)	(196,633)
Operating income										
Operating expense										
Operating income	9,127,329	8,282,297							9,127,329	8,282,297
Corporate expense	2,031,743	1,907,373							2,031,743	1,907,373
Turkcell Turkey	321,818	290,556							321,818	290,556
Turkcell International			856,147	1,137,907					856,147	1,137,907
Other					458,563	457,847			458,563	457,847
Eliminations							(26,185)	(32,393)	(26,185)	(32,393)
<b>Total operating income</b>	<b>11,480,890</b>	<b>10,480,226</b>	<b>856,147</b>	<b>1,137,907</b>	<b>458,563</b>	<b>457,847</b>	<b>(26,185)</b>	<b>(32,393)</b>	<b>12,769,415</b>	<b>12,043,230</b>
Depreciation										
Capitalization										
Capital expenditure	3,759,590	3,326,389	245,959	281,011	134,484	154,643	511	(248)	4,140,544	3,761,320
Net debt				205,068						205,068
Operating income	(1,457,020)	(1,311,591)	(200,765)	(319,204)	(10,183)	(8,847)	218	185	(1,667,750)	(1,639,204)
Capital expenditure	7,751,746	1,982,343	770,211	158,001	14,273	4,452			8,536,230	2,144,027
Net debt	(187,963)	(141,477)	(8,292)	(14,470)	(333)	16			(196,588)	(155,274)

**Table of Contents****TURKCELL ILETISIM HIZMETLERI AS****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts)

**6. Operating segments (continued)**

	As at 31 December 2016 and 2015									
	Turkcell Turkey		Turkcell International		Other		Intersegment Eliminations		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
portable ment	20,068,266	20,701,617	1,693,844	1,460,983	2,508,008	85,884	(49,406)	(10,921)	24,220,712	22,237,000
s ts										
ified ld for			1,222,757						1,222,757	
stments unted sing quity od				981,939						981,939
portable ment ities	4,426,175	6,868,877	595,576	481,338	229,754	105,460	(32,063)	(10,089)	5,219,442	7,445,000

F-46

**Table of Contents****TURKCELL ILETISIM HIZMETLERI AS****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts)

**6. Operating segments (continued)**

	<b>31 December 2016</b>	<b>31 December 2015</b>	<b>31 December 2014</b>
Turkcell Turkey adjusted EBITDA	4,160,861	3,759,590	3,326,389
Turkcell International adjusted EBITDA	235,348	245,959	281,011
Other	222,849	134,484	154,643
Intersegment eliminations	451	511	(248)
<b>Consolidated adjusted EBITDA</b>	<b>4,619,509</b>	<b>4,140,544</b>	<b>3,761,795</b>
Finance income	1,064,794	756,039	955,401
Finance costs	(1,237,593)	(799,514)	(1,246,986)
Other income	78,569	44,454	58,929
Other expenses	(312,801)	(270,446)	(135,177)
Monetary gain			205,068
Share of profit of equity accounted investees			4,466
Depreciation and amortization	(2,203,351)	(1,667,750)	(1,639,457)
<b>Consolidated profit before income tax</b>	<b>2,009,127</b>	<b>2,203,327</b>	<b>1,964,039</b>
Income tax expense	(423,160)	(667,112)	(730,444)
<b>Profit from continuing operations</b>	<b>1,585,967</b>	<b>1,536,215</b>	<b>1,233,595</b>

	<b>31 December 2016</b>	<b>31 December 2015</b>
<b>Assets</b>		
Total assets for reportable segments	21,762,110	22,162,600
Other assets	2,508,008	85,884
Intersegment eliminations	(49,406)	(10,921)
Assets classified as held for sale	1,222,757	
Investments accounted for using the equity method		981,939
Cash and cash equivalents	6,052,352	2,918,796

Edgar Filing: TURKCELL ILETISIM HIZMETLERI A S - Form 20-F

Deferred tax assets	51,255	48,615
Other unallocated assets	53,082	20,397
Consolidated total assets	<b>31,600,158</b>	<b>26,207,310</b>

	<b>31 December 2016</b>	<b>31 December 2015</b>
<b>Liabilities</b>		
Total liabilities for reportable segments	5,021,751	7,350,215
Other liabilities	229,754	105,460
Intersegment eliminations	(32,063)	(10,089)
Borrowings	9,781,162	4,214,240
Deferred tax liabilities	458,160	113,437
Other unallocated liabilities	72,997	15,145
Consolidated total liabilities	<b>15,531,761</b>	<b>11,788,408</b>

F-47

**Table of Contents****TURKCELL ILETISIM HIZMETLERI AS****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts)

**6. Operating segments (continued)****Geographical information**

In presenting the information on the basis of geographical segments, segment revenue is based on the geographical location of operations and segment assets are based on the geographical location of the assets.

	<b>31 December 2016</b>	<b>31 December 2015</b>	<b>31 December 2014</b>
<b>Revenues</b>			
Turkey	13,321,503	11,779,345	10,735,138
Ukraine	573,951	571,630	765,410
Azerbaijan	108,329	145,654	179,628
Belarus	149,005	141,219	151,845
Turkish Republic of Northern Cyprus	129,785	125,668	135,954
Germany	2,988	5,899	75,612
	<b>14,285,561</b>	<b>12,769,415</b>	<b>12,043,587</b>

	<b>31 December 2016</b>	<b>31 December 2015</b>
<b>Non-current assets</b>		
Turkey	16,548,162	15,032,606
Ukraine	1,211,789	993,546
Belarus	291,498	224,784
Turkish Republic of Northern Cyprus	117,243	116,180
Azerbaijan	13,563	14,727
Unallocated non-current assets (*)	67,057	1,030,610
	<b>18,249,312</b>	<b>17,412,453</b>

- (\*) Unallocated non-current assets as at 31 December 2015 comprises of investments accounted for using the equity method which are accounted in assets classified as held for sale as at 31 December 2016.

## 7. Revenue

	2016	2015	2014
Telecommunication services	12,883,974	11,972,443	11,259,956
Equipment revenues	624,352	254,582	241,470
Revenue and commission fees on betting business	284,496	277,525	297,918
Call center revenues	198,564	187,840	165,714
Revenue from financial services	184,698		
Other	109,477	77,025	78,529
	<b>14,285,561</b>	<b>12,769,415</b>	<b>12,043,587</b>

## 8. Other income and expense

Other income amounts to TL 78,569, TL 44,454 and TL 58,929 for the years ended 31 December 2016, 2015 and 2014, respectively.

Other expenses amount to TL 312,801, TL 270,446 and TL 135,177 for years ended 31 December 2016, 2015 and 2014 respectively.

**Table of Contents****TURKCELL ILETISIM HIZMETLERI AS****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts)

**8. Other income and expense (continued)**

Other income for the years ended 31 December 2016 and 2015 mainly consist of fixed asset sales gain and reversal of legal provisions. Other income for the year ended 31 December 2014 mainly consists of reversal of provision for equity accounted investees amounting to TL 19,161.

Other expenses for the year ended 31 December 2016 mainly consist of commercial agreements termination expenses, donations and litigation expenses (Note 37).

Other expenses for the year ended 31 December 2015 mainly consist of commercial agreements termination expenses and litigation expenses.

Other expenses as of 31 December 2014 mainly consist of payments and provisions for the penalties imposed by ICTA for not complying with relevant regulations as explained in Note 34 and payments regarding to litigation expenses to consolidated financial statements.

**9. Personnel expenses**

	<b>2016</b>	<b>2015</b>	<b>2014</b>
Wages and salaries (*)	1,450,262	1,317,655	1,185,382
Increase in liability for long-service leave (**)	32,977	30,593	32,435
Contributions to defined contribution plans	7,722	8,364	7,876
	<b>1,490,961</b>	<b>1,356,612</b>	<b>1,225,693</b>

(\*) Wages and salaries include compulsory social security contributions and bonuses.

(\*\*) The remeasurements of employee termination benefit losses for the years ended 31 December 2016, 2015 and 2014 amounting to TL 34,532, TL 13,466 and 819 respectively, are reflected in other comprehensive income.



**10. Finance income and costs**

Recognized in the statement of profit or loss:

	<b>2016</b>	<b>2015</b>	<b>2014</b>
Interest income on bank deposits	158,206	303,221	650,780
Interest income on financial assets measured at amortized cost	520,465	449,889	295,512
Changes in the fair value of derivative financial instruments	385,560	1,070	2,770
Other interest income	563	1,859	6,339
<b>Finance income</b>	<b>1,064,794</b>	<b>756,039</b>	<b>955,401</b>
Net foreign exchange loss	(782,463)	(489,320)	(1,110,833)
Interest expense on financial liabilities measured at amortized cost	(343,290)	(224,724)	(120,414)
Interest expense on participating cross currency swap contracts	(93,038)		
Litigation late payment interest expense		(68,083)	(6,963)
Option premium expense	(10,114)	(2,290)	(33)
Other	(8,688)	(15,097)	(8,743)
<b>Finance cost</b>	<b>(1,237,593)</b>	<b>(799,514)</b>	<b>(1,246,986)</b>
<b>Net finance income / (costs)</b>	<b>(172,799)</b>	<b>(43,475)</b>	<b>(291,585)</b>

F-49

**Table of Contents****TURKCELL ILETISIM HIZMETLERI AS****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts)

**10. Finance income and costs (continued)**

Capitalization rates and amounts other than borrowings made specifically for the purpose of acquiring a qualifying asset are 9.9%, 9.7% and 12.8%, TL 76,899 and TL 75,315 and TL 15,320 for the years ended 31 December 2016, 2015 and 2014 respectively. Weighted average capitalization rate for general borrowings is 86% as at 31 December 2016 (31 December 2015: 48% and 31 December 2014: 36%).

Finance income for the years ended 31 December 2016, 2015 and 2014 are mainly attributable to interest income from contracted handset sales, changes in fair value of derivative financial instruments and interest income on bank deposits.

Finance cost for year ended 31 December 2016 is mainly attributable to financing cost of borrowings and 4.5G license fee payable.

Foreign exchange loss mainly includes foreign exchange losses on borrowings, 4.5G license payable and bonds issued amounting to TL 764,697, TL 264,953 and TL 263,516, respectively whereas the Company has a foreign exchange income amounting to TL 604,597 from its main operations.

Finance cost for the years ended 31 December 2015 and 2014 is mainly attributable to foreign exchange losses in Belarusian Telecom operating in Belarus and foreign exchange losses in lifecell operating in Ukraine. Foreign exchange losses from Belarusian Telecom and lifecell exclude foreign exchange losses arising in the foreign operations individual financial statements which have been recognized directly in equity in the foreign currency translation differences in the consolidated financial statements in accordance with accounting policy for net investment in foreign operations as disclosed in Note 3b.

**11. Income tax expense**

	<b>2016</b>	<b>2015</b>	<b>2014</b>
Current income tax expense	(200,663)	(591,297)	(709,437)
Deferred income tax expense	(222,497)	(75,815)	(21,007)
<b>Total income tax expense</b>	<b>(423,160)</b>	<b>(667,112)</b>	<b>(730,444)</b>

**Income tax recognized directly in equity**

	<b>Before tax</b>	<b>Tax (expense)/ benefit</b>	<b>Net of tax</b>
<b>2016</b>			
Foreign currency translation differences	218,472	(87,381)	131,091
Remeasurements of employee termination benefits	(34,532)	7,066	(27,466)
	<b>183,940</b>	<b>(80,315)</b>	<b>103,625</b>
<b>2015</b>			
Foreign currency translation differences	(384,466)	(5,749)	(390,215)
Change in cash flow hedge reserve	719		719
Remeasurements of employee termination benefits	(13,466)	2,563	(10,903)
	<b>(397,213)</b>	<b>(3,186)</b>	<b>(400,399)</b>
<b>2014</b>			
Foreign currency translation differences	468,478	(3,646)	464,832
Change in cash flow hedge reserve	1,089		1,089
Remeasurements of employee termination benefits	(819)	196	(623)
	<b>468,748</b>	<b>(3,450)</b>	<b>465,298</b>

F-50

**Table of Contents****TURKCELL ILETISIM HIZMETLERI AS****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts)

**11. Income tax expense (continued)****Reconciliation of effective income tax expense**

The reported income tax expense for the years ended 31 December 2016 and 2015 are different than the amounts computed by applying the domestic tax rate to profit before income tax of the Company, as shown in the following reconciliation:

	<b>2016</b>	<b>2015</b>	<b>2014</b>
Profit for the year	1,543,803	1,903,551	1,436,416
Total income tax expense	423,160	667,112	730,444
Profit before income tax (*)	1,966,963	2,570,663	2,166,860
<b>Income tax using the Company's domestic tax rate of 20%</b>	(393,393)	(514,133)	(433,372)
Difference in overseas tax	(15,935)	(52,688)	(51,277)
Effect of exemptions (**)	104,244	62,163	39,274
Non-deductible expenses and permanent differences	(78,571)	(16,104)	(72,484)
Utilization of previously unrecognized tax losses	1,253	22,863	377
Unrecognized deferred tax assets (***)	(30,616)	(198,364)	(255,048)
Adjustment of current tax of prior years	(8,176)		
Deferred tax effect related to investment in subsidiaries		32,926	
Other	(1,966)	(3,775)	42,086
<b>Total income tax expense</b>	<b>(423,160)</b>	<b>(667,112)</b>	<b>(730,444)</b>

(\*) Including profit from discontinued operation before income tax.

(\*\*) Mainly comprises of research and development tax credit.

(\*\*\*) Mainly comprises of tax losses for which no deferred tax asset has been recognized.

The income taxes payable amounting to TL 71,638, TL 12,855 as at 31 December 2016 and 2015 respectively, represents the amount of income taxes payable in respect of related taxable profit for the years ended 31 December 2016, 2015 and 2014, respectively netted off with advance tax payments.

The Turkish entities within the Group are subject to corporate tax at the rate of 20%. In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns at the end of April following the close of the accounting year to which they relate. Tax authorities may, however, examine such returns and the underlying accounting records and may revise assessments within five years. Advance tax returns are filed on a quarterly basis.

Corporate tax is applied on taxable corporate income, which is calculated from the statutory accounting profit by adding back non-deductible expenses, and by deducting tax exempt income.

In Turkey, the transfer pricing provisions have been stated under the Article 13 of Corporate Tax Law with the heading of "disguised profit distribution via transfer pricing". The General Communiqué on disguised profit distribution via Transfer Pricing, dated 18 November 2007 sets details about implementation.

If a taxpayer enters into transactions regarding sale or purchase of goods and services with related parties, where the prices are not set in accordance with arm's length principle, then related profits are considered to be distributed in a disguised manner through transfer pricing. Such disguised profit distributions through transfer pricing are not accepted as tax deductible for corporate income tax purposes.

With the amendment made in Article 10 of the Corporate Tax Law No. 5520 considering with the amendment made in Article 35 of the Law No. 5746 on Supporting Research and Development Activities, the R&D allowances to be calculated on research and development expenditures has been increased from

**Table of Contents****TURKCELL ILETISIM HIZMETLERI AS****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts)

**11. Income tax expense (continued)**

40% to 100%. Aforementioned law was become effective as of 1 April 2008. According to this law, companies subject to corporate income tax can consider 100% of the expenditures that has been made during research and development activities for searching new technologies and information during the determination of tax basis starting from the April 2008. As total 100% of the research and development expenditures made for 2015 and 2014 should be subject to R&D allowances.

**12. Expenses by nature**

The following table compares expenses by nature for the years ended 31 December 2016 and 2015.

*Cost of sales:*

	<b>2016</b>	<b>2015</b>	<b>2014</b>
Depreciation and amortization	(2,203,351)	(1,667,750)	(1,639,457)
Treasury share	(1,491,503)	(1,418,683)	(1,331,102)
Interconnection and termination cost	(1,420,233)	(1,326,990)	(1,316,577)
Radio cost	(1,057,618)	(911,454)	(829,698)
Personnel expenses	(859,143)	(734,725)	(655,742)
Gsm equipment expenses	(427,081)	(187,789)	(181,472)
Universal service fund	(192,045)	(182,508)	(160,266)
Transmission costs	(139,185)	(113,574)	(106,405)
Roaming expenses	(128,429)	(108,102)	(92,189)
Direct cost of revenue from financial services (*)	(68,546)		
Billing and archiving cost	(61,647)	(55,056)	(82,530)
Other	(1,187,826)	(1,062,852)	(988,509)
	<b>(9,236,607)</b>	<b>(7,769,483)</b>	<b>(7,383,947)</b>

(\*) As at 31 December 2016, depreciation and amortization expenses includes depreciation and amortization expenses related to the financial services amounting to TL 1,677.

