

TURKCELL ILETISIM HIZMETLERI A S

Form 20-F

April 18, 2011

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As filed with the Securities and Exchange Commission on April 18, 2011

# 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, 2010

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 Plaza**

**Mesrutiyet Caddesi No: 71**

**34430 Tepebasi**

**Istanbul, Turkey**

(Address of Principal Executive Offices)

**Mr. Serkan Okandan**

**Telephone: +90 212 313 1201**

**Facsimile: +90 212 292 5390**

**Turkcell Plaza**

**Mesrutiyet Caddesi No: 71**

**34430 Tepebasi**

**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:**

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**Title of each class**  
**American Depositary Shares**  
**Ordinary Shares, Nominal Value TRY 1.000\***

**Name of each exchange on which registered**  
**New York Stock Exchange**  
**New York Stock Exchange**

\*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.

**Ordinary Shares, Nominal Value TRY 1.000**

**2,200,000,000**

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 (§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 by the International Accounting Standards Board ☒ Other ☐

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 ☒

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**INTRODUCTION**

This is the 2010 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 terms we , us , our , and similar ones refer to Turkcell, its predecessors, and its consolidated subsidiaries, except as the context otherwise requires.

Our audited consolidated financial statements as of December 31, 2010 and 2009 and for each of the years in the three-year period ended December 31, 2010 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 ).

The SEC has adopted rules accepting filings from foreign private issuers that include financial statements prepared in accordance with IFRS as issued by the IASB without reconciliation to accounting principles generally accepted in the United States, or U.S. GAAP, as was previously required. As we believe that we meet the relevant criteria to avail ourselves of this SEC rule, we have ceased providing such reconciliation as part of our consolidated financial statements.

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, previously called the New Turkish Lira from 2005 through 2008; 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 on a per annum basis. In this annual report, references to Turkey or the Republic are to the Republic of Turkey. Counters are the units we used with our subscribers until April 2010 to measure airtime. As of April 2010, we measure our airtime in TRY rather than counters.

Statements regarding our market share and total market size are based on the ICTA 's 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 Information and Communication Technologies Authority 's ( ICTA ) specifications as well as the TUIK 's announcements, and statements regarding our 3G coverage are based on the 3GPP TS 25.101 specifications for outdoor coverage.

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

**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;

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

developments in the Turkish telecommunications market that will impact the size and usage of our future subscriber base and which are affected by factors outside of our control;

failure to successfully integrate and manage the opportunities we pursue, particularly related to our current mobile communications business and new 3G business, new business models, new technologies and international activities;

changes in current and future Turkish telecommunications laws, regulations and regulatory orders which may impact our customers usage patterns;

regulations imposed by the Information and Communication Technologies Authority (hereinafter, the ICTA ), that may require us to maintain certain prices for our services, notably by placing a floor on certain of our prices and a ceiling on certain of our interconnection prices;

legal and regulatory restrictions imposed by regulatory authorities in Turkey, in particular following the enactment of the Electronic Communications Law, which broadens the power of the ICTA;

adverse effects on our competitiveness due to our designation by the ICTA as an operator holding significant market power in the mobile call termination services market and as an operator holding significant market power in access to GSM mobile networks and the call origination market ;

failure to abide by the requirements of our licenses or applicable regulations;

economic and political developments in Turkey and internationally;

exposure to certain risks through our interests in associated companies;

foreign exchange rate risks;

financial risks in the event that our majority owned subsidiaries fail to meet some of their obligations set forth in the agreements related to their financing arrangements;

our ability to deal with spectrum limitations;

zoning limitations related to our BTS;

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

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

our current legal action against the Turkish Capital Markets Board ( CMB );

the influence of our controlling shareholders and disputes between them;

our dependence on certain systems and suppliers for IT services and our exposure to potential natural disasters, regular or severe IT failures, human error, hacking 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;

The potential issuance and cancellation halt of American Depositary Shares ( ADSs ) by depositories in Turkey;

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

effective 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.



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**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 consolidated financial statements as of December 31, 2010 and 2009 and for each of the years in the three-year period ended December 31, 2010 included in this annual report have been prepared in accordance with IFRS as issued by the IASB.

The Company has for 2010 revised the manner in which it accounts for the impact of changes in foreign exchange rates in its statement of cash flows and has revised its presentation of prior periods, resulting in a change in the allocation of the impact of foreign exchange rate changes among Operating activities, Effects of foreign exchange on statement of financial position items and Effect of foreign exchange rate changes on cash in the statement of cash flows. In this context, 2010 quarterly cash flow data will be revised accordingly in 2011. The change relates to the impact of re-translation of the underlying functional currency cash flows into the presentation currency, the U.S. Dollar. The Company believes that changes to prior periods 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. See Note 2 to our consolidated financial statements in this Form 20-F.

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, 2010 and 2009 and for each of the years in the three-year period ended December 31, 2010, and the related notes appearing elsewhere in this annual report.

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The following table presents our selected consolidated statement of operations, balance sheet and cash flow data as of and for each of the years in the five-year period ended December 31, 2010, 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 years ended December 31, 2010, 2009, 2008, 2007 and 2006. The information appearing under the caption Other Financial Data is not derived from the audited financial statements.

	2010	2009	2008	2007	2006
	(Million \$, except share data and other certain data)				
Selected Financial Data Prepared in Accordance with IFRS as Issued by the IASB					
Consolidated Statement of Operations Data					
Revenues					
Communication fees	5,670.2	5,557.3	6,576.9	5,976.9	4,406.7
Commission fees on betting business	31.2	42.7	176.2	181.3	172.4
Monthly fixed fees	75.4	42.5	65.1	54.8	57.6
Simcard sales	22.9	22.9	28.2	20.8	21.0
Call center revenues	25.2	17.4	16.6	12.9	10.2
Other revenues	157.2	107.2	107.4	81.9	32.4
Total revenues	5,982.1	5,790.0	6,970.4	6,328.6	4,700.3
Direct cost of revenues(1)	(3,349.0)	(3,097.1)	(3,409.0)	(3,103.4)	(2,627.9)
Gross profit	2,633.1	2,692.9	3,561.4	3,225.2	2,072.4
Other income	14.7	0.9	14.1	7.8	8.1
Administrative expenses	(347.3)	(273.1)	(309.3)	(252.8)	(154.9)
Selling and marketing expenses	(1,085.8)	(1,085.1)	(1,351.7)	(1,138.2)	(827.5)
Other expenses	(64.2)	(111.2)	(18.0)	(22.5)	(6.5)
Results from operating activities	1,150.5	1,224.4	1,896.5	1,819.5	1,091.6
Finance income	277.1	329.6	442.1	308.4	184.0
Finance costs	(102.6)	(187.5)	(136.8)	(551.1)	(108.0)
Net finance income/(costs)	174.5	142.1	305.3	(242.7)	76.0
Share of profit of equity accounted investees(2)	122.8	78.4	103.0	64.9	78.6
Profit before income taxes	1,447.8	1,444.9	2,304.8	1,641.7	1,246.2
Income tax expense	(320.8)	(340.1)	(549.8)	(322.4)	(413.2)
Profit for the period	1,127.0	1,104.8	1,755.0	1,319.3	833.0
Attributable to:					
Equity holders of the Company	1,170.2	1,094.0	1,836.8	1,350.2	875.5
Non-controlling interest	(43.2)	10.8	(81.8)	(30.9)	(42.5)
Profit for the period	1,127.0	1,104.8	1,755.0	1,319.3	833.0
Basic and diluted earnings per share(3)	0.53	0.50	0.83	0.61	0.40
Consolidated Balance Sheet Data (at period end)					
Cash and cash equivalents	3,302.2	3,095.5	3,259.8	3,095.3	1,598.6
Total assets	9,794.6	9,320.8	8,067.9	8,469.0	6,089.7
Long-term debt(7)	1,407.3	821.2	130.0	140.4	113.5
Total debt(8)	1,837.5	1,512.0	785.9	760.0	639.6
Total liabilities	3,561.0	3,424.6	2,624.3	2,537.8	1,971.8
Share capital	1,636.2	1,636.2	1,636.2	1,636.2	1,636.2
Total equity/net assets	6,233.6	5,896.2	5,443.6	5,931.2	4,117.9
Weighted average number of shares(3)	2,200,000,000	2,200,000,000	2,200,000,000	2,200,000,000	2,200,000,000
Consolidated Cash Flow Data					
Net cash from operating activities(11)	1,262.6	1,316.6	1,746.3	1,986.9	1,850.7
Net cash used for investing activities	(704.9)	(1,485.0)	(695.2)	(440.5)	(632.5)
Net cash used for financing activities	(303.7)	(5.4)	(353.6)	(255.0)	(395.8)
Other Financial Data					
Dividends declared or proposed(4)(10)	859.4	573.5	713.3	502.3	411.9
Dividends per share (declared or proposed)(9)(10)	0.39	0.26	0.32	0.23	0.19
Gross margin(5)	44%	47%	51%	51%	44%
Adjusted EBITDA(6)	1,957.4	1,925.4	2,580.3	2,627.1	1,820.0
Capital expenditures	1,078.6	1,769.3	808.2	783.1	604.8

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- (1) 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 rents, billing costs, depreciation and amortization charges, technical, repair and maintenance expenses, roaming charges, interconnection fees, costs of Simcards sold, handset costs offered as part of our loyalty programs and personnel expenses related to our technicians.
  - (2) Share of profit of equity accounted investees primarily includes the income (loss) related to our stake in Fintur Holdings B.V. ( Fintur ) and A-Tel Pazarlama ve Servis Hizmetleri A.S. ( A-Tel ), which is 41.45% and 50.00%, respectively. A-Tel's operating results have been included in our consolidated financial statements since August 2006. Fintur currently holds all of our International mobile communications investments other than those related to our operations in Northern Cyprus, Ukraine and Belarus.
  - (3) Net income per share figures and the weighted average number of shares reflected in our historical financial statements have been restated retrospectively for stock splits and stock dividends.
  - (4) Our Board of Directors has proposed a dividend for the year ended December 31, 2010 of approximately TRY 1,328.7 million (\$859.4 million computed using the Central Bank of the Republic of Turkey's ( CBRT ) TRY/U.S. Dollar exchange rate on December 31, 2010), which corresponds to 75% of our distributable net income for the year. This dividend proposal will be discussed and decided upon at our Ordinary General Assembly of Shareholders that has been called for April 21, 2011.
  - (5) Gross margin is calculated as gross profit divided by total revenues.
  - (6) Adjusted EBITDA is a non-GAAP financial measure that equals profit for the period before finance income, finance costs, income tax expense, other income, other expense, share of profit of equity accounted investees and depreciation and amortization.
  - (7) Long-term debt consists of long-term loans and borrowings as well as long-term lease obligations.
  - (8) Total debt consists of long-term and short-term loans and borrowings as well as lease obligations.
  - (9) For the year ended December 31, 2006, we declared dividends of \$411.9 million when 1,854,887,341 of our shares were outstanding; however, dividends per share for 2006 were computed over 2,200,000,000 shares to reflect the effects of certain stock splits and stock dividends. Dividends per share for the years ended December 31, 2007, 2008, 2009 and 2010 were computed over 2,200,000,000 shares. For the year ended December 31, 2010, the proposed dividend per share in TRY was TRY 0.60. For the years ended December 31, 2009, 2008, 2007 and 2006, the dividend per share in TRY was TRY 0.39, TRY 0.50, TRY 0.29 and TRY 0.26, respectively.
  - (10) The U.S. Dollar equivalent of the dividend for the year ended December 31, 2010 was computed by using the CBRT's TRY/USD exchange rate on December 31, 2010 whereas the U.S. Dollar equivalents of the dividend for the years ended December 31, 2009, 2008, 2007 and 2006 were computed by using the CBRT's TRY/USD exchange rate on the dates that the General Assembly of Shareholders approved the dividend distribution.
  - (11) As detailed in Note 2 to the Consolidated Financial Statements, beginning from 2010, the presentation of the impact of changes in foreign exchange rates in the statement of cash flows has been revised. Previously reported net cash from operating activities for financial years 2009, 2008, 2007 and 2006 were \$1,294.9 million, \$1,674.4 million, \$2,156.2 million and \$1,854.9 million, respectively. With respect to aforementioned revision, revised net cash from operating activities for financial years 2009, 2008, 2007 and 2006 are \$1,316.6 million, \$1,746.3 million, \$1,986.9 million and \$1,850.7 million, respectively. The methodology applied for the presentation of non-cash transactions related to operating activities disclosed as Profit for the year adjustments for was changed subsequent to our press release of February 23, 2011. This presentation change does not have any effect on cash flows from operating, investing and financing activities.
- Adjusted EBITDA is a non-GAAP financial measure that equals profit for the period before finance income, finance costs, income tax expense, other income, other expense, 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 cash generation ability and liquidity position. Net income is generally considered by our management as the main indicator for our operating performance. Adjusted EBITDA is not a measurement of liquidity under IFRS as issued by the IASB 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.

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We believe Adjusted EBITDA, among other measures, facilitates liquidity comparisons from period to period and management decision making. It also facilitates liquidity comparisons from company to company. Adjusted EBITDA as a liquidity 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 of tangible assets (affecting relative depreciation expense). We also present Adjusted EBITDA because we believe it is frequently used by securities analysts, investors and other interested parties in evaluating the liquidity 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 as issued by the IASB.

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

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 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 than we do, which may limit its usefulness as a comparative measure.

We compensate for these limitations by relying primarily on our results under IFRS as issued by the IASB 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 cash from operating activities, which we believe is the most directly comparable financial measure calculated and presented in accordance with IFRS as issued by the IASB.

	2010	Year ended December 31,			2006
		2009	2008	2007	
		(Million \$)			
Adjusted EBITDA	1,957.4	1,925.4	2,580.3	2,627.1	1,820.0
Income tax expense	(320.8)	(340.1)	(549.8)	(322.4)	(413.2)
Other operating income/(expense)	(49.4)	(85.2)	(15.6)	(10.8)	0.3
Finance income	0.5	1.0	11.2	1.6	(46.4)
Finance costs	(100.4)	(188.3)	(80.2)	(264.4)	19.9
Net (decrease)/increase in assets and liabilities(1)	(224.7)	3.8	(199.6)	(44.2)	470.1
Net cash from operating activities	1,262.6	1,316.6	1,746.3	1,986.9	1,850.7

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- (1) As detailed in Note 2 to the Consolidated Financial Statements beginning from 2010, the presentation of the impact of changes in foreign exchange rates in the statement of cash flows has been revised. The revision on net cash from operating activities reflected in the above reconciliation results in a change in net (decrease)/increase in operational assets and liabilities.

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The following table presents selected operational data:

### Operating Results

	Year ended December 31,		
	2010	2009	2008
<b>Industry Data</b>			
Population of Turkey (in millions)(1)	73.7	72.6	71.5
<b>Turkcell Data</b>			
Number of postpaid subscribers at end of period (in million)(2)	10.1	9.4	7.5
Number of prepaid subscribers at end of period (in millions)(2)	23.3	26.0	29.5
Total subscribers at end of period (in millions)(2)(7)	33.5	35.4	37.0
Average monthly revenue per user (in \$)(3)(7)	13.0	12.0	14.5
Postpaid	26.6	26.6	36.8
Prepaid	7.6	7.5	9.1
Average monthly minutes of use per subscriber(4)	179.1	134.3	95.9
Churn(5)	33.9%	32.6%	23.8%
Number of Turkcell employees at end of period	2,789	2,709	2,809
Number of employees of consolidated subsidiaries at end of period(6)	8,083	7,743	7,566

- (1) The population of Turkey for 2010, 2009 and 2008 is based on TUIK's announcements.
- (2) Subscriber numbers do not include subscribers in Ukraine, Belarus and Northern Cyprus or those of Fintur subsidiaries. During the third quarter of 2010, the definition of active subscriber was changed in both Ukraine and Belarus.
- (3) We calculate average revenue per user, ARPU, using the weighted average number of our subscribers during the period. ARPU does not include the results of our operations in Ukraine, Belarus and Northern Cyprus or those of Fintur subsidiaries.
- (4) 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 subscribers for the year divided by twelve. Our Minutes of Usage ( MoU ) calculation does not include our operations in Ukraine, Belarus and Northern Cyprus or those of Fintur subsidiaries.
- (5) 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 subscribers that are both voluntarily and involuntarily disconnected from our network. Our churn calculations do not include our operations in Ukraine, Belarus and Northern Cyprus or those of Fintur subsidiaries. For the ICTA's new definition concerning active and passive subscriptions, see Item 4.B. Business Overview Regulation of the Turkish Telecommunications Industry .
- (6) See Item 6.D. Employees for information concerning our consolidated subsidiaries.
- (7) See Item 4.B. Business Overview for information concerning the operational figures of Limited Liability Company Astelit ( Astelit ).

### 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, which was previously called the New Turkish Lira from 2005 through 2008. 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 CBRT. Prior to January 1, 2006, unless otherwise stated, any balance sheet data in U.S. Dollars derived from our consolidated financial statements were translated from Turkish Lira into

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U.S. Dollars at rates announced by the CBRT on the date of such balance sheet for monetary assets and liabilities and at historical rates for equity and non-monetary assets and liabilities. As of January 1, 2006, any balance sheet data (monetary or non-monetary), except for equity items in U.S. Dollars derived from our consolidated financial statements, are translated from Turkish Lira into U.S. Dollars at exchange rates at the balance sheet date. Income and expenses for each income statement (including comparatives) are translated to U.S. Dollars at monthly average exchange rates. Unless otherwise indicated, the TRY/\$ exchange rate used in this annual report is the TRY/\$ exchange rate in respect of the date of the financial information being referred to. 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 announced that it will continue the implementation of the floating exchange rate regime in 2011.

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 April 7, 2011 was TRY 1.516 = \$1.00.

	2011(2)(3)	2010(2)	2009(2)	2008(2)	2007(2)	2006(2)
High	1.6092	1.598	1.796	1.696	1.450	1.693
Low	1.5157	1.388	1.437	1.145	1.163	1.297
Average(1)	1.567	1.500	1.547	1.293	1.303	1.431
Period End	1.516	1.546	1.506	1.512	1.165	1.406

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 April 7, 2011.

	April 2011(1)	March 2011	February 2011	January 2011	December 2010	November 2010	October 2010
High	1.5363	1.6092	1.6008	1.5833	1.5567	1.4863	1.4434
Low	1.5157	1.5433	1.5670	1.5263	1.4682	1.3884	1.3921

Source: CBRT

- (1) Through April 7, 2011.

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. Changes in the exchange rate between Turkish Lira and U.S. Dollars could affect our financial results. 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.

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### **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.*

**Our activity is concentrated in the Turkish telecommunications market, which is highly competitive. Developments in this market are likely to affect the growth of our business and our results of operations.**

The majority of our revenue comes from our operations in Turkey and, thus, the growth and development of our business is dependent, to a large extent, on the development of the Turkish mobile telecommunications market. If the competition in the Turkish mobile telecommunications market intensifies, or if the market slows or develops in unexpected ways, this could harm our business and results of operations. Furthermore, continued price driven competition has, and will continue to, put pressure on our prices and margins, as well as our liquidity.

Actions by Turkey's principal telecommunications regulator, the ICTA, have interfered, and will continue to interfere, with our ability to price our services and respond to competitive pressures. Regulatory actions such as the ICTA's regulation of our retail pricing and the ICTA's ongoing pressure on interconnection rates have also been, and will likely continue to be, a significant factor in shaping the development of the Turkish market and in our ability to respond to changes in the market.

We face intensifying competition in our main Turkish telecommunications market from other mobile providers and other telecommunications companies offering competing services, which could affect our ability to add new customers at current rates and lead to a decrease in the size of our market share. In the Turkish market, we currently face competition from two other mobile providers, Vodafone Telekomunikasyon A.S. (Vodafone) and Avea Iletisim Hizmetleri A.S. (Avea), and from Turk Telekomunikasyon A.S. (Turk Telekom), the historic fixed-line telecommunications operator in Turkey. Competition has increased in recent years due, in part, to structural changes in the competitive environment. The Vodafone Group, a large multinational mobile operator, acquired all the shares of Telsim Mobil Telekomunikasyon Hizmetleri A.S. (Telsim), one of our Turkish mobile competitors, in 2006, establishing Vodafone as the new operating company for Telsim and rebranding Telsim as Vodafone. In addition, also in 2006, Turk Telekom increased its stake in Avea from approximately 40.5% to 81%. Turk Telekom is 55% owned by Oger Telecom, a multinational mobile operator in which Saudi Telecom Company owns a 35% stake. In 2008, 15% of Turk Telekom's shares were sold to the public.

The competition has increasingly focused on the postpaid segment, which is where we derive the majority of our revenues, and also on price, leading to commoditization of the market, notably with lower prices and high incentives for subsidiaries to change operator and segmented offers along with more aggressive advertising practices. Recent regulatory interventions to decrease maximum prices and interconnection rates in the Turkish telecommunications market have increased the competition. The continuation of aggressive offers in the market has affected and is likely to continue to affect our revenues.

Our competitors, and their subsidiaries, use of new technologies such as Internet Protocol Television (IPTV) and Voice over Internet Protocol (VoIP) and fixed products as well as converged offers and those of such other providers, may provide an alternative to mobile for customers communications needs, for both voice and data transmission, and could result in a decrease in our revenues. Furthermore, any aggressive behavior from the fixed line business, which has a significant competitive power in its own market and tax advantages over the mobile business, and potential regulatory developments that may favor fixed line operators and the fixed line market, could create incremental value for fixed line businesses, to the detriment of mobile, and provide an advantage to our competitors.



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The intensifying competition from mobile operators, fixed line businesses and other telecommunications service providers offering integrated telecom services, may make it more difficult to attract and retain high value customers, leading to higher churn rates and more pressure on prices. This may, in particular, occur as consumers change carriers to take advantage of cheaper offers. Mobile number portability ( MNP ) in Turkey, introduced in 2008, has further increased pressure on mobile operators and has made it more difficult to retain customers. MNP has led, and may continue to lead, to increased churn rates, subscriber retention and acquisition costs, and may have a significant impact on both Turkcell and the market.

New licenses and authorizations have made it easier and/or more attractive for new direct and indirect competitors to enter the market. Operators that provide long distance telephony services are now authorized to cover local telephone services and have been renamed Fixed Telephony Service ( FTS ) operators. In addition, new Mobile Virtual Network Operator ( MVNO ) licenses have been, and will continue to be, granted. Furthermore, other technologies, such as wi-fi, wide band wireless access (i.e., WIMAX) and 3G are expected to increase the competition we face in the Turkish telecommunications market.

In addition to the competition in the Turkish telecommunications market, other developments in the market could harm our business and results of operations. The size and usage patterns of our future subscriber base will be affected by a number of factors outside of our control. While we cannot predict all of such factors, they include: general economic and political conditions; laws, regulations and other means of governmental intervention in the telecommunications sector that affect consumers' usage behavior; development of, and changes to, the mobile market; further intense competition due to aggressive price offers; the availability, quality and cost to the subscriber of competing mobile services; and improvements in the quality and availability of fixed line telephone services in Turkey.

With regards to our terminal offers, we may increase our focus in this segment depending on market dynamics and global trends. There may be greater emphasis on terminal bundled offers and handset subsidies in the Turkish mobile market, which may influence us to increase the incentives we provide our customers. Furthermore, the competition in the terminal market may increase as more complex terminals become available at lower prices. Additionally, any regulatory developments that may impact operators' offerings of contracted terminal campaigns, increases in certain taxes, supply chain difficulties faced by our vendors and delays resulting from higher demand for, and inadequate supply of, Turkcell branded devices or terminals we promote and user support allocations could adversely affect our business.

**Our strategy for growth is partly dependent on new investment opportunities. These new investment opportunities could affect our business and results of operations, and the return on our investments cannot be guaranteed.**

In addition to growing our existing business as a leading communications and technology company, our strategy for growth is to selectively seek and evaluate new investment opportunities. We are open to launching greenfield operations, as well as forming alliances, which may include management service agreements, and conducting mergers and/or acquisitions that will contribute to our economies of scale and create synergies, both inside and outside of Turkey. These opportunities may be in the area of mobile telecommunications and services, fixed line operation and services, convergence and in other areas, such as providing, as an MVNO under our Turkcell Europe brand, mobile voice and data services in Germany targeting the local Turkish population as well as other mobile users with close ties to Turkey. We may replicate this business model in other European countries with Turkish populations. In addition, we may consider new business opportunities such as the games of chance business currently operated by the National Lottery General Directorate of Turkey. In the context of our evaluation of potential investment opportunities within the regions we target for international expansion strategy, Turkcell has, from time to time, considered opportunities in countries in the Middle East and North Africa, and may consider such opportunities in the future. We may participate in additional public tenders for new licenses or the privatization of public telecom companies as well as in private sale transactions in emerging markets to pursue investment opportunities in line with our growth strategy.

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In pursuit of our growth strategy, our management may divert attention and/or cash resources away from other ongoing business concerns, which could harm our business and result of operations if our acquisitions are not successful or if we miss opportunities or threats in our existing businesses. Furthermore, we may miss entering new businesses by underestimating opportunities/overestimating threats, or may enter businesses that cause high value erosion in our core business by overestimating opportunities/threats.

In addition, investments may not provide expected returns or returns that are in line with those of our core business. 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.

The success of any new investment we make will depend upon a number of factors, including:

our ability to manage differences between the management and accounting systems and standards of the acquired business and our own (both those differences that are known and those that we may discover) and to successfully integrate these systems and standards;

our ability to manage technical differences between the network and operating systems of the acquired business and our own (both those differences that are known and those that we may discover) and to successfully integrate such systems;

our ability to manage and develop new technologies in the acquired business that are outside the scope of our traditional business;

the reaction of local subscribers and potential subscribers to our acquisition and to the new commercial strategies that we would introduce;

our ability to identify key trends in the local market and to respond to these in a timely and successful manner;

currency exchange rate fluctuations, notably between the Turkish Lira, the local currency and other relevant currencies of the acquired business;

the availability of financing for investments in the given country or business; and

the competitive and regulatory environment in the local telecommunications market, including the actions of current and future competitors, the dominant role often exercised by local governments and authorities and any actions taken by the regulators that may affect costs, pricing and competition levels.

Furthermore, for acquisitions outside of Turkey, current and future U.S. and international laws and regulations, as well as legal and regulatory actions, targeting the country and local companies and individuals may curtail our ability to do business in that country and may impede our exercise of control. Turkcell itself, as well as certain of its key employees (notably those who are 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, such as Iran, Libya and Syria, and certain individuals involved in such companies, have been the specific targets of the aforementioned laws and regulations. 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 in the MENA region . These factors could have an adverse effect on the demand for our shares.

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**Changes in current and future Turkish telecommunications laws, regulations and regulatory orders may have an impact on our customers' usage patterns and the way we do business, and non-compliance with such laws and regulations could have a material adverse effect on our business and results of operations.**

### ***Risks arising from the Electronic Communications Law.***

Electronic Communications Law No. 5809 (the "Electronic Communications Law"), which came into force on November 10, 2008, significantly expanded the regulatory powers, duties and authority of the Telecommunications Authority, renamed the Information and Communication Technologies Authority (the "ICTA"), effectively authorizing the ICTA to intervene in, and to audit, our activities more strictly, thereby limiting our ability to challenge such actions on the basis of lack of authority.

The Electronic Communications Law was published to correspond to the rapidly evolving Turkish telecommunications industry, and new regulations are in the process of being published. No assurance can be given that these new regulations will be clear and satisfactory to us. 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. Several of these represent a codification of past practices that did not, in our view, have a clear legal basis.

### ***Regulations affecting our prices***

Actions by Turkey's principal telecommunications regulator, the ICTA, have interfered, and may continue to interfere, with our ability to price our services, adversely affecting our business. We cannot predict the magnitude or scope of any such future action, particularly given the ICTA's past actions, which have occurred with little or no prior notice.

Under Article 13 of the Electronic Communications Law, the ICTA may determine the upper and lower limits of operators' tariffs if it considers such intervention necessary. The ICTA may also intervene in the prices we charge for roaming services. This raises a risk for Turkcell since Article 13 does not require the ICTA to justify how it determines such limits. The ICTA's intervention in our voice, SMS and mobile data prices, as well as in the manner in which we measure airtime, has, and will continue to, negatively affect our ability to design and launch campaigns and offers and, consequently, has had and will continue to have a negative impact on our business.

The ICTA has intervened, and is likely to continue to intervene, in our retail tariffs. This has resulted in our adjusting the on-net and off-net prices of certain tariff packages, which has had, and will continue to have, adverse effects on our pricing ability. In addition, the ICTA has, and will most likely continue to, intervene in 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. Further cuts will result in our having to redesign our tariffs and will impact our operational results, depending on pricing trends and marketing strategies in the Turkish mobile communications market. Following this decrease, average Mobile Termination Rates ("MTRs") in the European Union ("EU") are now up to 5 times above Turkcell's MTRs.

For more information on the ICTA's intervention in our prices and how they adversely impact our business, see Item 4.B. Business Overview Regulation of the Turkish Telecommunications Industry.

### ***The Access and Interconnection Regulation***

The ICTA may intervene in the prices that operators charge for reference access and interconnection services. This, along with our designation as an operator holding significant market power in certain markets, has had the effect of reducing the rates we are able to charge for interconnection services, which has had and will continue to have a material adverse effect on our revenues, business and results of operations.

