TURKCELL ILETISIM HIZMETLERI A S
Form 20-F
March 18, 2016
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As filed with the Securities and Exchange Commission on March 18, 2016

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

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

For the fiscal year ended December 31, 2015

OR

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

For the transition period from to

OR

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

Date of event requiring this shell company report

Commission File Number: 1-15092

TURKCELL ILETISIM HIZMETLERI A.S.

(Exact Name of Registrant as Specified in Its Charter)

TURKCELL

(Translation of Registrant s Name into English)

Republic of Turkey

(Jurisdiction of Incorporation or Organization)

Turkcell Kucukyali Plaza

Aydinevler Mahallesi Inonu Caddesi No:20 Kucukyali Ofispark B Blok

Maltepe

Istanbul, Turkey

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Turkcell Kucukyali Plaza

Aydinevler Mahallesi Inonu Caddesi No:20 Kucukyali Ofispark B Blok

Maltepe

Istanbul, Turkey

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

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

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

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 x 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 x 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 x	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 x

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INTRODUCTION

This is the 2015 annual report for Turkcell Iletisim Hizmetleri A.S. (Turkcell), a joint stock company organized and existing under the laws of the Republic of Turkey. The Company , we , us , our , and similar terms refer to Turkcell, i predecessors, and its consolidated subsidiaries, except as the context otherwise requires.

Our audited Consolidated Financial Statements as of December 31, 2015 and 2014 and for each of the years in the three-year period ended December 31, 2015 included in this annual report have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

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

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

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

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

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

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.

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Although we believe that the expectations reflected in such forward-looking statements are reasonable at this time, we can give no assurance that such expectations will prove to be correct. Given these uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements. Important factors that could cause actual results to differ materially from our expectations are contained in cautionary statements in this annual report, including, without limitation, in conjunction with the forward-looking statements listed below, and include, among others, the following:

- competition in our main market;
- increased competition and/or the entrance of new direct and indirect competitors in the market due to new applications and regulatory changes in Turkey with respect to certain technologies;
- the recent transition in our senior management team, the refocusing of our business strategy in Turkey and the execution of this strategy;
- failure to successfully integrate and manage the new opportunities we pursue, particularly our new 4.5G license, consumer finance company established in 2015, new business models, new technologies and international activities;
- regulatory decisions and changes in the regulatory environment, in particular the ICTA s decisions in 2013, 2014 and 2015 and in the future;
- managing changes in our liquidity position and increased indebtedness and finance costs, which will further increase if we are successful in our bid to acquire TeliaSonera s stake in Fintur and Kcell;
- 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, especially due to political instability in Ukraine and an increase in our exposure there resulting from the buyout of SCM s interest in lifecell/Euroasia;
- foreign exchange rate risks, which will increase if we are successful in our bid to acquire TeliaSonera s stake in Fintur and Kcell;

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

our ability to deal with spectrum limitations;

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

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

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

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

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

technological changes in the telecommunications market;

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

our ability to retain key personnel and distributors;

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

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

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

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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 annual Consolidated Financial Statements including our consolidated statements of financial position as of December 31, 2015 and 2014 and our consolidated statements of profit and loss, comprehensive income, changes in equity and cash flows for the three years in the period ended December 31, 2015 (Annual Consolidated Financial Statements) included in this annual report have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

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

The following information should be read in conjunction with Item 5. Operating and Financial Review and Prospects , our audited Consolidated Financial Statements as of December 31, 2015 and 2014 and the related consolidated statements of profit and loss, comprehensive income, changes in equity, and cash flows for the years ended December 31, 2015, 2014 and 2013, and the related notes appearing elsewhere in this annual report.

The following table presents our selected consolidated statements of operations, statement of financial position and cash flows data as of and for each of the years in the three-year period ended December 31, 2015, presented in accordance with IFRS as issued by the IASB which have been derived from our audited Consolidated Financial Statements as of and for the year ended December 31, 2015; and our selected consolidated statements of operations, statement of financial position and cash flows data as of and for each of the years in the two-year period ended December 31, 2012, presented in accordance with IFRS as issued by the IASB which have been derived from our accounting records as of and for the years ended December 31, 2012 and 2011. Our financial statements for 2012 and 2011 were originally published in US dollars and were audited.