*Selling and marketing expenses:*

	<b>2016</b>	<b>2015</b>	<b>2014</b>
Selling expenses	(757,869)	(783,234)	(858,766)
Marketing expenses	(518,382)	(428,596)	(451,373)
Personnel expenses	(354,380)	(381,582)	(358,334)
Prepaid subscriber frequency usage fees	(186,530)	(191,408)	(186,171)
Other	(93,786)	(117,039)	(119,964)
	<b>(1,910,947)</b>	<b>(1,901,859)</b>	<b>(1,974,608)</b>

F-52

**Table of Contents****TURKCELL ILETISIM HIZMETLERI AS****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts)

**12. Expenses by nature (continued)***Administrative expenses:*

	<b>2016</b>	<b>2015</b>	<b>2014</b>
Personnel expenses	(277,438)	(240,305)	(211,616)
Bad debt expense	(211,384)	(196,588)	(155,931)
Consultancy expense	(54,315)	(43,995)	(46,131)
Rent expense	(30,314)	(23,924)	(17,292)
Collection expense	(20,827)	(17,533)	(29,759)
Maintenance and repairment expenses	(20,315)	(23,424)	(23,861)
Travel and entertainment expenses	(18,913)	(13,484)	(14,807)
Other	(88,343)	(66,026)	(63,297)
	<b>(721,849)</b>	<b>(625,279)</b>	<b>(562,694)</b>

**13. Property, plant and equipment**

	<b>Balance as at 1 January 2016</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	<b>Impairment expenses/ (reversals)</b>	<b>Effects of movements in exchange rates</b>	<b>Balance as at 31 December 2016</b>
<b>Cost</b>							
Network infrastructure (All operational)	11,302,326	615,041	(518,827)	2,312,011		186,757	13,897,308
Land and buildings	389,366	26,603	(32)	102,311		1,454	519,702
Equipment, fixtures and fittings	586,463	37,545	(19,291)	10,079		2,936	617,732
Motor vehicles	33,676	2,710	(2,946)	71		625	34,136
	306,176	5,663	(374)			296	311,761



Leasehold improvements							
Construction in progress	1,005,358	1,979,449	(454)	(2,426,303)		8,473	566,523
<b>Total</b>	<b>13,623,365</b>	<b>2,667,011</b>	<b>(541,924)</b>	<b>(1,831)</b>		<b>200,541</b>	<b>15,947,162</b>
<b>Accumulated depreciation</b>							
Network infrastructure (All operational)	5,976,699	1,139,343	(501,719)		42,682	186,575	6,843,580
Land and buildings	140,627	17,395			488	841	159,351
Equipment, fixtures and fittings	462,618	47,001	(15,229)		28	3,188	497,606
Motor vehicles	29,704	2,723	(2,926)			751	30,252
Leasehold improvements	192,223	28,349	(374)			470	220,668
<b>Total</b>	<b>6,801,871</b>	<b>1,234,811</b>	<b>(520,248)</b>		<b>43,198</b>	<b>191,825</b>	<b>7,751,457</b>
<b>Total property, plant and equipment</b>	<b>6,821,494</b>	<b>1,432,200</b>	<b>(21,676)</b>	<b>(1,831)</b>	<b>(43,198)</b>	<b>8,716</b>	<b>8,195,705</b>

Depreciation expenses for the years ended 31 December 2016, 2015 and 2014 amounting to TL 1,278,009, TL 1,112,039 and TL 1,154,814 respectively including impairment losses are recognized in direct cost of revenues.

The impaired network infrastructure mainly consists of damaged or technologically inadequate GSM and fixed line infrastructure investments.

**Table of Contents****TURKCELL ILETISIM HIZMETLERI AS****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts)

**13. Property, plant and equipment (continued)**

The impairment losses on property, plant and equipment for the periods ended 31 December 2016, 2015 and 2014 are TL 43,198, TL 18,567 and TL 83,761 respectively and recognized in depreciation expense.

The network infrastructure mainly consists of GSM service and fixed line infrastructure investments.

	Balance as at 1 January 2015	Additions	Disposals	Transfers	Impairment expenses/ (reversals)	Transfers to Investment Property	Effects of exchange rates	Balance as at 31 December 2015
<b>Cost</b>								
Network infrastructure (All operational)	10,918,769	358,297	(652,051)	1,061,692			(384,381)	11,302,326
Land and buildings	516,724	20,167		310		(144,268)	(3,567)	389,366
Equipment, fixtures and fittings	564,429	57,204	(30,632)	1,467			(6,005)	586,463
Motor vehicles	35,807	883	(1,609)				(1,405)	33,676
Leasehold improvements	228,530	30,008	(23,575)	72,460			(1,247)	306,176
Construction in progress	444,200	1,715,044	(877)	(1,136,521)	(2,523)		(13,965)	1,005,358
<b>Total</b>	<b>12,708,459</b>	<b>2,181,603</b>	<b>(708,744)</b>	<b>(592)</b>	<b>(2,523)</b>	<b>(144,268)</b>	<b>(410,570)</b>	<b>13,623,365</b>
<b>Accumulated depreciation</b>								
Network infrastructure	5,900,269	1,016,762	(647,280)		17,990		(311,042)	5,976,699

(All operational)

Land and buildings	231,044	15,950		(2,851)	(101,634)	(1,882)	140,627
Equipment, fixtures and fittings	456,100	42,062	(29,998)	9		(5,555)	462,618
Motor vehicles	29,615	2,872	(1,474)			(1,309)	29,704
Leasehold improvements	197,835	15,826	(20,610)	896		(1,724)	192,223
<b>Total</b>	<b>6,814,863</b>	<b>1,093,472</b>	<b>(699,362)</b>	<b>16,044</b>	<b>(101,634)</b>	<b>(321,512)</b>	<b>6,801,871</b>

**Total property, plant and equipment**

	<b>5,893,596</b>	<b>1,088,131</b>	<b>(9,382)</b>	<b>(592)</b>	<b>(18,567)</b>	<b>(42,634)</b>	<b>(89,058)</b>	<b>6,821,494</b>
--	------------------	------------------	----------------	--------------	-----------------	-----------------	-----------------	------------------

#### Leased assets

The Group leases equipment under a number of finance lease agreements. At the end of each lease period, the Group has the option to purchase the equipment at a beneficial price. As at 31 December 2016, net carrying amount of fixed assets acquired under finance leases amounted to TL 89,425 (31 December 2015: TL 91,395).

#### 14. Intangible assets

##### Turkcell 2G License

On 27 April 1998, the Company signed the License with the Turkish Ministry, under which it was granted a GSM license, which is amortized over 25 years with a carrying amount of TL 287,390 as at 31 December 2016 (31 December 2015: TL 333,272). The amortization period of the license will end in 2023.

---

**Table of Contents**

**TURKCELL ILETISIM HIZMETLERI AS**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts)

**14. Intangible assets (continued)**

**Turkcell 3G License**

On 30 April 2009, the Company signed a license agreement with ICTA which provides authorization for providing IMT 2000/UMTS services and infrastructure. The Company acquired the A type license providing the widest frequency band for a consideration of EUR 358,000 (excluding VAT). The license is effective for a duration of 20 years starting from 30 April 2009. The carrying amount as at 31 December 2016 is TL 474,486 and the amortization period of the license will end in 2029 (31 December 2015: TL 512,958).

**Turkcell 4.5G License**

On 26 August 2015, Authorization Tender on IMT Services and Infrastructure publicly known as 4.5G, license tender, was held by the Information Technologies and Communication Authority. The Company has been awarded for 13 years with; 172.4 MHz frequency band for EUR 1,623,460 (equivalent to TL 6,022,874 as at 31 December 2016) (excluding VAT).

IMT authorization period expires on 30 April 2029 and operators started to commence service delivery as at 1 April 2016. 2x1.4 MHz frequency band in 900MHz spectrum and 2 units of 2x5 MHz frequency band in 2100 MHz spectrum are in operation as at 1 December 2015 and have been recorded as GSM and other telecommunication operating licenses. Remaining packages amounting to EUR 1,235,520 (equivalent to TL 4,583,656 as at 31 December 2016) are in operation as at 1 April 2016 and have been recorded as GSM and other telecommunication licenses. As at 31 December 2016, the carrying amount of 4.5G License is TL 4,930,765 (31 December 2015: TL 5,222,687).

Tender price amounting to EUR 1,623,460 (equivalent to TL 6,022,874 as at 31 December 2016) (excluding VAT of 18%) will be paid semi-annually by four equal installments total of which are amounting to EUR 1,655,290 (equivalent to TL 6,140,960 as at 31 December 2016) including interest and excluding VAT of 18%. On 26 October 2015, the Company made the payment amounting to TL 1,321,873 for the original amount of EUR 413,823 as first installment and total VAT amounting to TL 933,447 for the original amount of EUR 292,223 in cash. Payment was made on effective selling rate of exchange as at 26 October 2015. Second installment payment was made on 25 April 2016 amounting to EUR 413,823 (equivalent to TL 1,319,682 as at transaction date).

Third installment payment was made on 25 October 2016 amounting to EUR 413,823 (equivalent to TL 1,384,403 as at transaction date). Last installment will be made on 27 April 2017.

As at 31 December 2016, payables related to 4.5G license amounting to TL 1,522,615 are classified in trade and other payables in current liabilities (31 December 2015: TL 2,591,235 in current liabilities and TL 1,270,610 in non-current liabilities).

Within the scope of the Decree Law No. 683 published on 23 January 2017, the Company will be able to pay EUR denominated 4.5G license obligation in Turkish liras converted at the buying exchange rate announced by the Central Bank of the Republic of Turkey on 2 January 2017 upon request of the Company.

### **lifecell 3G License**

3G License tender in Ukraine was held on 23 February 2015. lifecell submitted a bid of UAH 3,355,400 (equivalent to TL 434,276 as at 31 December 2016) and was awarded the first lot for 15 years, which is the 1920-1935 / 2110-2125 MHz frequency band. The license payment was made on 19 March 2015. The cost of 3G license has been presented in GSM and other telecommunication operating licenses as at 31 December 2016.

In May 2015, lifecell made the payment amounting to UAH 357,568 (equivalent to TL 46,279 as at 31 December 2016) for the first installment of conversion of spectrum from military use and conditionally committed approximately UAH 479,009 (equivalent to TL 61,996 as at 31 December 2016) for the remaining installments of the conversion. Committed amount will be subject to change according to the inflation rates at the date of the payments.

**Table of Contents**

**TURKCELL ILETISIM HIZMETLERI AS**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts)

**14. Intangible assets (continued)**

**Impairment testing for long-lived assets**

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Long-lived assets were tested for impairment as at 31 December 2016.

**lifecell**

Independent appraisals were obtained for fair values to determine recoverable amount for lifecell. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets, cash generating units. As at 31 December 2016, impairment test for long-lived assets of lifecell is made on the assumption that lifecell is the cash generating unit.

As the recoverable amounts based on the value in use of cash generating units was higher than the carrying amount of cash-generating units of lifecell, no impairment was recognized. The assumptions used in value in use calculation of lifecell were:

A 28.7% post-tax WACC rate for 2017 to 2021, a 27.9% post-tax WACC rate for after 2021 and a 6.0% terminal growth rate were used to extrapolate cash flows beyond the 5-year forecasts based on the business plans. The pre-tax rate for disclosure purposes was 30.0%.

**Belarusian Telecom**

The aggregate carrying amount of goodwill arising from the acquisition of Belarusian Telecom was totally impaired as at 31 December 2011. The cumulative impairment loss recognized in the statement of profit and loss is TL 228,774.

Independent appraisals were obtained for fair values to determine recoverable amount for Belarusian Telecom. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets, cash generating units. As at 31 December 2016, impairment test for long-lived assets of Belarusian Telecom is made on the assumption that Belarusian Telecom is the cash generating unit.

As the recoverable amounts based on the value in use of cash generating units was higher than the carrying amount of cash-generating units of Belarusian Telecom, no impairment was recognized. The assumptions used in value in use

calculation of Belarusian Telecom were:

A 29.4% post-tax WACC rate for 2017 to 2021, a 28.7% post-tax WACC rate for after 2021 and a 10.0% terminal growth rate were used to extrapolate cash flows beyond the 5-year forecasts based on the business plans. The pre-tax rate for disclosure purposes was 30.9%.

### **Impairment testing for cash-generating units containing goodwill**

Goodwill allocated to cash generating units and carrying values of all cash generating units are annually tested for impairment. The recoverable amounts (that is, higher of value in use and fair value less cost to sell) are normally determined on the basis of value in use, applying discounted cash flow calculation. Independent appraisals were obtained for fair values to determine recoverable amounts for Belarusian Telecom as at 31 December 2016, the date of the goodwill impairment test.

In calculating the net present value of the future cash flows, certain assumptions are required to be made in respect of highly uncertain matters including management's expectations of growth in adjusted EBITDA, calculated as results from operating activities before depreciation and amortization and other income / (expenses), timing and quantum of future capital expenditure, long term growth rates, and the selection of discount rates to reflect the risks involved.

F-56

**Table of Contents****TURKCELL ILETISIM HIZMETLERI AS****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts)

**14. Intangible assets (continued)****Turkcell Superonline**

As at 31 December 2016, the aggregate carrying amount of goodwill allocated to Turkcell Superonline is TL 32,834 (31 December 2015: TL 32,834). Impairment testing of goodwill allocated to Turkcell Superonline has not been performed since the carrying amount of goodwill does not have a significant impact on the financial statements on the grounds of materiality level.

	Balance at 1 January 2016	Additions	Disposals	Transfers	Impairment write-downs	Effects of movements in exchange rates	Balance at 31 December 2016
<b>Cost</b>							
GSM and other telecommunication operating licenses	3,950,729	34,494	(4)	4,021,090		33,122	8,039,431
Computer software	5,342,056	329,836	(6,444)	390,248		20,709	6,076,405
Transmission lines	71,506	96					71,602
Central betting system operating right	11,907			74			11,981
Indefeasible right of usage	42,132	3,885					46,017
Brand name	7,040						7,040
Customer base	15,512						15,512
Goodwill	32,834						32,834
Other	29,713	8,607	(184)	185			38,321
4.5G license not yet available for use	3,984,954	33,316		(4,018,270)			
Construction in progress	52,597	478,179		(391,496)		3,595	142,875
<b>Total</b>	<b>13,540,980</b>	<b>888,413</b>	<b>(6,632)</b>	<b>1,831</b>		<b>57,426</b>	<b>14,482,018</b>



**Accumulated  
amortization**

GSM and other telecommunication operating licenses	1,429,944	445,069	(4)		3,886	1,878,895
Computer software	3,771,710	454,111	(2,972)		15,147	4,237,996
Transmission lines	52,058	3,615		2,530		58,203
Central betting system operating right	9,663	925				10,588
Indefeasible right of usage	15,446	3,339				18,785
Brand name	5,104	704				5,808
Customer base	10,111	1,175				11,286
Other	14,307	9,693	(183)	651		24,468
<b>Total</b>	<b>5,308,343</b>	<b>918,631</b>	<b>(3,159)</b>	<b>3,181</b>	<b>19,033</b>	<b>6,246,029</b>
<b>Total intangible assets</b>	<b>8,232,637</b>	<b>(30,218)</b>	<b>(3,473)</b>	<b>1,831</b>	<b>(3,181)</b>	<b>38,393</b>

Amortization expenses on intangible assets other than goodwill years ended 31 December 2016, 2015 and 2014 amounting to TL 921,812, TL 549,251, TL 481,737 respectively including impairment losses are recognized in direct cost of revenues.

**Table of Contents****TURKCELL ILETISIM HIZMETLERI AS****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts)

**14. Intangible assets (continued)**

The impairment losses on intangible assets for the years ended 31 December 2016, 2015 and 2014 are TL 3,181, nil and TL 12,063 respectively and recognized in amortization expense.