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For more information, see Item 4.B. Business Overview Regulation of the Turkish Telecommunications Industry .

### ***Regulation of Consumer Rights in the Electronic Communication Sector***

The ICTA has the authority to regulate our activities with respect to consumer rights. Pursuant to this authority, the ICTA may regulate, for example, the maximum and minimum limits on billing, spam messaging and definition of personal data as it relates to directory services. In addition, the ICTA may restrict certain mobile internet and services that are provided by third parties. 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 our doing business and could negatively impact our financial results. See Item 4.B. Business Overview Regulation of the Turkish Telecommunications Industry .

### ***Regulation on Co-Location and Facility Sharing***

We may be required to share some of our facilities with our competitors, which could adversely affect our ability to maintain our competitive edge with regards to population and geographical coverage. In addition, the Ministry of Transportation may require us to provide coverage to areas having a population of 1-500. This could lead to additional investment requirements for our company. See Item 4.B. Business Overview Regulation of the Turkish Telecommunications Industry .

### ***Regulation on Authorization regarding the Electronic Communication Sector***

In 2009, the ICTA published the Regulation on Authorization regarding the Electronic Communication 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.

#### ***Wireless Interoperability for Microwave Access ( WIMAX ) license***

Regulatory changes in Turkey to introduce and promote WIMAX nationwide could have a material adverse effect on our business and results of operations. Specifically, they may result in increased competition and/or the entry of new direct or indirect competitors, which may have a negative impact on our ability to attract and retain customers, the competitiveness of our products and services, our distribution channels, our brand and visibility and our infrastructure investments.

#### ***Fixed line telephone services***

The ICTA issued Fixed Telephony Service ( FTS ) licenses pursuant to the Regulation on Authorization regarding the Electronic Communication Sector, which enables existing long distance telephony services ( LDTS ) operators, such as our subsidiary Superonline Iletisim Hizmetleri A.S. ( Superonline ), to provide call origination and termination. LDTS and, consequently, FTS providers have not yet had a significant effect on our operations. In the long term they could have the effect of driving down prices and shifting traffic patterns for in-city as well as long distance calls in Turkey, potentially having an adverse effect on our mobile telecommunications business.

### ***Data Privacy Regulations***

The ICTA is preparing to abolish the Regulation on Personal Information Processing and Protection of Privacy in the Telecommunications Sector, and is preparing to publish a new Regulation on Data Privacy in the Electronic Communications Sector. As a result, ICTA requested our Company's opinions on the draft regulation. The purpose of this regulation is to define the procedures and principles that govern the operators and legal entities/individuals that provide/receive services in the electronic communication sector in an effort to process,

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store and protect the personal information of subscribers. In contrast to the current regulation, the draft regulation would require the consumer's approval prior to a direct marketing SMS being sent. Therefore, if this regulation is approved, our methods of contacting customers about new tariff offers and services will be impeded unless we already have the subscriber's permission. In addition, all of our subscribers' traffic data, including those related to missed calls and data processing logs, would be required to be maintained by us for one year, which would result in additional expenses for the Company.

### ***Market Power Regulations***

In the Call Originating and Mobile Access Market, Turkcell is the only operator that has been designated a Significant Market Power (SMP). As a result, Access to Mobile Networks in this market is obligatory only for Turkcell. Furthermore, the ICTA can define the pricing schemes in MVNO deals according to the originating and terminating rates. We believe that this policy hinders our ability to compete in this market, as the other operators are allowed to set their wholesale prices freely.

Any regulation that might adversely affect our operations related to MVNO, fixed and broadband markets will be closely monitored for possible risks to our operations.

### ***Certain legal and regulatory arrangements.***

Certain actions by the Turkish government, the ICTA, the Ministry of Finance or other regulatory authorities in Turkey (such as the Competition Board) have in the past, and are likely to in the future, adversely affect our business, consolidated financial condition, results of operations or liquidity. Such actions may include:

changes in laws, regulations or governmental policy, or their interpretation, including revisions to the interconnection and access regime or the imposition of price controls;

any unfavorable change in corporate and/or income tax legislation, or the imposition of additional consumption taxes or other taxes on subscribers or mobile operators;

changes in the Ministry of Finance's interpretation of the taxation codes, in particular changes regarding consumption taxes (Value Added Tax and Special Communication Tax), which 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 for prior years since a Turkish company's operations in the preceding five years may be subject to financial investigation;

the grant of additional mobile telephone licenses or other telephony licenses to new entrants and existing operators;

the establishment of limitations on our operations or restrictions on our ability to provide services to existing or new subscribers;

investigations, enforcement actions or other assessments of the Competition Board or other regulatory authorities;

denial of discretionary benefits that we may seek in expanding our network;

enforcement of competitors' requests to use our network for national roaming, which could lead to regional network problems; and

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the introduction of additional fees or charges by governmental authorities.

Additionally, in the case of war, general mobilization or when the ICTA considers it necessary for public safety or national defense, we may be required to surrender the control of our network wholly or partially to the ICTA for a limited or unlimited period.

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Finally, in some cases, the Company could be required by the ICTA and other regulatory bodies to comply with new requirements within a short period of time and non compliance could give rise to sanctions, investigations and penalties, or require the Company to pay refunds to customers. The time period given to the Company to comply may not be adequate to evaluate the applicability of, or to implement, such requirements.

### ***Compliance with the requirements of our and our subsidiaries licenses or applicable regulations***

We could face severe penalties, including limitation or revocation of our license in extreme cases, if applicable regulatory authorities determine that we are not in compliance with the requirements of our GSM license ( 2G license ), our 3G license or applicable regulations.

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.

Our licenses contain a number of requirements, including requirements regarding operation, quality and coverage of the network; national security issues; maintenance of confidentiality; prohibitions on anti- competitive behavior; and compliance with international and national standards. If we fail to meet any requirement in our licenses or to comply with applicable regulations, or if unauthorized actions are taken by our employees that affect our license obligations, we could be subject to investigations and eventual penalties and sanctions, including the limitation or revocation of our licenses.

Furthermore, with regards to our licenses dispute resolution clauses, as we continue to develop our 3G services and the number of customers with 3G contracts increases, an increasing portion of the services that we provide will be considered to be rendered under our 3G license and disputes related thereto, will be under the jurisdiction of the Council of State.

Lack of clarity with respect to Turkish telecommunications law, the Turkish legal system, our licenses and/or the regulatory framework governing the Turkish telecommunications industry could impede our ability to operate effectively under our licenses and have a material adverse effect on our business, consolidated financial condition, results of operations or liquidity.

For a description of our Turkish 2G and 3G licenses and the regulatory regime under which we operate in Turkey, see Item 4.B. Business Overview Regulation of the Turkish Telecommunications Industry . In addition to the foregoing, our indirectly owned subsidiary, Limited Liability Company Astelit ( Astelit ), majority owned subsidiary, Belarusian Telecom, and wholly owned subsidiary, Kibris Telekom, hold GSM licenses in Ukraine, Belarus and the Turkish Republic of Northern Cyprus, respectively, and some of them have obtained or will bid for 3G licenses. If Astelit, 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 Kule Hizmet ve Isletmecilik A.S. ( Global Tower ), Superonline, Inteltek Internet Teknoloji Yatirim ve Danismanlik Ticaret A.S. ( Inteltek ) and Azerinteltek QSC ( Azerinteltek ) have licenses in order to be able 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.

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**Economic and political developments in Turkey and internationally have had, and may continue to have, a material adverse effect on our business, consolidated financial condition, results of operations or liquidity.**

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 market are likely to have a material adverse effect on our business, consolidated financial condition and results of operations. Additionally, potential changes in consumer behavior due to new business models and usage trends may adversely affect bad debt.

Turkey, Ukraine and Belarus, the principal countries in which we operate, enjoyed growth and lower inflation levels in 2010. 2011 is likely, in our view, to be another year of recovery; however, it may, in our view, be marked by uneven global growth led by emerging markets with developed countries lagging. The biggest threat to the global economy, including Turkey, in 2011, in our view, is rising oil prices due to oil supply shock as the revolutionary upheavals in Libya and Syria potentially spread to other countries in the Middle East and North Africa region ( MENA ). The earthquake and tsunami that ravaged Japan, the third largest economy in the world, will likely have a short term effect on the global economy but will not, in our view, derail the global economic recovery. Another concern in 2011 is the sovereign debt crisis, especially in the Eurozone, and the inflation risk in emerging markets due to rising food and energy prices.

The Turkish economy continues to distinguish itself from Europe with its strong growth recovery, healthy financial sector and robust public debt dynamics. It has maintained its trend of very strong performance, as evidenced by its growth level, which was 8.9% in 2010. However, stronger-than-expected growth, together with high oil prices, will accelerate the widening of the current account deficit.

The medium-term risks for the Turkish economy, in our view, relate to the widening current account deficit and inflation. Asymmetric growth drivers (i.e., too much domestic, and very little foreign, demand) have caused a very swift widening in Turkey's external imbalance. If Turkey's strong growth is to be sustainable, long-term, high quality financing will be required. CBRT has implemented a new monetary policy framework that combines a lower policy rate while tightening liquidity via non-interest tools. The most obvious risks associated with this new framework are weakness of the Turkish Lira and potential inflationary pressures as the output gap compresses rapidly. For 2011, CBRT is expected to keep rates on hold as long as inflation remains subdued. While there may be some moderation due to corrections in food prices and favorable base effects in the short term, a rapidly closing output gap and rising global commodity prices are giving off early warning signs of inflation. The latest CBRT expectation survey indicates that consumer inflation is likely to be 6.5% at the end of 2011, higher than the CBRT's target of 5.5%.

There is a risk that the government may spend more than the budgeted appropriations in 2011 in light of the upcoming elections, thereby ending the year with a less favorable budget outcome. The government's decision to drop the fiscal rule also raises doubts about its commitment to fiscal discipline prior to the election. In the absence of fiscal rule, which are basic parameters for fiscal discipline that determine the annual budget balance and public debt to GDP targets, the focus will be on the execution of the Medium-Term Plan in 2011.

Political divisions between moderate Islamists and secularists, including in the judiciary and military, are a constant source of political tension that has frequently delayed the policy making process. Security risks from Kurdish separatist militants and anti-government organizations remain a concern in Turkey, especially in the south-eastern part of the country. The general elections in mid-2011 are likely to be the main political risk unless a majority government is maintained. Turkey's recent diplomatic foray into the Middle East, most notably in Iran, has raised concerns about Turkey's EU membership process. Turkey, however, has continued to signal its commitment to the EU membership process by moving ahead with formal accession talks.



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**We hold interests in several companies that may expose us to various economic, political, social, financial and liquidity 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 could expose us to economic, political, social and financial risks. The Turkcell Group has investments in Azerbaijan, Georgia, Kazakhstan, Moldova, the Turkish Republic of Northern Cyprus, Ukraine, Belarus and Germany and has operations or business activities that involve other emerging markets.

In addition to entering into new business areas in Turkey, we have also entered into and are exploring new investment opportunities, primarily in emerging markets such as the CIS region, Eastern Europe, the Middle East, the Balkans and North Africa. Along with Turkey, these countries are generally considered by international investors to be emerging markets. This includes countries in which we establish or operate mobile communications networks, as well as those through which we route cables or that we otherwise rely on for the transfer of data. Their legal systems, including telecommunications regulations, are relatively underdeveloped, their economies have only recently begun to open to market principles and their respective institutions and commercial practices are relatively weaker and less developed. Some of these countries also suffer from relatively high rates of fraud and corruption. The continuity and viability of our operations in these countries may be affected by a number of factors, including political, legal, economic, social or other actions or developments. 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 U.S. and international sanctions. 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.

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.

### *Ukraine*

We have been operating in Ukraine since the second half of 2004 through our subsidiary Astelit. Ukraine is enjoying a new period of political stability, as the conflict between the presidential administration, the government and the parliament seems to have subsided. The improving political landscape and the new \$15 billion IMF program are expected to help slow inflation. In 2010, Ukraine's GDP grew 4.2% with foreign demand, higher steel prices and accommodating fiscal and monetary policies. The banking system, meanwhile, remains in a delicate state, though foreign and state-owned banks are receiving needed support. Credit conditions and demand in the market remained tight in 2010. With regards to exchange rates, pressure on the currency has been muted by administrative controls since mid-2009. The Ukrainian currency was relatively stable against the U.S. dollar, which has made the situation in Ukraine more stable. A new parliamentary coalition and a new government were formed during 2010. However, the Hryvnia experienced some depreciation pressures in the last quarter of 2010 and ended the year with only 0.3% appreciation against the U.S. dollar. In July 2010, Standard and Poor's increased Ukraine's long-term and short-term ratings, both in local and international currencies after the IMF approved a new loan program for the country. Although there is no major short-term risk to political and economic stability, the risks are the sustainability of IMF program and longer growth outlook which depends on foreign direct investment and inflation pressure related to higher energy and domestic tariffs. The other risk for the Ukrainian economy is the widening current account deficit. Uncertain investment climate, accelerating inflation and high debt repayments could lead to negative surprises from capital flows.

The Ukrainian telecommunications market is regulated by the National Commission on Communications Regulation (NCCR), which is controlled by the President of Ukraine. NCCR's authority is not ultimately defined by Ukrainian legislation due to the ongoing reform of public authority. There is no proper mechanism to

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regulate inter-operator activity. In addition, the landscape in the competitive Ukrainian telecommunications market is changing as the merger between two of our competitors, Beeline and Kyivstar, has been completed. Furthermore, the granting of a 3G license to Ukrtelecom and uncertainty relating to the National Roaming law amendment in 2010 has resulted in the introduction of an additional mobile operator in the market (Utel, Ukrtelecom's subsidiary). Moreover, Ukrtelecom was sold to a private entity. Whether this entity is affiliated with any of Astelit's competitors is not known. However the acquisition of control of Ukrtelecom by another operator could give that operator a significant competitive advantage.

In 2010, the first tender for a new 3G license was announced but later closed and it is not yet known when the new tender will happen. We expect that this process will be resumed and intend to submit a bid for a new 3G license. If successful, the payment of the license fee and associated network costs could increase our Ukrainian financings needs, which could in turn require us to consider new sources of funding or the extension of existing sources. If we are not successful in the pursuit of such a license, because, for example, the cost is prohibitive and/or the number of licenses available is limited, we could find ourselves at a competitive disadvantage in this market.

We indirectly hold our majority stake in Astelit with another shareholder, System Capital Management Ltd. (SCM). Should there be a disagreement between us in the future, the ability of Astelit's management to move forward with its business plan may be affected. Furthermore, we, along with SCM, have guaranteed Astelit's financing. If Astelit defaults on its debt, or if Astelit requires additional funding to continue operations and we and/or SCM are unable or unwilling to provide it, our results of operations will be adversely affected. In view of Astelit's current projections, we believe that Astelit will require additional funding in the near term.

Ukrainian tax authorities are increasingly directing their attention to the business community and the local and national tax environment in Ukraine is constantly changing and subject to inconsistent application, interpretation and enforcement. Non-compliance with Ukrainian laws and regulations can lead to the imposition of severe penalties and interest. While Astelit's management believes that Astelit has complied with Ukrainian tax legislation, there have been many new tax and foreign currency laws and related regulations introduced in recent years that have not always been clearly written.

These pressures and other difficulties in the development of our Ukrainian business may adversely affect our operations and the valuation of our Ukrainian assets in our financial statements.

### *Belarus*

In 2008, we made an investment in Belarus, acquiring an 80% stake in the Belarusian Telecommunication Network (Belarusian Telecom) for consideration of \$500 million. In 2009, Belarusian Telecom signed supply agreements with supplier firms ZTE and Huawei for products and services related to infrastructure investments in Belarus. In connection with these transactions, Turkcell gave guarantees of up to \$35 million to ZTE and \$29 million to Huawei in 2009, as well as an additional guarantee of \$17 million to ZTE in 2010. \$19 million of ZTE's \$35 million guarantee and all of ZTE's \$17 million guarantee remain to be paid. Huawei's guarantee of \$29 million expired on March 30, 2011. In addition to the aforementioned guarantees, we have also guaranteed Belarusian Telecom's financing.

Despite the government's commitment to economic reforms and the privatization of state assets, a poor business environment continues to impede the country's overall potential to attract foreign interest. With a current account deficit of 16.0% of GDP in 2010, a low level of foreign currency reserves and the Belarusian Central Bank's recent announcement about the widening currency corridor (by +/- 10% in the interbank market), the Belarusian ruble may further weaken in 2011. In the mid-term, Belarus may not be able to sustainably finance such large current account deficits, particularly if an additional IMF Stand-By Arrangement, to supplement the country's existing \$3.5 billion support facility, is not implemented. These pressures, as well as other difficulties in the development of our Belarusian business, may adversely affect our operations and the valuation of our Belarusian assets in our financial statements.

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*Northern Cyprus*

We have operated a mobile network in Northern Cyprus since July 1999. Any hostilities and/or political instability in Cyprus may have a material adverse effect on the Northern Cypriot economy as well as on the Turkish economy, the progress of Turkey's accession talks with the EU and our investments and business in Northern Cyprus. Our business in Northern Cyprus may also be affected by regulatory actions in the telecom sector. In Northern Cyprus a draft Electronic Communications Law is currently in review. There are several items in the draft law that could adversely affect our revenues and operations, as well as some of our rights stemming from the license agreement.

*Kazakhstan*

We were recently made aware of allegations of improper payments relating to the operations of KCell, a mobile operator in Kazakhstan. The allegations concern transactions that may involve KCell, and certain of the employees and management of KCell, Fintur Holdings B.V., TeliaSonera and certain vendors of KCell. KCell is a subsidiary of Fintur Holdings B.V. where Turkcell is the minority owner with 41.45% shares while TeliaSonera is the majority owner with 58.55% shares.

The allegations were discussed by Turkcell's Board of Directors. The Board members who represent Turkcell on Fintur Holdings B.V.'s Board of Directors have been assigned in an attempt to investigate the allegations. The assigned Turkcell representatives have requested the initiation of the necessary assessment and investigation regarding these allegations during a Board of Directors meeting of Fintur Holdings B.V.

*Turkey*

We own a number of subsidiaries in Turkey with operations outside of the mobile telecommunications market that are subject to certain risks that are different from those that we face in our Turkish mobile business.

**Superonline**

Our wholly owned indirect subsidiary, Superonline (formerly known as Telcom Iletisim Hizmetleri A.S.) has begun investing in the creation of a fiber-optic network capable of wholesale, corporate and individual voice carrying services and data transmission.

Superonline's broadband investment is not expected to yield positive returns on its investment in the near- or mid-term, if at all, due to high investment costs since the planned infrastructure covers a wide area (in-city, intercity and local loop). To develop this activity, we invest in our network by expanding intercity and in-city fiber-optic backbone and by establishing new fiber-based access points at selected residential and industrial areas for end-users and commercial account prospects. These efforts are heavily dependent upon our ability to obtain local permits and rights-of-way on satisfactory terms and in practice this has proven to be difficult. If we are unable to obtain the approvals or rights-of-way to connect new customers and enter new geographic areas in accordance with our plans, this will have a material adverse effect on the implementation of our business plan, on our operating results and on the valuation of our assets.

The risks of this investment are multi-faceted, as even though regulatory and procedural aspects of the implementation are in place, there are some delays with regards to certain applications, such as Naked DSL, due to the dominant operator. There is also an increasingly dynamic competitive environment. Superonline's business plan is dependent upon expected new regulatory actions that are essential to the opening of fixed line and broadband services to competition.

The success of our fixed line activity in Turkey is subject to, among other things, the development of a clear and favorable regulatory environment, notably regarding fixed number portability, on a timely basis, succeeding in our competition and managing the development of our network. Although the ICTA has promulgated some regulations for fixed telephony services, this action often has not been taken in a timely manner, and no

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assurance can be given that remaining actions will be timely, clear or satisfactory for us. More generally, in this market we compete against a historically established network, with closer ties to governmental authorities and longer operating history, which allows it to have a competitive advantage over alternative telecom operators.

These pressures and other difficulties in the development of our Turkish fixed line business may adversely affect our operations and the valuation of our Turkish fixed line assets in our financial statements.

### **Inteltek**

Inteltek, our 55% owned subsidiary, tendered for and signed a contract with the General Directorate of Youth and Sports in 2003 which authorized it to establish and operate a risk management center and become head agent for fixed odds betting. This activity became fully operational during 2004. Since then, the validity of this contract has been challenged by various lawsuits and by new laws reducing the commissions payable to Inteltek and requiring the fixed odds betting business to be subject to new tenders. In 2008, a tender was conducted which allowed private companies to organize fixed odds and paramutual betting in sports games. Inteltek won the tender and signed a contract to obtain the rights to run the sports betting business for ten years under a commission rate of 1.4%, applicable from March 2009. This commission rate, as it is substantially lower than the previous rate, has had, and may continue to have, a negative effect on Turkcell's profitability and financial results. Furthermore, under this contract, Inteltek guaranteed an annual turnover of TRY 1.5 million (equivalent to \$0.99 million as of April 7, 2011). If Inteltek's turnover fails to reach the guaranteed level as a result of the nature of the betting business, it may record negative revenues, adversely impacting our financial results.

### **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 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, while the revenues generated by our activities are denominated in other currencies, in particular the Turkish Lira, Ukrainian Hryvnia, Belarusian Ruble and Euro. Sudden increases in inflation or the devaluation of the Turkish Lira, the Ukrainian Hryvnia, the Belarusian Ruble or other currencies in which we generate revenue, have had, and may continue to have, an adverse effect on our consolidated financial condition, results of operations or liquidity. For fiscal year 2010, the TRY weakened due to the CBRT's new rate cut policy, depreciating 2.7% against the US dollar. The Belarusian Ruble also depreciated against the US dollar, by 4.8%, during 2010. The Ukrainian Hryvnia, however, ended the year with 0.3% appreciation against the US dollar.

The foreign exchange risks that our Turkish activities are exposed to as a result of purchases and borrowings in U.S. Dollars and Euros have to date been manageable, as there is a developed market enabling the hedging of such risk; however, in Ukraine and Belarus hedging is impossible due to restricted and undeveloped financial markets. In the current economic environment and considering the aforementioned political uncertainties, there is a possibility of further devaluations.

We use analytical techniques such as market valuation and sensitivity and volatility analysis to manage and monitor foreign exchange risk. We keep a portion of our financial assets in U.S. Dollars and Euros to reduce our foreign currency exposure. Fluctuations between Turkish Lira, Ukrainian Hryvnia and Belarusian Rubles, on the one hand, and U.S. Dollars and Euros, on the other, may have an unfavorable impact on us.

In order to manage market volatility in the foreign exchange markets, we may enter into derivative transactions in line with our treasury policies. However, these derivative transactions have a cost and do not fully cover all of our risks, and any derivative transactions exercised that are either above or below market levels might result in unfavorable results to us.

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When we translate our results of operations and financial position into U.S. Dollars for the purpose of preparing our financial statements that are expressed in U.S. Dollars, the dollar amounts will vary in accordance with applicable exchange rates. We do not hedge this so-called translation risk.

**Borrowing by Turkcell group companies exposes us to interest rate risk and possibly increased interest expense, obligates us to meet certain covenants and exposes us to financial risks if covenants are not satisfied or if additional financing is required, each of which could have a material adverse effect on our consolidated financial condition and results of operations. Continuing difficult market conditions and increased capital needs to finance our technological and geographic expansion have reduced our liquidity and may continue to do so, which may lead to an increase in our borrowing requirements.**

We continue to experience difficult conditions in our markets and we are facing and may continue to face increased capital needs to finance our technological and geographic expansion. These pressures have reduced, and may continue to reduce, our liquidity. Reduced liquidity may lead to an increase in our borrowing requirements, which will increase our financing costs and will increase our exposure to the risks associated with borrowing. Furthermore, no assurance can be given that we will continue have access to financing on terms that are satisfactory to us.

As of December 31, 2010, our consolidated debt was \$1,837.5 million.

\$621.9 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.

In 2010, we increased the weight of the fixed rate financing in our portfolio through long term financing and rescheduled our debt portfolio repayment schedules through a maturity extension. In 2011, we intend to continue to use fixed rate loans. Additionally, we closely monitor various hedging alternatives to hedge our interest rate risk. However, we are not presently party to any such arrangements due to their cost and the general market view of forward interest rates. Consequently, an increase in the Libor rates would cause an increase in the amount of our interest payments and could have a material adverse effect on our results of operations.

As the debt related to Astelit and Belarusian Telecom's operations is denominated in U.S. Dollars, we are exposed to exchange rate risks to the extent that Astelit and Belarusian Telecom's revenues are, respectively, in Ukrainian Hryvnia and Belarusian Rubles. Moreover, we are also exposed to exchange rate risks since the debt of the group companies operating in Turkey are in U.S. Dollars and their revenues are in Turkish Lira.

Some of the borrowing agreements entered into or guaranteed by Turkcell have financial covenants that the borrower is required to observe. Although we are not presently concerned with Turkcell's ability to observe its own financial covenants, no assurance can be given that the covenants in borrowings entered into or guaranteed by Turkcell will at all times be respected. In particular, Astelit has not been able to respect the financial covenants in its borrowings and has had to seek and obtain waivers from its creditors, and may be required to do so again in the near future. Furthermore, our borrowing agreements contain cross-default clauses that effectively link Turkcell's borrowings to those of its subsidiaries. Under these clauses, a default by a subsidiary could constitute an event of default under certain of our borrowings.

**Limitations on spectrum as a scarce resource in mobile telecommunication systems, alleged health risks with BTSs and dependence on suppliers for network equipments may adversely affect our ability to maintain operational excellence.**

*Spectrum limitations may adversely affect our ability to provide services to our subscribers.*

The number of subscribers that can be accommodated on a mobile network is constrained by the amount of spectrum allocated to the operator of the network and is also affected by subscriber usage patterns and network

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infrastructure. The spectrum is a continuous range of frequencies within which the waves have certain specific characteristics. We now have 2x11 MHz of FDD spectrum in the 900 MHz band. As our subscriber base grows and we offer a greater number of services, we will require additional capacity for mobile voice and data; however, the currently available spectrum may be limited and we may face a bottleneck, especially in metropolitan areas.

In 2008, the ICTA initiated a tender for the reorganization of the existing GSM 900 frequency band (890 /960 MHz) and we added five frequency bands to our prior stock of 50. The related payment was made in February 2009. The ICTA also held a tender for the issuance of four separate 3G licenses to provide IMT 2000/UMTS services and infrastructure. Turkcell was granted an A Type license providing the widest frequency band (2x20 MHz; 20 MHz on uplink; 1920 – 1940 MHz and 20 MHz on downlink; 2110 – 2130 MHz, in total 40 MHz). There is no guarantee, however, that such additional capacity for mobile voice and data will relieve our current constraints and that our ability to provide services to our subscribers will not be adversely affected.

In January 2011, the ICTA requested our feedback regarding the use of UMTS services in 900 MHz, including the investment and operating costs related to offering UMTS services in 900 MHz rather than 2100 MHz. While we continue to evaluate this issue, the ICTA's decision could adversely affect our ability to compete in the 3G market. Furthermore, the ICTA may decide to redistribute the frequencies, in order to balance the competitive strengths of operators operating at the GSM 900 MHz and 1800 MHz frequency bands, which may negatively impact our market share and ability to compete in this area.

Consistent with the nature of terminal technology development, traffic on the 2G network is expected to shift to the 3G network. However, 3G terminal penetration is the key factor in providing the expected shift in traffic from 2G to 3G. Penetration may stay low or our subscribers may choose to stay on the 2G network for reasons such as the 2G network's lower battery power consumption. In addition, 3G coverage depends on the deployment of the 3G network, which will certainly take time to achieve, compared to the coverage level of the 2G network. As a result, Turkcell may not provide the MoU capacity needed for the 2G network in some regions for a limited period of time. Additionally, the data traffic on the 3G network increases. If we fail to offer appropriate campaigns and tariff schemes at the right pricing level, we may face overcapacity problems, which may in turn lead to a deterioration in our network's quality and negatively impact our operational results.

***There are alleged health risks associated with our Base Transceiver Stations ( BTS ), as well as zoning limitations, which make it difficult to build BTS.***

We are aware of allegations that there may be health risks associated with the effects of electromagnetic signals from BTS and from mobile telephone handsets. While there is currently no substantiated link between exposure to electromagnetic signals at the level transmitted by our BTS and mobile telephone handsets and long- 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 obtaining sites 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. Such legal proceedings may make it more difficult for us to establish and maintain such sites. Furthermore, there are hundreds of 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. Attempts made by the local authorities and, in particular, the municipality to intervene often worsen the situation. Such obstacles have made it increasingly more difficult to build new BTS sites and maintain our existing sites.

With regards to the health risks of BTS, local courts presented with the question decided that a base station had no negative effect on human health. However, the Turkish supreme court overruled the decisions of some local courts and decided that the base station in question could have negative effects on human health in 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.