	2015	2014	2013	2012	2011
	(Million TRY, except share data and certain other data)				
Selected Financial Data Prepared in Accordance with IFRS as Issued by the IASB					
Consolidated Statement of Operations Data					
Total revenues	12,769.4	12,043.6	11,407.9	10,507.0	9,370.1
Direct cost of revenues[(1)]	(7,769.5)	(7,383.9)	(7,063.9)	(6,487.3)	(5,954.3)
Gross profit	4,999.9	4,659.7	4,344.0	4,019.7	3,415.8
Other income	44.5	58.9	35.5	32.3	54.0

Administrative expenses	(625.3)	(562.7)	(550.3)	(484.2)	(410.9)
Selling and marketing expenses	(1,901.9)	(1,974.6)	(1,843.6)	(1,705.7)	(1,684.9)
Other expenses	(270.4)	(135.2)	(94.4)	(137.5)	(272.5)
Results from operating activities	2,246.8	2,046.1	1,891.2	1,724.6	1,101.5
Finance income	756.1	955.4	759.9	691.7	545.6
Finance costs	(799.5)	(1,247.0)	(204.6)	(224.2)	(528.3)
Net finance income/(costs)	(43.4)	(291.6)	555.3	467.5	17.3
Monetary gain(2)		205.1	176.9	169.9	273.5
Share of profit of equity accounted investees(3)	367.3	207.3	297.3	218.5	227.1
Profit before income taxes	2,570.7	2,166.9	2,920.7	2,580.5	1,619.4
Income tax expense	(667.1)	(730.4)	(591.4)	(522.5)	(485.0)
Profit for the period	1,903.6	1,436.5	2,329.3	2,058.0	1,134.4

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	2015	2014	2013	2012	2011
	(Million TRY, except share data and certain other data)				
Attributable to:					
Equity holders of the Company	2,067.7	1,864.7	2,325.9	2,079.0	1,177.7
Non-controlling interest	(164.1)	(428.2)	3.4	(21.0)	(43.3)
Profit for the period	1,903.6	1,436.5	2,329.3	2,058.0	1,134.4
Basic and diluted earnings per share	0.94	0.85	1.06	0.95	0.54
Consolidated Statement of Financial Position Data (at period end)					
Cash and cash equivalents	2,918.8	9,031.9	8,128.9	6,998.9	4,738.4
Total assets	26,207.3	23,694.2	21,284.6	18,687.4	17,186.7
Long-term debt(4)	3,487.8	1,247.9	1,528.5	1,103.8	1,997.3
Total debt(5)	4,214.2	3,697.7	3,332.5	3,039.6	3,528.6
Total liabilities	11,788.4	6,983.6	6,549.5	5,923.7	6,360.3
Share capital	2,200.0	2,200.0	2,200.0	2,200.0	2,200.0
Total equity/net assets	14,418.9	16,710.6	14,735.1	12,763.7	10,826.4
Weighted average number of shares	2,200,000,000	2,200,000,000	2,200,000,000	2,200,000,000	2,200,000,000
Consolidated Cash Flows Data					
Net cash generated by operating activities	1,901.3	1,990.8	2,210.6	2,122.7	1,996.0
Net cash (used in)/ generated by investing activities	(3,830.9)	(1,378.0)	(1,085.5)	543.4	(2,716.0)
Net cash generated by/(used in) financing activities	(4,619.5)	93.0	(230.5)	(309.9)	48.1
Other Financial Data					
Dividends declared or proposed(6)(7)		794.0	990.0	885.0	503.0
Dividends per share (declared or proposed)(7)		0.36	0.45	0.40	0.23
Gross margin(8)	39%	39%	38%	38%	37%
Adjusted EBITDA(9)	4,140.5	3,761.8	3,544.5	3,241.5	2,912.9
Capital expenditures	8,536.2	2,144.8	1,822.3	1,738.8	1,636.1

(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 rent and energy expenses, billing costs, depreciation and amortization charges, technical, repair and maintenance expenses, roaming charges, interconnection fees, costs of simcards sold, handset costs where we are the principal in the sale of handsets and personnel expenses related to our technicians.