Computer software includes internally generated capitalized software development costs that meet the definition of an intangible asset. The amount of internally generated capitalized cost is TL 126,916 for the years ended 31 December 2016 (31 December 2015: TL 123,067).

The amortization expense related to internally generated capitalized software development costs for the years ended 31 December 2016, 2015 and 2014 amounting to TL 30,148 and TL 28,560, TL 25,941 respectively are recognized in direct cost of revenue.

	Balance at 1 January 2015	Additions	Disposals	Transfers	Effects of movements in exchange rate	Balance at 31 December 2015
<b>Cost</b>						
GSM and other telecommunication operating licenses	2,334,822	9,092	(31,263)	1,653,536	(15,458)	3,950,729
Computer software	4,730,454	377,853	(4,155)	279,213	(41,309)	5,342,056
Transmission lines	62,789	8,717				71,506
Central betting system operating right	11,758	149				11,907
Indefeasible right of usage	42,132					42,132
Brand name	7,040					7,040
Customer base	15,512					15,512
Goodwill	32,834					32,834
Other	22,370	7,111		232		29,713
4.5G license not yet available for use		5,230,471		(1,245,517)		3,984,954
Construction in progress	3,414	736,817		(686,872)	(762)	52,597

<b>Total</b>	<b>7,263,125</b>	<b>6,370,210</b>	<b>(35,418)</b>	<b>592</b>	<b>(57,529)</b>	<b>13,540,980</b>
<b>Accumulated amortization</b>						
GSM and other telecommunication						
operating licenses	1,332,732	125,258	(31,263)		3,217	1,429,944
Computer software	3,393,650	406,652	(2,297)		(26,295)	3,771,710
Transmission lines	48,530	3,528				52,058
Central betting system						
operating right	8,786	877				9,663
Indefeasible right of usage	12,552	2,894				15,446
Brand name	4,400	704				5,104
Customer base	8,690	1,421				10,111
Other	6,390	7,917				14,307
<b>Total</b>	<b>4,815,730</b>	<b>549,251</b>	<b>(33,560)</b>		<b>(23,078)</b>	<b>5,308,343</b>
<b>Total intangible assets</b>	<b>2,447,395</b>	<b>5,820,959</b>	<b>(1,858)</b>	<b>592</b>	<b>(34,451)</b>	<b>8,232,637</b>

## 15. Investment property

### Determination of the fair value of the Group's investment properties

The fair value of the Group's investment properties as at 31 December 2016 has been arrived at on the basis of a valuation carried out on the respective dates by independent valuation companies which are authorized by the Capital Markets Board, and have appropriate qualifications and recent experience in the valuation of

**Table of Contents****TURKCELL ILETISIM HIZMETLERI AS****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts)

**15. Investment property (continued)**

properties in the relevant locations. The fair value of these investment properties was determined using a variety of valuation methods which are: *direct capitalization approach* and *income capitalization approach*, *cost approach* and *market approach*. In estimating the fair value of the properties, the highest and best use of the property is its current use.

The rental income obtained during the year ended 31 December 2016 is TL 2,317 (31 December 2015: TL 1,836 and 31 December 2014: TL 1,102). Total direct operating expense from investment property during the year ended 31 December 2016 is TL 22 (31 December 2015: TL 126 and 31 December 2014: TL 119).

Details of the Group's investment properties and information about the fair value hierarchy as at 31 December 2016 and 2015 are as follows:

<b>31 December 2016</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Valuation Method</b>
Investment properties in İstanbul:				
- İstanbul Tepebasi			321,835	Direct capitalization
- Kucukcekmece			12,890	Cost approach
Investment properties in Gebze			12,558	Income capitalization
Investment properties in İzmir			42,315	Cost approach
Other investment properties			17,419	Market approach
Other investment properties			8,946	Cost approach
Other investment properties			2,410	Direct capitalization
<b>Total</b>			<b>418,373</b>	

<b>31 December 2015</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Valuation Method</b>
Investment properties in İstanbul:				
- İstanbul Tepebasi			310,070	Direct capitalization
- Kucukcekmece			12,240	Market approach &

		Cost approach
Investment properties in Gebze	11,802	Income capitalization
Investment properties in Izmir	39,867	Market approach
Other investment properties	22,281	Market approach
Other investment properties	5,199	Cost approach
<b>Total</b>	<b>401,459</b>	

Significant unobservable inputs and sensitivity of the respective investment properties based on the valuation method are as follows:

Fair value of the investment property which is measured based on the direct capitalization approach will increase / (decrease) significantly, when there is a significant decrease/ (increase) in capitalization rate and a significant increase/ (decrease) in current market rentals. Capitalization rate is calculated by dividing comparable properties annual net operating income by the selling price of the respective properties.

In the income capitalization approach, a significant increase/ (decrease) in rentals will cause a significant increase/ (decrease) in the fair value. In addition, a slight decrease/ (increase) in risk premium and discount rate which are calculated by considering the current market conditions will cause a significant increase/ (decrease) in the fair value.

In the cost approach, a significant increase/ (decrease) of construction costs and miscellaneous costs of any similar properties in the market will cause a significant increase/ (decrease) in the fair value.

**Table of Contents****TURKCELL ILETISIM HIZMETLERI AS****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts)

**15. Investment property (continued)**

In the market approach, a significant increase/ (decrease) in the market value of any properties which are located in the similar areas with similar conditions will cause a significant increase (decrease) in the fair value.

	<b>31 December 2016</b>	<b>31 December 2015</b>
<b>Cost value</b>		
Opening balance	164,467	20,199
Addition	1,005	
Transfer from tangible fixed assets (*)		144,268
<b>Ending balance</b>	<b>165,472</b>	<b>164,467</b>
<b>Accumulated depreciation</b>		
Opening balance	(114,895)	(6,801)
Transfer from tangible fixed assets		(101,634)
Charge for the year and impairment during the period (**)	(3,530)	(6,460)
Other	(777)	
<b>Ending balance</b>	<b>(119,202)</b>	<b>(114,895)</b>
<b>Carrying value</b>	<b>46,270</b>	<b>49,572</b>

(\*) The real estates of the Group, which are held for obtaining rental or appreciation income as at 31 December 2015, are classified as investment property.

(\*\*) Depreciation expenses on investment properties for the year ended 31 December 2014 amounting to TL 2,906 including impairment losses are recognized in direct cost of revenues. The impairment losses on investment property for the year ended 31 December 2016 is nil (31 December 2015: TL 2,592 and 31 December 2014: TL 2,364 and recognized in depreciation expense).

**16. Investments accounted for using the equity method**

Summary financial information for equity accounted investees adjusted for the accounting policy differences for the same events under similar circumstances and not adjusted for the percentage ownership held by the Group is as follows (The summary of financial statements are presented in USD):

	Ownership	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Non-controlling interest	Equity attributable to parent	Total liabilities and equity
<b>31 December 2015</b>									
Fintur (associate)	41.45%	770,402	923,237	1,693,639	316,504	482,668	189,441	705,026	1,693,639
		770,402	923,237	1,693,639	316,504	482,668	189,441	705,026	1,693,639

	Revenues	Profit/loss*	Other comprehensive income (*)	Total comprehensive income (*)
<b>2015</b>				
Fintur	1,325,535	327,194	(592,741)	(265,547)
	1,325,535	327,194	(592,741)	(265,547)

	Revenues	Profit/loss*	Other comprehensive income (*)	Total comprehensive income (*)
<b>2014</b>				
Fintur	1,801,432	227,988	(47,694)	180,294
A-tel		4,191		4,191
	1,801,432	232,179	(47,694)	184,485

(\*) The figures present the amounts attributable to the parent.

**Table of Contents****TURKCELL ILETISIM HIZMETLERI AS****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts)

**16. Investments accounted for using the equity method (continued)**

Reconciliation of the above summarized financial information to the carrying amount of the interest in Fintur recognized in the consolidated financial statements:

	<b>2015</b>
Net assets of Fintur	2,049,934
Proportion of the Group's ownership interest in Fintur	849,697
Goodwill	132,242
Carrying amount of the Group's interest in Fintur	<b>981,939</b>

As at 1 October 2016, Fintur has been classified as asset held for sale and reported as discontinued operations (Note 17).

**A-Tel**

The Company accounted its joint venture A-Tel by applying equity method accounting until 27 August 2014. The Company's investment in A-Tel amounts to TL 46,624 as at 31 December 2013. In accordance with Settlement Protocol signed with Bereket Holding A.Ş. (formerly known as Bilgin Holding A.Ş.) on 27 August 2014, it has been decided to pay a compensation amounting to TL 30,428 to A-Tel and TL 19,161 has been recorded as other income after the elimination as a result of the decline in initial provision accrued amount from TL 68,750 to TL 30,428. Bereket Holding A.Ş. and Savings Deposits Insurance Funds ( SDIF ) have waived from the lawsuit regarding alleged loss occurred from termination of Service Provider Agreement.

Additionally, Turkcell's whole stake in A-tel has been transferred to Bereket Holding A.Ş. for a consideration of TL 31,025 within the context of the Share Sale Agreement signed on 27 August 2014. Loss on sale amounting to TL 902 was recognized in the statement of profit or loss as detailed below:

**31 December  
2014**



Share sale price	31,025
Less: carrying amount of investment on the date of sale	(31,927)
<b>Loss recognized</b>	<b>(902)</b>

## 17. Asset held for sale and discontinued operations

### *Disposal of Fintur*

#### *Classification*

The Group believes that an exit from Fintur countries is deemed highly probable within one year and therefore Fintur should be classified as held for sale and reported as discontinued operations as at 1 October 2016. The Group is committed to plan to exit from Fintur operations in relevant jurisdictions and initiated an active program to locate a buyer for its associate.

#### *Presentation*

Fintur is classified as held for sale and discontinued operations and therefore disclosed separately on a single line as discontinued operations in the consolidated statements of comprehensive income and the consolidated statements of cash flows. Investment in Fintur is presented as held for sale in the consolidated statement of financial position. Comparative periods in the consolidated statements of comprehensive income and the consolidated statements of cash flows are restated to reflect the classification of Fintur as discontinued operations.

**Table of Contents****TURKCELL ILETISIM HIZMETLERI AS****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts)

**17. Asset held for sale and discontinued operations (continued)***Measurement*

Equity accounting for Fintur ceased from 1 October 2016, and in accordance with IFRS 5, Fintur has been measured at the lower of carrying amount and fair value less costs to sell. As at 31 December 2016, carrying value of investment in Fintur is TL 1,222,757 (31 December 2015: TL 981,939) which is lower than the fair value less costs to sell indicating that no impairment is required as at 31 December 2016.

The reconciliation of Profit and loss statement of Fintur is listed below (The summary of financial statements are presented in USD);

	<b>1 January - 30 September 2016</b>	<b>1 January- 31 December 2015</b>	<b>1 January- 31 December 2014</b>
Revenue	617,214	1,325,535	1,801,432
Cost of sales	(369,104)	(674,334)	(802,969)
<b>Gross profit</b>	<b>248,110</b>	<b>651,201</b>	<b>998,463</b>
Selling and marketing expenses	(69,983)	(123,244)	(190,534)
General and administrative expenses	(69,818)	(95,380)	(95,123)
Other operating income/ (expenses), net	(31,258)	(23,850)	(161,353)
<b>Operating profit</b>	<b>77,051</b>	<b>408,727</b>	<b>551,453</b>
Finance income/ (expense), net	(61,203)	162,357	(17,317)
<b>Profit before income tax</b>	<b>15,848</b>	<b>571,084</b>	<b>534,136</b>
Total income tax	(30,947)	(128,121)	(133,773)
<b>Profit for period</b>	<b>(15,099)</b>	<b>442,963</b>	<b>400,363</b>

Attributable to:

-owners of the parent	(28,695)	327,194	227,988
-non-controlling interests	13,596	115,769	172,375
<b>Profit for period</b>	<b>(15,099)</b>	<b>442,963</b>	<b>400,363</b>

The dividend received amounting to TL 92,263 related to the discontinued operations have been classified in operating cash flows in the statement of cash flows in 2014.

## 18. Other non-current assets

	<b>2016</b>	<b>2015</b>
Advances given for fixed assets (*)	217,658	7,972
Prepaid expenses	183,029	175,543
Receivables from Public Administration (Note 37)	72,848	72,848
Deposits and guarantees given	29,201	23,671
VAT receivable	28,772	121,905
Others	43,726	40,001
	<b>575,234</b>	<b>441,940</b>

(\*) Includes fixed asset advances given related to 4.5G license capital expenditure as at 31 December 2016.

**Table of Contents****TURKCELL ILETISIM HIZMETLERI AS****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts)

**19. Deferred tax assets and liabilities***Recognized deferred tax assets and liabilities*

Deferred tax assets and liabilities as at 31 December 2016 and 2015 are attributable to the following:

	Assets		Liabilities		Net	
	2016	2015	2016	2015	2016	2015
Property, plant & equipment and intangible assets	3,516	9,172	(532,547)	(303,063)	(529,031)	(293,891)
Investment	33,242	34,765	(90,209)	(69,502)	(56,967)	(34,737)
Provisions and employee termination benefit	55,288	70,206			55,288	70,206
Trade and other payables	57,686	36,632			57,686	36,632
Tax credit carry forwards (Investment tax credit)	1,508	29,799			1,508	29,799
Tax Allowance	32,200				32,200	
Other items	65,905	142,344	(33,494)	(15,175)	32,411	127,169
<b>Tax assets / (liabilities)</b>	<b>249,345</b>	<b>322,918</b>	<b>(656,250)</b>	<b>(387,740)</b>	<b>(406,905)</b>	<b>(64,822)</b>
Net of tax	(198,090)	(274,303)	198,090	274,303		
<b>Net tax assets / (liabilities)</b>	<b>51,255</b>	<b>48,615</b>	<b>(458,160)</b>	<b>(113,437)</b>	<b>(406,905)</b>	<b>(64,822)</b>

Movement in temporary differences as at 31 December 2016 and 2015 are attributable to the following:

	2016	2015
<b>Opening balance</b>	<b>(64,822)</b>	<b>(1,240)</b>
Income statement charge	(222,497)	(75,815)
	(7,066)	5,196

Tax charge relating to component of other comprehensive income		
Prior year corporate tax basis differences	(109,640)	
Exchange differences	(2,880)	7,037
<b>Closing balance, net</b>	<b>(406,905)</b>	<b>(64,822)</b>

As at 31 December 2016, expiration of unrecognized tax losses is as follows:

<b>Expiration Date</b>	<b>Amount</b>
2017	998
2018	4,726
2019	172
2020	53
2021	74
2022	271,606
2023	127,199
2024-2026	1,098,108
Indefinite	1,551,055
<b>Total</b>	<b>3,053,991</b>

The financial losses arising from lifecell and Belarus Telekom are TL 1,433,685 (31 December 2015: TL 1,319,313) and TL 1,496,699 (31 December 2015: TL 1,200,185), respectively.

**Table of Contents****TURKCELL ILETISIM HIZMETLERI AS****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts)

**20. Trade receivables and accrued income**

	<b>31 December 2016</b>	<b>31 December 2015</b>
Receivables from subscribers	1,223,183	1,218,126
Undue assigned contracted receivables	1,215,314	2,216,010
Accrued income	558,169	393,049
Accounts and checks receivable	293,238	271,743
	<b>3,289,904</b>	<b>4,098,928</b>

Trade receivables are shown net of allowance for doubtful debts amounting to TL 964,080 as at 31 December 2016 (31 December 2015: TL 816,071). The change in allowance for trade receivables and due from related parties is disclosed in Note 38.

Letters of guarantee received with respect to the accounts and checks receivable are amounted to TL 156,647 and TL 134,798 as at 31 December 2016 and 2015, respectively.

The undue assigned contracted receivables are the remaining portion of the assigned receivables from the distributors related to the handset campaigns which will be collected from subscribers in instalments by the Company. When monthly instalment is invoiced to the subscriber, related portion is transferred to Receivables from subscribers. The Company measures the undue assigned contracted receivables at amortized cost, bears the credit risk and recognizes interest income throughout the contract period.