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Furthermore, there are zoning limitations related to our BTS that require operators to obtain construction permits and certificates which may have an adverse effect on our operating results. As supplemental Article 35 of Law No. 406, which exempts BTS from holding construction permits and certificates of occupancy in accordance with Zoning Law No. 3194, was cancelled by the Turkish constitutional court, the Company may need to obtain the aforementioned permits and certifications for its BTS. Moreover, following the State Council's decision to annul a regulation entitled "Safety Certification Regulation", it has become impossible for us to build new base stations or modify existing ones. ICTA is currently working to prepare a new regulation to replace the old one. Any difficulty in building BTS due to health concerns, inability to obtain the required permission and certificates, and/or delay in the issuance of a new "Safety Certification Regulation" may negatively impact the quality of our network, including our ability to expand and upgrade it, and our operational performance.

***We are dependent on certain suppliers for network equipment and for the provision of data and services and the failure of any of our suppliers to supply equipment to us, and at the level of quality we require, could have a material adverse effect on our business, operations, and consolidated financial results and liquidity.***

Like all operators, we purchase our mobile communications network equipment, including our switching system, base station controllers (BSCs), BTS, transmission equipment and the software required to operate such equipment from a limited number of major suppliers. Although we are not bound to purchase our equipment solely from any given supplier and we have already begun using two different vendors' products on GSM BSS (Base Station Subsystem) and 3G UTRAN (UMTS Radio Access Network), there 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 occur if, for example, the growth in demand for more advanced network equipment exceeds the ability of suppliers of such equipment as a whole to meet such demands. This could also effect our competitive position, if our supplier stays behind technological development compared to the suppliers of our competitors.

The difficult economic environment has adversely affected 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 recent years, adverse economic conditions have affected our suppliers' revenues, which may lead to mergers in their industry. A potential merger between our vendors, and/or their acquisition by our competitors, could change the competitive landscape, which could have a material adverse effect on our business and expenditures.

In addition, equipment from alternative suppliers may not always be compatible with our existing equipment, and our employees may not be familiar with the technical specifications and maintenance requirements of equipment from alternative suppliers. These factors could also have a material adverse effect on our business and results of operations.

According to our 3G license agreement, we must purchase at least 40% of our network equipment from suppliers that have R&D centers established in Turkey and these companies must fulfill certain requirements relating to the number of engineers working in their R&D or Technical Support Centers. If our suppliers fail to meet these requirements, we may end up violating the terms of our 3G license agreement and our business could be adversely affected.

**The Turkish CMB has informed us that our appointment of one of our board members to the audit committee does not satisfy Turkish legal requirements with respect to audit committees.**

Alexey Khudyakov was appointed to the audit committee on July 21, 2006. Alexey Khudyakov's status on the audit committee is as an observer member because under the U.S. Sarbanes-Oxley Act of 2002 he is not considered an independent audit committee member due to his position with one of our affiliated shareholders.

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On January 26, 2007, the Turkish CMB informed Turkcell that Alexey Khudyakov's status as an observer member on the audit committee does not satisfy the requirements of Article 25 of the CMB's Rules pertaining to Audit Committees. The CMB has stated that steps must be taken so that our Company can comply with Article 25. We believe that Mr. Khudyakov does fully meet the requirements of Article 25 as he is a non-executive board member. We have initiated a lawsuit before an administrative court seeking to suspend the execution and to annul the decision of the CMB with respect to Mr. Khudyakov. The administrative court ultimately dismissed our lawsuit in January 2008. In March 2008, we appealed before the Council of State and on April 9, 2008, the Council of State rejected our request to suspend the decision. The Council of State also rejected the appeal. The Company applied for a correction of the decision. This process is still pending.

Pursuant to the CMB's decision, the CMB imposed an administrative penalty of TRY 11,836 (equivalent to \$7,809 as of April 7, 2011) on Turkcell for not complying with its decision regarding Mr. Khudyakov's status as an observer member on the audit committee. The CMB also required Turkcell to inform its shareholders of the penalty at the following general assembly (held in January 2009). In November 2008, we commenced a lawsuit before the court seeking to suspend the execution of the administrative fine and to annul the CMB's decision related thereto. The Court rejected the Company's suspension request and our objection to this decision was rejected. This lawsuit is still pending.

If our position in this matter does not ultimately prevail over that of the CMB, we may have to change the composition of our audit committee and/or our compliance with the listing requirements of the New York Stock Exchange (NYSE) and the continued listing of our ADRs on the NYSE could be jeopardized. Under the rules of the NYSE, we are exempted from compliance with certain NYSE corporate governance rules that are applicable to domestic issuers, but only to the extent that we comply with our home country corporate governance rules. If we do not prevail over the CMB and/or do not change the composition of our audit committee and are thus deemed not to be in compliance with our home country rules, we may lose the benefit of this exemption and the NYSE may require us to comply with domestic issuer rules. If we were not able or willing to take remedial action to comply with our home country rules, or if we were not able or willing to comply with the applicable NYSE rules, our ADRs could be delisted from the NYSE, in which case they would no longer be traded on the NYSE.

**Turkcell's complex ownership structure and Board composition could adversely impact our shareholders' ability to achieve the consensus necessary to approve important matters relating to our business and operations, and ongoing legal disputes involving our shareholders may affect the ownership and control of our shares and our ability to manage our business.**

We understand that Alfa Group, Cukorova and TeliaSonera together indirectly own in the aggregate approximately 65% of our shares. Additionally, according to public filings (a Schedule 13D filed in November 2009), Alfa Telecom and TeliaSonera are discussing a possible consolidation of their holdings in Turkcell in a new company.

We cannot predict whether this consolidation will go forward as planned or the form that it will take, and whether their actions will have an effect on our company or the market for our shares. Furthermore, in the case of a potential consolidation, no assurance can be given that their interests will be aligned with those of our other shareholders. Additionally, a potential consolidation of their shareholding could have the effect of preventing a change in control of Turkcell, may discourage bids for our ordinary shares or ADSs and may adversely affect the market price of our ordinary shares or ADSs.

Disputes have from time to time arisen, and may arise in the future, between our shareholders. Such disputes could have an adverse effect on the ability of our management to execute business decisions and other actions, to the extent that such decisions or actions require board or shareholder approval. Recently, one of our shareholders, TeliaSonera, publicly announced its intention to take legal action against the Chairman of our Board of Directors, who is also an independent member, alleging that he has not acted in an independent manner. Our Chairman has responded by saying that he has always fulfilled his duties as an independent board member and has reserved the right to initiate legal action.



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Our articles of incorporation contain a 51% quorum requirement for shareholder meetings. To the extent that the quorum requirement is not met when a general assembly is convened, the meeting shall be adjourned and should be reconvened at a later date. In addition, to amend our articles of incorporation, there is a 2/3 quorum requirement for the related shareholder meeting. Accordingly, until the relevant required quorum can be obtained, certain corporate actions, amendments to our articles of association and prior Board decisions that require shareholder approval will effectively be blocked.

There have been times when the Turkcell General Assembly meeting could not convene for reasons beyond our control, and this may occur in the future. Furthermore, if the AGM is convened, there may not be a resolution of the agenda items or a quorum during the meeting may not be attained.

Our complex shareholder structure and the related complexity in the composition of our Board of Directors could complicate our corporate decision making process and situations may arise where the interests of our majority shareholders are not aligned with those of our public shareholders. These factors could adversely affect our operations and financial results and the market for our shares.

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

***We are dependent on certain systems and suppliers for information technology ( IT ) services and our business continuity is at risk due to our exposure to potential natural disasters, regular or severe IT failures, human error, hacking and IT migration risk.***

We are heavily dependent on IT systems, suppliers for IT services and our IT employees for the continuity of our business and we are continually upgrading and converting our IT systems. Although we devote significant resources to the development and improvement of IT and of security, back up and continuity systems, we could still experience IT failures and outages due to system deficiencies, human error, deliberate actions such as unauthorized data transfers, fraud, code breaking or hacking, natural disasters such as earthquakes and floods, unsuccessful migration to alternative or improved IT systems, or other factors. If we are not able to maintain adequate IT systems, or fully recover our IT systems in the event of an outage or disruption, the continuity of our operations could be affected, which could have a material adverse effect on our business, consolidated financial position and results of operations.

3G networks are migrating towards 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 3G network may be harmed by potential attacks. The threats on the mobile network can originate from external sources, such as public internet, or internal sources, such as terminals connected to our 3G network. Despite our efforts in taking security issues very seriously, we could encounter attacks on our infrastructure, which could have an effect on our operations.

***We may be unable to adapt to technological changes in the communications market, which could result in higher capital expenditures and a greater possibility of commercial failure .***

The telecommunications industry is characterized by rapidly changing technology with related changes in customer demands for new products and services at competitive prices. Technological developments are also shortening product life cycles and facilitating convergence of various segments in the telecommunications industry, including in our core mobile communications business and the 3G business. Our future success will largely depend on our ability to anticipate, invest in and implement new convergent technologies with the levels of service and prices that customers demand. Technological advances may also affect our level of earnings and financial condition by shortening the useful life of some of our assets, requiring us to record asset impairments.

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The operation of our business depends in part upon the successful deployment of continually evolving mobile communications technologies, which requires significant capital expenditures. There can be no assurance that such technologies will be developed according to anticipated schedules, that they will perform according to expectations or that they will achieve commercial acceptance. We may be required to make more capital expenditures than we currently expect if suppliers fail to meet anticipated schedules, if performance of such technologies fall short of expectations or commercial success is not achieved.

The effects of technological changes on our business cannot be predicted. In addition, 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. Even though there can be no assurance that we will be able to develop new products and services that will enable us to compete efficiently, we are following general technological trends in communications and technology in order to control our investment risks by using different vendors' products, and competing in adjacent communication business areas.

***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 dependence 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 Mobile Financial Services, Mobile Health and Mobile Education solutions, authentication solutions 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, consolidated financial condition, results of operations or liquidity.

Additionally, since our customers rely on our technological capabilities and high quality service levels, in cases where an IT failure, fraud, human error or hacking occurs, our revenues and reputation may be adversely affected and we may also be subject to regulatory penalties.

**Our business, consolidated financial results and/or operational performance could be materially and 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 information technology personnel in Turkey is intense. In addition, we are dependent on our dealers and distributors, as well as their ecosystem and personnel, in the growth and maintenance of our customer base. The loss of the services or loyalty of key personnel could adversely affect our financial condition or results of operations as well as breaches of confidentiality regarding our customer, operation and business plan details, particularly if a number of such persons were to join a competitor. Retention and development of high-caliber individuals in these positions is also key to our being able to deliver on our strategy.

**Uncertainties regarding the application of the Turkish capital gains tax and the withholding related thereto may lead to a suspension of the cancellation of our ADSs and any increases in such taxes may adversely affect the liquidity and trading of our ADSs.**

Uncertainties surrounding the application of the Turkish capital gains tax and the withholding related thereto, which is required upon the cancellation of ADSs, led our ADR depositary, JPMorgan Chase Bank, N.A., consistent with the practice of all depositary banks for Turkish issuers, to halt the issuance and cancellation of ADRs. Although our ADR depositary has since reopened our ADS issuance books and, on a limited basis, our ADS cancellation books, cancellations are currently limited only to non-resident beneficiaries (i.e. beneficiaries not resident or incorporated in the Republic of Turkey) who have purchased ADSs on or after January 1, 2006.

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The closure of our ADR depositary's issuance and cancellation books did not impact trading of our ADSs on the New York Stock Exchange. Given the halt of the cancellation of our ADSs, any sudden or significant increase in persons wishing to sell our ADSs, may adversely affect the liquidity of our ADSs and disrupt their trading.

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 their 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 depositary of our ADR facility is a corporate body. The Turkish Council of Ministers has the authority to raise the aforementioned withholding rates by 5 percentage points.

### **We are involved in various claims and legal actions arising in the ordinary course of our business, which could have material effect on our financial results.**

We are currently involved in various claims and legal actions with governmental authorities in Turkey, including the Competition Board, the ICTA, tax authorities and certain other parties. We have set aside provisions for 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. For a more detailed discussion of all of our significant disputes, see Item 8.A. Financial Information and Note 32 to our audited consolidated financial statements included in Item 18. Financial Statements of this annual report on Form 20-F.

### **We maintain and regularly review our internal controls over financial reporting, but these controls cannot eliminate the risk of errors or omission in such reporting.**

We maintain and regularly review internal controls over our financial reporting. However, 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. It is possible to design safeguards to reduce, though not eliminate, this risk. Our latest review 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 in the past 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 financial reporting. Failure to maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002 could also adversely impact investor confidence and the market price of our common shares or ADSs.

## **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 shareholders are Sonera Holding and Turkcell Holding, which hold 13.07% and 51.00%, respectively, of Turkcell's shares. Turkcell Holding is 52.91% owned by Cukurova Telecom Holdings Limited and 47.09% by Sonera Holding B.V. Cukurova Telecom Holdings Limited is 51% owned by Cukurova Finance International Limited and 49% by Alfa Telecom Turkey Limited. The address of our principal office is Turkcell Iletisim Hizmetleri A.S., Turkcell Plaza, Mesrutiyet Caddesi, No. 71, 34430 Tepebasi, Istanbul, Turkey. Our telephone number is +90 (212) 313 10 00. Our website address is [www.turkcell.com.tr](http://www.turkcell.com.tr).

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We operate under a 25-year GSM license, which we were granted in April 1998 upon payment of an upfront license fee of \$500 million. Under our license, we pay the Undersecretariat of 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 Transportation and Communications of Turkey (Turkish Ministry) as the universal services 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. 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.

In July 2000, we completed our initial public offering with the listing of our ordinary shares on the Istanbul Stock Exchange and our ADSs on NYSE.

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

Our subscriber base has grown substantially since we began operations in 1994. At year-end 1994, we had 63,500 subscribers. By year-end 2010, that number had grown to 33.5 million.

In 2010, we had total revenues of \$5,982.1 million, our adjusted EBITDA totaled \$1,957.4 million and we reported net income attributable to the owners of Turkcell amounting to \$1,170.2 million.

For the year ended December 31, 2010, we spent approximately \$1,078.6 million on capital expenditures, compared to \$1,769.3 million and \$808.2 million in 2009 and 2008, respectively.

In addition to our operations in Turkey, we have various international operations. For more information, see Item 4.B. Business Overview International Operations.

### **4.B Business Overview**

Based on the ICTA's announcements, we are the leading provider of mobile services in Turkey in terms of the number of subscribers, with 54% of the Turkish subscriber market as of December 31, 2010. We provide high-quality mobile voice, Internet & services over our mobile communications network and have developed the premier mobile brand in Turkey by differentiating ourselves from our competitors with our value offers, which include: superior technologies, more advantages, outstanding service quality throughout our extensive network, 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 solutions to meet customers' needs. We are in compliance with all of our license requirements in all material respects.

Through our state-of-the-art mobile communications network, we provide comprehensive coverage of an area that, as of December 31, 2010, included 100% of the population living in cities of 1,000 or more people and the majority of Turkey's tourist areas and principal inter-city highways. As of December 31, 2010, we provided roaming service to our subscribers in 208 countries through commercial roaming agreements with 662 operators.

In 2010, we launched 3G Roaming services in many different locations in the world. As of December 31, 2010, our subscribers enjoyed high speed mobile internet connections with 205 operators in 109 destinations.

As of December 31, 2010, we covered 82% of the population with 3G technology.

### **Industry**

#### ***Overview***

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

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As a digital standard, GSM offers a wide range of services that include voice, circuit switched data, packet data and fax, in addition to standard service offerings such as call barring, call forwarding, call waiting and roaming into areas serviced by other GSM carriers. A key component of the GSM network is the Simcard, which enables the user of a mobile phone to be identified. Simcards, also known as smart cards, are placed inside each handset and function as its digital brain. Simcards' digital memory allows for the storage of the subscribers' personal information, such as the rate plan, phone number and service features. Both postpaid and prepaid subscribers are required to purchase a Simcard in order to use the telecommunications service offered by Turkcell.

GSM networks have traditionally been used exclusively as personal voice communications networks. The mobile telecommunications industry has increasingly provided mobile data services, and GSM, as a technology platform, is suitable for data transmission. Currently, many advanced technology platforms are being developed to enable the provision of more sophisticated data services.

Today, most GSM operators offer the standard data service of 9.6 kilobits per second and High Speed Circuit Switched Data (HSCSD) and General Packet Radio Service (GPRS), which provide network speeds of up to 57.6 kbps and 160 kbps, respectively, depending on radio network and mobile phone conditions. Enhanced Data rates for GSM Evolution (EDGE) and UMTS provide the means for making networks suitable for high-speed wireless data services. EDGE and UMTS platforms allow network speeds of up to 240 Kbps and 384 Kbps, respectively. By using new radio access technology, High Speed Downlink Packet Access (HSDPA) in UMTS networks, operators gain increased capacity and improved downlink speeds up to 14.4 Mbps. High Speed Packet Access Evolution (HSPA+) further enhances the mobile broadband experience and increases the voice and data capacity of HSPA. HSPA+ enhances mobile broadband with peak rates of 42 Mbps and more.

### ***The Turkish Mobile Market***

According to a TUIK announcement, the Turkish population is young, with an estimated median age of 29, which is lower than elsewhere in Western Europe, and the majority of the population lives in urban areas. In addition, there were 73.7 million people living in Turkey as of December 31, 2010.

The declining trend in multiple simcard use resulted in an 85% penetration level in 2010 (based on the ICTA's announcements), which is lower than the level in 2009. There is good potential for growth opportunities in the Turkish mobile communications market in the areas of broadband and 3G services, as well as from Turkey's youth segment due to the aforementioned demographics. According to the ICTA's announcements, there are currently three mobile communications operators in Turkey: Turkcell, Vodafone and Avea, with a total of 61.8 million GSM lines as of December 31, 2010. Vodafone entered the Turkish GSM market by acquiring Telsim on May 24, 2006. Telsim, which had received a 25-year license at the same time as us and on what we believe to be identical terms, including the \$500 million upfront license fee, had been put up for sale by the Savings Deposit Insurance Fund (SDIF) in August 2005. The auction for Telsim was held on December 13, 2005, with Vodafone submitting the winning bid of \$4.55 billion. With regards to Avea, it is an operator owned 81% by Turk Telekom. Turk Telekom's ownership interest in Avea was increased to its current stake following its purchase of Telecom Italia SpA's 40.6% interest in Avea in September 2006 for \$500 million. Turk Telekom is 55% owned by Oger Telecom, a multinational GSM operator owned 35% by Saudi Telecom Company, the Arab world's largest telephone company.

### **Strategy**

Our vision is to ease and enrich the lives of our customers with leading communication and technology solutions. We strive to build value for our customers, stakeholders, and employees.

We operate in nine different countries, reaching 60 million subscribers. Our operating environment continues to be challenging. In addition to the lingering effects of the global financial crisis, the regulatory and competitive pressures we face are mounting. Customer demand for converged and differentiated services as well as devices is growing. Furthermore, expansion into international markets and adjacent businesses continues to be important for sustainable growth. In order to sustain our operating margins, it has been crucial that we become more efficient in our delivery of services, so that we may continue to lead the market in this environment.

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As a leading communications and technology company, our strategy for growth is to continue our organic growth and to selectively seek and evaluate new investment opportunities. Building on our strength in brand, people, infrastructure and scale, we have identified six strategic priorities in which we intend to pursue opportunities for business growth:

To grow in our core mobile communication business through increased use of voice and data. Turkcell has a strong market position in Turkey, and we will continue to strengthen our well developed brand through the highest quality infrastructure, the best offers for customers and the best partnership structures.

To grow in the area of mobility, internet and convergence through new business opportunities. We will focus on creating value for our customers and will continue to drive mobility and enhance internet services with a customer-centric approach. Convergence has become crucial for businesses. We have already introduced total telecom business solutions to provide full support to our corporate clients so that they may compete better in their own markets.

To develop new mobile service platforms that will enrich our relationship with our customers. We believe that there is significant demand for such services in the Turkish market and Turkcell is the innovative forerunner in creating such technology platforms with the local talent pool.

To grow in the fixed broadband business by creating synergy among Turkcell Group companies with our fiber optic infrastructure. Investment in fiber optic infrastructure will also enable us to sustain our competitive advantage in our core mobile business.

To grow our existing international subsidiaries with a strong focus on profitability. In order to diversify revenue and cash flow risks, we intend to grow the contributions made to Turkcell Group from subsidiaries. We endlessly explore operational efficiencies, cost and product synergies with Turkcell Turkey.

To grow in domestic and international markets through opportunities in telecommunications, technology and new business areas. We are open to forming potential alliances and conducting mergers and/or acquisitions that will contribute to our economies of scale and create synergies. In our strategic screening process for international expansion activities, we consider both the business opportunity and the attractiveness of the market to determine feasible investment opportunities. We may also evaluate new business opportunities outside of the telecommunications industry, such as the National Lottery, if we see strong potential and believe that we can add value.

### ***Services***

We currently provide high-quality mobile voice, Internet and services to subscribers throughout Turkey. 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. Prior to April 2010, the Simcard included airtime ranging from 20 to 100 counters and scratch cards could be purchased in increments of 25 to 1,000 counters. Pursuant to the ICTA's decision regarding the counter to TRY transition, as of April 2010, starter packs include a Simcard with airtime of 5 TRY or 20 TRY, while the scratch cards can be purchased in the following amounts: 5 TRY, 10 TRY, 15 TRY, 20 TRY, 30 TRY, 50 TRY, 95 TRY and 180 TRY.

As of December 31, 2010, we had approximately 23.3 million prepaid subscribers and 10.1 million postpaid subscribers, compared to approximately 26.0 million prepaid subscribers and 9.4 million postpaid subscribers as of December 31, 2009.

### ***Voice Services***

Voice services are the main services we provide to our customers. Voice services consist of high quality wireless telephone services on a prepaid and postpaid basis.



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### ***Product & Services Management***

Product & Services Management ( PSM ) is focused on developing and managing products and services to address the diverse needs of both consumers and corporate customers, thereby enriching their lives. We provide an integrated service approach with a common vision to offer tailored solutions based on the specific needs and preferences of our targeted market segments. One of our principal goals is to increase revenues from our existing customers and to foster the acquisition of new customers by offering proprietary products and services.

We closely follow and analyze global trends and develop services to fit local market needs. Turkcell seeks to differentiate itself by providing innovative and pioneering solutions in collaboration with its strong solution providers and various partnerships.

Having a rich portfolio of various services helps us maintain our competitiveness. We believe that increasing customer satisfaction and ensuring customer loyalty through our provision of a unique user experience will also play an important role in our future retention efforts.

### ***Mobile Internet & 3G***

We commercially launched 3G simultaneously in 81 province centers and major cities in Turkey at the end of July 2009 and had reached 82% population coverage by December 31, 2010.

In addition, we have launched several innovative services like Videocall, Mobile TV, Video Surveillance, Video Chat and Video Messaging. We offer rich terminal campaigns (handset, smartphone, modem and netbook) to encourage 3G device penetration. There are approximately 6 million 3G enabled handsets in our network.

In 2010, the number of registered 3G subscribers reached 11.8 million people. A variety of data plans are available as part of our voice and terminal bundled offers.

After the launch of 3G, VINN 3G modem, netbook and notebook contracts were offered to customers to enhance mobile internet experience.

Throughout 2010, we sustained our position as leader of handset offerings through our domination of the iPhone and Blackberry business and we delivered attractive campaigns with top of the class models of brands in high demand such as Nokia, Samsung and HTC.

Turkcell has launched its first Turkcell branded handset, T10, the affordable Android Smartphone, to enhance the possibility of broader use of mobile internet. Records show that the mobile internet consumption of T10 users is 10 times above the previous levels.

In addition to constant communication emphasizing 3G's coverage, penetration and speed, the turkcell-im content portal was restructured, redesigned and repositioned in 2009 as the gateway to mobile internet. Featuring partnerships with both global (i.e., Google, Facebook), and successful local brands (i.e., NTV, Yonja, Kariyer.net), turkcell-im now provides links to the most popular mobile sites in Turkey as well as serving as a one stop shop for mobile content. Turkcell subscribers can also use the turkcell-im internet content adaptation function which adapts standard web pages to the user's handset, therefore providing a better and less expensive mobile internet experience.

### ***Consumer Services***

Turkcell focuses on the needs of consumers to enhance their daily experiences. By providing a wide range of services, Turkcell enables users to remain connected wherever they are, via their mobile devices. From basic telecommunications services to social community services, Turkcell responds to the diverse needs of consumers to help them connect to life. Turkcell also offers a multiscreen experience, allowing customers to enjoy the content of various products and services across multiple devices and multiple screens.



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### *Telco Services*

Tikla Konus (Click-to-call) enables subscribers to initiate calls without displaying a phone number. Users click on a click-to-call button on partnering web sites, and a call is initiated between two parties without a need to dial a number.

Kim Aramis is a caller notification service that enables customers to identify any missed calls while their handset is either in off mode or otherwise disconnected from the network. Kim Aramis service sends an SMS containing the call time and phone number to the user once his or her handset is reconnected to the network. There is also a common address book feature that further enriches the service by matching the phone number to the address book name of the caller, if available.

### *TV & Video Services*

By streaming technology at 3G speed, the Turkcell MobilTV service enables Turkcell subscribers to watch television channels and on-demand video content live on their mobile phones. Separately, the iPhone Turkcell MobilTV application enables Turkcell iPhone users to watch 19 national channels, and other premium TV channels, live, combining the experience of watching television on their cell phone with the iPhone experience.

Turkcell also provides on-demand video services on the [turkcell-im wap](#) page.

### *Music Services*

GncPlay is a music platform designed by Turkcell. Enabling both web and mobile access, we envision GncPlay as being the go-to place for unlimited online music streaming. Although the platform can be used by everyone, the user interface is particularly designed for the youth segment. Users can create their own play lists. In 2010, Gncplay also enabled users to download mp3 files of selected music onto their phones and computers.

### *Infotainment Services*

Turkcell provides a variety of sports services focusing on football, given the size of the fan base and popularity of the sport in Turkey. Partnering with a major national TV provider, Turkcell provides a social football platform, **Footbo.com**, in Turkish to consumers to create fan pages, forums and discussions. Also, Turkcell launched an online social game Footbocity in 2010, widely appreciated by football fans, which enable users to play interactive games and build their own virtual cities. Turkcell has cooperated with the Istanbul Metropolitan Municipality to provide a mobile solution for traffic, a major problem in Istanbul. Subscribers can save time by accessing the İBB Cep Trafik (**Traffic Density Map**) and traffic camera images to check road conditions and select the best possible route. We also provide an iPhone traffic application, which we launched in 2009. Our mobile traffic service was downloaded more than one million times since its launch.

Turkcell Pusula enables users to locate point of interests (POIs) in a given area. Pusula uses location technology to provide to users the nearest POIs including police stations, gas stations, pharmacies and partnering merchant offers.

Turkcell Seyahat is a travel companion service, enabling users to buy tickets or make reservations with major airline companies and view live flight information as well as weather conditions at their destinations.

### *Social Community and Other Services*

Gezenzi is a social microblogging service where users can share their status, reviews and photos. Users can also explore reviews about POIs, messages and photos around them.

Okul is an online educational platform for teachers, parents and students enabling them to exchange information and further enhance communication by providing social features as well as enriched educational content. Moreover, Okul aims to become a continuous learning platform for adults.

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### *Mobile Financial Services*

Turkcell has been investing in mobile financial services for consumers since 2008 in order to make financial services easily accessible while enriching the on-the-go shopping experience.

Turkcell's mobile payment service launched in August 2008, MobilÖdeme, allows Turkcell subscribers to make purchases of up to 35 Turkish Lira via their Turkcell invoice or prepaid TRY account. This service can be used for payments in many areas, such as subscription fees for online communities, e-commerce, parking tickets and online gaming, fast food and vending machine purchases. The service can be used at more than 470 merchants. In 2010, 1.8 million people used the Turkcell Mobile Payment platform.

Turkcell, Visa Europe and Yapi Kredi launched Europe's first mobile contactless payment solution for Turkcell customers on the iPhone. Using the iCarte payment accessory, Yapi Kredi customers equipped with a Turkcell mobile plan will be the first to make contactless payments directly from their iPhones in Turkey.

### *Turkcell Enablers and Platforms*

Turkcell enablers are the key technical infrastructure behind our proprietary products & services. For example Turkcell ID enabler is an authentication infrastructure that lets users login to systems with one common, secure and simple username and password for hassle free access to systems. Seven new enablers, including Turkcell ID, Recommendation Engine, Social Media Platform were launched in 2010.

Recommendation Engine enhances the customer's experience on Turkcell portals by providing customer-focused recommended features and offers. 3.2 million people were touched by our Recommendation Engine enabler. The Social Media Platform lets users to reuse their social graph on Turkcell products and services.

Turkcell invests in platforms that enhance the user experience and the discoverability of services. Turkcell App Store is a one stop localized application shop for users to download both free and paid mobile applications to their supported handsets with more than 3,000 applications and 1000+ supported devices.

### *CORPORATE (B2B) SERVICES*

Another goal for PSM is to provide corporate customers with a competitive advantage by providing non-core industrial solutions, thereby delivering a new category of revenue sets for customers. Spanning from frozen-food chains to farming, many types of solutions are available to streamline customer processes and provide operational efficiency, new revenue streaming channels and better consumer reach and experience.

### *Corporate Telco Services*

In July 2009, Turkcell launched new value added services on our new video IVR platform with introduction of 3G services. Our B2B clients can make use of Video IVR to establish face to face communication at their call centers while consumers are on the go.