The accrued income represents revenue accrued for subscriber calls (air-time) which have not been billed and will be billed within one year. Due to the volume of subscribers, there are different billing cycles; accordingly, an accrual is made at each period end to accrue revenue for rendered but not yet billed. Contracted receivables related to handset campaigns, which will be invoiced after one year is presented under non-current trade receivables amounting to TL 217,492 (31 December 2015: TL 834,833).

The accounts and checks receivable represents receivables from distributors and roaming receivables.

The Group's exposure to currency risks and impairment losses related to trade receivables are disclosed in Note 34.

**21. Receivables from financial services**

	<b>31 December 2016</b>	<b>31 December 2015</b>
Current receivables from financial services	1,486,906	
Non- current receivables from financial services	909,466	
	<b>2,396,372</b>	

The change in allowance for receivables from financial services is disclosed in Note 34.

Starting from 2016 the Company and distributors started to offer the option to buy a device through Turkcell Financing loan, which will be collected by the Company. The Group carries a risk of collection in these transactions. Turkcell Finansman collects the purchased credit from the subscriber during the contract period, and does not record revenue related to the device since it is not the main contractor in the device sale.

**Table of Contents****TURKCELL ILETISIM HIZMETLERI AS****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts)

**22. Inventory**

	<b>31 December 2016</b>	<b>31 December 2015</b>
Mobile phones	79,782	31,469
Devices	31,929	15,708
SIM cards	11,852	13,723
Materials for tower construction	786	7,999
Other	7,624	6,572
	<b>131,973</b>	<b>75,471</b>

Cost of inventories incurred as expense and recognized in cost of sales for the years ended 31 December 2016, 2015 and 2014 are amount to TL 579,400, TL 277,489 and TL 295,708 respectively.

**23. Other current assets**

	<b>31 December 2016</b>	<b>31 December 2015</b>
Prepaid expenses	294,540	290,063
Prepayment for subscriber acquisition cost	108,628	98,656
Advances given to suppliers	57,020	34,554
Receivables from tax office	52,561	1,618
VAT receivable	49,211	763,844
Special communication tax to be collected from subscribers	36,940	32,755
Receivables from ministry of transport, maritime affairs and communications (Note 37)	32,299	29,782
Restricted cash	289	349,243
Other	138,647	89,171
	<b>770,135</b>	<b>1,689,686</b>



Prepaid expenses mainly comprises prepaid rent expenses and frequency usage fees.

Subscriber acquisition costs are subsidies paid to dealers for engaging a fixed term contract with the subscriber that require a minimum consideration.

As at 31 December 2015, VAT receivable mainly results from 4.5G license VAT payment made as at 26 October 2015 amounting to TL 933,447.

As at 31 December 2015, restricted cash amounting to TL 349,243 represents the time deposits at a local bank as guarantees in connection with the loans utilized by lifecell.

#### 24. Cash and cash equivalents

	<b>31 December 2016</b>	<b>31 December 2015</b>
Cash in hand	223	453
Cheques received		3
Banks	6,051,472	2,912,741
- Demand deposits	569,826	572,895
- Time deposits	5,481,646	2,339,846
Investment funds, bonds and bills	657	5,599
<b>Cash and cash equivalents</b>	<b>6,052,352</b>	<b>2,918,796</b>

As at 31 December 2016, the average maturity of time deposits is 49 days (31 December 2015: 27 days).

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in Note 34.

**Table of Contents**

**TURKCELL ILETISIM HIZMETLERI AS**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts)

**25. Equity**

***Share capital***

As at 31 December 2016, common stock represented 2,200,000,000 (31 December 2015: 2,200,000,000) authorized, issued and fully paid shares with a par value of TL 1 each. In accordance with the Law No. 5083 with respect to TL, on 9 May 2005, par value of each share is registered to be TL 1. In this respect, share capital presented in the consolidated financial statements refers to nominal amount of share capital registered by trade registry.

The holders of shares are entitled to receive dividends as declared and are entitled to one vote per share at meetings of the Company.

As at 31 December 2016, total number of pledged shares hold by various institutions is 995,509 (31 December 2015: 995,509).

***Capital contribution***

Capital contribution comprises the contributed assets and certain liabilities that the government settled on behalf of the Group that do not meet the definition of a government grant which the government is acting in its capacity as a shareholder.

***Translation reserve***

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign and domestic operations from their functional currencies to presentation currency of TL.

***Fair value reserve***

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the investments are derecognized or the asset is impaired.

***Legal reserve***

Under the Turkish Commercial Code, Turkish companies are required to set aside first and second level legal reserves out of their profits. First level legal reserves are set aside 5% of the distributable income per statutory accounts each year. The ceiling on the first legal reserves is 20% of the paid-up capital. The reserve requirement ends when the 20% of paid-up capital level has been reached. Second legal reserves correspond to 10% of profits actually distributed after

the deduction of the first legal reserves and the minimum obligatory dividend pay-out (5% of the paid-up capital). There is no ceiling for second legal reserves and they are accumulated every year. In this respect, legal reserve presented in the consolidated financial statements refers to nominal amount of legal reserve.

*Cash flow hedging reserve*

The cash flow hedging reserve represents the cumulative effective portion of gains or losses arising on changes in fair value of hedging instruments entered into for cash flow hedges. The cumulative gain or loss arising on changes in fair value of the hedging instruments that are recognized and accumulated under the heading of cash flow hedging reserve will be reclassified to profit or loss only when the hedged transaction affects the profit or loss, or included as a basis adjustment to the non-financial hedged item, consistent with the relevant accounting policy.

**Table of Contents**

**TURKCELL ILETISIM HIZMETLERI AS**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts)

**25. Equity (continued)**

***Reserve for non-controlling interest put option liability***

The reserve for non-controlling interest put option liability includes the difference between the put option liability granted to the non-controlling shareholders in existing subsidiaries recognized and the amount of non-controlling interest derecognized. Since the current option relates to the business combinations before 1 January 2009, subsequent changes in the fair value of the put option liability other than unwind of discount and associated foreign exchange gains and losses are also recognized in this reserve.

***Treasury shares***

The Company has purchased 6,815,563 shares back with a price range of full TL 8.92 to 9.99 as part of the share buyback decision on 27 July 2016. Total of the transactions are TL 65,607. Treasury shares are deducted from Equity.

***Dividends***

***Turkcell:***

On 23 March 2016, the Company's Board of Directors has proposed a dividend distribution for the year ended 31 December 2015 amounting to TL 1,200,000 (equivalent to USD 340,987 as at 31 December 2016), which represented approximately 58% of distributable income. This represents a gross cash dividend of full TL 0.5454545 (net TL 0.4636364) (equivalent to full USD 0.15 and USD 0.13 respectively as at 31 December 2016) per share. This dividend proposal was discussed and rejected at the Ordinary General Assembly of Shareholders held on 29 March 2016.

***Inteltek:***

According to the resolution of the Extraordinary General Assembly Meeting of Inteltek held on 22 June 2015 and 11 November 2015, Board of Directors decided to pay dividend amounting to TL 205,648 from the profit realized in years 2012, 2013 and 2014 and the nine months of period of 2015. The dividend payments were completed in 2015.

According to resolution of Extraordinary General Assembly Meeting of Inteltek held on 24 March 2016, the shareholders resolved capital decrease amount of TL 20,000. The payment to the shareholders was executed on 30 June 2016.

According to the resolution of the Extraordinary General Assembly Meeting of Inteltek held on 30 June 2016, Board of Directors decided to pay dividend amounting to TL 53,586 from the profit realized in 2015 (remaining amount after deducting advance dividends paid in November 2015 amounting to TL 32,192) and TL 20,455 from the profit realized for six months period of 2016. In addition, Board of Directors decided to pay dividend from legal reserves amounting to TL 25,710 which can be distributed after capital reduction. The dividend payments were completed as at 31 December 2016.

***Azerinteltek:***

According to the resolution of the General Assembly Meeting of Azerinteltek held in 2014 and 2015, Azerinteltek's Board of Directors has decided to pay the dividend accrued for fourth quarter of 2014 and 2015 amounting to AZN 5,895 (equivalent to TL 11,736 as at 31 December 2016). Dividend payments have been completed in 2015.

According to resolution of the General Assembly Meeting of Azerinteltek held in 2016, Board of Directors decided to pay advance dividend amounting to AZN 4,793 (equivalent to TL 9,542 as at 31 December 2016) from the profit realized for the first nine months of 2016). Dividend payments have been completed in 2016.

**Table of Contents****TURKCELL ILETISIM HIZMETLERI AS****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts)

**26. Earnings per share**

The calculations of basic earnings per share were based on the profit attributable to ordinary shareholders for the years ended 31 December 2016, 2015 and 2014 of TL 1,492,088, TL 2,067,654 and TL 1,864,640 respectively and a weighted average number of shares outstanding for the years ended 31 December 2016, 2015 and 2014 is 2,193,184,437, 2,200,000,000 and 2,200,000,000 respectively calculated as follows:

	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Numerator:</b>			
Net profit for the period attributed to owners	1,492,088	2,067,654	1,864,640
<b>Denominator:</b>			
Weighted average number of shares (*)	2,193,184,437	2,200,000,000	2,200,000,000
<b>Basic earnings per share (in full TL)</b>	<b>0.68</b>	<b>0.94</b>	<b>0.85</b>

(\*) Note 25- Treasury shares

	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Numerator:</b>			
Net profit for the period attributed to owners	1,534,252	1,700,318	1,661,819
<b>Denominator:</b>			
Weighted average number of shares (*)	2,193,184,437	2,200,000,000	2,200,000,000
<b>Basic earnings per share-from continuing operations (in full TL)</b>	<b>0.70</b>	<b>0.77</b>	<b>0.76</b>

(\*) Note 25- Treasury shares

**27. Other non-current liabilities**

	<b>2016</b>	<b>2015</b>
Consideration payable in relation to acquisition of Belarusian Telecom	295,062	235,281
Deferred revenue	74,241	83,889
Deposits and guarantees taken from agents	58,244	47,500
	<b>427,547</b>	<b>366,670</b>

Consideration payable in relation to the acquisition of Belarusian Telecom represents the present value of the long-term contingent payment to the seller. Payment of \$100,000 (equivalent to TL 351,920 as at 31 December 2016) is contingent on the financial performance of Belarusian Telecom, and based on management's estimations, expected to be paid during the first quarter of 2020 (31 December 2015: the first quarter of 2020). Discount rate of 5.6% used for the present value calculation of the consideration payable in relation to acquisition of Belarusian Telecom as at 31 December 2016 (31 December 2015: 5.1%).

**Table of Contents****TURKCELL ILETISIM HIZMETLERI AS****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts)

**28. Borrowings**

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortized cost. For more information about the Group's exposure to foreign currency for interest bearing loans, see Note 34.

	<b>31 December 2016</b>	<b>31 December 2015</b>
<b>Non-current liabilities</b>		
Unsecured bank loans	5,300,756	2,086,871
Secured bank loans	3,580	4,262
Finance lease liabilities	41,539	36,449
Debt securities issued	1,589,227	1,360,204
	<b>6,935,102</b>	<b>3,487,786</b>
<b>Current liabilities</b>		
Unsecured bank facility	1,581,135	130,109
Secured bank facility		311,682
Current portion of unsecured bank loans	922,867	196,385
Current portion of secured bank loans	2,054	1,930
Current portion of finance lease liabilities	6,575	5,389
Debt securities issued	333,429	80,959
	<b>2,846,060</b>	<b>726,454</b>

The Company signed a loan agreement with BNP Paribas, Citibank, HSBC, ING and Intesa Sanpaolo SpA for an amount of USD 500,000 (equivalent to TL 1,759,600 as at 31 December 2016) and EUR 445,315 (equivalent to TL 1,652,074 as at 31 December 2016) with an availability period until 30 June 2016 to be utilized by the Company and its subsidiaries for the purpose of funding infrastructure investments and any other potential investment opportunities. Each respective unsecured loan has 2 years grace period, 5 years maturity, principal repayment every 6 months and an annual interest rate of 3 month LIBOR/EURIBOR+2%. As at 31 December 2016, the Company has utilized USD 500,000 and EUR 445,315 under this agreement.





**Table of Contents****TURKCELL ILETISIM HIZMETLERI AS****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts)

**28. Borrowings (continued)**

Terms and conditions of outstanding loans are as follows:

	31 December 2016				31 December 2015			
	Currency	Interest rate type	Nominal interest rate	Year of maturity	Carrying amount	Nominal interest Rate	Year of maturity	Carrying amount
Unsecured bank loans	USD	Floating	Libor+2.0%-Libor+2.6%	2017-2020	1,984,533	Libor+2.6%	2017	189,542
Unsecured bank loans	EUR	Floating	Euribor+1.2%-Euribor+2.2%	2018-2025	3,593,110	Euribor+2.2%	2019-2025	1,585,939
Unsecured bank loans	TL	Fixed	10.4%-12.6%	2017-2018	1,819,944	8.3%-10.9%	2016-2017	507,775
Unsecured bank loans	UAH	Fixed	13.5%-18.6%	2017	407,171	20%	2016	130,109
Secured bank loans (*)	UAH	Fixed				25%	2016	311,682
Secured bank loans (**)	BYN	Fixed	12%-16%	2020	5,634	12%-16%	2016-2020	6,192
Debt securities issued	USD	Fixed	5.8%	2025	1,683,700	5.8%	2025	1,441,163
Debt securities issued	TL	Fixed	10.7%	2017	238,956			
	EUR	Fixed	3.4%	2017-2024	48,034	3.4%	2016-2024	41,750

Finance lease liabilities								
Finance lease liabilities	USD	Fixed	18%-28%	2017-2018	80	18%-28%	2016-2018	88
					<b>9,781,162</b>			<b>4,214,240</b>

(\*) Secured by the blocked deposit amounting to USD 120,114 (equivalent to TL 349,243 as at 31 December 2015), in connection with the loans utilized by lifecell.

(\*\*) Secured by the Government of the Republic of Belarus.

Finance lease liabilities are payable as follows:

	31 December 2016			31 December 2015		
	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	7,908	1,333	6,575	6,627	1,238	5,389
More than one year	46,365	4,826	41,539	42,357	5,908	36,449
	<b>54,273</b>	<b>6,159</b>	<b>48,114</b>	<b>48,984</b>	<b>7,146</b>	<b>41,838</b>

F-70

**Table of Contents****TURKCELL ILETISIM HIZMETLERI AS****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****As at and for the years ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts)

**29. Employee benefits**

IAS 19 Employee Benefits requires remeasurements of employee termination benefit valuation methods to be developed to estimate the enterprise's obligation under defined benefit plans. As detailed in Note 9, such remeasurements of employee termination benefit gains/losses are recognized within other comprehensive income starting from 31 December 2012. The retirement pay liability is calculated annually by independent actuaries using the projected unit credit method. The liability for this retirement pay obligation is recorded in the accompanying consolidated financial statements at its present value using a discount rate 3.43% depending on the expected payout date (31 December 2015: between 4.55% and 4.80%).

As at 31 December 2016 and 2015, unused vacation pay provision for the Group are TL 43,798 and TL 40,434 respectively.

Movement in the reserve for employee termination benefits as at 31 December 2016 and 2015 are as follows:

	<b>2016</b>	<b>2015</b>
Opening balance	74,435	58,238
Provision set during the period	25,933	17,670
Remeasurements of employee termination benefit loss	34,532	13,466
Unwind of discount	8,361	4,190
Payments made during the period	(22,506)	(19,129)
Closing balance	120,755	74,435

Remeasurements of employee termination benefit loss amounting to TL 34,532 has been reflected in other comprehensive income for the year ended 31 December 2016 (31 December 2015: TL 13,466 remeasurements of employee termination benefit loss and 31 December 2014: TL 819 remeasurements of employee termination benefit loss).

The liability is not funded, as there is no funding requirement.

Obligations for contributions to defined contribution plans are recognized as an expense in the consolidated statement of profit or loss as incurred. The Group incurred TL 7,722, TL 8,364 and TL 7,876 in relation to defined contribution retirement plan for the years ended 31 December 2016, 2015 and 2014 respectively.

As at 31 December 2016 and 2015, sensitivity analysis is performed for the significant assumptions of defined benefit obligation:

<b>31 December 2016</b>	<b>Discount Rate</b>		<b>Inflation Rate</b>	
	<b>1% increase</b>	<b>1% decrease</b>	<b>1% increase</b>	<b>1% decrease</b>
<b>Sensitivity Level</b>				
<b>Change</b>	<b>(14.7%)</b>	<b>18.1%</b>	<b>18.6%</b>	<b>(15.1%)</b>
Net effect to defined benefit obligation	(17,751)	21,857	22,460	(18,234)

  

<b>31 December 2015</b>	<b>Discount Rate</b>		<b>Inflation Rate</b>	
	<b>1% increase</b>	<b>1% decrease</b>	<b>1% increase</b>	<b>1% decrease</b>
<b>Sensitivity Level</b>				
<b>Change</b>	<b>(9.4%)</b>	<b>10.8%</b>	<b>11.2%</b>	<b>(9.5%)</b>
Net effect to defined benefit obligation	(7,021)	8,007	8,323	(7,097)

### 30. Deferred revenue

Deferred revenue primarily consists of right of use sold but not used by prepaid subscribers and it is classified as current as at 31 December 2016 and 2015. The amount of deferred revenue is TL 93,800 and TL 121,078 as at 31 December 2016 and 2015, respectively.

**Table of Contents****TURKCELL ILETISIM HIZMETLERI AS****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****As at and for the years ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts)

**31. Provisions***Non-current provisions:*

	<b>Legal</b>	<b>Obligations for dismantling, removing and site restoration</b>	<b>Total</b>
Balance at 1 January 2015	161,293	117,093	278,386
Provision made/ (reversed) during the year (*)	(155,792)	12,622	(143,170)
Unwind of discount		3,308	3,308
Transfer to current provision	(1,398)		(1,398)
Effect of change in foreign exchange rate		(6,507)	(6,507)
Balance at 31 December 2015	4,103	126,516	130,619

	<b>Legal</b>	<b>Obligations for dismantling, removing and site restoration</b>	<b>Total</b>
Balance at 1 January 2016	4,103	126,516	130,619
Provision made/ (reversed) during the year	4,312	52,031	56,343
Unwind of discount		(1,308)	(1,308)
Transfer to current provision	(1,526)		(1,526)
Effect of change in foreign exchange rate		3,413	3,413
Balance at 31 December 2016	6,889	180,652	187,541

(\*) Regarding to the settlement made with Turk Telekom Group (Note 32 and Note 37), the Company has reversed legal provision amounting to TL 156,864 as at 31 December 2015.

Legal provisions are set for the probable cash outflows related to legal disputes.

Obligations for dismantling, removing and site restoration provisions are mainly resulted from operations in Turkey. The rate used for these provisions is 5.4% as at 31 December 2016 (31 December 2015: 4.8%).

The Group is required to incur certain costs in respect of a liability to dismantle and remove assets and to restore sites on which the assets were located. The dismantling costs are calculated according to best estimate of future expected payments discounted at a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability.

It is expected that the obligations for dismantling, removing and site restoration will be realized in accordance with the useful life of GSM services materials.

The above mentioned additions to obligations for dismantling, removing and site restoration during the period are non-cash transactions recorded against property, plant and equipment.

*Current provisions:*

	<b>Legal</b>	<b>Bonus</b>	<b>Total</b>
Balance at 1 January 2015	8,111	121,463	129,574
Provision made/ (reversed) during the year	2,811	178,416	181,227
Provisions used during the year	(1,861)	(155,491)	(157,352)
Unwind of discount	13	126	139
Transfer to non-current provision	1,398		1,398
Effect of change in foreign exchange rate	(212)	(2,659)	(2,871)
Balance at 31 December 2015	10,260	141,855	152,115

**Table of Contents****TURKCELL ILETISIM HIZMETLERI AS****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****As at and for the years ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts)

**31. Provisions (continued)**

	<b>Legal</b>	<b>Bonus</b>	<b>Other</b>	<b>Total</b>
Balance at 1 January 2016	10,260	141,855		152,115
Provision made/ (reversed) during the year	140,457	251,005	785	392,247
Provisions used during the year	(134,019)	(220,269)		(354,288)
Transfer to non-current provision	1,526			1,526
Effect of change in foreign exchange rate	42	800		842
Balance at 31 December 2016	18,266	173,391	785	192,442

Legal provisions are set for the probable cash outflows related to legal disputes. In Note 37, under legal proceedings section, detailed explanations are given with respect to legal provisions.

The bonus provision totaling to TL 173,391 comprises mainly the provision for the year ended 31 December 2016 and is planned to be paid in February 2017.

**32. Trade and other payables**

The breakdown of trade and other payables as at 31 December 2016 and 2015 is as follows:

	<b>2016</b>	<b>2015</b>
Payables to suppliers	1,718,788	1,555,767
4.5G license payable	1,522,615	2,591,235
Taxes and withholdings payable	302,346	319,542
License fee and ICTA share accrual	262,748	216,602
Selling and marketing expense accrual	58,879	68,531
Accrual for Evrensel Project (Note 37)		39,767
Payables regarding the legal settlement with Turk Telekom Group		309,250
Other	236,615	182,376



4,101,991	5,283,070
-----------	-----------

Balances payables to suppliers are arising in the ordinary course of business.

4.5G license payables are related to the frequency bands which the Company has been awarded with, from Authorization Tender on IMT Services and Infrastructure tender.

Taxes and withholdings include VAT payable, special communications tax, frequency usage fees payable to ICTA and personnel income taxes.

In accordance with the license agreement, Turkcell pays 90% of the treasury share, which equals 15% of its gross revenue, to the Turkish Treasury and 10% of the treasury share as universal service fund to the Turkish Ministry.

Selling and marketing expense accrual is mainly resulted from services received from third parties related to marketing activities of the Group which are not yet invoiced.

Turkcell and Turk Telekom Group agreed to settle ongoing lawsuits and disputes as at 31 December 2015. In this regard, Turkcell agreed to make a payment of TL 309,250 (including VAT and special communication tax) to Turk Telekom Group. The payment was made on 14 January 2016.

F-73

**Table of Contents****TURKCELL ILETISIM HIZMETLERI AS****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

As at and for the years ended 31 December 2016

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts)

**33. Derivative instruments**

Details of currency and interest swap contracts are given below:

<b>Currency and Interest swap contracts</b>					
	<b>Buy</b>		<b>Sell</b>		
<b>Foreign</b>	<b>Notional</b>	<b>Foreign</b>	<b>Notional</b>	<b>Fair</b>	<b>Maturity</b>
<b>currency</b>	<b>Amount</b>	<b>currency</b>	<b>Amount</b>	<b>value</b>	
				<b>(TL)</b>	
TL	18,455	EUR	5,000	86	3 January 2017
TL	73,400	EUR	20,000	598	24 Mar 2017
TL	824,750	EUR	250,000	116,674	12 April 2021
TL	328,600	EUR	100,000	47,949	12 April 2021
TL	495,000	EUR	150,000	81,534	12 April 2021
TL	435,000	USD	150,000	84,416	16 September 2020
TL	293,500	USD	100,000	51,481	16 September 2020
<b>Total current derivative financial instruments assets</b>				<b>382,738</b>	

Total current derivative financial instruments assets includes 8,220 TL interest income.

Details of currency forward contracts as at 31 December 2015 is given below:

<b>Currency forward contracts</b>				
	<b>Buy</b>			
<b>Foreign</b>	<b>Notional</b>		<b>Fair value</b>	<b>Maturity</b>
<b>currency</b>	<b>Amount</b>		<b>(TL)</b>	
USD	57,732		216	4 January 2016

**Currency and Interest swap contracts as at 31 December 2016**

	<b>Buy</b>	<b>Sell</b>
--	------------	-------------

Foreign currency	Notional Amount	Foreign currency	Notional Amount	Fair value (TL)	Maturity
TL	21,009	USD	5,960	(55)	3 January 2017
TL	7,050	USD	2,000	(18)	3 January 2017
<b>Total current derivative financial instruments liabilities</b>				<b>(73)</b>	

As at 31 December 2016, total current derivative financial instruments liabilities includes 40,367 TL interest expense accrual additionally.

#### Currency and Interest swap contracts as at 31 December 2015

Buy		Sell		Fair value (TL)	Maturity
Foreign currency	Notional Amount	Foreign currency	Notional Amount		
EUR	180,000	USD	196,961	(769)	4 January 2016
EUR	277,000	USD	303,218	(1,521)	4 January 2016
<b>Total current derivative financial instruments liabilities</b>				<b>(2,290)</b>	

#### Currency forward contracts as at 31 December 2016

Buy		Fair value (TL)	Maturity
Foreign currency	Notional Amount		
USD	30,071	(1,286)	28 February 2017
<b>Total current derivative financial instruments liabilities</b>		<b>(1,286)</b>	

**Table of Contents****TURKCELL ILETISIM HIZMETLERI AS****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****As at and for the years ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts)

**34. Financial instruments****Credit risk****Exposure to credit risk:**

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

		<b>2016</b>	<b>2015</b>
Trade receivables	20	3,525,297	4,935,184
Receivables from financial services	21	2,396,372	
Cash and cash equivalents*	24	6,052,129	2,918,343
Other current assets**	23	93,376	394,089
Other non-current assets**	18		12,687
Due from related parties-current	38	5,861	11,760
Currency and interest swap contracts		390,958	
		12,463,993	8,272,063

\* Cash on hand is excluded from cash and cash equivalents.

\*\* Non-financial instruments such as prepaid expenses and advances given are excluded from other current assets and other non-current assets.

The maximum exposure to credit risk for trade receivables arising from sales transactions including those classified as due from related parties at the reporting date by type of customer is:

	<b>2016</b>	<b>2015</b>
Receivable from subscribers	3,061,130	4,600,214
Receivables from financial services	2,396,372	
Receivables from distributors and other operators	376,204	283,095
Other	93,824	63,635

5,927,530 4,946,944

The aging of trade receivables and due from related parties as at 31 December 2016 and 2015:

	<b>2016</b>	<b>2015</b>
Not past due	3,138,051	4,508,081
1-30 days past due	184,484	197,250
1-3 months past due	101,069	125,497
3-12 months past due	107,554	116,116
	3,531,158	4,946,944

The aging of receivables from financial operations as at 31 December 2016 and 2015:

	<b>2016</b>	<b>2015</b>
Not past due	2,350,375	
1-30 days past due	14,787	
1-3 months past due	1,746	
3-12 months past due	29,464	
	2,396,372	

**Table of Contents****TURKCELL ILETISIM HIZMETLERI AS****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****As at and for the years ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts)

**34. Financial instruments (continued)****Impairment losses**

The change in allowance for trade receivables and due from related parties as at 31 December 2016 and 31 December 2015 is as follows:

	<b>31 December 2016</b>	<b>31 December 2015</b>
Opening balance	816,373	727,732
Impairment loss recognized	452,767	445,482
Collection made	(251,553)	(248,894)
Effect of change in foreign exchange rate	5,038	(2,563)
Amounts written-off	(58,314)	(105,384)
Closing balance	964,311	816,373

The impairment loss recognized of TL 452,767 for the year ended 31 December 2016 relates to its estimate of incurred losses in respect of trade receivables and due from related parties(31 December 2015: TL 445,482).

Trade receivables and due from related parties are reserved in an allowance account until the Group can determine that the amounts are no longer collectible. When this becomes probable the Group reverses the allowance and writes-off the receivable.

The change in allowance for receivables from financial operations as at 31 December 2016 and 31 December 2015 is as follows:

	<b>31 December 2016</b>	<b>31 December 2015</b>
Opening		
Impairment loss recognized	11,593	

Collection made	(1,423)
Closing	<b>10,170</b>

**Liquidity risk**

Current cash debt coverage ratio as at 31 December 2016 and 2015 is as follows:

	<b>2016</b>	<b>2015</b>
Cash and cash equivalents	6,052,352	2,918,796
Current liabilities	7,358,858	6,304,417
Current cash debt coverage ratio (*)	82%	46%

(\*) Fluctuation between cash debt coverage ratios as at 31 December 2016 and 2015 resulted from the dividend paid in 2015, current portions of 4.5G license payable and debt securities issued (Note 25, 32 and 28 respectively).

**Table of Contents****TURKCELL ILETISIM HIZMETLERI AS****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****As at and for the years ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts)

**34. Financial instruments (continued)****Liquidity risk (continued)**

The following tables detail the Group's remaining contractual maturity for its financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period. The contractual maturity is based on the earliest date on which the Group may be required to pay.

	<b>31 December 2016</b>					<b>Carrying Amount</b>	<b>Contractual cash flows</b>	<b>31 December 2015</b>	
	<b>6 months or less</b>	<b>6-12 Months</b>	<b>1-2 years</b>	<b>2-5 years</b>	<b>More than 5 Years</b>			<b>6 months or less</b>	<b>6-12 months</b>
1)	(1,123)	(1,077)	(2,015)	(3,476)		317,874	(327,188)	(319,116)	(1,050)
1)	(1,332,478)	(1,330,322)	(1,433,790)	(3,187,687)	(1,174,624)	2,413,365	(2,753,323)	(311,931)	(27,032)
6)	(70)	(7,840)	(6,648)	(19,859)	(19,859)	41,838	(48,985)	(6,622)	(5)
6)	(298,767)	(48,767)	(97,535)	(292,604)	(2,086,393)	1,441,163	(2,289,736)	(41,797)	(41,797)
3)	(3,266,123)					5,726,862	(5,825,730)	(3,195,806)	(1,314,962)
1)	(11,201)					6,555	(6,555)	(6,555)	
0)				(351,920)		235,281	(290,760)		



6	46				2,290	(2,159)	(2,159)		
9	28,059					1,452,163	1,452,163		
3)	(28,013)					(1,454,322)	(1,454,322)		
6)	(1,286)				(216)	(390)	(390)		
6	105,826					167,862	167,862		
2)	(107,112)					(168,252)	(168,252)		
8)	<b>(4,911,002)</b>	<b>(1,388,006)</b>	<b>(1,539,988)</b>	<b>(3,855,546)</b>	<b>(3,280,876)</b>	<b>10,185,012</b>	<b>(11,544,826)</b>	<b>(3,884,376)</b>	<b>(1,384,846)</b>

\* Advances taken, license fee accruals, taxes and withholding payable are excluded from trade and other payables.

F-77

**Table of Contents****TURKCELL ILETISIM HIZMETLERI AS****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts)

**34. Financial instruments (continued)****Exposure to currency risk**

The Group's exposure to foreign currency risk based on notional amounts is as follows:

	<b>31 December 2015</b>	
	<b>USD</b>	<b>EUR</b>
<b>Foreign currency denominated assets</b>		
Other non-current assets	2,576	2,131
Due from related parties-current	3,553	207
Trade receivables and accrued income	21,536	29,947
Other current assets	141,385	6,200
Cash and cash equivalents	618,831	17,911
	<b>787,881</b>	<b>56,396</b>
<b>Foreign currency denominated liabilities</b>		
Loans and borrowings-non current	(63,152)	(499,911)
Debt securities issued-non- current	(467,810)	
Other non-current liabilities	(96,481)	
Loans and borrowings-current	(2,066)	(12,328)
Debt securities issued-current	(27,844)	
Trade and other payables-current	(264,091)	(833,791)
Trade and other payables-non-current		(399,865)
Due to related parties	(312)	(141)
	<b>(921,756)</b>	<b>(1,746,036)</b>
<b>Exposure related to derivative instruments</b>		
Currency swap contracts	(500,179)	457,000
Currency forward contracts	57,732	

<b>Net exposure</b>	<b>(576,322)</b>	<b>(1,232,640)</b>
	<b>31 December 2016</b>	
	<b>USD</b>	<b>EUR</b>
<b>Foreign currency denominated assets</b>		
Other non-current assets	244	2,131
Due from related parties-current	1,210	388
Trade receivables and accrued income	14,178	61,841
Other current assets	19,929	7,144
Cash and cash equivalents	807,372	378,057
	<b>842,933</b>	<b>449,561</b>
<b>Foreign currency denominated liabilities</b>		
Loans and borrowings-non current	(483,910)	(959,482)
Debt securities issued-non- current	(451,588)	
Other non-current liabilities	(99,273)	
Loans and borrowings-current	(80,029)	(21,985)
Debt securities issued-current	(26,845)	
Trade and other payables-current	(175,083)	(425,992)
Due to related parties	(398)	(334)
	<b>(1,317,126)</b>	<b>(1,407,793)</b>
<b>Exposure related to derivative instruments</b>		
Currency and interest swap contracts	257,960	525,000
Currency forward contracts	(30,071)	
<b>Net exposure</b>	<b>(246,304)</b>	<b>(433,232)</b>

**Table of Contents****TURKCELL ILETISIM HIZMETLERI AS****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts)

**34. Financial instruments (continued)**

Within the scope of the Decree Law No. 683 published on 23 January 2017, the Company will be able to pay EUR denominated 4.5G license obligation in Turkish liras converted at the buying exchange rate announced by the Central Bank of the Republic of Turkey on 2 January 2017 upon request of the Company.