Wireless PBX was launched in January 2010 and enables Turkcell corporate customers to have a call center service without any investment in hardware. Customers can activate the call center setting and manage calls easily via a web page. This service is especially beneficial to companies that have mobile employees that use GSM and the SMEs that do not have the resources to invest in a call center.

### *Authentication Services*

Mobile Signature enables customers 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 the need for their physical presence. Mobile Signature was launched in February 2007. There are currently 50 application providers in the market, representing industries as diverse as banking, e-government, insurance, healthcare and e-commerce. The Banking Regulation and Supervision Agency (BRSA) enacted a decree in January 2010, which requires two-level authentication usage for online banking transactions and positively affected the number of Mobile Signature users.

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One Time Password is widely used by corporate customers for two-level authentication controls on transactions. The platform lets corporate customers send a password valid for one time only via SMS to consumers when providing authentication on transactions.

### *Location Based Services*

Corporate customers can monitor and manage their sales force and fleets with Ekip Mobil. Ekip mobil provides 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.

Location Based Survey is the first SMS-based survey service with location features. Survey conductors can keep track of and analyze where votes are coming from on city based maps and lists allowing them to add a new dimension to their decision making process. Voters can also express themselves easily without needing to provide extra information and are able to express their thoughts at a micro local community level.

The Location Based Classified Ads ( LBCA ) system offers a new alternative and a better experience to users with features that do not exist in conventional methods. LBCA allows the user to diffuse his/her own personal ads via Web, WAP, SMS or MMS specifying the location of his/her service or product (or any message).

### *Mobile Marketing*

Our Mobile Marketing team is a leader in the way it defines new media. 1,600 mobile marketing projects were completed with 353 different companies participating in 50 different industries.

Turkcell utilizes mobile marketing and advertising channels to create additional value for its customers. Currently, Turkcell has one of the largest customer permission databases in Europe geared towards mobile marketing and advertising activities. Through this permission database, advertisers can segment their potential focus groups, concentrate on their target market and send specific advertisements to end users.

In 2010, Turkcell was highly active in mobile advertising, as it launched several products, including Targeted IVR (Interactive Voice Response), Mobile Ticketing, Sponsored Info Packages and other location based applications. The Company also introduced Tone and Win, which was selected as the Best Mobile Advertising Service at the GSMA, Visiongain and Meffy Awards in 2009.

Mobile Billboard: Through this service brands can reach their targeted customers from permission databases via SMS, MMS and wap push when customers are instantaneously in the location selected by the brands. This is the perfect way for corporate customers to advertise their products at the right place where they can reach their targeted customers and combine the mobile world with concrete sales.

### *Machine-to-Machine ( M2M ) Communications*

Since 2009, Turkcell has been focused on its M2M business, whose principal markets in Turkey are car telematics, team tracking, fleet management, POS terminals, security alarms, Smart metering and Sales Force automation s applications.

MobilPOS enables corporate customers to make payment transactions where there is limited fixed line access for POS terminals. MobilPOS is a SIM card integrated POS device working on the GSM network enhancing usage territory for POS terminals. Customers benefit from the advantage of completing their transactions location free as well as from a more enriched customer experience.

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Turkcell also offers telemetry solutions for corporate customers. In partnership with specialized third parties, Turkcell telemetry solutions let customer to remotely access gauge and collect metering data without utilizing a field force. Some of examples of where telemetry services may be used are alarm systems, gauge metering, reactive energy, transformer station, pipeline metering controls, meteorology station etc.

### *Turkcell Partner Services*

Since 2002, Turkcell has been developing new products and services with its partners. Since 2004, these partnerships have been executed through the Turkcell Partner Program. There were more than 2,500 partner applications on Turkcell App Store in 2010. Turkcell has enriched its customers' lives through various partner mobile data and services. The Turkcell partner ecosystem has more than 3,000 employees, and the scope of their business covers not only Turkey but also many countries around the world, such as Ukraine, the United Kingdom, Dubai and countries in the Far East. The Partnership Development Department has leveraged various internal and external platforms in order to reach an innovative and rich service portfolio. Being aware of the importance of open innovation platforms, the Turkcell Partner Program runs a product and service idea evaluation platform via Partner Portal to solicit ideas from external bodies such as university students, individual developers, partners and customers. Turkcell launched an additional main open innovation platform called Turkcell LAB to attract students and developers and build a community around our product and services, as well as our technical capabilities. Turkcell LAB is one of the main components of our Partner Portal to help site visitors become familiar with our technical assets and create and test basic telecom services like location based services.

We are in contact with many different players ranging from companies to individuals with specific expertise or capabilities in order to identify new business opportunities and improve our current business. Under Turkcell's Partner Program, we run different subprograms to provide various benefits to different types of entities such as the Gold & Silver program for companies, Univercell for universities and university students and the Incubation program for early stage and emerging companies.

### *Other Services*

#### *International Roaming*

Our coverage extends to many countries in Europe, Asia, Africa and North and South America. As of December 31, 2010, we had further enhanced our position as the leading mobile operator of international roaming services by expanding our partnership in 208 destinations throughout the world, pursuant to commercial roaming agreements with 662 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 CAMEL system on their networks. As of December 31, 2010, we offered prepaid roaming to the prepaid subscribers of 246 operators in 118 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, 2010, we offered prepaid roaming to Turkcell prepaid subscribers through 296 operators in 138 destinations.

Since October 2002, we have offered GPRS roaming. As of December 31, 2010, we allowed our subscribers to access the internet and reach their email accounts while traveling, through 466 GPRS roaming partners across 165 destinations.

In order to balance international SMS traffic, we began signing international SMS Interworking Agreements with other mobile operators in April 2002 and as of December 31, 2010, we had signed 148 International SMS Interworking Agreements. As of December 31, 2010, our subscribers can send SMS to more than 608 mobile operators located in 202 destinations, including North America and China.

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Since December 2005, our subscribers have been able to send and receive MMS to and from subscribers of foreign operators. As of December 31, 2010, our subscribers were able to send MMS to 137 mobile operators in 76 destinations.

On July 30, 2009, we became the first operator to launch 3G Roaming services in many different locations of the world. As of December 31, 2010, our subscribers enjoyed high speed mobile internet connections with 205 operators in 109 destinations.

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 arms 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 \$5.3 million and our net expense for our subscribers roaming on the Networks of operators on the listed countries was less than \$4.4 million. In financial terms, we do not believe that our roaming arrangements with operators in Cuba, Iran, Sudan, Libya and Syria are material.

## **Tariffs**

Our charges for voice, messaging and data consist of monthly fees, usage prices, bundles and volume discount schemes and options under various tariff schemes. Our license agreement regulates our tariffs 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 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 US Dollars, the same method is applied to the USA Consumer Price All Item Index Numbers.

Although the Concession Agreement includes a provision regarding the increase of the maximum tariffs, the ICTA has decreased the maximum tariff since 2007, which has negatively affected our tariff structure (the last decision being on September 1, 2010). The Company initiated lawsuits for the annulment of such decisions. The lawsuits are pending.

For more information on how our maximum and minimum price levels are established, see also Item 4.B. Business Overview Regulation of the Turkish Telecommunications Industry .

Each customer subscribes to a voice tariff. There are various voice tariffs based on the subscriber segment (postpaid or prepaid, corporate or individual).

## ***Main Tariffs***

We have segmented tariffs plans that target specific subscriber groups. In the postpaid segment, pay as you go tariffs offer on-net (Turkcell subscriber to Turkcell subscriber) usage advantages. The packages include minutes for on-net and fixed line calls, intra-company calls or all national directions. Packages are widely preferred by our customers. In the prepaid segment, the main tariffs offering advantageous prices that are based on a refill amount are Super Tariff and Youth Tariff . In addition, we provide fee-based optional minute packages/TRY cards for calls to OMO, PSTN and for calls within a specific time period, such as weekends and nights.

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The main tariffs listed below for postpaid and prepaid subscribers are as of April 13, 2011. Prices are given in TRY and include both 18% VAT and the 25% Special Communication Tax.

### Consumer Tariffs and Loyalty Programs

	Postpaid (TRY)					
	Bizbize	Tarife Saniye	BizBize Hepimiz	Kamu	Haydi Gel	Gold
Monthly Fee	9.9	3.9	29-69	40	19-49	95-199
Calls Out (per minute):						
Turkcell to Turkcell	0.500 per 10 minutes	0.4	180-500 free minutes included. Exceeding minutes charged at 0.400 per minute	600 free minutes included. Exceeding minutes charged at 0.240 per minute	150-900 free minutes included. Exceeding minutes charged at 0.300 per minute	6500-7500 free minutes included. Exceeding minutes charged at 0.400 per minute
Turkcell to PSTN(1)	0.4	0.4				
Turkcell to OMO(2)	0.4	0.4				
						1500-2500 free minutes included. Exceeding minutes charged at 0.400 per minute
SMS			0-500 free SMS included			0-2500 free SMS/MMS included.
Internet			0-500MB free internet included			0-4GB free internet included.
Other Benefits			Turkcell to Turkcell unlimited from 6 am to 6 pm free minutes & free 2 days a week included.		Turkcell to Turkcell unlimited from 6 am to 6 pm free minutes & free 2 days a week included.	
SMS Per Message	0.4	0.4	0.4	0.4	0.4	0.4

(1) PSTN: Public Switched Telephone Network (landline).

(2) OMO: Other Mobile Operators.

Prices are given in Turkish Lira and include both 18% VAT and the 25% Special Communication Tax.

	Süper Tariff		Prepaid TRY* Genç Tariff			Bizbize Tariff
	Turkcell to Turkcell	Turkcell to PSTN/ Turkcell to OMO	Turkcell to Turkcell	Turkcell to PSTN	Turkcell to OMO	Turkcell to Turkcell/ Turkcell to PSTN/ Turkcell to OMO
Refill Amount**						
50	0.50 per 10 min		0.50 per 15 min	0.40 per min	0.40 per min	0.40 per min
30	0.50 per 5 min	0.40 per min				
20	0.40 per min					
Less than 20***	0.40 per min					
SMS (Per message)	0.415			0.415		0.415

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- \* Prices are given in Turkish Lira and include both 18% VAT and the 25% Special Communication Tax.
- \*\* Prices vary depending on the refill amount and apply for 30 days following the first day of refill, except for Genç Tariff. Genç Tariff prices apply 31, 12 and 7 days if refill 20 TL and above, 12 TL and 7 TL, respectively.
- \*\*\* The charged for a less-than 20 TL refill or no-refill except for Genç Tariff. Genç Tariff prices for less than 5 TL refill is 0.40 per min

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We have an all inclusive package (Gold+), which provides higher comfort and satisfaction specifically for high payers. We offer yearly-discounted and fixed-priced versions of our postpaid premium price plans to retain our current premium customer base and to induce mass customers to pay more for increased benefits.

In addition, we also have loyalty subscriber programs.

Through our new consumer approach, we group our customers by segments after taking into consideration their occupation and, with regards to the youth segment, their age.

Youth segment management, including the loyalty program called gnctrkcll, ensures customer retention by presenting campaigns and advantages that fit youngsters' trends of life. Gnctrkcll aims to reinforce Turkcell brand recognition as a young, dynamic, popular, intimate brand.

In addition to the youth segment, we focus on new segments (such as farmers and housewives) with differentiated GSM and non-GSM offers, as well as campaigns and co-branded activities with selected companies from other sectors to create added values to targeted segments. All loyalty schemes are designed in line with the targeted segments' lifestyles, needs, priorities, and expectations since new segments aim to increase to loyalty of current Turkcell customers as well as attract new customers.

Turkcell Platinum, a premium loyalty & customer experience management program which offers special GSM, and non-GSM/3rd party advantages to individual customers in order to ensure behavioral and emotional brand loyalty, via a seamless series of positive brand experience in all customer touch points

For our postpaid business, we have periodical free minute programs (campaigns) with which the customers gain different amounts of free usage based on their Turkcell tenure.

For our prepaid business, we offer prepaid customers monthly fee based packages that includes SMS and voice advantages. We promote such packages to increase retention of the prepaid subscribers and the revenue generated from them.

### *Data and Terminal offers*

We have offers in which minutes and data services are bundled with handsets, which could lead to the use of 3G services and mobile internet. We also have many mobile internet offers based on different customer needs, such as:

*Terminal bundled offers:* Different terminal models including data packages which customers prefer. All of our blackberry offers include data packages.

*Short term contracted VINN offers:* 3 month VINN campaign for subscribers who are not looking for a long term contract (3 months for 39TL with a 4GB data package).

*Tax campaign:* 19 TL for a campaign of 6 months for which we paid the taxes owed.

*Segmented offers:* KamuVINN, including 4GB for 29 TL with a 12 months contract. The VINN Modem is given for free (including tax).

*Single VINN campaign:* without a contract, including 4GB data for 39 TL, plus a 79 TL down payment. (including tax).

*Internet from mobile offers:* A monthly Facebook pack for 3 TL (including tax), a monthly 100 MB pack for 10 TL (with the first 3 months for 5 TL).



**Table of Contents***Corporate Tariffs and Loyalty Programs*

	<b>IsteTarife</b>	<b>Postpaid Şirketiçi</b>	<b>Paketcell</b>
Monthly Fee	4.75 TL	14-19 TL	14-119 TL
Calls Out (per minute):			
MVPN (Company Network)		6000 free minutes	500-5000 free minutes
Turkcell to Turkcell	0.40 TL	0.30 TL	500-5000 free mins included. Exceeding minutes charged at 0.300 per minute
Turkcell to PSTN <sup>1</sup>	0.40 TL	0.40 TL	300-3000 free mins included. Exceeding minutes charged at 0.300 per minute
Turkcell to OMO <sup>2</sup>	0.40 TL	0.40 TL	300-3000 free mins included. Exceeding minutes charged at 0.300 per minute
SMS Per Message	0.35 TL	0.35 TL	0.35 TL

(1) PSTN: Public Switched Telephone Network (landline).

(2) OMO: Other Mobile Operators.

Prices are given in Turkish Lira and include both 18% VAT and 25% Special Communication Tax.

IsteTarife is a standard Turkcell tariff. Şirketiçi and Paketcell include special packages at discounted prices.

We launched our B2B loyalty program-IsteKazan- in March 2010 for Turkcell corporate customers IsTcell customers. IsteKazan is the first loyalty program focused on the B2B segment where we are working with approximately 20 different brands country-wide.

The main focus of IsteKazan is to offer advantages to our corporate customers and provide them with cost advantages on their non-GSM costs. Depending on the customer preferences and requirements, the most appropriate solution package is modulated like discount bundles, cost level alternatives, etc. With this program, IsTcell customers get discounts in several areas such as market, gas, cargo, technology, car rentals, finance, etc.

In addition to the continuous basic loyalty programs, we have periodic volume-based campaigns that are designed for a specific time period for prepaid and postpaid subscribers. We offer tailored advantages and privileges to our premium customers to ensure their satisfaction and loyalty. We also have campaigns in which minutes and data services are bundled with handsets such as Blackberry, iPhone, HTC.

*Roaming Tariffs*

Turkcell intends to provide advantageous price schemes to its customers when they are abroad. With a customer oriented point of view, Turkcell offers a flat fee for roaming usage, dividing the world into zones, known as the Turkcell World Tariff. Whenever our subscribers go abroad, regardless of their domestic tariff, they are subject to the Turkcell World Tariff for their roaming usage. Additionally, Turkcell enables its customers to connect to loved ones with advantageous voice packages and campaigns.

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 within the 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.



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### **Churn**

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. 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 and cannot reuse their numbers (this was changed in 2010 from 210 days). Occasionally, we may offer campaigns and tariff schemes that may not comply with the churn policy.

The ICTA has announced that when prepaid subscribers load or receive TRY 10, the subscription should be renewed at least 6 months prior to the end of the contract. The board resolution has been in effect since October 1, 2010. As a result of this decision, the life cycle of prepaid customers has been lengthened; however, our churn rate was not impacted in 2010. We will observe a onetime impact as a decrease in involuntary prepaid churn in 2011. For more information, see Item 4.B. Business Overview Regulation of the Turkish Telecommunications Industry.

For the year ended December 31, 2010, our annual churn rate was 33.9%. 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 \$376.8 million and \$268.2 million as of December 31, 2010 and 2009, respectively. Due to our large subscriber base and intensified competition in the Turkish market throughout the year due to MNP, our churn rate increased 1.3 percentage points in line with our expectations.

### **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, due to changing market dynamics, such as the ICTA's intervention in our tariffs and increasing competition in the Turkish telecommunications market, the effects of seasonality from our prepaid customers' mobile communications usage has decreased. Local and religious holidays in Turkey have also generally affected our operational results.

### **Network**

#### ***Coverage***

Statements regarding our market share and total market size are based on the ICTA's announcements, and statements regarding penetration are based on TUIK's announcements regarding the population. Furthermore, statements regarding our 2G coverage are based on the ICTA's specifications as well as TUIK's announcements regarding the population, and statements regarding our 3G coverage are based on the 3GPP TS 25.101 specifications for outdoor coverage.

Our mobile communications network is designed to provide high-quality coverage to the majority of the population of Turkey throughout the areas in which they live, work and travel. As of December 31, 2010, Turkcell covered 86.97% of all of Turkey and 99.07% of Turkey's 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 2010 we enhanced coverage in low populated areas (populations of less than 1,000 people) as well. We have significantly exceeded the minimum coverage requirements of our license.

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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. During 2011, we plan to further expand our coverage in settlements with a population of 500 or more, intercity roads and railways, in addition to further enhancing coverage and capacity in populated areas.

We commercially launched 3G simultaneously in 81 province centers and major cities in Turkey in July 2009. As of December 31, 2010, we had reached 82% population coverage (based on 3GPP TS 25.101 specifications for outdoor coverage). We believe we will continue to have the best coverage and the highest quality network in Turkey.

### ***Network Infrastructure***

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.

Our network consists of standalone Home Location Registers ( HLR ), combined Number Portability Switch Relay Function ( SRF ) and Number Portability Database and Signal Transfer Point ( STP ), Base Station Controllers ( BSC ), Radio Network Controllers ( RNC ), Core Network common for 2G and 3G radio network and carries voice over IP, combined Mobile Switch Centers/Visitor Location Registers ( MSC/VLR ), Service Control Points ( SCP ), BTS and Node-Bs. BTSs are the fixed transmitter and receiver equipment in each cell, or coverage area of a single antenna, of a mobile communications network that communicates by radio signal with mobile telephones in the cell. Each BTS is connected to a BSC via leased lines and/or radio relay links called minilinks . The BSC monitor and control the BTS. It is possible to cascade the BTSs to each other, thereby realizing considerable cost savings in transmission. In the same manner, Node-Bs are radio signal transmitter and receiver equipment in each 3G cell, connected to and controlled by RNC in order to realize 3G and HSPA+ coverage for 3G /HSPA equipped mobile phones. Our core packet switching network consists of SGSNs (Serving GPRS Support Node) and GGSNs (Gateway GPRS Support Node), providing GPRS/EDGE, and HSPA/HSPA+ (High Speed Packet Access) capability for mobile packet traffic.

### ***Capacity***

In 2010, we continued to develop and improve the quality and capacity of our network. In urban areas, we increased coverage and capacity by placing network infrastructure in commercial sites such as shopping malls, business complexes and entertainment centers. We achieved the highest coverage density in major urban areas, especially in Istanbul, Ankara and Izmir.

We believe that we have sufficient bandwidth to serve our current and projected short-term subscriber base and that we currently meet the capacity requirements of both our 2G and 3G licenses. Starting from 2009, we have created 3G/HSPA+ coverage to support 3G multimedia services and fast throughput for mobile data traffic, while achieving greater network capacity through improved spectral efficiency. To enhance our 2G network capacity where congestion is a possibility, we intend to construct additional network sub-infrastructure, or implement technological advances that will permit bandwidths to be used more efficiently. In 2010, the effective carrying capacity of the core network nodes was further enhanced by new nodes supporting new layered NGN (Next Generation Network) structure. The whole network is currently composed of new layered structure NGN nodes which (i) provides increased network functionality, (ii) enables further increases in our subscriber base and the accompanying call handling and traffic capacity demands, and (iii) supports 3G radio network connectivity. The entire NGN network also provides us with all of the IP network infrastructure, which optimizes transmission operational expenditures and improves network efficiency in order to better serve our customers.

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With the advantage of higher quality communication provided by the widest spectrum in 3G, Turkcell will continue to offer seamless communications services to its customers with by far the most extensive coverage amongst its peers.

We have also implemented EDGE technology in our entire network, as EDGE is a complementary technology to UMTS. EDGE is an evolution of the GSM technology which allows consumers to use cellular handsets, PC cards and other wireless devices at faster data rates up to 300 kbps, three times the data capacity of GSM/GPRS. We have also successfully tested EDGE Evolution technology in our network, consisting of downlink dual carrier feature, where the data rates reaches up to 600 kbps. Actual data rates vary depending on the access network load at the connection time and the terminal device features used by the customer. Today, all of our Base Stations are supporting EDGE technology.

### ***Network Maintenance***

We have entered into several system service agreements. Under these agreements, our mobile communications network, including hardware repair and replacement, software and system support services, consultation services and emergency services are serviced by local providers. Our subcontractors perform corrective and preventative maintenance on our radio 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 sixteen main regions. In addition, the Turkcell Network Control 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.

### ***Transport Network***

Radio Access Network ( RAN ) transmission is provided with leased lines and microwave transmission. As of December 31, 2010, approximately 98% of our BTS transmission was provided with microwave radio-leased line combinations and 2% with the leased lines.

In order to expand network coverage, microwave transmission is preferred since they are owned and operated by Turkcell itself. When there is no line of sight, copper lines/fiber from transmission service providers are used. Inter-city connections are only carried through transmission service providers due to regulatory restrictions.

All of our switching equipment that forms part of our core network, including MGWs, MSCs, Gateway MSCs, Tandem switches and HLRs, are located within our own buildings. Transmission between these sites (backbone) is always achieved through Synchronous Digital Hierarchy ( SDH ) leased lines and Ethernet over Dense Wavelength Division Multiplexing ( DWDM ). Interconnections with other Public Land Mobile Network ( PLMN ), Public Switched Telephone Network ( PSTN ), Long Distance Telephony Services ( LDTS ) and small operator companies are realized with leased lines. We lease all transmission lines from Turk Telekom and Superonline. We use two different infrastructure companies to provide more capacity and increase the availability and reliability of the lines. Furthermore, competition between providers decreases operational expenditures.

Turkcell has implemented an IP based 3G network and has established an IP/MPLS (Internet Protocol/MultiProtocol Label Switching) network in UTRAN (UMTS Terrestrial Radio Access Network) for aggregating 3G traffic and increasing the efficiency of leased line utilization. Turkcell has decreased transmission costs of 2G traffic by using Abis optimization, Abis over IP and converging 2G and 3G traffic transmission infrastructure.

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### ***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 begin the process of site leasing and obtaining necessary regulatory permits. Construction of the masts or towers that we require in rural areas is performed by Global Tower, a company 100% indirectly owned by us. We lease antenna space and provide maintenance and management services from Global Tower at such towers.

### ***Dropped Calls***

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 to far below 1%.

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

### ***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 give messaging and data services. This infrastructure is being improved to open up more capabilities of the network towards the application and content providers. New infrastructure also contains a portal where subscribers buy services, receive promotions and enroll for campaigns easily.

### **Business Continuity Management ( BCM )**

In 2000, Turkcell launched its Business Continuity Plan ( BCP ) that encompassed Technical Operations and made Ankara Plaza as the Business Recovery Center. In 2004, the BCP was widened to cover all of Turkcell s business functions and renamed BCM. Its implementation was completed in 2005 and BCM was adopted as a full-time function.

In 2008, the BCM plan was tested with 17 different scenarios, including mission critical processes and building evacuations.

In 2009, the BCM plan was tested with 18 different scenarios, including mission critical processes, service continuity and building evacuations.

In 2010, the BCM plan was tested with 30 different scenarios, including mission critical processes, service continuity and building evacuations.

Evaluating scenarios that may affect Turkcell s operations, the purpose of BCM is to prevent or overcome these situations; to develop recovery and crisis scenarios; to make sure Business Continuity planning continues and all key function staff are trained; and to raise awareness and understanding of Business Continuity.

To this end, we established a Crisis Management Team, a Business Recovery Team and several Emergency Response Teams. The Crisis Management Team is comprised of senior management who are responsible for managing all facets of the potential crisis. The Business Recovery Team and Emergency Response Teams are

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located at the Business Recovery Centers in Ankara and Istanbul as well as in several other locations throughout Turkey, including Izmir and Adana. If needed, these sites are ready to aid and assist various teams at 15 other sites. In the event that Turkcell's operations are interrupted, in accordance with the area in which the crisis occurs, a chain alert call convenes the teams.

We believe that the BCM will be able to cover the majority of Turkcell's operations through potential environmental events and natural disasters.

### **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.

Our nationwide distribution channels are an important asset that help 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 ), Turkcell Stores and Consumer Electronic Chains as well as points of sale for prepaid airtime, including ATMs, POS, web, call centers, supermarkets and kiosks.

In Turkey, independent handset dealers serve as the primary point of mobile service sales. Subscribers generally must purchase a mobile phone from a dealer to activate services. We sell Simcards and starter packs to distributors, which are delivered to dealers and sales points. In addition, distributors purchase handsets directly from mobile phone importers and distribute them to dealers. Airtime scratch cards for Hazir Kart are sold through our exclusive and non-exclusive dealer networks, supermarket chains, gas stations, digital channels and other distribution points. Muhabbet Kart's Chat Card branded scratch cards are sold through newspaper kiosks and dealers located throughout Turkey. Muhabbet Kart is only sold by A-Tel, a 50-50 joint venture between SDIF and Turkcell.

Prior to April 2010, 16K, 32K, 64K and 128K (128K cards were only used for spare Simcards) Simcards were in circulation in the market; 64K and 128K Simcard starter packs were sold with inclusive 20 and 100 counters. As of April 2010, starter packs include a simcard with airtime of 5 TRY or 20 TRY.

### **Turkcell Sales Efforts**

We sell postpaid and prepaid services to subscribers through our distribution network, which is composed of distributors, TIMs, TDCs, Turkcell Stores, Consumer Electronic Chains, Corporate Solution Centers and exclusive and non-exclusive dealers. The number of exclusive and non-exclusive dealers totaled approximately 17,000 sales points as of December 31, 2010. We also sell scratch cards and digital prepaid airtime through consumer electronic chains, newspaper kiosks, supermarkets, gas stations, digital channels and ATMs.

Our Exclusive Retail Network consists of powerful retail dealers with good locations, modern designs and superior after-sales service. TIMs lead the market with 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 TIM brand. In addition, the three flagship Turkcell Stores fully operated by Turkcell continue to enhance Turkcell's brand image in the retail world by providing the best customer experience and introducing top of the line new products and services to our customers.

Our Non-Exclusive dealer network provides us with a high penetration of Turkcell products and services in Turkey. TDCs are aimed at enhancing our distribution effectiveness in the nonexclusive 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.

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In total, we have more than 94,000 sales points for prepaid airtime including digital channels, ATMs, POSs, kiosks, Call Centers, Internet, WAP, retail chains, SMS, Digital TV and USSD. Since 2008, we have also offered digital counter sales capabilities over POS machines in the traditional sales channel.

All dealers are paid compensation 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 aspects of our products and services, as well as sales techniques to increase sales and enhance customer relations. The technological development projects commenced in 2007, and coupled with merchandising services, POP materials and channel specific campaigns, help to support the sales efforts in all of our sales channels.

We address strategic and large enterprises through account managers and small and medium businesses (SMBs) with indirect sales channels through corporate focused dealer organizations and through Telesales operations serving small SMBs. In 2010, with the objective of working closely with more customers and improving effectiveness and efficiency, we restructured our corporate segmentation and expanded the numbers of corporate customers handled by account managers. The main focus of this activity is to provide large and medium enterprises and SMBs with mobile services to meet their communication requirements and support these solutions with retention and acquisition programs and tariffs. We work closely with solution partners and application providers to integrate mobility into companies' operations through tailor-made total solutions packages.

### ***Advertising***

We have worked continuously to bring the innovations in the mobile communications world to Turkey. Since our inception, we have helped the lives of our subscribers with time saving solutions and by providing products and services that ease and enrich their lives.

We are currently undergoing a comprehensive transformation that has been brought about by our new customer approach. Our goal is to become the strongest brand in Turkey. As Turkey's leading mobile operator, we help our customers make the most of their lives. In 2010, we tailored our communications strategy to the concept of "Get more out of life with Turkcell". The "Get more out of life with Turkcell" concept is reinforced by our value offers: more superior technologies, more advantages, outstanding and extensive service quality, and being a leader in social responsibility. With our renewed vision, we lend our power to our customers by enabling them to be more connected to life with simple communications solutions ready at their fingertips.

In 2011, we will evaluate our current brand architecture, naming strategy and brand expression in order to create a more powerful Turkcell brand. All sub-brands will be renewed to support one Turkcell brand. Our aim is to increase the brand equity of all of our products. Turkcell group companies' branding principles will also be reviewed in order to build clearer link with Turkcell and to create more powerful, unified Turkcell brand.