The following significant exchange rates are applied during the period:

	Average Rate		Closing Rate	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
USD/TL	3.0059	2.7271	3.5192	2.9076
EUR/TL	3.3179	3.0219	3.7099	3.1776
USD/BYN (*)	1.9846	15,917	1.9585	18,569
USD/UAH	25.5570	21.7893	27.1909	24.0007

(\*) The official currency of the Republic of Belarus has redenominated on 1 July 2016. As a result, BYR 10,000 has become BYN 1 starting from 1 July 2016.

**Sensitivity analysis**

The basis for the sensitivity analysis to measure foreign exchange risk is an aggregate corporate-level currency exposure. The aggregate foreign exchange exposure is composed of all assets and liabilities denominated in foreign currencies. The analysis excludes net foreign currency investments.

10% strengthening of the TL, UAH, BYN against the following currencies as at 31 December 2016 and 31 December 2015 would have increased / (decreased) profit or loss before by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

**Profit or loss**

	<b>31 December 2016</b>	<b>31 December 2015</b>
USD	86,679	167,572
EUR	160,725	391,683

10% weakening of the TL, UAH, BYN against the following currencies as at 31 December 2016 and 31 December 2015 would have increased / (decreased) profit or loss before tax by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	<b>Profit or loss</b>	
	<b>31 December 2016</b>	<b>31 December 2015</b>
USD	(86,679)	(167,572)
EUR	(160,725)	(391,683)

F-79

**Table of Contents****TURKCELL ILETISIM HIZMETLERI AS****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts)

**34. Financial instruments (continued)****Interest rate risk**

As at 31 December 2016 and 2015 the interest rate profile of the Group's interest-bearing financial instruments was:

	Note	31 December 2016 Effective Interest Rate	31 December 2016 Carrying Amount	31 December 2015 Effective interest rate	31 December 2015 Carrying Amount
<b>Fixed rate instruments</b>					
Time deposits	24				
USD		3.6%	2,817,650	2.6%	1,787,190
EUR		2.0%	1,383,978	2.6%	54,814
TL		11.0%	1,243,843	12.8%	481,264
Other		11.1%	36,175	16.6%	16,578
Restricted cash	23				
TRY				2.3%	349,243
Finance lease obligations	28				
USD		20.7%	(80)	20.5%	(88)
EUR		3.4%	(48,034)	3.4%	(41,750)
Unsecured bank loans	28				
TL fixed rate loans		12.1%	(1,819,944)	10.2%	(507,775)
UAH fixed rate loans		15.0%	(407,171)	24.4%	(130,109)
Secured bank loans					
BYN fixed rate loans		11.9%	(5,634)	11.9%	(6,192)
UAH fixed rate loans				29.1%	(311,682)
Trade and other payables (*)					
EUR fixed rate payables	32	2.6%	(1,522,615)	2.6%	(3,861,845)
Debt securities issued	28				
USD		5.8%	(1,683,700)	5.8%	(1,441,163)
TRY		10.7%	(238,956)		
<b>Variable rate instruments</b>					
	28				

Edgar Filing: TURKCELL ILETISIM HIZMETLERI A S - Form 20-F

USD floating rate loans	3.2%	(1,984,533)	3.1%	(189,542)
EUR floating rate loans	2.3%	(3,593,110)	2.4%	(1,585,939)

(\* ) Includes 4.5G license payables related to the frequency bands which the Company has been awarded with.

F-80

**Table of Contents****TURKCELL ILETISIM HIZMETLERI AS****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts)

**34. Financial instruments (continued)****Sensitivity analysis****Cash flow sensitivity analysis for variable rate instruments:**

A change of 100 basis points in interest rates as at 31 December 2016 would have increased / (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign exchange rates, remain constant. The analysis is performed on the same basis as at 31 December 2016 and 2015.

	Profit or loss		Equity	
	100 bps increase	100 bps decrease	100 bps increase	100 bps decrease
<b>31 December 2016</b>				
Variable rate instruments (financial liability)	(55,776)	55,776		
Cash flow sensitivity (net)	(55,776)	55,776		
<b>31 December 2015</b>				
Variable rate instruments (financial liability)	(17,755)	17,755		
Cash flow sensitivity (net)	(17,755)	17,755		

**Fair values**

*Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis*

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).



Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

Level 3 inputs are unobservable inputs for the asset or liability.

	<b>31 December 2016</b>	<b>31 December 2015</b>	<b>Fair values Fair Value hierarchy</b>	<b>Valuation Techniques</b>
Currency swap contracts	611	(2,290)	Level 2	Pricing models based on discounted cash flow analysis using the applicable yield curve
Participating cross currency swap contracts (*)	382,054		Level 3	Pricing models based on discounted cash flow analysis using the observable yield curve
Currency forward contracts	(1,286)	216	Level 2	Pricing models based on period end foreign currency rates.
Consideration payable in relation to acquisition of Belarusian Telecom (**)	(295,062)	(235,281)	Level 3	Net present value

There were no transfers between levels in the period.

F-81

**Table of Contents****TURKCELL ILETISIM HIZMETLERI AS****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts)

**34. Financial instruments (continued)****Fair values (continued)**

(\*) Participating cross currency swap contracts include EUR-TL interest and currency swap contracts, EUR put and call options, amounting to nominal value of EUR 500,000 in total and also USD-TL interest and currency swap contracts and put and call options amounting to nominal value of USD 250,000 in total. Regarding this contract, TL 40,367 accrual of interest expense and TL 8,220 accrual of interest income has been reflected to financial statements as at 31 December 2016. Since bid-ask spread is unobservable input; in valuation of currency and interest swap contracts, prices in bid-ask price range which were considered the most appropriate were used instead of mid prices. If mid prices were used in the valuation the fair value of currency and interest swap contracts would be lower amounting to TL 23,291 as at 31 December 2016.

(\*\*) Discount rate of 5.6% used for the present value calculation for the consideration payable in relation to acquisition of Belarusian Telecom as of 31 December 2016 (31 December 2015: 5.1%). Company management expects consideration payable to be paid during the first quarter of 2020 (31 December 2015: the first quarter of 2020).

Reconciliation of Level 3 fair value of the Group's financial assets and financial liabilities that are measured at fair value on recurring base is stated below:

**Participating cross currency swap contracts:**

	<b>31 December 2016</b>
Opening balance	
Total gains or losses: in profit or loss	382,054
Closing balance	<b>382,054</b>

**Consideration payable in relation to acquisition of Belarusian Telecom:**

	<b>2016</b>	<b>2015</b>
Opening balance	235,281	163,234
Total gains or losses: in profit or loss	59,781	72,047
Closing balance	<b>295,062</b>	<b>235,281</b>

Except as detailed in the following table, the directors consider that the carrying amounts of financial assets and financial liabilities recognized in the consolidated financial statements approximate their fair values.

F-82

**Table of Contents****TURKCELL ILETISIM HIZMETLERI AS****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts)

**34. Financial instruments (continued)****Fair values (continued)**

The categories of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required) are stated below:

	Note	31 December 2016		31 December 2015	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Assets carried at amortized cost</b>					
Other non-current assets**	18			12,687	12,687
Due from related parties-short term	38	5,861	5,861	11,760	11,760
Trade receivables and accrued income*	20	3,525,297	3,525,297	4,935,184	4,935,184
Receivables from financial services	21	2,396,372	2,396,372		
Other current assets**	23	93,376	93,376	393,873	393,873
Currency forward contracts	23			216	216
Currency and interest swap contracts	23	8,220	8,220		
Cash and cash equivalents***	24	6,052,352	6,052,352	2,918,796	2,918,796
		12,081,478	12,081,478	8,272,516	8,272,516
<b>Liabilities carried at amortized cost</b>					
Loans and borrowings-long term	28	(5,345,875)	(5,345,875)	(2,127,582)	(2,127,582)
Loans and borrowings-short term	28	(2,512,631)	(2,512,631)	(645,495)	(645,495)
Debt securities issued***	28	(1,922,656)	(1,921,199)	(1,441,163)	(1,430,409)
Trade and other payables****	32	(3,241,402)	(3,241,402)	(5,726,862)	(5,726,862)
Due to related parties	38	(11,201)	(11,201)	(6,555)	(6,555)
Currency and interest swap contracts	28	(40,440)	(40,440)	(2,290)	(2,290)
Currency forward contracts	28	(1,286)	(1,286)		

(13,075,491)	(13,074,034)	(9,949,947)	(9,939,193)
--------------	--------------	-------------	-------------

- \* Includes non-current trade receivables amounting to TL 235,393 (31 December 2015: TL 836,256).
  - \*\* Non-financial instruments such as prepaid expenses and advances given are excluded from other current assets and other non-current assets.
  - \*\*\* Fair value of cash and cash equivalents and debt securities issued are classified as level 1 and fair value of other financial assets and liabilities are classified as level 2.
  - \*\*\*\* Advances taken, taxes, withholdings payable and accruals are excluded from trade and other payables.
- The methods used in determining the fair values of financial instruments are discussed in Note 4.

### 35. Operating leases

The lease contracts, which mainly comprise leases of radio, transmission, office and internet capacity, expire on various dates. The Group does not have right to purchase the leased asset at the end of the lease period. Price escalation clauses of renewal conditions in operational lease agreements differ according to various conditions.

The future minimum lease payments under non-cancellable leases are as follows:

	<b>2016</b>	<b>2015</b>
Less than one year	163,336	163,526
Between one and five years	345,374	206,030
More than five years	101,328	7,478
	<b>610,038</b>	<b>377,034</b>

**Table of Contents****TURKCELL ILETISIM HIZMETLERI AS****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts)

**35. Operating leases (continued)**

Payments recognized as an expense:

	<b>2016</b>	<b>2015</b>	<b>2014</b>
Minimum lease payments	837,575	751,816	573,973
Contingent lease payments		1,733	2,848
<b>Total</b>	<b>837,575</b>	<b>753,549</b>	<b>576,821</b>

Payments are recognized under cost of sales and administration expenses for the years ended 31 December 2016, 2015 and 2014.

**36. Guarantees and purchase obligations**

As at 31 December 2016, outstanding purchase commitments with respect to the acquisition of property, plant and equipment, inventory and purchase of sponsorship, rent and advertisement services amount to TL 915,868 (31 December 2015: TL 2,752,139). Payments for these commitments are going to be made in a 5 year period.

As at 31 December 2016, the Group is contingently liable in respect of bank letters of guarantee obtained from banks given to customs authorities, private companies and other public organizations, provided guarantees to private companies and financial guarantees to subsidiaries totaling to TL 2,370,724 as at 31 December 2016 (31 December 2015: TL 2,058,810).

As at 31 December 2016, the amounts the Company has commitments regarding lifecell s 3G license purchases amounted to UAH 479,009 (equivalent to TL 61,996 as at 31 December 2016). (31 December 2015: UAH 426,311 (equivalent to TL 51,646 as at 31 December 2015)).

**37. Commitments and Contingencies**

The following disclosures comprise of material legal lawsuits, investigations and in-depth investigations against the Company.

## **License Agreements**

### ***Turkcell:***

On 27 April 1998, the Company signed the Agreement for grant of concession for the establishment and Operation of the Pan-European Mobile Telephone System, GSM (hereinafter referred to as the License Agreement ) with the Turkish Ministry. In accordance with the License Agreement, the Company was granted a 25 year license for the provision of GSM services for a license fee of \$500,000.

### **3G License**

On 30 April 2009, the Company signed a separate License Agreement with ICTA which provides authorization for providing IMT 2000/UMTS services and establishment and operation of the required infrastructure. Turkcell acquired the A license providing the widest frequency band for a consideration of EUR 358,000 (excluding VAT). The license is effective for duration of 20 years starting from 30 April 2009. According to the agreement, Turkcell has provided IMT 2000/UMTS services starting from 30 July 2009.

### **4.5G License**

The 4.5 licensing process is finalized by signing of IMT License Commitments Document by Turkcell and therefore, ICTA granted Turkcell 4.5G License on 27 October 2015. The 4.5G License is effective for 13 years until 30 April 2029. According to the License, Turkcell started to provide 4.5G services on 1 April 2016.

**Table of Contents**

**TURKCELL ILETISIM HIZMETLERI AS**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts)

**37. Commitments and Contingencies (continued)**

**License Agreements (continued)**

***Belarusian Telecom:***

Belarusian Telecom owns a license issued on 28 August 2008 for a period of 10 years and was valid till 28 August 2018. According to the Sale and Purchase Agreement signed, the State Property Committee of the Republic of Belarus committed to grant the license from the acquisition date of 26 August 2008 for a period of 10 years. In accordance with the Edict of the President of the Republic of Belarus dated 26 November 2015, numbered 475, the license is now issued without limitation of the period of validity. Starting from 1 March 2016, the license is valid from the date of the licensing authority's decision on its issue and for an unlimited period. Under the terms of its license, Belarusian Telecom is required to gradually increase its geographical coverage until the end of 2018. Belarusian Telecom has fulfilled all coverage requirements except covering all Belarusian settlements. The number of uncovered settlements is 657 out of a total of 22,552 settlements.

***lifecell:***

lifecell owns twelve activity licenses, for GSM 900, GSM 1800, a technology neutral license, issued for 3G, one license for international and long-distance calls and eight PSTN licenses for eight regions in Ukraine. As at December 28, 2016, lifecell owned 27 frequency use licenses for IMT-2000 (UMTS), GSM-900, GSM-1800, CDMA-800 microwave Radiorelay and Broadband Radio Access, which are regional and national. 3G activity and frequency licenses were issued in March 2015, reissued due to company name change in March 2016 and are valid for 15 years. Additionally, lifecell holds a specific number range three NDC codes for mobile networks, twelve permissions on a number resource for short numbers, eleven permissions on a number resource for SS-7 codes (7 regional and 4 international), one permission on a number resource for Mobile Network Code, nine permissions on a number resource for local ranges for PSTN licenses, two permissions on a service codes for alternative routing selection for international and long-distance fixed telephony and one permission on a code for global telecommunication service 800 .

***Inteltek:***



On 12 August 2008, Spor Toto conducted a tender which allowed private companies to organize fixed odds and paramutual betting games based on sports competitions. Inteltek gave the best offer for the tender. On 29 August 2008, Inteltek signed a contract with Spor Toto, receiving the rights to operate the fixed odds and paramutual betting games based on sports competitions for the next ten years. New commission rate, which is 1.4% of the takings arising from the operation of the fixed odds and paramutual betting games based on sports competitions (until 1 March 2009, commission rate was 7% of gross takings), is applicable starting from March 2009. As at 31 December 2016, Inteltek has a letter of guarantee of TL 159,752 (31 December 2015: TL 159,752) provided to Spor Toto.

Inteltek has a mobile agency agreement with Spor Toto, receiving the rights to assign mobile sub agencies to operate the fixed odds and paramutual betting games based on sports competitions. As at 31 December 2016, Inteltek has a letter of guarantee of TL 25,000 (31 December 2015: TL 25,000) provided to Spor Toto for mobile agency agreement. The targeted payout is 50% of the turnover balance including VAT. The fact that Inteltek is obliged to pay the difference between the realized and the targeted payout balances, whenever the pool balance falls negative, creates an excess payment risk.