Turkcell brand communications will be coordinated in a more harmonic and synergetic way to strengthen our power in communications and to deliver more consistent messages through all media. In order to ensure that each of our messages effectively reach its targeted customer segment, we advertise extensively through traditional and alternative media such as television, outdoor events, cinema, radio, digital and social media and print. We aim to communicate 360° with our customers. In 2011, our goal is to have the highest level of brand awareness among our competitors, as we did in 2010.



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### **Customer Services**

The key part of our strategy is to provide basic and premium services by thinking and acting in a customer-focused manner. Our goal is to sustain a continuous relationship with the customer through customer satisfaction. We aim to achieve operational excellence throughout all customer touchpoints by continuously improving and correcting processes. We design our processes and service structure based on customer experiences.

We mainly work with two companies, Global Bilgi Pazarlama Danisma ve Cagri Servisi Hizmetleri A.S. ( Global Bilgi ) and Hobim Bilgi Islem Hizmetleri A.S ( Hobim ). Global Bilgi offers 24 hours-a-day, 7 days-a-week contact center services at several sites. Turkcell's customer service strategies for contact centers are implemented by Global Bilgi and we make sure that customer services and customer satisfaction programs, which are also provided by Global Bilgi, are executed in line with Turkcell's strategies. Hobim handles the printing of invoices and archives subscription documents for us.

In order to provide segmented customer service, we design and make improvements for all of the customer processes throughout all channels for different customer segments as well as monitor the quality of service provided.

In addition to the operational targets, we aim to achieve excellent customer satisfaction. We evaluate the performance of our service providers with the help of mystery shoppers and satisfaction surveys and make our service providers aware of any deficiencies and offer suggestions as to how to improve their service to our customers.

### **International Operations**

A component of our strategy has been to grow or improve our business in international 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 leader in communications and technology.

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, Africa and the Balkans. Accordingly, we made investments in Ukraine in 2004 and in Belarus in 2008. We intend not only to transfer our technological know-how and marketing expertise, but also to maximize economies of scale and group synergy. As global competition increases in the telecommunications industry, companies need to evaluate opportunities for intelligent expansion within their geographic region to ensure development of new business lines and create synergies with existing ones.

In line with our business strategy, we have signed a five-year wholesale traffic purchase agreement to provide voice and data services in Germany targeting the local Turkish population and other mobile users with close ties to Turkey. The wholesale traffic purchased from a 2G/3G network was implemented in Germany, through an MVNO business model with Turkcell quality and know-how, in March 2011 under the Turkcell Europe brand.

Our international endeavors will continue in 2011. We will continue to work on building a fundamentally sound business in Ukraine and Belarus, and we will also continue to selectively seek and evaluate new international investment opportunities. These investment opportunities could include the purchase of licenses and/or acquisitions in markets outside Turkey where we currently do not operate, both in our main and adjacent communication and technology business areas.

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### **Ukraine Life:)**

We acquired our interest in our subsidiary Astelit on April 2, 2004 by purchasing the entire share capital of Astelit's parent, CJSC Digital Cellular Communications ( DCC ), from its shareholders. Astelit, 99% owned by DCC, held a nationwide GSM1800 license. On April 4, 2006, Astelit announced a merger of DCC and Astelit, which was completed on August 1, 2006. Our interest in Astelit is held through our wholly-owned subsidiary, Turkcell Uluslararası Yatırım Holding A.S. ( Turkcell Uluslararası ), which holds 55.0% of Euroasia Telecommunications Holdings B.V. ( Euroasia ), which is the 100% owner of Astelit.

Astelit began its operations in the Ukrainian market in February 2005 with its new brand life:). As of December 31, 2010, Astelit had 9.1 million subscribers, a 25.4% annual decrease from 12.2 million subscribers as of December 31, 2009. The majority of subscribers are prepaid subscribers as of December 31, 2010. During the third quarter of 2010, the definition of active subscriber was modified to churn out any subscriber whose only activity was the receipt of bulk SMSs or call forwarding.

The life:) brand has become one of the best in the country and reached 99% recognition in the market due to its strong differentiation from existing mobile brands and focus on innovation, transparency and youthful spirit. The company has been known in the market as one of the most dynamic and innovative ever since life:) as the first to introduce a number of new technologies and products that had previously been unavailable to Ukrainian subscribers. Among them are RBT, EDGE and Mobile internet. The company is highly targeted to keep its innovation leadership in marketing and sales. As a result, Astelit expands and improves its sales network to bring its products and services to the most remote parts of the country. By the end of 2010, Astelit had 26,949 non-exclusive sales points throughout Ukraine, 269 life:) exclusive sales points and customer service centers operating in 185 cities in the country. As of December 2010, Astelit provided roaming opportunities in 172 countries via 468 roaming partners.

As of December 31, 2010, Astelit operated in 100% of the cities of Ukraine with a population of more than 10,000 inhabitants and more than 29,165 settlements, and all principal inter-city highways and roads, which corresponds to coverage of approximately 96.6% of the whole population of Ukraine or 88.9% geographical coverage with more than 8,975 base stations. Cumulative capital expenditure for the development of Astelit's coverage amounted to \$1,291.8 million as of December 31, 2010. In 2011, Astelit will continue investing to increase capacity of its network.

Astelit is strongly dedicated to further developing innovations in the market and to apply for a 3G license when one becomes available (no timetable has been announced). Currently, there is only one 3G license that has been granted in Ukraine. This license has been granted, without tender, to the state owned company, Ukrtelecom.

On December 30, 2005, Astelit signed a 6-year, \$390 million long-term senior syndicated facility. Of the total facility, \$270 million was guaranteed by Export Credit Agency ( ECA ) and \$120 million was not guaranteed. Based on Astelit's financial statements for the periods ended March 2006, June 2006, September 2006, December 2006 and March 2007, Astelit was in breach of certain financial covenants. Astelit received the necessary waivers from the senior lenders related to the covenant breaches in part due to additional shareholder contributions to Astelit required by the lenders. On April 19, 2007, Astelit sent a letter accompanied by a term sheet to ING Bank, the Facility Agent.

With this term sheet Astelit proposed the restructuring of the senior syndicated facility and provided notice that if some or all of the finance parties did not consent to the proposed amendments, Turkcell would purchase the loans and commitments held by such non-consenting finance parties. As the majority of the financing parties did not consent or respond to the amendments proposed in the new facility agreement, Turkcell's management decided to take over the entire loan amount. Turkcell and Astelit restructured the syndicated facility through Financell B.V. ( Financell ), a financing company which is 100% subsidiary of Turkcell) and finalized the amended loan agreement in the second quarter 2007. On June 25, 2007, Astelit together with Financell and Turkcell finalized the restructuring of \$390 million syndicated long term financing.

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In connection with this restructuring, we guaranteed the principal amount, any accrued and unpaid interest on the principal amount of the loan and interest, payment of costs, expenses and any other sums payable in connection with the loan lent by Financell to Astelit. In addition to the senior syndicated facility, a long-term junior facility agreement up to \$150 million (including interest accruals amounting to \$24 million) was also finalized with Türkiye Garanti Bankası AS Luxembourg Branch and Akbank TAS Malta Branch in December 2005. According to the conditions of the facility agreement, interest costs will be added to the principal amount until total the principal amount reaches \$150 million. This facility was fully utilized as of December 31, 2010. This junior facility is fully guaranteed by Turkcell.

In March 2007, Turkcell, through its subsidiary Turkcell Uluslararası, and SCM decided to contribute on a prorata basis an additional aggregate amount of \$200 million to the capital stock of Euroasia in four equal installments of \$50 million during 2007. The four installments were paid in March 2007, May 2007, July 2007 and September 2007. This contribution brought our effective interest in Euroasia to 55.04%.

In 2008, Turkcell through its subsidiary Turkcell Uluslararası, and SCM contributed to the share capital of Euroasia an aggregate amount of \$200 million in three tranches, with two tranches each of \$50 million, in January and March 2008, and one tranche of \$100 million in May 2008 in exchange for shares in the capital of Euroasia. Turkcell Uluslararası and SCM made the contributions proportionate to their shareholding in Astelit at the time of each capital contribution.

In June and October 2009, Turkcell through its subsidiary Turkcell Uluslararası, and SCM contributed to the share capital of Euroasia an aggregate amount of \$121 million in two tranches: \$37 million in June and \$84 million in October 2009 in exchange for shares in the capital of Euroasia. Turkcell Uluslararası and SCM made the contributions in proportion to their shareholding in Astelit at the time of each capital contribution.

On July 16, 2009, a new facility agreement with Financell was signed. The purpose of this agreement is the application of all of borrowed amounts for payments of goods and services delivered/rendered by Ericsson AB Sweden and its Ukrainian subsidiary.

As of December 31, 2010, Astelit's loan principal was \$56.6 million.

Astelit's debts are denominated in foreign currencies which expose Astelit to foreign exchange and convertibility risks.

Since the acquisition of Astelit in the second quarter of 2004, the results of our operations in Ukraine have been consolidated in our consolidated financial statements.

### **Belarusian Telecom**

On July 29, 2008, Beltel Telekomunikasyon Hizmetleri AS (Beltel) signed a share purchase agreement to acquire an 80% stake in Belarusian Telecom, which is specialized in providing services using GSM and UMTS technologies, for 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 full-year positive net income for the first time.

In 2009, Belarusian Telecom signed supply agreements with supplier firms ZTE and Huawei for products and services related to infrastructure investments in Belarus. In connection with these transactions, Turkcell gave guarantees of up to \$35 million to ZTE and \$29 million to Huawei in 2009. The \$29 million guarantee given to Huawei expired in March 2011. As a result of an agreed early payment to ZTE in 2010, \$19.1 million of the \$35 million guarantee remains to be paid. In 2010, Turkcell gave an additional guarantee of \$17 million to ZTE.

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At December 31, 2010, Belarusian Telecom had 1.5 million subscribers, the majority of whom were prepaid, and operated through 99 exclusive and 2,227 non-exclusive sales points. During the third quarter of 2010, the definition of active subscriber was modified to churn out those who had not refilled their account in more than six months.

At December 31, 2010, Belarusian Telecom operated 2G services in all, and 3G services in 68%, of the cities with a population of more than 10,000 and with more than 12,650 settlements, and 2G-services provided in 91.7% of all principal inter-city highways and roads of Republic of Belarus (total length of all Belarus highways and roads is 15,086 km), which corresponds to coverage of approximately 96.3% of the entire population of Belarus, or 76.2% of the geographical coverage.

### ***Kibris Telekom***

Kibris Mobile Telekomunikasyon Limited Sirketi, or Kuzey Kibris Turkcell ( Kibris Telekom ), a 100% owned subsidiary of Turkcell, was established in 1999. As of December 31, 2010, Kibris Telekom had 0.4 million subscribers.

On April 27, 2007, Kibris Telekom signed a license agreement for installation and operation of a digital, cellular and mobile telecommunication system with the Ministry of Communications and 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 license, for GSM 900 and GSM 1800 frequencies, while the usage of IMT 2000/UMTS frequency bands is subject to the fulfillment of certain conditions. The license agreement is valid for 18 years from the date of signing.

The license fee was set at \$30 million including VAT and Kibris Telekom paid \$15 million upon the signing of the license agreement and the remainder was paid in 5 equal monthly installments starting from August 2007 until January 2008. The license fee was financed by Kibris Telekom through internal and external funds.

On March 14, 2008, Kibris Telekom 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, Kibris Telekom 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.

### **Financell**

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's subsidiaries.

### **Other Domestic Operations**

We continuously monitor new business opportunities which we believe have positive return potential and/or are critical for sustaining our competitive advantage in our core business.

### ***Global Bilgi***

On October 1, 1999, we established Global Bilgi in order to provide telemarketing, telesales, directory assistance and call center services, particularly for us. In 2005, Global Bilgi completed its transition from call center to contact center as Global Bilgi started to manage customer contacts at every channel except face-to-face interaction. In November 2006, the face-to-face interaction channel was also transferred to Global Bilgi. As of December 31, 2010, Global Bilgi employed 4,565 employees, of which approximately 70% provide us with customer care and retention services, around 21% serve customers of other clients while the remainder work as administrative personnel. We own 100% of Global Bilgi.

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### ***Inteltek***

Inteltek was established on April 6, 2001 to explore business opportunities in the gaming industry.

Currently, Turkcell holds 55% of Inteltek through its wholly owned subsidiary Turkcell Bilisim Servisleri A.S. ( Turkcell ), while Intralot, a Greek gaming company, holds 20% and Intralot Iberia Holding, a Spanish company, holds 25%.

Following a successful tender, Inteltek signed a contract on July 30, 2002 which provides for the installation, support and operation of an on-line central betting system as well as maintenance and support for the provision of football betting games with a commission rate of 4.3%. The Central Betting System Contract was scheduled to expire on March 30, 2008. Following an additional successful tender, Inteltek signed a contract with the General Directorate of Youth and Sports on October 2, 2003, which authorized Inteltek to establish and operate a risk management center and become head agent for fixed odds betting with a commission rate of 12%. The company became fully operational during 2004. The Fixed Odds Betting contract was scheduled to expire in October 2011. Subsequently, there were three lawsuits filed, two of which requested the annulment of the Fixed Odds Betting tender and the other requested an annulment of the Fixed Odds Betting Tender contract. In January 2007, the Danistay, the highest administrative court, decided for a preliminary injunction of the tender and the tender transaction. As a result in March 2007, the General Directorate of Youth and Sports ceased the implementation of Fixed Odds Betting and terminated the Fixed Odds Betting contract dated October 2, 2003. Immediately after this occurred, a lawsuit was initiated by Inteltek against the said transaction. On February 28, 2007, the Turkish parliament passed a law (No. 5583) that allowed Spor Toto Teskilati A.S. ( Spor Toto ) to hold a new tender and sign a new contract that would be valid until March 1, 2008. Under the new conditions, the commission rate of Inteltek decreased from 12% to 7% while the commission rate for central betting system was maintained.

On February 27, 2008, the Turkish parliament passed a new law (No. 5738) that allowed Spor Toto to sign a new Fixed Odds Betting contract with Inteltek, having the same terms and conditions with the latest contracts signed with Spor Toto (contract signed as per Provisional Article 1 of Law 5583) and to be valid for up to one year, until operations start under the new tender which Spor Toto is allowed to hold in accordance with the same law. As per Provisional Article 1 of law No. 5738, Inteltek signed a new Fixed Odds Betting contract with Spor Toto, which took effect on March 1, 2008. A lawsuit was filed requesting suspension of the execution and cancellation of the contract. At the same time, Inteltek signed a new Central Betting System contract with Spor Toto, which took effect on March 31, 2008. Spor Toto conducted the new tender on August 12, 2008, which Inteltek won with an offer of 1.4% on August 28, 2008. On August 29, 2008, Inteltek signed a new contract with Spor Toto to run the sport betting business, iddaa, for the next 10 years, which became effective as of March 1, 2009 and thereby terminated the Fixed Odds Betting and Central Betting Systems contracts that had been effective in March 2008. Other than the change in commission rate and the right to offer bets on other sports, there is no significant change in terms of Inteltek's roles and responsibilities under the new agreement.

This new contract gives Inteltek rights to operate fixed odds betting and pool games on sports games, in accordance with conditions stated in the agreement. Under this contract, Inteltek guaranteed TRY 1,500 million (equivalent to \$990 million as of April 7, 2011) 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. In 2009 and 2010, actual turnover of the contract had exceeded that amount. Moreover, Inteltek as the contractor, has to purchase 6,000 terminals and 1,000 mobile terminals within 6 months of the commencement of operations under new contract and is responsible for the installation of the terminals upon Spor Toto's demand. The contractual obligations regarding the purchase of terminals and mobile terminals have been fulfilled by Inteltek. Inteltek signed mobile betting dealer agreement with Spor Toto on January 12, 2010 which gives the Company the right to operate 1,000 mobile terminals. Reconciliation with Spor Toto for the payout will be realized at the end of the contract.

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In the context of evaluating investment opportunities in neighboring countries, 55% owned subsidiary, Inteltek received authorization from Azerbaijan Azeridmanservis Limited Company to organize, operate, manage, and develop the fixed and paramutual sports betting business in Azerbaijan. In this context, Azerinteltek was incorporated on January 19, 2010 in Azerbaijan with 51% stake of Inteltek. Azerinteltek signed license agreement for the authorization of organization and operation of betting games in September 2010. Under the license agreement, Azerinteltek will operate on an exclusive basis for a period of 10 years.

On December 29, 2010, Azerbaijan's Ministry of Justice published Decree No.55 to regulate taxes to be levied from betting games. Following this development, AzerInteltek began officially conducting sports betting games on January 18, 2011.

### ***Superonline***

On May 21, 2008, Turkcell, our 100% owned subsidiary, signed an agreement with Cukurova Group to acquire a 100% stake in Superonline, which provides internet and telecommunications services, in exchange for our 55% share in Bilyoner Interaktif Hizmetler AS ( Bilyoner ). Consequently, our subsidiary Tellcom, which was established in 2004 to provide non GSM telecommunications services, and Superonline merged on May 1, 2009. We own 100% of this company, which is called Superonline.

Superonline has a Long Distance Telephony Services ( LDTS ) right, which allows the company to provide long distance 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. Currently, the company carries some of Turkcell's international traffic, previously carried by Turk Telekom.

Established as an alternate telecom service operator, Superonline offers its international and national clients wholesale voice carrying, international lease data lines (for corporate clients) and Internet access service with international connectivity. It is one of the main long distance service providers among alternative operators. Furthermore, Superonline is in the retail broadband market as it brings fiber optics to the homes of residential campuses and resells Turk Telekom's ADSL services.

Superonline is an innovative telecommunications operator providing fast communication technology with its fiber optic infrastructure in Turkey as well as telecommunication solutions to individuals and corporations in the areas of voice, data and videos (triple play) and continues to invest quickly in its fiber optic infrastructure with a view to forming its dedicated IP backbone.

Superonline's most distinctive feature, is its extensive product portfolio, from broadband connection to VoIP services to multimedia services, which allows it to reach a wider audience with different products. Among these are one-stop business solutions, such as IP telephony, hosted PBX, long distance telephony, corporate voice community, internet transport, hosting and co-location, security, net-sourcing areas on Wired & Wireless IP and TDM platforms. Additionally, Video-On-Demand, Remote Surveillance, Virtual Phone Number Allocation, Free-Phone Communities and Mobile VoIP access are among the value-added Broad-Band VoIP services provided by Superonline to the consumer market.

Superonline also provides corporate data solutions on its MPLS enabled network, including internet access services, point-to-point services based on MetroEthernet, Fiber and xDSL access technology. In addition to off-the-shelf products, tailor-made communication solutions for large corporations set Superonline apart from its competitors. Operating its own Next Generation Network, Superonline seamlessly combines technology, capacity and quality while offering premium services to its clients.

Another differentiating factor is Superonline's steadfast commitment towards the quality of after-sale services utilized through a call center and an on-site support team. Superonline supplies corporations with industry-leading service level agreements utilizing its professional technical support personnel and highly qualified team of consultants.

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Superonline has been awarded the ISO 9001:2000 Quality Management System Certificate. Superonline aims to become one of the leading innovative TELECommunications Operators in Turkey and it will continue to seize opportunities in the internet and telecommunications markets.

In 2010, Superonline continued to invest in its transmission network by expanding the intercity and in-city fiber-optic backbone along with establishing new fiber-based access points at selected residential and industrial areas for end users and commercial account holders. As of December 31, 2010, Superonline's installed backbone was approximately 22,400 km and its services reached 73 cities in Turkey.

Furthermore, in December 2009, Superonline won a tender worth EUR 20.9 million to lease the fiber optic infrastructure network of BOTAS, Turkey's State-owned pipeline company, for 15 years. According to this new contract, Superonline holds the right of way for a total of 11,280 kilometers from BOTAS, half of which has a pre-installed fiber readily available as well as the rights to invest in and renovate the remainder. Through this contract, it is expected that Superonline's network quality and speed will improve while the size of its network will increase 2.5 times to 24,000 kilometers. Additionally, by integrating the BOTAS infrastructure network into its current network, it is expected that Superonline will establish alternative paths for its network and will be able to provide faster and higher quality service. Furthermore, it is expected that Superonline will expand to certain cities in the northern and eastern regions Turkey for the first time by providing fiber optic infrastructure in 38 new cities and will reach out to 74 cities in total, which adds up to 90% of the Turkish territory, while expanding its current international exit points by entering new markets in addition to Bulgaria and Greece.

In 2010, Superonline, together with Etisalat (UAE), Mobily (Saudi Arabia), Jordan Telecom, Mada-Zain Consortium (Jordan), and Syria Telecommunications Establishment (Syria) signed an agreement that will initiate the Regional Cable Network ( RCN ) Project. Starting from Fujairah (United Arab Emirates) and passing through Riyadh (Saudi Arabia), Amman (Jordan), Tartous (Syria) and reaching Istanbul (Turkey), the RCN Project's fiber optic cable line is expected to cover the entire Gulf region in the Middle East for the first time and be operating as of the second half of 2011. Totalling 7,750 km with its round trip routes, the RCN Project is expected to become the region's longest terrestrial fiber infrastructure between Fujairah, one of the busiest nodes for submarine fiber cables, and the West. The RCN project offers the region an alternative internet infrastructure with a high-capacity and far more economical structure (compared to the submarine systems), which is diversified into two separate routes. This infrastructure, which will cross five countries and intersect in five cities has the ability to provide capacity of 12.8 Terabits per second. The RCN project is designed to reach Europe through more than 15 access points readily available on the Bulgarian border and to initially activate 2.4 Terabit per second capacity along the two different routes which the fiber optic cables will follow.

In addition, Superonline founded, with six other leading service providers, the Turkish Network Alliance Platform ( TNAP ) to improve the quality and reduce the access time by carrying Internet traffic of Internet service providers through a fiber backbone that is a safe and back-up route of access established by the service providers. TNAP is expected to increase the speed, safety and quality of Internet traffic and improve the load of domestic Internet traffic in addition to supporting a better infrastructure for Internet service providers.

Superonline aims to expand its own network and further utilize the group synergy created with Turkcell. The Company will continue to take advantage of business opportunities within the broadband industry in 2011.

### ***Global Tower***

Global Tower is a wholly owned subsidiary founded in 2006. Global Tower's core business is to supply installation, leasing and maintenance services of tower, rooftop and indoor infrastructures for mobile operators, TV & radio broadcasters and operators of civilian/military wireless communication/monitoring systems. Global Tower's site sharing business model eliminates the initial investment cost for its customers and also contributes to the reduction of adverse environmental impacts and the efficient use of resources in the countries in which it operates.

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Having begun operations in 2007, Global Tower serves its customers with a portfolio of more than 5,000 existing tower sites. Global Tower, Turkey's first and only tower infrastructure service provider company, began operations in Ukraine in 2009 under the name LLC UkrTower ( UkrTower ).

### ***Turkcell Teknoloji***

Turkcell Teknoloji commenced operations in the TUBITAK Marmara Research Center Technological Free Zone in Gebze in 2007. Turkcell Teknoloji offers a wide variety of products and services within the categories of network platform, service platform, SIM and terminal solutions, as well as next generation technologies (mobile internet, mobile marketing, multimedia applications, business intelligence solutions and business support systems). Turkcell Teknoloji focuses on changing, transforming and facilitating human life with customer-oriented and innovative solutions in numerous fields. Many products that make a difference are developed in the company, where employees' creative ideas are gathered.

Turkcell Teknoloji cooperates with business partners covering a network of national and international R&D companies, universities and research centers. New ideas are mutually nurtured and transformed into assets. Turkcell Teknoloji plays an active role in international R&D programs and works with the world's leading R&D technology companies and universities.

### **Equity Accounted Investments**

#### ***Fintur***

We hold a 41.45% stake in Fintur, which holds interests in international mobile communications operations. Below is a description of the businesses currently held by Fintur.

#### ***Azercell***

Fintur indirectly owns 51.3% of Azercell Telekom B.M. ( Azercell ), which offers GSM services on both a prepaid and a postpaid basis in Azerbaijan. As of December 31, 2010, Azercell had approximately 4.0 million subscribers, of which approximately 169,000 were postpaid and approximately 3.8 million were prepaid.

The agreement for the privatization of the Republic of Azerbaijan's 35.7% ownership in Azercell was signed in February 2008 and Azertel A.S., the parent company of Azercell, acquired the Republic of Azerbaijan's entire stake. Azertel's ownership in Azercell increased to 100%; however, Fintur's effective ownership in Azercell remains at 51.3%.

#### ***Geocell***

At December 31, 2010, Fintur indirectly owned 100% of Geocell Ltd., ( Geocell ), which operates a GSM network and offers mobile telephony services in Georgia. As of December 31, 2010, Geocell had approximately 2.0 million subscribers, of which approximately 30,000 were postpaid, approximately 0.3 million were paid-in-advance subscribers that had postpaid services but paid in advance and approximately 1.7 million were prepaid.

#### ***Kcell***

Fintur owns 51% of GSM Kazakhstan, ( Kcell ), along with Kazakhtelekom, the Kazakhstan monopoly fixed-line operator, which owns 49%. Kcell offers mobile telephony services in Kazakhstan and had approximately 8.9 million subscribers as of December 31, 2010, of which approximately 74,000 were postpaid, approximately 1.3 million were paid-in-advance subscribers and approximately 7.6 million were prepaid.



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### *Moldcell*

At December 31, 2010, Fintur directly and indirectly owned 100% of Moldcell S.A., ( Moldcell ), which offers GSM services in Moldova. As of December 31, 2010, Moldcell had 0.9 million subscribers, of which approximately 76,000 were postpaid, approximately 0.3 million were paid-in-advance subscribers and approximately 0.6 million were prepaid.

### **Equity Accounted Joint Venture**

#### *A-Tel*

On August 9, 2006, Turkcell acquired 50% of A-Tel's shares. A-Tel is a joint venture and its remaining 50% shares are held by SDIF. A-Tel is involved in marketing, selling and distributing our prepaid systems. It acts as our only dealer for Muhabbet Kart (a prepaid card), and receives dealer activation fees and Simcard subsidies for the sale of Muhabbet Kart. In addition to the sales of Simcards and scratch cards through an extensive network of newspaper kiosks located throughout Turkey, we have entered into several agreements with A-Tel for the sale of campaigns and for subscriber activations. Since 1999, the business cooperation between us and A-Tel has provided important support to our sales and marketing activities. With the brand name Muhabbet Kart, A-Tel's success in such a competitive environment is partly due to its having well structured campaigns.

### **Potential Investments**

Our efforts to selectively seek and evaluate new investment opportunities continue. These opportunities may include the purchase of licenses and acquisitions of interests in other operators in markets outside Turkey in which we currently do not operate, focusing on communications, technology and adjacent and new business opportunities. Our international expansion strategy focuses on key emerging markets, mainly in Eastern Europe, the Middle East, Africa and the Balkans.

In line with our international expansion strategy, we submitted, via one of our wholly owned subsidiaries, a bid for the Fixed and Mobile Convergent License Tender held by the Libyan General Telecommunications Authority on July 15, 2009. The license was not awarded to any of the bidding companies, as none of the proposals was deemed satisfactory by the Libyan General Telecommunications Authority. Nevertheless, Libya remains one of the countries that we continuously monitor for opportunities.

We submitted a bid on April 15, 2009 for the first tender of the games of chance business, which was cancelled on May 7, 2009 due to the bidders not raising the bids for the amount set by the Privatization Administration Tender Commission. If the Turkish National Lottery General holds a tender for the privatization of the games of chance business in 2011, which presents an attractive opportunity for us and our subsidiaries, we will pursue it.

Our international endeavors will continue in 2011. We will continue to selectively seek and evaluate new international investment opportunities. In the context of our evaluation of potential investment opportunities within the regions we target for international expansion strategy, Turkcell has, from time to time, considered opportunities in countries in the Middle East and North Africa, and may consider such opportunities in the future. We may participate in additional public tenders for new licenses or the privatization of public telecom companies as well as in private sale transactions in emerging markets to pursue investment opportunities in line with our growth strategy.

Furthermore, following the launch of Turkcell Europe in Germany, we will evaluate expanding into other Western European countries where there is a sizeable Turkish community by becoming a wholesale partner with one of the existing mobile network operators.

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### **Regulation of the Turkish Telecommunications Industry**

#### ***Overview***

All telecommunications activity in Turkey is regulated by the ICTA. Electronic Communications Law no. 5809 (the Electronic Communications Law), which came into force on November 10, 2008 and replaced Law no. 406 and 2813, 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 new regulations are in the process of being published. No assurance can be given that these new regulations will be clear and satisfactory to us. 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.

#### ***ICTA***

The ICTA has the authority to grant licenses and set fees in the electronic telecommunications industry. The duties of the ICTA are specified in Article 6 of the Electronic Communications Law. The duties and authorizations of the ICTA include, among others:

analyze the electronic telecommunications industry, determining the relevant markets as well as the operator(s) who have significant market power;

make necessary arrangements and perform audits relating to electronic communications as well as to the rights of the subscribers, users, consumers and end-users, in addition to processing personal information and protecting confidentiality;

maintain transparency in the board decision process related to the operators and consumers, including explanation of the legal reasoning used;

process the reconciliation procedure between the operators and, unless otherwise agreed by the parties, take necessary measures in the event of a failure of the parties to reach an agreement;

allocate frequency and satellite position, as well as plan numbering and its allocation;

determine operators' trade secrets and the scope of the information to be explained to the public, while also securing such trade secrets, in addition to confidential investment information and working plans, to protect operators, per the request of judicial authorities;

determine the principles and procedures of access, including interconnection and national roaming;

determine the terms and conditions of the authorization to provide communications services, network and/or its infrastructure; audit its implementation and compatibility to the authorization;

audit (or be audited on) the legality of the companies that have operations in the electronic communications sector, in addition to determining the principles and procedures related thereto and applying sanctions where there is a contradiction; and

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impose an administrative fine on operators of a maximum of 3% of the previous calendar year's net sales in the event of infringement of the Electronic Communications Law.

According to Article 8 of the Electronic Communications Law, electronic communications services is 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 given of usage right, in cases where resource scarce 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, principles and procedures relating to the notification and granting of usage rights shall be determined by the regulation issued by the ICTA.

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On the other hand, in cases where the quantity of rights of use is limited, Section 9-6(a) of the Electronic Communication Law allows the Ministry of Transportation and Communication 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 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 Transportation and Communication, the authorization is still granted by the Authority.

Under the Electronic Communications Law, the ICTA is authorized to determine the principles and procedures related to the process of personal information and protection of confidentiality.

The Electronic Communications Law establishes legal principles and broad policy lines that the ICTA must follow. They include:

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 in return for a reasonable charge.

Ensuring non-discrimination among subscribers, users and operators under fair conditions and ensuring that services are accessed by users of similar status under fair conditions, unless based on objective grounds or for the aim of facilitating the access of services with definite cover and certain limits specific for dependents.

Unless to the contrary as specified by this Law or based on objective grounds, promotion of qualitative and quantitative sustainability, regularity, reliability, efficiency, clarity, transparency and the efficient use of resources.

Ensuring the conformity of electronic communications systems to international norms.

Promotion of research and development activities and investments by introducing technological improvements.

Promotion of improved service quality.

Giving priority to the requirements of national security, public order and emergency situations.

Except as clearly established in this Law, in relevant legislation and the authorizations, allowing operators to freely determine tariffs in return for providing electronic communications services access charges including interconnection line and circuit rental fees including interconnections.

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Taking into consideration the international norms, with a view of at least protecting human health, life and property, environment and the consumer while constructing, using and operating electronic communications equipment and systems.

Ensuring impartiality in the provision of electronic communications services and arrangements thereof.

Taking into consideration the specific needs, including the use of technological developments of disabled, elderly and those who are in need of social protection.

Protection of information safety and communication confidentiality.

The Electronic Communications Law also specifies general rules and principles relating to interconnection between operators. According to the law, for those who are subject to the obligation to provide access, such obligation shall be determined by the ICTA. When an operator does not allow other operators to have access within the provisions of the law or it sets forth unreasonable stipulations and periods for access in a manner that

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results in not allowing access, and, as a result, the ICTA decides that such behavior will prevent the formation of a competitive environment and the resulting situation will be against the interests of end users, the ICTA will be entitled to impose obligations on such operator to accept the access requests of other operators. Interconnection, including the tariffs for interconnection, is required to be provided on an equal, transparent and non-discriminatory basis with conditions agreed upon between the parties and on the basis of cost and reasonable profit. Agreements for interconnection are publicly available, but precautions are taken by the ICTA to protect commercial secrets of the parties.

Universal Services and Amending Some Laws, Law No. 5369, determines the procedures and principles governing the provision and execution of universal service and to determine procedures and the rules relating to fulfillment of universal services in the electronic communication sector, a universal public service that is financially difficult for operators to provide (and performance of universal service obligation in electronic communication sector). As per the provision of 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 calls 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 all authorized operators must provide Universal Services and the General Directorate of Communication can demand that operators provide Universal Services on a national and/or geographical area basis.

The legislation does not impose any new financial obligations for GSM operators. Turkcell may be designated as an operator obliged to provide Universal Services and therefore Turkcell may benefit from the fund.

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. They 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 price 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 of subscription fee, fixed fee, call charge, line rental, 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:

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

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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.

The ICTA abolished The Regulation On Quality of Service (issued in 2005), and published a new Regulation On Quality of Service in the Electronic Communication Sector on September 12, 2010, to be effective as of December 31, 2011 which sets out the procedures and principles to control the conformity of the services of operators. According to the regulation, new and important obligations with respect to call centers will be applicable to all operators that provide service to end users. Furthermore, mobile telephone operators are required to meet new service quality requirements and submit a report based on these requirements every three months to 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. If it is determined that an operator has significant market power in the related market, the ICTA requires the operator to comply with its tariff regulations and may regulate the tariffs of the operator concerned by requiring that such tariffs be approved in advance or by applying lower and upper limits. Pursuant to its decision dated December 8, 2009, the ICTA determined Turkcell, individually, to be an operator holding a significant market power in the Access to Mobile Networks and Call Originating Markets and, together with Avea and Vodafone, to be an operator holding significant market power in the Mobile Call Termination Market. As a result of the significant market power designation in the Access to GSM Mobile Networks and Call Originating Markets, our company may be required to provide access and call origination services to other operators such as MVNOs and Directory Services Operators on a cost-based basis, while operators not designated as operators holding significant market power can set their prices more freely. For example, due to our status as an operator holding significant market power, we are required to provide access and call origination services to a certain MVNO operator. Being designated as an operator holding significant market power in the Access to GSM Mobile Networks and Call Originating Markets is likely to have the effect of reducing the rates we can charge other operators, such as MVNOs, which would have a material adverse effect on our business and results of operations. Furthermore, in addition to the negative pricing conditions, the uncertainty concerning the MVNO market has, and may in the future, negatively impact our business.

The ICTA published the Regulation on Processing Personal Information and Protecting Confidentiality in the Telecommunications Industry on February 6, 2004. This Regulation establishes general principles to secure personal information and protect confidentiality. The Regulation established the following principles: an operator's technical or administrative precautions to secure its services and its network must be approved by the ICTA; operators must warn their consumers about risks and give them information to prevent such risks; except pursuant to a legal obligation or court decision, an operator may not listen to, observe, record, preserve or disconnect voice telecommunications without the permission of those communicating; and operators may not observe, record or preserve data traffic concerning telecommunications except for their services. The ICTA is preparing to abolish the Regulation on Personal Information Processing and Protection of Privacy in the Telecommunications Sector, and preparing to publish a new Regulation on Data Privacy in Electronic Communications Sector. As a result, the ICTA requested our Company's opinions on the draft regulation. The purpose of this regulation is to define the procedures and principles that govern the operators and legal entities/individuals which provide/receive services in the electronic communication sector in an effort to process, store and protect the personal information of subscribers. In contrast to the current regulation, the draft regulation would require the consumer's approval prior to a direct marketing SMS being sent. Therefore, if this regulation is



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approved, our methods of contacting customers about new tariff offers and services will be impeded unless we already have the subscriber's permission. In addition, all of our subscribers' traffic data, including those related to missed calls and data processing logs, would be required to be maintained by us for one year, which would result in additional expenses for the Company.

On September 5, 2004, the ICTA abolished the Regulation on Administrative Fines to be imposed on the Operators (published on August 1, 2002) and published the Regulation on Administrative Fines, Sanctions and Precautions to be imposed on the Operators. According to the amended Regulation 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 timely submit such documents; does not permit inspection or audits to be made by the ICTA; uses unpermitted equipment or equipment not complying with standards alters technical features of equipment; or, does not pay fees arising from its use of license and frequencies or does not comply with the provisions of license agreements, telecommunications licenses and general authorizations or the legislation. In addition, the amended Regulation authorizes the ICTA to impose sanctions and precautions as well as administrative fines.

### ***Regulation on Authorization regarding the Electronic Communication Sector***

In 2009, the ICTA published the Regulation on Authorization regarding the Electronic Communication 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.

#### ***Wireless Interoperability for Microwave Access ( WIMAX ) license***

Regulatory changes in Turkey to introduce and promote WIMAX nationwide could have a material adverse effect on our business and results of operations. Specifically, they may result in increased competition and/or the entry of new direct or indirect competitors, which may have a negative impact on our ability to attract and retain customers, the competitiveness of our products and services, our distribution channels, our brand and visibility and our infrastructure investments.

#### ***Fixed line telephone services***

The ICTA issued Fixed Telephony Service ( FTS ) licenses pursuant to the Regulation on Authorization regarding the Electronic Communication Sector, which enables existing long distance telephony services ( LDTS ) operators, such as our subsidiary Superonline Iletisim Hizmetleri A.S. ( Superonline ), to provide call origination and termination. LDTS and, consequently, FTS providers have not yet had a significant effect on our operations. In the long term they could have the effect of driving down prices and shifting traffic patterns for in-city as well as long distance calls in Turkey, potentially having an adverse effect on our mobile telecommunications business.

As of March 11, 2011, there were 122 operators with authorization for Fixed Telecommunication Services: 70 for Infrastructure Operating Services; 121 for Internet Service Provision Authorization; 29 for Mobile Virtual Network Services Operators and 9 for Directory Service Operators.

On February 3, 2010, the ICTA published a new Regulation entitled The Right of Way in Execution of the Electronic Communications Services and abolished the Regulation entitled The Right of Way in Execution of the Telecommunication Services. This Regulation aims to determine the principles and procedures for the right of way for the establishment and usage of all kinds of electronic communications networks and/or infrastructure facilities; which is required for the execution of electronic communications services.

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### ***Regulation on Mobile Number Portability ( MNP )***

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

MNP allows subscribers to keep their existing telephone number when changing their telephone operator, their physical location or current service plan. These regulations, published in 2007, 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 initiated a lawsuit in 2007 for the annulment of the MNP regulations. 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 and we appealed the decision. The appeal process is still pending. See Item 8.A Consolidated Statements and Other Financial Information Legal Proceedings . In 2009, the ICTA issued a new regulation on MNP, abolishing the 2007 regulation. For new subscriptions, subscribers cannot port out to another operator in the first three months.

### ***Turkish Competition Law and the Competition Authority***

In 1997, the Competition Law (No. 4054) established a Competition Board. The Competition Board consists of 7 members who are appointed for a term of six years. It is an autonomous authority with administrative and financial independence established to ensure effective competition in markets for goods and services.

### ***Powers and Functions of the Competition Board***

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.

Furthermore, any real or legal entity may file a complaint with the Competition Board. Upon determination of any violation, the Competition Board can take necessary measures to prevent the violation and may impose fines on those who are liable for such prohibited practices. According to Competition Law, the Competition Board may impose fines 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. In September 2002, the ICTA and the Competition Board entered into a Protocol on Cooperation. The Protocol establishes a framework whereby the ICTA and the Competition Board can cooperate on legal actions and attitudes regarding measures, detections, regulations and inspections that affect competition conditions and the extension of competition in the telecommunications sector. The Protocol on Cooperation allows issues to be resolved more effectively and maintains a free and sound competition environment in the telecommunications sector. Furthermore, it prevents controversial and/or misleading statements by handling the complaints of the operators, and it harmonizes the interpretation of related legislation thus enabling mutual cooperation and information transfer.

### ***GSM Licensing in Turkey***

A GSM license is subject to the ICTA's right to suspend or terminate operations of the license on the grounds of security, public benefit, 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 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.

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The licensee is responsible for installing telecommunications equipment in conformance with international signalization systems and numbering plans. Furthermore, the licensee is obligated to make those investments which are necessary to offer the licensed service. These obligations include 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.

### ***Our 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 ICTA's expenses. Finally, an article concerning the protection of users (subscribers) rights and an article concerning arbitration for the settlement of disputes are included in the renewed license agreement. After the tender relating to the allocation of additional GSM 900 frequency bands, made by the ICTA on 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.

#### ***Terms***

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 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. As security for the performance of our obligations, we were required to deliver cash or a bank guarantee equal to 1% of our license fee as a performance bond. In addition to this performance bond, upon the execution of the license agreement dated February 25, 2009, we were also required to deliver cash or a bank guarantee in the amount of TRY 1,264,500 (approximately \$ 834,268 as of April 7, 2011) which corresponds to 6% of the tender (relating to the allocation of GSM 900 additional frequency band) price, as a performance bond. 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.

On June 25, 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 June 30, 2005, we pay 90% of the treasury share to the Turkish Treasury and 10% to the Turkish Ministry as universal service fund.

Furthermore, under the Regulation on Authorization regarding the Electronic Communication 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 share transfer, acquisition and actions shall be made with

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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.

### *License Conditions*

Our license subjects us to a number of conditions. While the license agreement provides that our license may be revoked in the event that we fail to meet any of these conditions, we believe that we are currently in compliance with all license conditions.

### *Coverage*

Our license requires that we meet coverage and technical criteria. 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 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. Service quality requirements require that call blockage not exceed 5% and call drops not exceed 2% of the total calls. The ICTA has the right to monitor our service standards, compile information, and take action to guarantee customer rights. Additionally, as a guarantee of our service and coverage commitments, we must obtain all-risk insurance coverage at an adequate amount to provide for uninterrupted operation.

### *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 US Dollars, the same method is applied to the USA Consumer Price All Item Index Numbers.

Although the Concession Agreement includes a provision regarding only the increase of the maximum tariffs, the ICTA has decreased the maximum tariff since 2007, which has negatively affected our tariff structure (the last decision being on September 1, 2010). The Company initiated lawsuits for the annulment of such decisions. The lawsuits are pending.

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Pursuant to a board resolution dated September 22, 2010, the ICTA decided that Turkcell had to reimburse its subscribers in regards to a change in one of its tariff options (namely, BizBize Her Yöne Kamu 1500) and fined Turkcell an amount equal to 0.33% of Turkcell's 2009 net sales. We initiated a lawsuit to suspend the execution of the decision, which the Regional Ankara Administrative Court did. We also requested the annulment of the ICTA's decision. This process is still pending.

The maximum tariffs set by the ICTA 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. Therefore, in customizing our service packages to meet the needs of different customer segments, we may combine higher activation or monthly charges (or both) with lower airtime rates.

The standard tariffs and the maximum tariffs set by the ICTA have been established in Turkish Lira and 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 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 or liquidity.

As a result of certain applications made to it, on September 25, 2007 the ICTA decided to implement a new requirement that our on-net tariffs be no less than the lowest interconnection rate applicable to other GSM operators. However, in the relevant legislation, which was applicable at that time, no authority was given to the ICTA to set minimum barriers for the tariffs granted. For this reason, we believed that such intervention was contrary to the applicable legislation. The ICTA also decided to set a maximum price of TRY 0.66 (including VAT) (equivalent to \$0.44 as of April 7, 2011) for GSM to GSM calls under general subscription packages. However, we believed that this intervention by the ICTA, which decreased the previous maximum tariffs, conflicted with the relevant provisions of the license agreement. The ICTA was empowered only to apply the formula set forth in the license agreement, as explained above. By setting minimum tariffs for our Company only, we believed that the Authority created unfair competition and violated provisions of the Law, which stipulated that prices for telecommunications services be cost-based. On the grounds explained above, we filed a lawsuit before the 13th Chamber of Counsel of State in relation to the annulment and suspension of the execution of the aforementioned decision. On May 26, 2008, the 13th Chamber of Counsel of State suspended the ICTA's decision regarding the interconnection rate applicable for setting our minimum on-net tariffs. The ICTA objected to the decision but, the request was rejected. The ICTA requested the cancellation of the aforementioned suspension decision (with its petition submitted to the file); however, its request was rejected. On April 13, 2010, the 13th Chamber of the Counsel of State cancelled the ICTA's decision regarding the interconnection rate applicable for setting our minimum on-net tariffs. The ICTA appealed the decision. The appeal process is still pending.

The ICTA, with its board resolution dated September 25, 2008, set the maximum price of TRY 0.66 (including VAT and SCT) (equivalent to \$0.44 as of April 7, 2011) for off-net calls under general subscription packages. Thereafter, with the ICTA board resolution dated March 25, 2009, ICTA has set a lower limit to on-net retail tariffs of Turkcell only, for the term of June 2009 – December 2010, and decreases the level of price cap for all GSM operators.

The lower limit applies to each retail tariff package of Turkcell by mandating the weighted average on-net price of each and every subscription tariff package shall not be less than Turkcell's weighted average call termination rate. This resolution has required Turkcell to report weighted average on-net price of each and every subscription package in three month periods. To comply with the board resolution, Turkcell has adjusted the on-net prices of various tariff packages as necessary.

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Subsequently, ICTA, with its decision dated December 21 2010, decided that this Resolution should be applied permanently, and the reporting should be monthly instead of quarterly.

The board resolution also reduces the current price cap from 0.80 TRY/min (equivalent to \$0.53 as of April 7, 2011) (including VAT and SCT), which pertains to general subscription packages (GSM-GSM), to 0.64 TRY/min (equivalent to \$0.42 as of April 7, 2011). The Resolution has also set such price as an upper limit for special subscription packages. To comply with the board resolution, Turkcell adjusted on-net and off-net prices of some tariff packages.

Our Company filed a lawsuit before the Council of State in relation to the annulment and suspension of the execution of this decision of ICTA. The Council of State rejected our request of suspension of execution and our Company objected to this decision of the Council of State.

The ICTA, with its board resolution dated September 16, 2009, set the maximum price of TRY 0.65 (equivalent to \$0.43 as of April 7, 2011) (including VAT and SCT) for GSM to GSM calls under general subscription packages.

The ICTA with its board resolution dated February 10, 2010 further reduced down the current price cap to TRY 0.40 (equivalent to \$0.26 as of April 7, 2011) (including VAT, SCT) for GSM to PSTN as well as GSM to GSM. The same resolution has set the current price cap of Turk Telekom to TRY 0.37 (equivalent to \$0.24 as of April 7, 2011) (including VAT, SCT) for PSTN to GSM.

However, as per 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.

We believe that, pursuant to our license agreement, we can determine our tariffs freely, provided that they remain within the framework of the applicable maximum price limit. However, ICTA may intervene with our retail tariffs. With respect to our retail tariffs, in the fourth quarter of 2007, the ICTA intervened in the fixing of our retail prices. Although we challenged that action on the basis that it exceeded the ICTA's authority under then-applicable law, such action nonetheless had an adverse effect on our operational flexibility and our results of operations. With the ICTA board resolution dated March 25, 2009, ICTA set a lower limit for solely Turkcell's on-net retail tariffs, and decreased the price cap level for all mobile operators. The lower limit applies to each of Turkcell's retail tariff packages by mandating that the weighted average of the on-net price of a tariff package not be less than Turkcell's weighted average call termination rate. The board resolution also reduced the current price cap from 0.80 TRY/min (equivalent to \$0.53 as of April 7, 2011) (including VAT and SCT), pertaining to general subscription packages, to 0.64 TRY/min (equivalent to \$0.42 as of April 7, 2011). The resolution also set such price as an upper limit for special subscription packages. The ICTA, with its board resolution dated September 16, 2009, set the maximum price of TRY 0.65 (equivalent to \$0.43 as of April 7, 2011) (including VAT and SCT) for GSM to GSM calls under general subscription packages. The ICTA, with its board resolution dated February 10, 2010, further reduced the current price cap to TRY 0.40 (equivalent to \$0.26 as of April 7, 2011) (including VAT and SCT) for GSM to PSTN as well as GSM to GSM. The same resolution set the current price cap of Turk Telekom to TRY 0.37 (equivalent to \$0.24 as of April 7, 2011) (including VAT and SCT) for PSTN to GSM. Finally, with its board resolution dated March 24, 2011, the ICTA set the current price cap as TRY 0.415 (including VAT and SCT) for GSM to PSTN and GSM to GSM (equivalent to \$0.27 as of April 7, 2011). With the same board resolution, the ICTA made a distinction between national and international SMS rates. The National SMS rate was set as TRY 0.415 (equivalent to \$0.27 as of April 7, 2011), and the international SMS rate was set as TRY 0.830 (equivalent to \$0.55 as of April 7, 2011).

The ICTA has also had and may intervene with the charging period, impacting the prices we charge for our tariffs. For example, effective September 1, 2010, the ICTA requires all operators to apply a maximum price cap of 0.40 TRY during the first minute of all calls. The usage behaviour and our financial results will be adversely affected if the ICTA intervenes on charging periods.

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In addition, the ICTA may determine the standard periods for subscriber life-cycles and request changes how we maintain the outstanding balances. Currently, if prepaid subscribers load at least 10 TRY, we must keep them in an active state (i.e., having a balance in the account and the ability to send and receive calls/SMS) for at least six months from the loading period. Furthermore, the subscription period for subscribers in a passive state (i.e., having no balance in the account and with the ability to receive calls/SMS) cannot be less than three months before the termination of the contract. The ICTA has decided that, in the case of annulment of a prepaid subscriber's account, any remaining balance should be reimbursed to the subscriber within 15 days of his/her request, which must be made within three months of the annulment. Any remaining balance must be kept by the operator for a period of 1 year, with the condition that, should the former subscriber so choose, he be allowed to reactivate his account. Furthermore, the ICTA decided that as of April 1, 2010 the unit based tariff system should be turned into TRY based tariff system for pre-paid subscriptions.

The ICTA, with its board resolution dated July 25, 2009, set an upper limit of 20 seconds to the charging periods for tariffs that are submitted/to be submitted by operators and Turk Telekom. While this decision, as of June 2010, was postponed, our financial results will be adversely affected if the ICTA decides to lift the suspension.

Moreover, the ICTA intervened to create a standard definition of active and passive subscription periods used by operators and announced a new definition of active subscription with a board resolution dated January 27, 2010. According to this resolution, if prepaid subscribers load or are transferred 20 units/TRY 5, the subscription should be renewed at least 3 months prior to the end of the contract. If they load 40 units/TRY 10, the active subscription period, which enables subscribers to send and receive calls/SMS etc, should be renewed at least 3 months prior to the end of the contract; and if they load or are transferred 40 units/TRY 10, the subscription should be renewed at least 6 months beforehand. In addition, the ICTA, in the aforementioned resolution, decided that the passive subscription period, in which it is only possible to send SMS and receive calls, should be determined, at least 3 months prior to the end of the contract. The effective date of this resolution has been postponed to October 1, 2010 from April 1, 2010 to avoid confusion with the conversion from unit based tariff system to TRY based tariff system and to prevent the potential dissatisfaction of consumers. Afterwards, the ICTA with its Board Resolution dated September 29, 2010 revised and changed its previous Resolution. According to the new Resolution if prepaid subscribers load or are transferred TRY 10, the active subscription period, in which to make and receive calls, send and receive SMS is possible, should be restarted at least 6 months beginning from the loading or transfer date and the passive subscription period, in which it is only possible to receive calls and SMSs, should be determined at least 3 months prior to the end of the contract. The ICTA with this Resolution decided that, in case of annulment of the remaining balance units should be reimbursed to the subscriber within 15 days upon his request within 3 months after the annulment. Moreover, in case the subscriber contract is annulled without request of a payment of the remaining balance, the operator should preserve the remaining balance units for 1 year with the condition that the annulled subscriber becomes a subscriber again.

The ICTA Board issued a decision on June 30, 2009, revised on August 20, 2009, to implement new rules on melody & games services. With this new ruling subscribers shall clearly be informed on the conditions and charges of particular services via a free SMS before actual use occurs. Subscribers shall acquire these services or subscribe by sending an SMS to a number defined only by the network operator. After the service is used, information on charges due or debited units shall also be sent to the subscriber by SMS. Pre-paid subscribers shall be informed by SMS whether they have sufficient units in their accounts before they use the particular service and, upon the approval of the subscriber, before the units can be used. The same ruling will also apply if a particular service is to be acquired via WAP or WEB facilities, with minor exceptions.

The ICTA Board issued a decision on November 24, 2009 concerning Value Added Services with Live Chat content. With this decision, these services will no longer be given over the numbers assigned from our allocated numbers by the Concession Agreement but from a new area code of 900. The new number group will be in the following format: 900 2XX XXXX. These numbers are to be applied by the operator and allocated by

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the ICTA. The ICTA will reserve 10,000 for each operator upon application. Current services have to switch to these numbers within two months. By default, all subscribers will be barred from using this service unless they have provided written consent.

### *Relationship with ICTA*

The license agreement creates a mechanism for an ongoing relationship between us and ICTA. The ICTA and Turkcell coordinate their activities through a License Coordination Committee ( the Committee ). The Committee is comprised of five members, two appointed by ICTA, two by us and one by agreement of the ICTA and our members, or, if no agreement is reached, by the Chairman of the Information and Communication Technologies Board. The Committee is charged with the task of 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.

The Committee meets at least quarterly and establishes its own operating principles and procedures unless an extraordinary meeting is called by any party with a 7-day advance notice. Matters in dispute are expected to be submitted to the Committee for resolution. While not binding, the Committee may render consultative decisions. Either the ICTA or we may convene a special meeting to consider issues that arise under the license agreement.

### *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 against us by a competent court or a bankruptcy compromise decision, which is an agreement between creditors and a debtor to reschedule the debt of the debtor, if such ruling or compromise is not reversed or dismissed within 90 days after notice;

upon our failure to perform our obligations under the license agreement if such failure is not cured within 90 days after notice;

if we operate outside the allocated frequency ranges and fail to terminate such operations within 90 days after notice; or

if we fail to pay our treasury fee.

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

If our license is terminated for 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 ICTA, or an institution designated by 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. These units include related technical equipment, immovables, and all other installations and assets used in the operation of the system. We may apply to the ICTA between 24 and 6 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.



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### *Applicable Law and Dispute Resolution*

Under our license agreement, any dispute arising from or under our license shall be brought before the License Coordination Committee. If the dispute is not settled within 30 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.

### *Authorization of 3G Licenses*

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. 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, 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.

### *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 a goal to improve the competitive environment and ensure 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 ICTA.

According to the Electronic Communications Law, access agreements and interconnection agreements can be executed with the mutual understanding of the parties. If the parties do not execute the access agreements within two months of the access request or the existence of any disagreement in the access contract, the Authority may intervene in the negotiations of the access contract, upon request of one of the parties.

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In accordance with Article 7 of the aforementioned Electronic Communications Law, the ICTA may determine the operators that have significant market powers in the relevant market as a result of market analyses. After determination of the operators who have significant market power, the ICTA may impose additional 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 and numbered 27336, unless otherwise agreed, any decision 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 determined Turkcell individually as an operator holding a significant market power in the Access to Mobile Networks and Call Originating Markets. Finally, on December 8, 2009, the ICTA designated Turkcell, Vodafone and Avea as operators holding significant market power in the Mobile Call Termination Market.

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.

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

Pursuant to its decision dated December 8, 2009, the ICTA designated Turkcell individually as an operator holding a significant market power in the Access to Mobile Networks and Call Originating Markets and as operator holding significant market power in the Mobile Call Termination Market, along with Avea and Vodafone. 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-based 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 prior review, and may require amendments to the operators' reference access and interconnection offers. Operators are obliged to make the amendments requested by the ICTA in a prescribed manner and period. In addition, the operators shall be obliged to publish their reference offers for access and interconnection, which have been approved by the ICTA, and to provide access under conditions specified in their reference offers and interconnection, which have been approved by the ICTA. On February 10, 2010 the ICTA published Interconnection Tariffs for Turk Telekom and GSM operators, which became effective on April 1, 2010. The Interconnection Tariffs have been approved as the tariffs to be determined in the reference access offers. According to the Interconnection Tariffs, the revised rate for Turkcell is 0.0313 (equivalent to \$0.0207 as of April 7, 2011).

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

In addition, 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. As mentioned in such Law, procedure and principle relating to the co-location and facility sharing shall be determined by ICTA.

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

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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, if an operator i) does not provide co-location or asks unreasonable demands for co-location, and ii) if the ICTA decides that situation is inhibiting the competition or if this situation is against the end-users, then the ICTA should determine such operator as co-location incumbent. According the Communiqué, the tariffs for Co-Layout will be determined on a cost basis. If the ICTA ascertains that the tariffs for Co-Location are not determined on a cost-basis, the ICTA could set the tariffs.

Furthermore, pursuant to the new Communiqué all the operators i) who locate their facilities over or under a land which belongs to the public or a third party, or ii) who could use such lands or iii) who could derive benefit from the process of expropriation, are incumbents for facility sharing. The Communiqué also states the items which must be considered for determining the Facility Sharing prices.

Subsequently, the provisions that regulate ICTA approval of the examination fee determined by the Co-Location and Facility Sharing incumbent has been removed, enabling the Co-Location and Facility Sharing process for 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.

All access and interconnection contracts must be submitted to the ICTA within fifteen days of execution. The ICTA may request modifications to the contracts should they contain any provisions contrary to the legislation. The access and interconnection contracts will be publicly available, excluding trade secrets. All operators holding significant market power will also be required to prepare reference interconnection proposals and submit them to ICTA. Except where otherwise specified by ICTA, reference interconnection proposals will be renewed every year. The Company submitted its final reference access proposal regarding 2011 to the ICTA in the first quarter of 2011.

If two operators are unable to reach an interconnection agreement within two months of the date of the initial access request, either party may refer the dispute to the ICTA for resolution. After this request, the ICTA initiates a settlement procedure and establishes terms, conditions, and fees applicable to the agreement and binding on both parties.