***Kibris Telekom:***

On 27 April 2007, Kibris Telekom signed the License Agreement for Installation and Operation of a Digital, Cellular, Mobile Telecommunication System ( Mobile Communication License Agreement ) with the

**Table of Contents**

**TURKCELL ILETISIM HIZMETLERI AS**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts)

**37. Commitments and Contingencies (continued)**

**License Agreements (continued)**

Ministry of Communications and Public Works of the Turkish Republic of Northern Cyprus which is effective from 1 August 2007, replacing the previous GSM-Mobile Telephony System Agreement dated 25 March 1999. In accordance with the Mobile Communication License Agreement, Kibris Telekom was granted an 18 year GSM 900, GSM 1800 and IMT 2000/UMTS license for GSM 900, GSM 1800 frequencies while the usage of IMT 2000/UMTS frequency bands is subject to the fulfillment of certain conditions.

On 14 March 2008, Kibris Telekom was awarded a 3G infrastructure license at a cost of \$10,000 including VAT, which was paid at the end of March 2008. Under the terms of the license, the system had to be operational by mid-October 2008. In 2010, Kibris Telekom has completed the radio transmission (air link) project providing direct international voice and data connection with mainland and started using it from the third quarter of 2010. The Project is the only direct connection in Turkish Republic of Northern Cyprus besides Telecommunication Authority.

***Azerinteltek:***

Azerinteltek, in which Inteltek's shareholding is 51%, was established on 19 January 2010, and authorized to organize, operate, manage and develop the fixed-odds and para-mutual sports betting games by the Ministry of Youth and Sports of Azerbaijan for a period of 10 years. The agreement signed with Azeridmanservis which is founded by the Ministry of Youth and Sports of Azerbaijan is renewed with the same terms and conditions in accordance with the new legislation enforced in Azerbaijan regarding the betting games based on sports on 30 September 2010. Azerinteltek officially commenced sports betting games on 18 January 2011. On 4 March 2015, Azerinteltek authorization of organizing, operating, managing and developing the fixed-odds and para-mutual sports betting games of was extended till 2 March 2025.

Since January 1, 2013, Azerinteltek was authorized for the sales of lottery tickets as a main distributor by Azerlotereya. As at 1 January 2016, the authorization for the sales of lottery tickets has extended for one year.

Management believes that the Group is in compliance with the terms and conditions of the license agreements in all material respects as at 31 December 2016 and 2015.

### **37.1 Onerous Contracts**

Universal Project that the Company started on 17 January 2013, in order to construct and operate a mobile communication infrastructure in rural areas not covered by 2G network for the Ministry of Transport, Maritime Affairs and Communications , has been completed as of 3 March 2016. The Company has continued to provide operational services after 3 March 2016. Since the management of the Company anticipates that TL 32,299 arising from the services provided after the contract period can be collected, no provision is recognized in the consolidated financial statements as at and for the period ended 31 December 2016.

### **37.2 Dispute on Treasury Share Amounts**

The Concession Agreement signed by the Company on 27 April 1998 has been renewed by virtue of the Provisional Article 2 of the Law No. 4673 and it was entered into force on 13 February 2002 upon signature by BTK; certain amendments have been made after the enactment of the Law No. 5398 dated 3 July 2005; subsequently, the agreement has been renewed on 25 February 2009 after the additional frequency band tender for GSM 900 dated 20 June 2008. The Company also signed another concession agreement on 30 September 2009 for rendering 3G mobile telecommunication services.

**Table of Contents**

**TURKCELL ILETISIM HIZMETLERI AS**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts)

**37. Commitments and Contingencies (continued)**

**37.2 Dispute on Treasury Share Amounts (continued)**

The Company is obliged to pay each month 90% of, 15% of its monthly gross sales; with the exception of the interest for late payment of the amounts charged to its subscribers and of the indirect taxes, fiscal obligations such as fees and duties and the invoiced amounts recorded in the accounts to the Treasury as treasury share and 10% of the remaining as the universal services share to the Ministry of Transport, Maritime Affairs and Communications. The Company is also obliged to pay once a year 0,35% of its gross sale as the Authority contribution share.

As per Article 51 titled as *Applicable Law and Settlement of Disputes* of the 2G Concession Agreement, the parties agreed that the disputes shall be settled by three arbitrators to be appointed in accordance with the arbitration rules of the International Chamber of Commerce. According to the said provision, the disputes arising from the scope, execution and termination of the agreement shall be first referred to the Licensing Coordination Committee; if it is not settled by this way within 30 days; one of the parties shall notify the other party by a letter on the outline, reasons of the dispute and its intention to commence arbitration proceedings; if the dispute cannot be settled within 15 days as of such notification, the dispute shall be solved by arbitration.

As per Article 45 titled as *Applicable Law and Settlement of Disputes* of the 3G Concession Agreement, the Council of State is authorized to solve the disputes arising from the agreement and its annexes thereof.

The Undersecretariat of Treasury alleged that the Company made deficient treasury payments in the past and sent requests for payment and BTK requested penalty fee over the alleged underpaid treasury share amounts. The Company took legal steps to object to these requests and legal proceedings are ongoing. The maximum loss of the Company, excluding the interest for late payment arising from these disputes, for 2G Concession Agreement and 3G Concession Agreement could be TL 374,936 and TL 49,634, respectively.

Based on the management opinion, the probability of an outflow of resources embodying economic benefits to settle the obligation is uncertain, thus, no provision is recognized in the consolidated financial statements as at and for the period ended 31 December 2016 (31 December 2015: None).

**37.3 Dispute on Special Communication Tax**

Large Tax Payers Office levied Special Communication Tax (SCT) and tax penalty on the Company amounting to TL 527,639 in total, of which SCT amounting 211,056 and penalty amounting to TL 316,583 based on the claim stated on Tax Investigation Reports prepared for the years 2008-2012, that the Company should pay Special Communication Tax over the prepaid card sales made by the distributors. The Company filed 60 lawsuits in the Tax Courts for the cancellation of each tax and tax penalty claim.

Respective Courts accepted 24 of the cases filed for the cancellation of the fined tax assessment prepared for the year 2008 and 2009. Large Taxpayer Office appealed the decisions. The Company replied these requests. . The Council of State decided that there is no need to grant a decision by the reason of waiver during the appeal process.

The Court partially accepted 12 of the cases filed for the cancellation of the fined tax assessment prepared for the year 2011. The Company appealed the decisions regarding the parts against the Company. The Large Tax Payers Office appealed the decisions regarding the parts against the Large Tax Payers Office. The Council of State rejected the stay of execution requests, made during the appeal process by the Company. The appeal process is pending.

The Large Tax Payers Office has collected TL 80,355 (TL 77,480 and TL 2,875 overdue interest) calculated for the parts against the Company for the assessment of the SCT for the year 2011 by offsetting the receivables of the Company from Public Administrations. No provision for the aforementioned amount is recognized in the consolidated financial statements so that it was shown in other receivables.

**Table of Contents**

**TURKCELL ILETISIM HIZMETLERI AS**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts)

**37. Commitments and Contingencies (continued)**

**37.3 Dispute on Special Communication Tax (continued)**

The Court partially accepted 12 of the cases filed for the cancellation of the fined tax assessment prepared for the year 2010. The Company appealed the decisions regarding the parts against the Company. The Council of State rejected the stay of execution requests, made during the appeal process by the Company. The Council of State decided that there is no need to grant a decision by the reason of waiver during the appeal process.

The Court rejected the other 12 cases filed for the cancellation of the fined tax assessment (TL 122,802), related to the year 2012. The Company appealed the respective decisions. The Council of State partially accepted the Company's request for the stay of execution of the First Instance Court's decisions during the appeal process. The Council of State decided that there is no need to grant a decision by the reason of waiver during the appeal process.

As per the Law no. 6736, the Company filed applications for the restructuring of penalties and interest on the SCT regarding the dispute on the tax amount for the years 2008, 2009, 2010, 2011 and 2012. Tax Office accepted the restructuring applications for the years 2008, 2009, 2010, 2012 and the Company paid the restructuring amount of TL 117,058. Within this scope the Company submitted the waiver petition to the Tax Office related with the cases for these years. On the other hand, Tax Office rejected the application for the restructuring of the SCT regarding the dispute on the tax amount for the year 2011. The Company filed a case for the cancellation of aforementioned rejection act of Tax Office for the year 2011. The case is pending.

Limited tax investigation has been performed for the year 2013, regarding the aforementioned case and no notification has been received regarding the result of the investigation by the Company.

Based on the probable payment including interest in case of restructuring the SCT for the year 2013 as per the Law no. 6736, the Company accrued provisions in the consolidated financial statements as at and for the period ended 31 December 2016 amounting to 14,866 TL (31 December 2015: None).

**37.4 Investigation initiated by ICTA on subscription numbers and radio utilization and usage fees**

ICTA commenced in-depth investigations, against the GSM operators, on the accuracy of the subscriber numbers report for the terms, 2004-2009, 2010-2011 and 2012 which are the key input for the calculation and payment of radio

utilization and usage fees. As a result of the investigations, ICTA imposed 3 separate administrative fines to the Company amounting TL 8,251 in total. The administrative fines were paid within 1 month following the notification of the decision of ICTA, with 25% discount. The Company filed lawsuits for the cancellation of aforementioned administrative fines and ICTA's administrative acts implied on the Company for the collection of the radio utilization and a usage fee which was claimed to have been paid deficiently. The cases are pending.

ICTA filed 4 lawsuits on 13 October 2014, 23 December 2014, 3 March 2015 and 11 April 2016 for the collection of the total amount of TL 113,353. The amount which was alleged that the Company paid deficiently by the ICTA decision took upon the investigation for the periods 2004 - 2009, 2010 - 2011, and 2012 on the radio utilization and usage fees, with its accrued interest, which will be calculated.

The Courts decided to take expert report for the cases dated 13 October 2014, 23 December 2014 and

3 March 2015. The Courts decided to consolidate the lawsuits filed by ICTA on 13 October 2014 and

23 December 2014. The expert report has been notified to the Company, for the case dated

13 October 2014. The expert committee has requested additional information and documents from the parties with this report. The Company submitted its objections and declarations against the expert report and the Court decided to take an additional expert report. The cases are pending.

**Table of Contents**

**TURKCELL ILETISIM HIZMETLERI AS**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts)

**37. Commitments and Contingencies (continued)**

**37.4 Investigation initiated by ICTA on subscription numbers and radio utilization and usage fees (continued)**

On the other hand, as a result of the investigation on the same subject for the period of 2013, ICTA has imposed an administrative fine to the Company in the amount of TL 2,989 and decided that the deficiently paid amount of TL 21,191 should be collected from the Company. The amount of TL 2,241 administrative fine which was issued on 27 September 2016 have been paid within 1 month following the notification of the decision of ICTA, and 25% discount have been applied. The Company filed a lawsuit for the cancellation of aforementioned administrative fine and ICTA's administrative acts implied on the Company for the collection of the radio utilization and usage fees which was claimed to have been paid deficiently. The case is pending.

On the other hand, as a result of the investigation on the same subject for the period of 2014, ICTA has decided that the deficiently paid amount of TL 124 should be collected from the Company. On 29 December 2016 Company applied to ICTA and appealed the decision to ICTA Board again.

Based on the management opinion, the probability of an outflow of resources embodying economic benefits is uncertain, thus, no provision is recognized in the consolidated financial statements as at and for the period ended 31 December 2016 (31 December 2015: None).

**37.5 Disputes regarding the Law on the Protection of Competition**

With the decision dated 6 June 2011 and numbered 230 established on the grounds of the investigation initiated by the Competition Board on the grounds that the Company violated the competitive environment through abusing its dominant position in the Turkish mobile market and infringements of Article 4 and 6 of the Law No. 4054, it was decided to apply administrative fine amounting to TL 91,942 on the Company. A lawsuit was filed in the Council of State for the stay of execution and the cancellation of the execution of Article 4 and 6 by the Company.

The Council of State accepted the Company's request for stay of execution for the part of the Competition Board decision related to the administrative fine amounting to TL 91,942 but rejected the request for the part of the decision stating that the Company abused its dominant position with its practices subject to the Competition Board decision and has to end this violation. The Competition Board objected to the decision for the accepted part and the Company objected to the decision for the rejected part. The Plenary Session of Administrative Law Divisions of the Council of



State cancelled the stay of execution decision and decided to send the file back to the first instance court so as to be examined for the reasons related to the basis of the Competition Board's stay of execution decision. Upon this decision, the Council of State rejected the Company's stay of execution request. The Company objected to the decision. The objection was rejected. Vodafone demanded to be accepted to the case, as the intervening party. The Company also objected to this demand too. The Court accepted the Vodafone's demand to intervene. The hearing took place on 8 March 2016. The Court granted an interim decision after the hearing and requested some information and documents from the Competition Authority. The Competition Authority responded to the interim decision. The Company submitted its statements against the petition of the Competition Authority.

On 8 March 2012, payment order has been sent to the Company by the Tax Office. The Company filed a lawsuit for the stay of execution and cancellation of the payment order on 13 March 2012. The Court accepted the lawsuit and cancelled the payment order. Tax Office appealed the decision. The Company replied the appeal request. Appeal process is still pending.

Dogan Dagitim Satis Pazarlama Odeme Aracilik ve Tahsilat Sistemleri A.S. filed a lawsuit against the Company on 5 June 2012 claiming TL 110,484 together with up to 3 times of the loss amount to be determined by the court for its material damages by reserving its rights for surpluses allegedly on the ground that the Company caused that damage by its applications to its sub-distributors which constituted a violation

**Table of Contents**

**TURKCELL ILETISIM HIZMETLERI AS**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts)

**37. Commitments and Contingencies (continued)**

**37.5 Disputes regarding the Law on the Protection of Competition (continued)**

of the law no. 4054 and that violation was proved by the Competition Board decision in which the Board imposed TL 91,942 administrative fine to the Company. The court decided to wait for the Council of State's final decision. The Court dismissed the interim decision on the expectation of the Council of State files, appointed the day of the hearing and decided to request information on the latest status of the files. The case is still pending.

MobilTel İletişim Hizmetleri Sanayi ve Ticaret A.S. filed a lawsuit against the Company on 17 August 2012 claiming TL 500 together with up to 3 times of the loss amount to be determined by the court for its material damages by reserving its rights for surpluses allegedly on the ground that the Company gives exclusive competence to its sub-dealers and that violation was proved by the Competition Board decision in which the Board imposed TL 91,942 administrative fine to the Company and that MobilTel was not able to sale any product to the sub-dealers which were given exclusive competence by the Company. The court decided to obtain an expert report and to wait for the Council of State's final decision. The lawsuit is pending.

Pamuk Elektronik whose dealership agreement was terminated initiated a lawsuit with a claim of a compensation three times of its alleged damages due to the Company's actions falling within the scope of the Competition Board's administrative monetary fine in the amount of TL 91,942 and also with a compensation claim in the amount of TL 2,100 due to the alleged unjust termination of the agreement. The Company submitted its reply petition within the time limits.

The Court dismissed the case based on the ground that the dispute should be settled by arbitration since there is an arbitration clause in the agreement. Pamuk Elektronik appealed this decision, the Company submitted its response to appeal request. Subsequently, the Court of Appeal affirmed the dismissal decision of the first instance. Pamuk Elektronik requested the correction of this decision but the Court of Appeal declined such request. Pamuk sent a notification to the Company to commence the arbitration proceeding; the Company sent a response thereto. The request for arbitration filed by Pamuk Elektronik has been received and reply petition has been submitted within the time limit. The case is pending.

Based on the management opinion, the probability of an outflow of resources embodying economic benefits is uncertain, thus, no provision is recognized in the consolidated financial statements as at and for the period ended 31 December 2016 (31 December 2015: None).

**37.6 Other ongoing lawsuits**

Within consolidated financial statements prepared as of 31 December 2016, obligations which are related to following ongoing disputes have been evaluated.

Based on the management opinion, the probability of an outflow of resources embodying economic benefits is uncertain, thus, no provision is recognized in the consolidated financial statements as at and for the period ended 31 December 2016 (31 December 2015: None).

Subject	31 December 2016	31 December 2015	31 December 2016 Provision	31 December 2015 Provision
	Anticipated Maximum Risk	Anticipated Maximum Risk		
	(excluding accrued interest)	(excluding accrued interest)		
Dispute related with the Ministry of Customs and Trade	116,000			
Disputes related with ICTA	22,544	22,149		

F-90

**Table of Contents****TURKCELL ILETISIM HIZMETLERI AS****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts)

**38. Related parties*****Transactions with key management personnel:***

Key management personnel comprise the Group's key management executive officers and members of board of directors.

As at 31 December 2016 and 2015, none of the Group's executive officers has outstanding personnel loans from the Group.

In addition to their salaries, the Group also provides non-cash benefits to executive officers and contributes to a post-employment defined plan on their behalf. The Group is required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits.

Total compensation provided to key management personnel is TL 60,544, TL 66,876 and TL 32,817 for the years ended 31 December 2016, 2015 and 2014 respectively as listed below;

	<b>31 December 2016</b>	<b>31 December 2015</b>	<b>31 December 2014</b>
Short-term benefits	50,001	52,767	28,020
Termination benefits	10,064	13,454	4,200
Long-term benefits	479	655	597
	<b>60,544</b>	<b>66,876</b>	<b>32,817</b>

The Company has agreements or protocols with several of its shareholders, consolidated subsidiaries and affiliates of the shareholders.

	<b>31 December 2016</b>	<b>31 December 2015</b>
<b>Due from related parties – short term</b>		
MegaFon OJSC ( MegaFon )	1,387	1,592
Hobim Bilgi Islem Hizmetleri AS ( Hobim )	1,223	

Edgar Filing: TURKCELL ILETISIM HIZMETLERI A S - Form 20-F

GSM Kazakhstan Ltd ( Kazakcell )	937	1,662
Vimpelcom OJSC ( Vimpelcom )	586	5,223
Telia Sonera International Carrier AB ( Telia )	577	722
Azercell Telekom MMC ( Azercell )	446	633
Krea Icerik Hizmetleri ve Produksiyon AS ( Krea ) (*)		83
Millenicom Telekomunikasyon AS ( Millenicom ) (**)		784
Other	705	1,061
	<b>5,861</b>	<b>11,760</b>

(\*) Krea shares held by Cukurova Group were acquired by BeIN Media Group LLC on 26 August 2016.

(\*\*) Millenicom shares held by Cukurova Group were acquired by EWE Turkey Holding on 21 January 2016.

Due from related parties short term is shown net of allowance for doubtful debts amounting to TL 231 as at 31 December 2016 (31 December 2015: TL 302 and 31 December 2014: TL 80).

Due from Megafon, Telia, Vimpelcom, Azercell and Millenicom resulted from telecommunications services such as interconnection and roaming.

Due from Hobim mainly resulted from advances given for game materials.

Due from Kazakcell, mainly resulted from the software services and telecommunications services such as interconnection and roaming.

**Table of Contents****TURKCELL ILETISIM HIZMETLERI AS****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts. Currencies other than Turkish Liras are expressed in thousands unless otherwise indicated.)

**38. Related parties (continued)***Transactions with key management personnel (continued):*

Due from Krea resulted from rental circuit system, corporate internet services and data center services.

	<b>31 December 2016</b>	<b>31 December 2015</b>
<b>Due to related parties short term</b>		
Hobim	6,260	3,491
Kyivstar GSM JSC ( Kyivstar )	2,382	1,375
Megafon	892	171
Geocell LLC ( Geocell )	445	144
Other	1,222	1,374
	<b>11,201</b>	<b>6,555</b>

Due to Hobim mainly resulted from rendering invoice printing services and subscription documents services.

Due to Kyivstar , Megafon and Geocell mainly resulted from rendering telecommunications services such as interconnection and roaming.

The Group s exposure to currency risk related to due from / (due to) related parties is disclosed in Note 34.

*Transactions with related parties*

Intragroup transactions that have been eliminated are not recognized as related party transaction in the following table:

2016	2015	2014
------	------	------

<b>Revenue from related parties</b>			
<u>Sales to Kyivstar</u>			
Telecommunications services	30,964	41,728	69,469
<u>Sales to Vimpelcom</u>			
Telecommunications services	20,775	20,489	48,360
<u>Sales to Telia</u>			
Telecommunications services	15,761	16,955	17,936
<u>Sales to Megafon</u>			
Telecommunication services	11,773	14,958	30,394
<u>Sales to Krea (*)</u>			
Call center services, fixed line services, rent and interest charges	3,422	4,831	10,746
<u>Sales to Azercell</u>			
Telecommunication services	2,585	4,183	5,485
<u>Sales to Millenicom (**)</u>			
Telecommunications services	997	8,861	10,898
<u>Sales to KVK Teknoloji (***)</u>			
Simcard and prepaid card sales		217,080	428,234
<u>Sales to other related parties</u>	3,149	6,049	47,426
	<b>89,426</b>	<b>335,134</b>	<b>668,948</b>

F-92

**Table of Contents****TURKCELL ILETISIM HIZMETLERI AS****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts)

**38. Related parties (continued)***Transactions with related parties (continued)*

	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Related party expenses</b>			
<u>Charges from Kyivstar</u>			
Telecommunications services	47,595	49,608	69,947
<u>Charges from Hobim</u>			
Invoicing and archiving services	31,832	29,570	36,160
<u>Charges from Krea</u>			
Digital television broadcasting services	5,975	15,826	12,931
<u>Charges from Megafon</u>			
Telecommunications services	3,162	4,342	12,688
<u>Charges from Vimpelcom</u>			
Telecommunications services	2,721	4,348	13,642
<u>Charges from Telia</u>			
Telecommunications services	2,499	3,409	15,100
<u>Charges from Azercell</u>			
Telecommunications services	1,361	28	3,157
<u>Charges from Millenicom</u>			
Telecommunications services	180	5,418	7,491
<u>Charges from KVK Teknoloji</u>			
Dealer activation fees and others		76,743	112,776
<u>Charges from other related parties</u>	8,317	9,733	65,834
	<b>103,642</b>	<b>199,025</b>	<b>349,726</b>

(\*) Krea income and expenses include the transactions until 26 August 2016.

(\*\*) Millenicom income and expenses include the transactions until 21 January 2016.

(\*\*\*)



KVK Teknoloji 's shares held by Cukurova Group have been acquired by MV Holding on 6 July 2015. KVK Teknoloji income and expenses include the transactions until 6 July 2015.

***Transactions with Kyivstar:***

Kyivstar, an entity under common control with Alfa, is rendering and receiving telecommunications services such as interconnection and roaming.

***Transactions with Vimpelcom:***

Vimpelcom, an entity under common control with Alfa, is rendering and receiving telecommunications services such as interconnection and roaming.

***Transactions with Telia:***

Telia, a subsidiary of Sonera, is rendering and receiving telecommunications services such as interconnection and roaming.

***Transactions with Megafon:***

Megafon, a subsidiary of Sonera, is rendering and receiving telecommunications services such as interconnection and roaming.

**Table of Contents**

**TURKCELL ILETISIM HIZMETLERI AS**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts)

**38. Related parties (continued)**

*Transactions with related parties (continued)*

*Transactions with Krea:*

Çukurova Holding has signed a share purchase agreement with BeIN Media Group LLC related to the sale of their shares in Krea. Share transfer has finalized as at 26 August 2016.

Krea, a direct-to-home digital television service company under the Digiturk brand name.

There are no specific agreements between Turkcell and digital channels branded under Digiturk name. Every year, as in every other media channel, standard ad spaces are purchased on a spot basis. Also, Krea provides instant football content related to Spor Toto Super League to the Company to be delivered to mobile phones and tablets.

The Company has agreements for fixed telephone, leased line, corporate internet, and data center services provided by the Company's subsidiary Turkcell Superonline.

*Transactions with Azercell:*

Azercell, a subsidiary of Sonera, is rendering and receiving telecommunications services such as interconnection and roaming.

*Transactions with Millenicom:*

Millenicom shares held by Cukurova Group were acquired by EWE Turkey Holding on 21 January 2016. Millenicom is rendering and receiving telecommunications services such as interconnection and roaming.

*Transactions with Hobim:*

Hobim, one of the leading data processing and application service provider companies in Turkey, is owned by Cukurova Group. The Company has entered into invoice printing and archiving agreements with Hobim under which Hobim provides the Company with monthly invoice printing services, manages archiving of invoices and subscription

documents. Prices of the agreements are determined through alternative proposals evaluation.

***Transactions with KVK Teknoloji:***

KVK Teknoloji shares held by Cukurova Group were acquired by MV Holding on 6 July 2015. The Company has a distributorship agreement with KVK Teknoloji.

F-94

**Table of Contents****TURKCELL ILETISIM HIZMETLERI AS****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts)

**39. Subsidiaries**

The Group's ultimate parent company is Turkcell. Subsidiaries of the Company as at 31 December 2016 and 31 December 2015 are as follows:

Subsidiaries Name	Country of Incorporation	Business	Effective Ownership Interest	
			31 December 2016 (%)	31 December 2015 (%)
Kibris Telekom	Turkish Republic of Northern Cyprus	Telecommunications	100	100
Turkcell Global Bilgi	Turkey	Customer relations management	100	100
Turktell	Turkey	Information technology, value added GSM services investments	100	100
Turkcell Superonline	Turkey	Telecommunications	100	100
Turkcell Satis	Turkey	Sales and delivery	100	100
Eastasia	Netherlands	Telecommunications investments	100	100
Turkcell Teknoloji	Turkey	Research and development	100	100
Global Tower	Turkey	Telecommunications infrastructure business	100	100
Turkcell Interaktif <sup>(1)</sup>	Turkey	Content services		100
Financell <sup>(2)</sup>	Netherlands	Financing business	100	100
Rehberlik	Turkey	Directory Assistance	100	100
Lifecell Ventures <sup>(3)</sup>	Netherlands	Telecommunications investments	100	100
Beltel	Turkey	Telecommunications investments	100	100
Turkcell Gayrimenkul	Turkey	Property investments	100	100
Global LLC	Ukraine	Customer relations management	100	100
UkrTower	Ukraine		100	100

Telecommunications  
infrastructure

## business

Turkcell Europe	Germany	Telecommunications	100	100
Turkcell Odeme <sup>(4)</sup>	Turkey	Payment services	100	100
Euroasia <sup>(5)</sup>	Netherlands	Telecommunication investments		100
lifecell <sup>(6)</sup>	Ukraine	Telecommunications	100	100
TFS <sup>(7)</sup>	Turkey	Consumer financing services	100	100
Beltower <sup>(8)</sup>	Republic of Belarus	Telecommunications Infrastructure business	100	
Belarusian Telecom	Republic of Belarus	Telecommunications	80	80
Lifetech	Republic of Belarus	Research and development	78	78
Inteltek	Turkey	Information and Entertainment Services	55	55
Azerinteltek <sup>(9)</sup>	Azerbaijan	Information and Entertainment Services	28	28

(1) As at 28 December 2016, merger of subsidiaries, Turkcell Superonline and Turkcell Interaktif has been completed through the acquisition of Turkcell Interaktif by Turkcell Superonline.

(2) As at 21 December 2016, Board of Directors resolved to liquidate Financell .

**Table of Contents****TURKCELL ILETISIM HIZMETLERI AS****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts)

**39. Subsidiaries (continued)**

- (3) The trade name of Beltur Coöperatief U.A. has changed as Lifecell Ventures Coöperatief U.A. as at 18 August 2016.
- (4) As at 12 August 2016, Turkcell Odeme has received official authorization from Banking Regulation and Supervision Agency. As at 20 February 2017 the trade name of Turkcell Odeme Hizmetleri A.S has changed as Turkcell Odeme ve Elektronik Para Hizmetleri A.S.
- (5) As at 30 December 2016, merger of subsidiaries, Lifecell Ventures and Euroasia has been completed through the acquisition of Euroasia by Lifecell Ventures
- (6) The trade name of Astelit has changed as lifecell LLC as at 2 February 2016.
- (7) As at 22 October 2015, the consumer financing company is incorporated and has received official authorization as at 21 January 2016. As at 21 September 2016, Turkcell Finansman has authorized its brand name as Financell .
- (8) As at 19 December 2016, Beltower has been incorporated in Republic of Belarus.
- (9) Inteltek has directly or indirectly effective ownership interest rate 51% in total on Azerinteltek.

Details of non-wholly owned subsidiaries that have material non-controlling interests to the Company are disclosed below:

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interest		Profit / (loss) allocated to non-controlling interests		Accumulated non-controlling interests	
		31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Inteltek	Turkey	45.00%	45.00%	39,346	38,362	50,863	63,819
lifecell (*)	Ukraine				(209,323)		
Individually immaterial subsidiaries with non controlling interest				12,369	6,858	5,769	266
				51,715	(164,103)	56,632	64,085

(\* ) Figures for the year 2015 represent the amounts acquired till the date of acquisition of 44.96% shares of lifecell from SCM.

F-96

**Table of Contents****TURKCELL ILETISIM HIZMETLERI AS****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts)

**39. Subsidiaries (continued)**

Summarized financial information in respect of Inteltek is set out below. The summarized financial information below represents amounts before intragroup eliminations.

***Inteltek***

	<b>31 December 2016</b>	<b>31 December 2015</b>
Current assets	191,199	203,028
Non-current assets	17,367	25,068
Current liabilities	30,516	31,135
Non-current liabilities	65,020	55,141
Equity attributable to owners	113,030	141,820
	<b>2016</b>	<b>2015</b>
Revenue	178,408	139,077
Expenses	(90,973)	(53,829)
<b>Profit for the year</b>	<b>87,435</b>	<b>85,248</b>
Other comprehensive income / (loss) for the year	(618)	(379)
Dividend paid to non-controlling interests	(44,888)	(92,542)
Net cash inflow from operating activities	69,497	66,055
Net cash inflow from investing activities	17,470	27,355
Net cash outflow from financing activities	(119,751)	(205,648)
Effects of foreign exchange rate fluctuations on cash and cash equivalents	18,213	11,795
<b>Net cash outflow</b>	<b>(14,571)</b>	<b>(100,443)</b>

***Euroasia***



	<b>2015 (*)</b>
Revenue	259,537
Expenses	(725,114)
<b>Profit for the year</b>	<b>(465,577)</b>
Other comprehensive income / (loss) for the year	122,386
Net cash inflow from operating activities	213,957
Net cash inflow from investing activities	(616,340)
Net cash outflow from financing activities	417,498
Effects of foreign exchange rate fluctuations on cash and cash equivalents	(49,158)
<b>Net cash outflow</b>	<b>(34,043)</b>

(\*) Figures for the year 2015 represent the amounts acquired till the date of acquisition of 44,96% shares of Euroasia from SCM.

#### **40. Subsequent events**

Within the scope of the Decree Law No. 683 published on 23 January 2017, the Company will be able to pay EUR denominated 4.5G license obligation in Turkish liras converted at the buying exchange rate announced by the Central Bank of the Republic of Turkey on 2 January 2017 upon request of the Company.

**Table of Contents**

**TURKCELL ILETISIM HIZMETLERI AS**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**As at and for the year ended 31 December 2016**

(Amounts expressed in thousands of Turkish Liras unless otherwise indicated except share amounts)

**40. Subsequent events (continued)**

Aktif Yatirim Bankasi A.S. Turkcell Asset Finance Fund, founded by Aktif Yatirim Bankasi A.S. and mandated to issue asset-backed securities with a structure in which our Company's 100% subsidiary Turkcell Finansman, will be the originator, has applied to the Capital Markets Board of Turkey ( CMB ) for the issuance certificate of asset-backed securities with an amount of up to TRY 100,000 within one year.

The Company and the Ministry of Transport, Maritime Affairs and Communications, Directorate General of Communications signed a contract to continue the contract, signed on 20 February 2013 to establish and operate mobile communication infrastructure and operation in uncovered areas, (Phase 1) until 31 December 2018 and to add mobile broadband services to the existing infrastructure providing GSM services under Universal Service Law and to operate the new and existing networks together. Mobile broadband services will be added to the existing infrastructure established in accordance with Phase 1 in 1,799 rural locations. The new and the existing infrastructure will be operated together

The incorporation of Turkcell Enerji Cozumleri ve Elektrik Satis Ticaret A.S, whose field of activities are electricity energy trade and wholesale and retail electricity sales, has been registered. The Company has been incorporated on 20 February 2017.