Should a telecommunications operator violate any provisions of the Regulation, the ICTA may impose an administrative fine of a maximum of 3% of the operator's turnover for the preceding calendar year.

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-based basis.

According to the provision of the Electronic Telecommunications Law, the ICTA may impose obligation on operators, who are obliged by the ICTA to provide access, to submit their reference offers for access, and may request to make necessary amendments in their reference access offers. Operators shall be obliged to make the amendments requested by the ICTA in prescribed manner and period. On the other hand, the operators shall be obliged to publish their reference offers for access, which have been approved by the ICTA, and to provide access under conditions specified in their reference offers, which have been approved by the ICTA. On February 10, 2010 the ICTA published

Interconnection Tariffs for Turk Telekom and GSM operators, which became effective on April 1, 2010. The Interconnection Tariffs have been approved as the tariffs to be determined in the reference access offers. According to the Interconnection Tariffs the revised rate for Turkcell will be TRY 0.0313 (approximately \$0.0207 as of April 7, 2011).

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### ***Regulation on Consumer Rights in the Electronic Communication Sector***

The ICTA published a Regulation on Consumer Rights in the Electronic Communication Sector on July 28, 2010 (which abolished the regulation published on December 22, 2004). This Regulation introduces some radical changes to the electronic communication sector. With this Regulation, the ICTA determined new procedures/changes regarding:

the process and timing of churn steps;

the obligation of the operators to keep subscribers informed of services, including, but not limited to:

services with special contents;

informing customers about amendments of the campaigns and tariffs;

consumer complaints solution mechanism;

billing processes;

the right to determine upper invoice limits;

Internet security;

conditions we set for customers to suspend or limit services;

visually-impaired subscribers;

the definition of personal data; and

spam messages and emails.

Pursuant to this authority, the ICTA may regulate, for example, the maximum and minimum limits on billing, spam messaging and definition of personal data as it relates to directory services. In addition, the ICTA may restrict certain mobile internet and services that are provided by third parties. 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 our doing business and could negatively impact our financial results.

### ***Ukraine License Agreement***

Astelit owns two GSM activity licenses, one for GSM 900 and one for DCS 1800. As at December 31, 2010, Astelit owned 24 GSM 900, DCS 1800, D-AMPS and microwave Radiorelay frequency licenses, which are regional and national. In addition to the GSM licenses, Astelit

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owns licenses for fixed local phone connections and wireless access using the D-AMPS standard. According to the licenses, Astelit should adhere to state sanitary regulations to ensure that the equipment used is not hazardous to the population and does not emit harmful electro-magnetic emissions. Licenses require Astelit to inform authorities of the start/end of operations within three months and changes in the incorporation address within 30 days. Also, Astelit must present all the required documents for inspection by the Ukrainian Telecommunications Authority at their request. The Ukrainian Telecommunications Authority may suspend the operations of Astelit 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 Astelit of the violations and will set the deadline for recovery. If the deadline is not met, the licenses may be terminated.

### ***Belarus License Agreement***

Belarusian Telecom owns a license, issued on August 28, 2008, that is valid for 10 years. In addition, the license shall be extended for an additional ten years. State Property Committee of the Republic of Belarus, as the

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Seller, has fulfilled its obligations stated in Sale and Purchase Agreement and submitted the related official documents on December 18, 2009. According to the current legislation of the Republic of Belarus, license extension is made upon the expiration of its validity period. Consequently, Belarusian Telecom shall apply for such extension to the Ministry of Communications and Informatization in August 2018. Under the terms of its license, Belarusian Telecom is required to gradually increase its geographical coverage through 2018. However, Belarusian Telecom's period of execution with regards to coverage requirements has been extended for three years starting from the acquisition date.

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

#### ***General***

We have interconnection agreements with Turk Telekom, Vodafone and Avea whereby they allow us to connect our networks with theirs to enable the transmission of calls to and from our mobile communications system through existing digital fixed telephone switches.

The interconnection agreements also 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 to the contents of various manuals that will set forth in detail additional specifications concerning matters which are not specifically covered in the interconnection agreement. These matters include quality and performance standards, interconnection interfaces 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 between them.

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. The interconnection agreements:

set forth agreements between the parties relating to the location of exchanges;

create obligations regarding network alterations;

establish routing principles to govern how call traffic will be routed within a network and between the networks of the parties, including interconnection routing rules;

provide for arrangements concerning capacity and expansion of capacity through new points of interconnection;

mandate arrangements concerning the use of numbering to transmit calls in accordance with national and international practices;

provide for periodic technical review meetings between the parties;

permit each party to engage in testing of interconnection exchanges;

address the consequences of transmission failures;

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create an obligation to cooperate in order to maximize overall quality of transmission of calls in accordance with international standards;

deal with emergency calls, calling line identification and malicious call identification;

assure the ability of a party to have access to the other party's premises where relevant equipment may be located (subject to appropriate protections);

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establish procedures to deal with network faults; and

address issues relating to the construction and installation of antennas, towers, and other elements of system infrastructure.

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

Negotiations were held with Vodafone and Avea to provide electronic communication services within the scope of the IMT-2000/UMTS authorization; however, parties could not agree on the terms. The ICTA decision n°371 dated July 15, 2009 determined the fees to be applied for voice (as TRY 0.0655 (equivalent to \$0.0432 as of April 7, 2011)) and video call (as TRY 0.0775 (equivalent to \$0.0511 as of April 7, 2011)) termination within the scope of IMT-2000/UMTS services. Our company initiated a lawsuit before the Council of State to annul and suspend the entry into force of the said decision of ICTA. The Court overruled the suspension of execution request and the Company objected to this decision, but our objection was rejected. The lawsuit is still pending.

### *Turk Telekom*

Pursuant to the interconnection agreement, Turk Telekom agrees to permit us to use its buildings, premises, and other infrastructure and to lease the means of communications transmission between our GSM exchanges, base stations, and base station control stations. We retain the right, however, to establish our own transmission network at our own expense in the event that such transmission network is not made available to us by Turk Telekom, subject to the consent of ICTA.

If Turk Telekom enters into interconnection agreements with other operators of mobile or similar telecommunications services, the conditions of such agreements must be the same as those in their interconnection agreement with us. If any such agreement does contain differing terms, we have the right to demand identical terms. If we desire to use the facilities and such use would impair the use of such facilities by others, our request will be given priority over potential users of the facilities that have not entered into license agreements with ICTA. Priority among operators which have entered into such license agreements will be given to the application that was first received by Turk Telekom.

The Turk Telekom interconnection agreement specifies that ownership of the GSM equipment and other materials, including those in existence on the date of the Turk Telekom interconnection agreement and those subsequently installed, belong to us. The agreement also provides that intellectual property rights will belong to the developer or owner.

### *Payments*

The Turk Telekom interconnection agreement provides for the payment by us to Turk Telekom of fees for the interconnection services provided by Turk Telekom and for the lease of transmitting facilities linking base stations, mobile telephone exchanges and base station control stations. Turk Telekom is not entitled to any payment in respect of our use of our own transmission system. Turk Telekom also agrees to pay us for calls transmitted over our network.

The Turk Telekom interconnection agreement provides that Turk Telekom will pay the 1% Turkish communications tax, which is payable on the basis of communications fees collected by Turk Telekom from customers in connection with telephone, facsimile, telex and data excluding subscription fees. Turk Telekom is required to pay this tax to the relevant municipality pursuant to the Municipality Revenues Act. We would be liable in respect of any increase in the applicable rate of the communication tax. If a party fails to make payment when due, it shall pay default interest, to be calculated based on the commercial advance interest rate of the CBRT for the period between when the payment is due and when the payment shall be made, and it shall also pay a penalty for such delay at a rate of 10%.



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A number of the provisions of the Turk Telekom interconnection agreement address matters concerning billing and payment of bills for services rendered under the Turk Telekom interconnection agreement. Each party is required to record call information and to provide that information to the other party. Each party is responsible for invoicing the other party on a monthly basis.

### *Call Tariffs*

In accordance with the September 26, 2008 decision of the ICTA, effective from April 1, 2008, Turk Telekom paid Turkcell TRY 0.091 (approximately \$0.060 as of April 7, 2011) per minute and Turkcell paid to Turk Telekom a net amount of TRY 0.0171 (approximately equivalent to \$0.0113 as of April 7, 2011) per minute for local traffic and a net amount of TRY 0.027 (approximately equivalent to \$0.018 as of April 7, 2011) per minute for metropolitan and long-distance traffic routed from Turkcell to Turk Telekom, retroactively.

In 2009, the ICTA issued revised Interconnection Tariffs, after which Turk Telekom paid Turkcell TRY 0.0655 (approximately \$0.0432 as of April 7, 2011) per minute and Turkcell paid Turk Telekom a net amount of TRY 0.0171 (approximately \$0.0113 as of April 7, 2011) per minute for local traffic and a net amount of TRY 0.027 (approximately \$0.018 as of April 7, 2011) per minute for metropolitan and long-distance traffic routed from Turkcell to Turk Telekom. Pursuant to this decision, the ICTA announced local interconnection rates for Turk Telekom for the first time. Accordingly, Turkcell paid Turk Telekom TRY 0.0139 (approximately \$0.0092 as of April 7, 2011) for local interconnection per minute.

On February 10, 2010, the ICTA issued new Interconnection Tariffs. According to this decision, as of April 1, 2010, Turk Telekom pays Turkcell TRY 0.0313 (approximately \$0.0207 as of April 7, 2011) per minute and Turkcell pays Turk Telekom a net amount of TRY 0.0139 (approximately \$0.0092 as of April 7, 2011) per minute for local traffic and a net amount of TRY 0.0171 (approximately \$0.0113 as of April 7, 2011) per minute for metropolitan and a net amount of TRY 0.0224 (approximately \$0.0148 as of April 7, 2011) for long-distance traffic routed from Turkcell to Turk Telekom.

On April 10, 2009, Turk Telekom consulted the ICTA in determining the SMS termination fee and the ICTA with its decision dated September 9, 2009 set the SMS termination fee at TRY 0.017 (approximately \$0.011 as of April 7, 2011) for SMS Services from Turk Telekom's network per SMS, and TRY 0.017 (approximately \$0.011 as of April 7, 2011) for SMS services from our net network to Turk Telekom's network. Currently, for the SMS Services between Turk Telekom and Turkcell, the SMS termination fees that are set by the ICTA with its decision dated September 9, 2009 are being applied.

In accordance with the interconnection agreement between Turkcell and Turk Telekom, for international calls originating from Turkcell network and carried by Turk Telekom, Turkcell pays Turk Telekom 70% of the net amount of Turk Telekom's retail international call charges. Pursuant to this agreement, Turk Telekom was obliged to pay us 45% of the international settlement charge (terminal rate) that is transferred by the international carrier operator to Turk Telekom for incoming international calls that are terminated on our network. For the termination service price of calls from international destinations to Turkcell network carried by Turk Telekom, Turkcell applied to the ICTA for reconciliation. As a result of that process, the ICTA decided Turk Telekom to pay Turkcell TRY 0.136 (approximately equivalent to \$0.090 as of April 7, 2011) for termination of international calls. This call termination rate for international calls has been reduced in subsequent years by the ICTA in parallel with the reduction of national call termination rates. As of April 1 2010, Turk Telekom pays Turkcell TRY 0.0313 (approximately \$0.0207 as of April 7, 2011) per minute. We and Turk Telekom have an ongoing dispute over this agreement. See Item 8.A. Consolidated Statements and Other Financial Information Legal Proceedings .

We do not pay any charges to Turk Telekom for calls to special service numbers which are called free of charge according to Turk Telekom tariffs. For calls to special service numbers that are not free of charge, one party pays the other 72% of the other's retail charge for that service, excluding VAT and SCT.

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### *Rental Rates*

According to the Interconnection Agreement with Turk Telekom, the rental rates for Turk Telekom's real estate, leased by us and located in residential areas, should be established according to an expert's report prepared by the local real estate experts of Turkish Emlak Bank. If there is no Turkish Emlak Bank unit in the area, or if the Turkish Emlak Bank cannot prepare an expertise report, then the rental rate is based on the average rental prices determined by the relevant units of the Chamber of Commerce and Industry or, in cases where the above two units are not available, according to a report prepared by a valuation committee that will be established by the participation of three Turk Telekom personnel and one of our personnel.

Upon the expiry of a one-year rental period, rental price increases will be made according to rates issued in the annual state tenders report prepared by the Ministry of Finance, and 45% of the rental fee will be added for expenses, including personnel, lighting and water, among others, starting from the beginning of the lease period.

### *Charges for Energy at Switching Centers*

We can subscribe to Turkish Electricity Distribution Co. ( TEDAS ) or another relevant electricity distribution company as a standalone customer and pay its energy usage charges. In such case, we will not pay any charges to Turk Telekom. We may also source energy by connecting a three phase electricity measuring gauge to Turk Telekom's energy distribution panel. The expenses related to the connection of the measuring gauge will be borne by us. In addition, we may source energy by connecting an electricity measuring gauge to Turk Telekom's generator, provided that all expenses related to the connection will be borne by us. The energy usage fee shall be calculated in accordance with a formula set forth in the Turk Telekom interconnection agreement. Under the Revenue Sharing Agreement, we were not required to pay Turk Telekom for these services.

### *Miscellaneous*

A party may seek to modify the Turk Telekom interconnection agreement by serving the other party with a notice of request to review such agreement if:

our license is materially changed (whether by amendment or replacement);

a material change occurs in the laws or regulations governing telecommunications in Turkey;

the Turk Telekom interconnection agreement expressly provides for a review or makes express provision for a review or the parties agree in writing that there should be such a review;

a material change occurs which affects or could affect the commercial or technical basis of the Turk Telekom interconnection agreement; or

there is a general review pursuant to the Turk Telekom interconnection agreement.

Upon service of a review notice, the parties must negotiate in good faith toward a resolution of the subject matter of the review. If the parties fail to reach agreement within three months from the date of service of the review notice, either party may request that the ICTA determine the manner, if any, in which the Turk Telekom interconnection agreement should be modified. The Turk Telekom interconnection agreement will be modified in accordance with that determination, unless the determination is subject to a legal challenge. The Turk Telekom interconnection agreement can be assigned in accordance with our license agreement. The Turk Telekom interconnection agreement will terminate automatically upon the expiry of our license period or on termination of our license agreement by ICTA. Neither party may assign the businesses which are the subject matter of the interconnection agreement to any third party unless such assignment is required under the provisions of the Regulation and the License Agreement or the other party's prior consent is obtained.



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### *Vodafone Interconnection Agreement*

As a result of the acquisition of Telsim by Vodafone, all the liabilities of Telsim arising from the Interconnection Agreement signed with us were transferred to Vodafone as of May 24, 2006. In line with this, Turkcell and Vodafone signed an agreement in July 2006 to amend the present interconnection agreement through agreeing general principles of our collaboration as a result of the transfer.

In light of this transaction, the following discussion will only refer to Vodafone. It should be noted however, that agreements entered into before May 24, 2006 were entered into by Telsim, the acquired company.

The Vodafone interconnection agreement provides for the payment of fees by us to Vodafone for the interconnection services provided by Vodafone. A number of the provisions of the Vodafone interconnection agreement address matters concerning billing and payment of bills for services rendered under the Vodafone interconnection agreement. Each party is required to record certain call information and to provide that information to the other party. Each party is responsible for invoicing the other party on a monthly basis.

### *Call Tariffs*

With respect to call tariffs in 2008, the parties applied to ICTA. On August 26, 2008, the ICTA concluded the reconciliation process and determined that the termination rates between Turkcell and Vodafone were valid and binding as from April 1, 2008, by applying its provisional termination tariffs. In accordance with this decision, Turkcell paid Vodafone TRY 0.095 per minute (approximately \$0.063 as of April 7, 2011) and Vodafone paid Turkcell TRY 0.091 per minute (approximately \$0.060 as of April 7, 2011) for call traffic.

On March 25, 2009, the ICTA issued Interconnection Tariffs for Turk Telekom and GSM operators. From May 1, 2009 through April 1, 2010, Turkcell paid Vodafone 0.0675 TRY per minute (approximately \$0.0445 as of April 7, 2011) and Vodafone paid Turkcell 0.0655 TRY per minute (approximately \$0.0432 as of April 7, 2011) for call traffic.

On February 10, 2010, the ICTA issued Interconnection Tariffs for Turk Telekom and GSM operators. Beginning April 1, 2010, Turkcell pays Vodafone TRY 0.0323 per minute (approximately \$0.0213 as of April 7, 2011) and Vodafone pays Turkcell TRY 0.0313 per minute (approximately \$0.0207 as of April 7, 2011) for call traffic. Turkcell shall pay Vodafone TRY 0.0775 (approximately \$0.0511 as of April 7, 2011) per minute for video calls and vice versa. The fees for SMS services were determined by the ICTA on October 27, 2009, upon Vodafone's request. For the SMS services the ICTA determined that as of July 1, 2009, Vodafone is to pay Turkcell TRY 0.017 (approximately \$0.011 as of April 7, 2011) per SMS and Turkcell pays Vodafone the same amount per SMS.

Moreover, with respect to MMS Services, until November 1, 2010, Vodafone and Turkcell paid the other a net amount of TRY 0.094 (approximately \$0.062 as of April 7, 2011) per MMS, in accordance with the MMS Termination Protocol signed by both parties in 2008. Due to the amendment of the MMS Termination Protocol, beginning from November 1 2010, Vodafone and Turkcell each pay the other a net amount of TRY 0.055 per MMS.

Both parties charge each other 10% higher priced than effective call termination tariffs per minute for accessing the other's directory inquiry services.

A party may seek to modify the Vodafone interconnection agreement by serving the other party with a notice of request to review such agreement if:

its license is materially changed (whether by amendment or replacement);

a material change occurs in the law or regulations governing telecommunications in Turkey;

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the interconnection agreement expressly provides for a review or makes express provision for a review or the parties agree in writing that there should be such a review;

a material change occurs that affects or could affect the commercial or technical basis of the interconnection agreement; or

there is a general review pursuant to the interconnection agreement.

Upon service of a review notice, the parties must negotiate in good faith toward a resolution of the subject matter of the review. If the parties fail to reach agreement within three months from the date of service of the review notice, either party may request that the ICTA determine the manner, if any, in which the Vodafone interconnection agreement should be modified. The Vodafone interconnection agreement will be modified in accordance with that determination, unless the determination is subject to a legal challenge. The Vodafone interconnection agreement cannot be assigned or transferred by the parties without the other party's prior written consent.

The Vodafone interconnection agreement will remain in force for the duration of the license period unless one of the parties serves a three month termination notice to the other party.

The Vodafone interconnection agreement will terminate:

automatically upon expiry of the parties' respective license periods or on termination of the respective license agreements by the Turkish Ministry; or

save for events of force majeure, upon one month's termination notice by the parties, due to failure to fulfill the obligations in the interconnection agreement for a period in excess of three months.

Even in the event of termination of the interconnection agreement, all services provided and the obligations of the parties during the term of this agreement will remain effective for a period of six months until interconnection can be established with Turk Telekom or another alternative network operator.

Any disputes between the parties shall first be subject to friendly settlement efforts. In the event that the parties fail to reach an amicable settlement, they then shall refer the matter to the ICTA for its recommended solution to the dispute in question. If the proposed solution recommended by the ICTA is not accepted by the parties, the parties are free to refer the matter to arbitration in accordance with the provisions of the Turkish Civil Procedural Law.

### *Avea Iletisim Hizmetleri A.S. Interconnection Agreement*

We and Avea, the entity incorporated as a result of the merger of Is-TIM and Aycell, signed a protocol canceling the interconnection agreement between Turkcell and Aycell and the parties agreed that the Is-Tim interconnection agreement will be applicable between the parties. References to the Avea Interconnection Agreement refer to the original Is-TIM interconnection agreement that now governs our interconnection relationship with Avea.

### *Payments*

The Avea Interconnection Agreement provides for the payment of fees by us to Avea for the interconnection services provided by Avea. A number of the provisions of the interconnection agreement address matters concerning billing and payment of bills for services rendered under the interconnection agreement. Each party is required to record certain call information and to provide that information to the other party. Each party is responsible for invoicing the other party on a monthly basis.

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### *Call Tariffs*

On August 26, 2008, the ICTA concluded the reconciliation process to be applied between Turkcell and Avea to be valid and binding as from April 1, 2008, by applying its provisional termination tariffs. In accordance with this decision, Turkcell pays Avea TRY 0.112 per minute (approximately \$0.074 as of April 7, 2011) and Avea pays Turkcell TRY 0.091 per minute (approximately \$0.060 as of April 7, 2011). On March 25, 2009, the ICTA issued Interconnection Tariffs for Turk Telekom and GSM operators. As of May 1, 2009, Turkcell pays Avea 0.0775 TRY per minute (approximately \$0.0511 as of April 7, 2011) and Avea pays Turkcell 0.0655 TRY per minute (approximately \$0.0432 as of April 7, 2011) for call traffic.

On February 10, 2010, the ICTA issued Interconnection Tariffs for Turk Telekom and GSM Operators. As of April 1, 2010, Turkcell pays Avea TRY 0.0370 per minute (approximately \$0.0244 as of April 7, 2011) and Avea pays Turkcell TRY 0.0313 per minute (approximately \$0.0207 as of April 7, 2011) for call traffic. In addition, Turkcell and Avea each pay the other TRY 0.0775 (\$0.0511 as of April 7, 2011) per minute for video calls.

On January 16, 2009, the ICTA concluded the reconciliation process to be applied between Turkcell and Avea with regards to SMS termination fees. In accordance with this decision, Turkcell pays Avea TRY 0.0187 per SMS (approximately \$0.0123 as of April 7, 2011) and Avea pays Turkcell TRY 0.0170 per SMS (approximately \$0.0112 as of April 7, 2011).

Avea applied to the ICTA for MMS Services and the ICTA decided to enter into a MMS Termination Protocol that was signed with Avea on June 22, 2009. ICTA also determined the fees for MMS Services. Pursuant to the ICTA's decision, Avea currently pays TRY 0.0340 (approximately \$0.0224 as of April 7, 2011) to Turkcell and Turkcell pays TRY 0.0374 (approximately \$0.0247 as of April 7, 2011) per MMS.

A party may seek to modify the interconnection agreement by serving the other party with a notice of request to review the agreement if:

its license is materially changed (whether by amendment or replacement);

a material change occurs in the law or regulations governing telecommunications in Turkey;

the interconnection agreement expressly provides for a review or makes express provision for a review or the parties agree in writing that there should be such a review;

a material change occurs which affects or could affect the commercial or technical basis of the interconnection agreement; or

there is a general review pursuant to the interconnection agreement.

Upon service of a review notice, the parties must negotiate in good faith toward a resolution of the subject matter of the review. If the parties fail to reach agreement within three months from the date of service of the review notice, either party may request that the ICTA determine the manner, if any, in which the interconnection agreement should be modified. The interconnection agreement will be modified in accordance with that determination, unless the determination is subject to a legal challenge. The interconnection agreement cannot be assigned or transferred by the parties without the other party's prior written consent.

We and Avea have an on-going dispute over SMS termination fees. The relevant court accepted the request of Avea and we have appealed the decision. This lawsuit is still pending. See Item 8A. Consolidated Statements and Other Financial Information Legal Proceedings of this annual report on Form 20-F.

The Avea interconnection agreement will remain in force for the duration of the license period unless one of the parties serves a three-month termination notice to the other party.



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The Avea interconnection agreement will terminate:

automatically upon expiry of the parties' respective license periods or on termination of the respective license agreements by the Turkish Ministry; or

save for events of force majeure, upon one month's termination notice by the parties, due to failure to fulfill the obligations in the interconnection agreement for a period in excess of three months.

Even in the event of termination of the interconnection agreement, all services provided and the obligations of the parties during the term of this agreement will continue to become effective for a period of six months until interconnection can be realized with Turk Telekom or another alternative network operator.

Any disputes between the parties shall first be subject to friendly settlement by the efforts of the parties. In the event that parties fail to reach an amicable settlement, then they shall refer the matter to the ICTA for its recommended solution to the dispute in question. If the proposed solution recommended by the ICTA is not accepted by the parties, the parties are free to refer the matter to arbitration in accordance with the provisions of the Turkish Civil Procedural Law.

### ***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 principal and procedures of the methods of network operating and clearance.

### ***Agreements Concluded with the Operators (formerly) authorized as Fixed Telecommunication Services Operator***

#### ***Call Termination Agreements***

Turkcell, as an operator holding significant market power, entered into Call Termination Agreements with all operators licensed to provide Long-Distance Call Services. Under the Call Termination Agreements, Turkcell agreed, among other things, to terminate voice calls carried by the operators and rising from a national fixed telecommunication's network and/or any international telecommunication's network in accordance with technical specifications set out in the agreement.

These agreements are currently in effect, but as stated above with respect to the execution of the aforementioned regulation, operators having a license for Long Distance Telephony Service shall be counted as authorized by notification and, if necessary, by granting right of use of numbers from the Authority for Fixed Telephony Service.

#### ***International Transit Traffic Services Agreements***

Turkcell entered into International Traffic Carrying Services Agreements with nine operators. 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 fifteen days advanced written notice and such rates will become applicable upon our approval.

#### ***Interconnection Agreements***

Turkcell entered into interconnection agreements with two fixed telecommunication service operators (Superonline and Netgsm Iletisim ve Bilgi Teknolojileri A.S.) The interconnection agreement signed with



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Superonline on May 31, 2010 relates to the commercial decisions and choices of Turkcell. The interconnection agreement signed with Netgsm Iletisim ve Bilgi Teknolojileri A.S. on January 6, 2011 relates to the decisions of the ICTA.

### ***MVNO Services***

Negotiations to enter into agreements with MVNOs are pending. However, it should be noted that the ICTA with its decision, which was taken upon application of one MVNO, decided that Turkcell has to send a draft MVNO agreement to the MVNO which applied to ICTA. Furthermore, the ICTA with the same decision determined the call origination and termination fees for voice as TRY 0.0313 per minute (approximately \$0.0207 as of April 7, 2011), for video call as TRY 0.0775 per minute (approximately \$0.0511 as of April 7, 2011) and for SMS as TRY 0.0170 per SMS) to be applied to the MVNO which submitted an application to the ICTA.

### ***Directory Services***

Turkcell entered into agreements relating to the provision of directory services with Seven 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 the companies to Turkcell data base, the provision of guidance services to the subscribers and 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.

### ***Prospective Legislation and Regulations***

Within the scope of the provisions of the Electronic Communications Law, 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 with the condition not being contrary to the provisions of the Electronic Communications Law. Therefore, subjects, which are explained below, have not yet been regulated by the ICTA.

### ***Regulations***

The ICTA is preparing to abolish Regulation on Personal Information Processing and preparing to publish a new Regulation on Data Secrecy in Electronic Communications Sector thus requested our Company's opinions on the draft Regulation. The purpose of this regulation is to define the procedures and principles that the operators and legal entities/ individuals which provide/receive services in the electronic communication sector in an effort to process, store and protect personal information in the electronic communications sector. In contrast to the current regulation, the draft regulation would require the consumer's approval prior to a direct marketing SMS being sent.

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### **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 April 7, 2011:

Notes:

- (1) KCell is 51% owned by Fintur and the remaining 49% is owned by Kazakhtelecom JSC, the Kazakh incumbent fixed-line telecom provider.
  - (2) Azertel is 51.3% owned by Fintur and the remaining 48.7% of the shares are owned by Cenay Group, a privately held Turkish group of companies. Azercell is 100% owned by Azertel. Fintur's effective ownership in Azercell is 51.3%.
  - (3) Gurtel is 99.99% owned by Fintur and Geocell is 100% owned by Gurtel.
  - (4) Moldcell is 99% owned by Fintur and 1% owned by Molfintur SRL, a wholly-owned subsidiary of Fintur.
  - (5) Merger of Telcom and Superonline was completed on May 1, 2009. This company is now called Superonline.
  - (6) Turkcell Europe started its operations in March 2011 as an MVNO by providing mobile voice and data services in Germany.
- For information on the country of incorporation of our key subsidiaries, see Item 4.B. Business Overview.

### **4.D Property, Plant and Equipment**

Our principal property, plant and equipment consists of management offices, switching sites, network infrastructure sites, and network and office equipment.

The Group owns buildings in Istanbul Beyoglu (headquarters), Istanbul Maltepe, Istanbul Kartal, Istanbul Davutpasa, Ankara-Cinnah, Ankara-Sogutozu, Adana, Diyarbakir, Samsun, Izmir, Antalya, Trabzon and Bursa. In addition, we rented the following buildings in 2010: Academy, Sisli, Turkcell Head Quarters Plus (TMO+), Van, Kayseri and Maltepe Plus.

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In addition to the foregoing properties, we maintain two rented warehouses in Istanbul (Tuzla Omsan and Trio).

### ***Switches***

We have switches in Istanbul, Ankara, Izmir, Corlu (Tekirdag), Bursa, Kocaeli, Mugla, Bodrum, Balikesir, Denizli, Aydin, Konya, Sakarya, Kayseri, Eskisehir, Samsun, Trabzon, Erzurum, Van, Diyarbakir, Adana, Antalya, Mersin, Manisa, Corum, Tokat, Hatay and Gaziantep. Additionally, we have Remote BSC ( RBSC ) locations at Artvin, Alanya, Malatya, Elazig, Sanliurfa, Sirnak, Ordu, Rize, Agri, Kutahya, Afyon, Kars and Adiyaman.

In addition, we own switch buildings in different cities of Turkey, such as Mahmutbey (Istanbul), Aydin, Balikesir, Denizli, Mugla, Bodrum, Izmit, Konya, Erzurum. Switch buildings are where the network switching equipment (such as Mobile Switching Center-servers ( MSC-s ), Media Gateways ( MGW ), BSCs and Radio Network Controllers ( RNC ) is located.

### ***Base stations***

At the end of December 2010, we owned over 24,000 base stations 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 right of use of 2,914 towers to Global Tower, including the towers that are determined as suitable for right of use transfer, to be used by Global Tower for the provision of its services to the wireless broadcast and communications industry in Turkey, 30 of which were removed from the network in 2010. As of December 31, 2010, Global Tower provided services to the industry with 2,694 masts and towers built by Global Tower and 2,884 towers transferred from Turkcell that are located throughout Turkey.

## **ITEM 4.A UNRESOLVED STAFF COMMENTS**

None.

## **ITEM 5 OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

The following discussion and analysis by our management of the 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 Risk factors and elsewhere in this annual report.

### **Overview of the Turkish Economy**

The global economy is in recovery mode. Growth has reverted to pre-crisis levels in nearly all major economies and regions. Emerging markets continue to be the key driving force for global economic growth. In 2010, Turkey exited the recession with relatively strong rate of growth driven by domestic demand due to the low interest rate environment. In 2010, GDP growth was 8.9%, which was the highest level of growth since the 9.4% seen in 2004. However, in 2010 our revenues remained almost flat, improving slightly from TRY 8,936.4 million in 2009 to TRY 9,003.6 million, mainly due to 26.4% growth in Turkcell Turkey's mobile internet and services revenues and a higher contribution from subsidiaries, despite the adverse effects of regulatory decisions.

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2011 is expected to be another year of recovery; however, marked by uneven global growth led by emerging markets with developed countries lagging. Global imbalances may remain high. The current monetary and fiscal responsibilities of the global economies may further hinder the path of recovery. Growth optimism for 2011, driven by emerging markets, may be adversely affected by the possibility of negative economic shocks from Europe, the United States and Japan, rising inflation in Emerging Markets due to rising food and energy prices and tension in the Middle East and Africa regions. The biggest threat to the global economy is rising oil prices due to oil supply shock if the revolutionary upheaval in the MENA (Middle East and North Africa) region spreads. On the other hand, the earthquake and tsunami that ravaged Japan, the third largest economy in the world, will likely have a short term effect on the global economy and it will not derail the global economic recovery.

Since Turkey is an oil importer country, high oil prices might have a widening effect on current account deficit and put pressure on inflation in the medium term. And also the non-energy ties with MENA region can have an adverse effect on growth prospects in Turkey.

The medium-term risks for the Turkish economy relate to the widening current account deficit and inflation. Asymmetric growth drivers (i.e., too much domestic, and very little foreign, demand) have caused a very swift widening in Turkey's external imbalance. Currently, the bulk of the current account deficit is financed by short-term portfolio inflows. However, if Turkey's strong growth is to be sustainable over the long term, high quality financing will be required. Turkey's current account deficit totaled \$48.6 billion in 2010 compared to \$14.0 billion in 2009. This deficit amounted to 6.5% and 2.3% of Gross Domestic Product (GDP) in 2010 and 2009, respectively. In 2010, net foreign direct investment amounted to \$7.1 billion, an increase of 3.9% compared to 2009. Net foreign direct investment inflows represented an amount equal to 15% of the current account deficit, compared to approximately 49% in 2009.

CBRT has implemented a new monetary policy framework that combines a lower policy rate with tightening liquidity via non-interest tools. CBRT also believes that the rapid widening of the current account deficit and the fact that it is financed by short-term capital inflows present risks to future financial stability. The most obvious risks associated with this new framework are weakness of the Turkish Lira and potential inflationary pressures as the output gap compresses rapidly.

After much volatility, annual inflation was 6.40% at the end of 2010, below the CBRT's target level of 6.50%. Attaining the 2010 inflation target is clearly an achievement and improves the CBRT's track record for inflation targeting. CBRT is expected to keep rates on hold as long as it can in 2011 while inflation remains subdued. Inflationary pressures, however, are brewing. While there may be some moderation due to corrections in food prices and favorable base effects in the short term, a rapidly closing output gap and rising global commodity prices are providing early warning signs. The possibility of pre-election spending is also an important risk clouding the 2011 inflation outlook. The latest CBRT expectation survey indicates that consumer inflation is expected to be 6.5% at the end of 2011, above the CBRT target of 5.5% for 2011.

Turkish politics do not pose a severe risk since Turkey has had a strong single party government for over a decade. However, political divisions between moderate Islamists and secularists, including in the judiciary and military, are a constant source of political tension that has frequently delayed the policy making process. Security risks from Kurdish separatist militants and anti-government organizations remain a concern in Turkey, especially in the south-eastern part of the country. The general elections in mid-2011 are likely to be the main political risk unless a majority government is maintained. Turkey's recent diplomatic foray into the Middle East, most notably in Iran, has raised concerns about Turkey's EU membership process. There have been questions as to whether Turkey is moving away from its EU accession goals. Turkey, however, has continued to demonstrate its commitment to the EU membership process by moving ahead with formal accession talks.

It is likely that Turkey's rating will be raised to investment grade by at least one of the rating agencies in the future due to its low level of indebtedness and favorable growth dynamics, which further improve its debt ratios.

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The agencies, however, may prefer to wait until after the June 2011 elections to make their decision regarding Turkey's rating upgrades.

The TRY's performance during the first 11 months of 2010 was parallel to other Emerging Market currencies. After the CBRT signaled a rate cut in early December, the TRY weakened and ended the year 2.7% depreciated against the U.S. dollar. In 2011, Emerging Market currencies may experience appreciation pressures compared to the G3 currencies following loose monetary policies in developed countries and stronger macroeconomic data in Emerging Markets. However, the large external financing needs and the CBRT's risky strategy continue to keep TRY from appreciating.

### **Taxation Issues in 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 GSM 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:

#### ***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 GSM operators. The special communications tax on new subscriptions was TRY 31.78 (equivalent to \$20.97 as of April 7, 2011) and TRY 31.10 (equivalent to \$20.52 as of April 7, 2011) in 2010 and 2009, respectively. As of January 1, 2011, the special communications tax on new subscriptions levied is TRY 34.0 (equivalent to \$22.4 as of April 7, 2011). The tax has had a correlative negative impact on mobile usage.

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%). Other than mobile internet services, all mobile telecommunication services remain subject to a special 25% communications tax. The tax collected from subscribers in one calendar month is remitted to the tax authorities within the first 15 days of the following month.

#### ***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.

#### ***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.

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The license fee is paid once on the subscription for wireless equipment. As of January 1, 2010, the license fee is TRY 12.26 (equivalent to \$8.09 as of April 7, 2011). For postpaid subscribers, the license fee is divided into the number of months remaining in the year in which it is payable and charged to the subscriber in equal installments. As of January 1, 2011, the license fee is TRY 13.20 (equivalent to \$8.71 as of April 7, 2011).

The amount of the annual utilization fee depends on whether a subscriber is postpaid or prepaid. For postpaid subscribers, the annual utilization fee is the same amount as the license fee, TRY 12.26 (equivalent to \$8.09 as of April 7, 2011), and is charged to subscribers in 12 equal monthly installments. As of January 1, 2011, the annual utilization fee is TRY 13.20 (equivalent to \$8.71 as of April 7, 2011). In addition, GSM operators pay monthly charges to the government. For prepaid subscribers, the annual utilization fee is calculated by multiplying the number of registered prepaid subscribers by the annual utilization fee. The calculated bulk annual utilization fee is paid by the GSM operators the following year on the last business day in February.

### ***Special Consumption Tax***

The special consumption tax is a tax on prescribed goods, which includes mobile phones. The special consumption tax is charged on mobile phones either when they are imported or when they are sold by Turkish manufacturers. The special consumption tax rate on mobile phones (mobile phones are legally defined as transmitter/receiver cellular phones ) is currently 20%. Until December 31, 2013, the special consumption tax calculated in accordance with 20% rate shall not fall below TRY 40.00 (equivalent to \$26.39 as of April 7, 2011) per cellular phone device (Temporary Article 6 of Special Consumption Tax Code).

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 .

### **Critical Accounting Policies**

See Note 3 (Significant Accounting Policies) to our consolidated financial statements in this Form 20-F.

### **5.A Operating Results**

Our audited consolidated financial statements as of December 31, 2010 and December 31, 2009 and for each of the years in the three-year period ended December 31, 2010 included in this annual report have been prepared in accordance with IFRS as issued by the IASB.

### **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 ICTA which provides authorization for providing IMT 2000/UMTS services and infrastructure. We have 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 have provided IMT 2000/UMTS services as of July 30, 2009.

Under our 2G License, we pay the Undersecretariat of 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 Transportation and Communications of Turkey ( Turkish Ministry ) as the universal services fund. Based on a law enacted on July 3, 2005 concerning the regulation of privatization, the gross revenue description used for the calculation of the treasury share and universal service fund was changed. According to such regulation, accrued interest charged for late collections, indirect taxes, such as VAT, and other expenses are excluded from the description of

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gross revenue. In light of such changes, we applied to the ICTA to revise the related articles of the amended agreement and completed certain necessary procedures. Danistay, the highest administrative court, approved the agreement on March 10, 2006. The resulting definition of gross revenue for the treasury share has been effective since March 10, 2006.

We believe that the buildout of our network in Turkey is substantially completed. As of December 31, 2010, 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. 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 100% of the population within the borders of all metropolitan municipalities and borders of all cities and municipalities in three and six years, respectively. Moreover, we are required to cover 100% of 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, 2010, we had reached a 82% population coverage (based on 3GPP TS 25.101 specifications for outdoor coverage).

Other than our 2G and 3G 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.

Our subscriber base has grown substantially since we began operations in 1994. At year-end 1994, we had 63,500 subscribers. By year-end 2010, that number had grown to 33.5 million.

According to the ICTA's announcements, there were 61.8 million GSM lines in the Turkish GSM market as of December 31, 2010. In addition, the penetration rate in such market was 85% as of December 31, 2010. Despite the increasingly competitive environment, we sustained our leading market position with a market share of 54% for the year ended December 31, 2010, according to the ICTA's announcements. We increased our postpaid subscriber base from 27% in 2009 to 30% in 2010 due to our focus on value. On the channel front, we made revisions to our existing subdealer network and the commission structure to increase the availability of the Turkcell brand. As of December 31, 2010, we had 23.3 million prepaid and 10.1 million postpaid subscribers in our Turkish GSM network. Despite the negative macroeconomic indicators in Turkey, we recorded the highest usage levels since 2001. Our average MoU in Turkey increased by 33% to 179.1 minutes in 2010 from 134.3 minutes in 2009, as a result of our successful campaigns and attractive tariffs. Our average revenue per user in Turkey increased to \$13.0 in 2010 from \$12.0 in 2009. In TRY terms, ARPU increased to TRY 19.5 in 2010 compared to TRY 18.5 in 2009. Despite the intensifying challenges in the macroeconomic, competitive and regulatory environment, we have increased our average revenue per user metric in Turkey mainly due to rising mobile internet revenues and postpaid subscriber base.

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 price caps 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.

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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. Our churn rate for operations in Turkey was 33.9% for the year ended December 31, 2010 compared to 32.6% for the year ended December 31, 2009. Our churn rate increased 1.3 percentage points mainly due to declining multiple SIM card usage.

We have an allowance for doubtful receivable in our consolidated financial statements for non-payments and disconnections that amounted to \$376.8 million and \$268.2 million as of December 31, 2010 and December 31, 2009 respectively, which we believe is adequate. The main reason for the increase in allowance for doubtful receivable is the increase in the number of postpaid subscribers.

## **International and Other Domestic Operations**

In addition to our businesses in Turkey, we have telecommunications operations in Ukraine, the Turkish Republic of Northern Cyprus and Belarus. We also operate in other countries through our associate, Fintur. For a description of, and additional information regarding, our international and other domestic operations, see Item 4.B. Business Overview .

## **Revenues**

In Turkey, we and other mobile communications operators have entered into interconnection agreements which set out the terms and conditions regarding the pricing terms as well as the periodical revision of such terms. See Item 4.B. Business Overview Regulation of the Turkish Telecommunications Industry .

In previous periods, disagreements existed between us and the other mobile communications operators regarding the revision of pricing terms of the interconnection agreements. In addition, there is a disagreement with Turk Telekom about international calls. See Item 8.A. Consolidated Statements and Other Financial Information Legal Proceedings and Note 32 to our consolidated financial statements in this Form 20-F.

## **Operating Costs**

### ***Direct Cost of Revenues***

Direct cost of revenues includes treasury shares, transmission fees, base station rents, billing costs, cost of simcards sold, depreciation and amortization charges, 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 offered as part of our loyalty programs and wages, salaries, and personnel expenses for technical personnel.

### ***Administrative Expenses***

Administrative expenses consist of fixed costs, including company cars, office rent, 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 postpaid subscribers.



**Table of Contents*****Selling and Marketing***

Selling and marketing expenses consist of customer relations, sales promotions, dealer activation fees, advertising, 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.

***Results of Operations***

The following table shows information concerning our consolidated statements of operations for the years indicated:

	For the years ended December 31,		
	2010	2009	2008
(in \$ millions)			
Revenues	5,982.1	5,790.0	6,970.4
Direct Cost of Revenues	(3,349.0)	(3,097.1)	(3,409.0)
<b>Gross Profit</b>	<b>2,633.1</b>	<b>2,692.9</b>	<b>3,561.4</b>
Administrative expenses	(347.3)	(273.1)	(309.3)
Selling and Marketing expenses	(1,085.8)	(1,085.1)	(1,351.7)
Other income / (expense)	(49.5)	(110.3)	(3.9)
<b>Results from operating activities</b>	<b>1,150.5</b>	<b>1,224.4</b>	<b>1,896.5</b>
Finance costs	(102.6)	(187.5)	(136.8)
Finance income	277.1	329.6	442.1
<b>Net finance income / (costs)</b>	<b>174.5</b>	<b>142.1</b>	<b>305.3</b>
Share of profit of equity accounted investees	122.8	78.4	103.0
<b>Profit before income taxes</b>	<b>1,447.8</b>	<b>1,444.9</b>	<b>2,304.8</b>
Income tax expense	(320.8)	(340.1)	(549.8)
<b>Profit for the year</b>	<b>1,127.0</b>	<b>1,104.8</b>	<b>1,755.0</b>
Attributable to:			
Equity holders of the Company	1,170.2	1,094.0	1,836.8
Non-controlling interest	(43.2)	10.8	(81.8)
<b>Profit for the year</b>	<b>1,127.0</b>	<b>1,104.8</b>	<b>1,755.0</b>

The following table shows certain items in our consolidated statement of operations as a percentage of revenue:

	For the years ended December 31,		
	2010	2009	2008
(in \$ millions)			
<b>Statement of Operations Data (% of revenue)</b>			
Revenues			
Communication fees	94.8	96.0	94.4
Commission fees on betting business	0.5	0.7	2.5
Other revenue	4.7	3.3	3.1
Total revenue	100.0	100.0	100.0
Direct cost of revenues	(56.0)	(53.5)	(48.9)
Gross margin	44.0	46.5	51.1
Administrative expense	(5.8)	(4.7)	(4.4)
Selling and marketing expenses	(18.2)	(18.7)	(19.4)
Other operating income/(expense)	(0.8)	(1.9)	(0.1)
Results from operating activities	19.2	21.1	27.2

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### Segment Overview

Segment information is presented in respect of our geographical segments. We have three reportable segments, as described below, which are based on the dominant source and nature of our risk and returns as well as our internal reporting structure. These strategic segments offer the same types of services, but they are managed separately because they operate in different geographical locations and are affected by different economic conditions.

We are comprised of the following main operating segments: Turkcell, Euroasia and Belarusian Telecom, all of which are GSM operators in their countries.

Other operations mainly include our companies operating in telecommunications and betting businesses and companies that provide internet and broadband services, call center and value added services.

	<b>Turkcell 2010</b>	<b>Euroasia 2010</b>	<b>Belarusian Telecom 2010</b>	<b>Other 2010</b>	<b>Total 2010</b>
<b>(in \$ million)</b>					
Total external revenues	5,294.1	334.0	48.9	305.1	5,982.1
Intersegment revenue	14.7	5.3	0.1	386.3	406.4
Reportable segment adjusted EBITDA	1,751.1	64.5	(32.6)	213.6	1,996.6
Finance income	255.4	0.8	0.8	60.1	317.1
Finance cost	(34.6)	(44.0)	(28.5)	(66.1)	(173.2)
Depreciation and amortization	(474.7)	(120.4)	(80.8)	(92.1)	(768.0)
Share of profit of equity accounted investees				122.8	122.8
Other material non-cash items:					
Impairment on goodwill			23.5		23.5

	<b>Turkcell 2009</b>	<b>Euroasia 2009</b>	<b>Belarusian Telecom 2009</b>	<b>Other 2009</b>	<b>Total 2009</b>
<b>(in \$ million)</b>					
Total external revenues	5,176.1	350.1	17.4	246.4	5,790.0
Intersegment revenue	22.8	1.0	0.1	304.1	328.0
Reportable segment adjusted EBITDA	1,819.3	20.2	(38.3)	144.9	1,946.1
Finance income	304.3	2.1	1.4	75.8	383.6
Finance cost	(162.9)	(54.9)	(12.5)	(33.0)	(263.3)
Depreciation and amortization	(396.3)	(79.9)	(52.7)	(67.9)	(596.8)
Share of profit of equity accounted investees				78.4	78.4
Other material non-cash items:					

Impairment on goodwill			61.8		61.8
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	<b>Turkcell 2008</b>	<b>Euroasia 2008</b>	<b>Belarusian Telecom 2008</b>	<b>Other 2008</b>	<b>Total 2008</b>
<b>(in \$ million)</b>					
Total external revenues	6,170.4	436.7	0.4	362.9	6,970.4
Intersegment revenue	41.9	2.0		292.3	336.2
Reportable segment adjusted EBITDA	2,383.9	32.3	(5.8)	181.7	2,592.1
Finance income	667.3	6.3	0.1	81.5	755.2
Finance cost	(100.7)	(262.9)	(1.3)	(76.0)	(440.9)
Depreciation and amortization	(528.5)	(101.0)	(8.9)	(42.9)	(681.3)
Share of profit of equity accounted investees				103.0	103.0
Other material non-cash items:					

Impairment on goodwill					
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### **Turkcell**

#### ***2010 compared to 2009***

Total revenues generated by Turkcell increased 2.1%, to \$5,308.8 million in 2010 from \$5,198.9 million in 2009, mainly due to the 2.9% appreciation, on average, of the TRY against the USD. However, on a constant dollar basis, which is a non-GAAP measure computed based on the assumption that the TRY/USD exchange rate remained constant for the years ended December 31, 2010 and 2009, total revenues decreased 0.4%. We believe that this decrease was mainly a result of regulatory decisions that had the effect of decreasing interconnection rates and imposing price caps on our retail tariffs, which were partially offset by the growth in mobile internet and service revenues as well as the increasing postpaid subscriber base. Due to such regulatory decisions, we have redesigned our tariffs and offers and revenue per minute has declined to TRY 0.11 in 2010 from TRY0.14 in 2009. 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 .

Turkcell's EBITDA deteriorated 3.7%, to \$1,751.1 million in 2010 from \$1,819.3 million in 2009. On a constant dollar basis, EBITDA deteriorated 4.8%, primarily due to an increase in administrative expenses. Our increase in administrative expenses mainly resulted from an increase in bad debt expenses as a result of an increase in the postpaid subscriber base, together with higher wages and salaries. The increase in the direct cost of revenues had an impact on the deterioration of EBITDA, primarily resulting from an increase in fixed network costs and wages and salaries expenses and partially netted off by a decrease in interconnect costs due to a lowering of interconnect rates, despite the increase in off-net traffic.

Net finance income increased 56.2%, from \$141.4 million in 2009 to \$220.8 million in 2010. On a constant dollar basis, net finance income also increased 49.8% mainly due to a decrease in interest expense resulting from the absence of provisions related to litigation late payment interest expenses in 2010, partially offset with an increase in loan interest expense due to an increase in outstanding debt balance and a decrease in interest income arising from lower interest rates. Change in translation gain/(loss) due to the 2.7% depreciation of the TRY against the USD in 2010, as opposed to the 0.4% appreciation of the TRY against the USD in 2009, also has a positive impact on improvement of net finance income since Turkcell has a long position.

Depreciation expense increased 19.8% from \$396.3 million in 2009 to \$474.7 million in 2010. On a constant dollar basis, depreciation expense also increased by 17.2%.

#### ***2009 compared to 2008***

Total revenues generated in Turkcell decreased 16.3% to \$5,198.9 million in 2009, from \$6,212.3 million in 2008, mainly due to the 21.4% depreciation, on average, of the TRY against the USD; however, on a constant dollar basis, which is computed based on the assumption that the TRY/USD exchange rate remained constant for the years ended December 31, 2009 and 2008, total revenues increased 1.9%, mainly as a result of our growth in the Turkish mobile business, reflected by a strong increase in usage, higher mobile internet and services (an increasing contribution from mobile internet and services revenue driven by 3G implementation) and higher interconnect revenues.

Turkcell's EBITDA deteriorated 23.7%, to \$1,819.3 million in 2009 from \$2,383.9 million in 2008. On a constant dollar basis, EBITDA deteriorated 6.2% mainly as a result of the increase in the direct cost of revenues, which primarily resulted from higher interconnect costs due to the increase in off-net traffic partially netted off by the decrease in interconnection tariffs and a provision recorded due to Turkcell's ongoing dispute regarding international voice traffic, and network related expenses.

Net finance income deteriorated 75.0%, to \$141.4 million in 2009 from \$566.6 million in 2008. On a constant dollar basis, net finance income also deteriorated 69.0% as a result of the negative impact of the change in translation gain/(loss) due to the 0.4% appreciation of the TRY against the USD in 2009, as opposed to the

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30% depreciation of the TRY against the USD in 2008, lower interest income due to the decrease in interest rates and provisions related to litigation late payment interest expenses in 2009.

Depreciation expense decreased 25.0% to \$396.3 million in 2009 from \$528.5 million in 2008. On a constant dollar basis, depreciation expense decreased 8.8% due to fully depreciated fixed assets.

### **Euroasia**

#### ***2010 compared to 2009***

Astelit, in which we hold a 55.0% stake through Euroasia, has operated in Ukraine since February 2005 under the brand life:). Since its inception in February 2005, Astelit has worked on establishing network coverage to provide high quality services in Ukraine. As of December 31, 2010, Astelit had established 8,975 base stations to ensure a rapid roll-out of its infrastructure, which currently covers approximately 96.6% of the Ukrainian s population. life:) was the first in the market to introduce EDGE and GPRS services, which provide the highest data transfer speed available in the GSM network. Astelit has also focused on establishing brand awareness and values as well as growing its subscriber base. Through its distribution channel of approximately 26,949 non-exclusive sales points throughout Ukraine, 269 life:) exclusive sales points and high brand recognition in the Ukrainian market, Astelit s subscriber base decreased 25.4% from 12.2 million at the end of December 31, 2009 to 9.1 million at the end of December 31, 2010, mainly due to the change in subscriber definition and churn in 2010, which was designed to monitor value adding subscribers and their behavior more closely. In 2010, Euroasia s segment revenue decreased 3.4%, from \$351.1 million in 2009 to \$339.3 million in 2010, while revenue decreased 1.8% on a constant dollar basis, mainly due to closing of our unprofitable carrier business line and reductions in interconnect rates during the year.

Euroasia s EBITDA increased 219.3% to reach \$64.5 million in 2010 from \$20.2 million in 2009. As a percentage of revenues, EBITDA increased 13.3 percentage points to 19.0% in 2010 from 5.8% in 2009, within the context of the turnaround strategy and effective cost control initiatives. The main drivers of the increase in EBITDA were tariff redesigns, resulting in a decrease in interconnection cost, and cost cutting measures, which resulted in lower direct cost of revenues and administrative expenses as a percentage of revenues.

Net finance cost decreased 18.2%, from a \$52.8 million loss in 2009 to a \$43.2 million loss in 2010, thanks to the absence of the foreign exchange losses incurred in 2009 as a result of the 3.7% depreciation of the Ukrainian Hryvnia against the U.S. dollar in 2009, as opposed to 0.3% appreciation of the local currency against US dollar in 2010, since Eurasia has short position partially offset with the increase in interest expense.

#### ***2009 compared to 2008***

Astelit s subscriber base grew 8.9% to 12.2 million at the end of December 31, 2009 from 11.2 million at the end of December 31, 2008. In 2009, Euroasia s segment revenue decreased 20.0% to \$351.1 million from \$438.7 million in 2008 mainly due to the 47.7% depreciation, on average, of the local currency against the US dollar. However, Euroasia increased its revenue 19.5% compared to 2008 on a constant dollar basis, mainly due to the increase in its customer base and higher usage.

Euroasia s EBITDA deteriorated 37.5% to reach \$20.2 million in 2009 from \$32.3 million in 2008. As a percentage of revenues, EBITDA decreased 1.7 percentage points to 5.7% in 2009 from 7.4% in 2008 due to an increasing share of interconnection costs resulting from an increase in calls to other operators and in radio costs as a result of the increase in base stations as a percentage of revenue, partially offset with the decrease in selling and marketing expenses as a percentage of revenues.

Net finance cost decreased 79.4% to a \$52.8 million loss in 2009 from a \$256.6 million loss in 2008 due to the absence of the large foreign exchange losses incurred in 2008 stemming from the 52% depreciation of the Ukrainian Hryvnia against the USD in 2008.

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### **Belarusian Telecom**

#### ***2010 compared to 2009***

In 2010, Belarusian Telecom's subscriber base grew 25.0%, reaching 1.5 million people, compared to 1.2 million in 2009. As a result, Belarusian Telecom's segment revenue increased 180.0% in 2010, reaching \$49.0 million, from \$17.5 million in 2009.

Belarusian Telecom's EBITDA improved 14.9% from a \$38.3 million loss in 2009 to a \$32.6 million loss in 2010. The improvement in EBITDA resulted from the higher amount of revenue when compared to the increase in the direct cost of revenues, selling and marketing and general administrative expenses. The increase in direct cost of revenues mainly resulted from the increase in interconnection costs, handset costs given as part of loyalty campaigns and fixed network expenses, on a constant dollar basis.

Net finance cost increased 149.5% to \$27.7 million loss in 2010 from \$11.1 million loss in 2009 mainly as a result of higher interest expenses due to a larger amount of loans and borrowings.

As at December 31, 2010 and 2009, we had impaired goodwill of \$23.5 million and \$61.8 million, respectively, resulting from the acquisition of Belarusian Telecom and following adverse movements in the discount and growth rates, as well as an adverse performance against previous plans. We fully allocate the impairment loss to goodwill and include it in other expenses.

#### ***2009 compared to 2008***

The results of Belarusian Telecom's operations have been included in our consolidated financial statements since August 28, 2008, thus, its 2008 figures consist of its results of operations after that time. In 2009, Belarusian Telecom's subscriber base grew 500%, reaching 1.2 million people, compared to 0.2 million in 2008. As a result, Belarusian Telecom's segment revenue increased 4,250% in 2009, reaching \$17.4 million, from \$0.4 million in 2008.

Belarusian Telecom's EBITDA decreased to a \$38.3 million loss in 2009 from a \$5.8 million loss in 2008. The deterioration in EBITDA also resulted from the worsening economic and political macro-environment, an increase in radio costs as a result of the increase in base station numbers and an increase in selling and marketing activities.

Net finance income/(cost) decreased to a \$11.1 million loss in 2009 compared to a \$1.2 million loss in 2008 as a result of higher interest expenses due to a larger amount of loans and borrowings and higher foreign exchange losses due to the short position of balance sheet.

### **Year Ended December 31, 2010 Compared to Year Ended December 31, 2009**

We had 33.5 million GSM subscribers in Turkey, including 23.3 million prepaid subscribers, as of December 31, 2010, compared to 35.4 million GSM subscribers in Turkey, with 26.0 million prepaid subscribers, as of December 31, 2009. During 2010, we lost approximately 1.9 million Turkish GSM subscribers.

In Ukraine, we had 9.1 million and 12.2 million subscribers as of December 31, 2010 and 2009, respectively. During 2010, we lost approximately 3.1 million new Ukrainian GSM subscribers. This was primarily due to the change in subscriber definition and churn in 2010, which was designed to monitor value adding subscribers and their behavior more closely.

### ***Revenues***

Total revenues for the year ended December 31, 2010 increased 3.3% to reach \$5,982.1 million, from \$5,790.0 million in 2009, mainly due to the 2.9% appreciation, on average, of the TRY against the USD. On a

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constant dollar basis, our revenues increased 0.8% compared to 2009, mainly due to an increase in Turkcell's mobile internet and services revenues, as well as a higher contribution from our subsidiaries, particularly through Superonline, despite regulatory decisions relating to the decrease in interconnection rates and a price cap. In 2010, our interconn