(2) See Note 2 (Basis of preparation) to our Consolidated Financial Statements in this Form 20-F for information regarding monetary gain.

(3) Share of profit of equity accounted investees primarily includes the income related to our 41.45% and 50.00% stake in Fintur Holdings B.V. (Fintur) and A-Tel Pazarlama ve Servis Hizmetleri A.S. (A-Tel), respectively. Fintur currently holds all of our international mobile communications investments other than those related to our operations in Northern Cyprus, Ukraine, Belarus and Germany. The service provider and distribution agreement with A-Tel was annulled via notification dated January 31, 2012, which was effective from August 1, 2012. Turkcell s ownership in A-Tel was sold to Bereket Holding A.S. for a consideration of TL 31.0 million pursuant to the Share Sale Agreement signed on August 27, 2014. See Note 16 to our audited Consolidated Financial Statements included in Item 18. Financial Statements of this annual report on Form 20-F.

(4) Long-term debt consists of long-term loans and borrowings, debt securities issued as well as long-term lease obligations.

(5) Total debt consists of long-term and short-term loans and borrowings, debt securities issued as well as lease obligations excluding currency swap contracts and option contracts.

(6) The Ordinary General Assembly meeting of our Company pertaining to the years 2010, 2011, 2012, 2013 and 2014 approved a dividend in respect of these years amounting to TRY 3,925 million, which represented 42.5% of net distributable income. The dividend was paid to shareholders on April 6, April 8 and April 13, 2015.

(7) Dividends per share was computed over 2,200,000,000 shares. The dividend per share were TRY0.23, TRY 0.40, TRY 0.45 and TRY 0.36 for the years ended 2011, 2012, 2013 and 2014 respectively (equivalent to $0.08, $0.14, $0.15 and $0.12 respectively as of December 31, 2015).

(8) Gross margin is calculated as gross profit divided by total revenues.

(9) Adjusted EBITDA is a non-GAAP financial measure that is defined as the profit of the Company for the period before finance income, finance costs, income tax expense, other income, other expense, monetary gain, share of profit of equity accounted investees and depreciation and amortization.

Non-IFRS measures

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

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

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

Some of these limitations are:

- it does not reflect our cash expenditures or future requirements for capital expenditures or contractual commitments;
- it does not reflect changes in, or cash requirements for, our working capital needs;
- it excludes share of profit of equity announced investees;
- it does not reflect the interest expense, or the cash requirements necessary to service interest or principal payments, on our debt;
- it excludes depreciation, amortization and impairments and although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and Adjusted EBITDA does not reflect any cash requirements for such replacements;
- it does not reflect other income and expense items which are generally outside the scope of our ordinary operations and mostly non-recurring;
- it is not adjusted for all non-cash income or expense items that are reflected in our consolidated statement of cash flows; and
- other companies in our industry may calculate this measure differently from how we do, which may limit its usefulness as a comparative measure.

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

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

	Year ended December 31,				
	2015	**2014**	**2013**	**2012**	**2011**
	(Million TRY)				
Adjusted EBITDA	4,140.5	3,761.8	3,544.5	3,241.5	2,912.9
Finance income/(costs)	(43.4)	(291.6)	555.3	467.5	17.3
Monetary gain		205.1	176.9	169.9	273.5
Other operating income/(expense)	(225.9)	(76.3)	(58.9)	(105.2)	(218.5)
Share of profit of equity accounted investees	367.3	207.3	297.3	218.5	227.1
Depreciation and amortization	(1,667.8)	(1,639.4)	(1,594.4)	(1,411.7)	(1,592.9)
Consolidated profit before income tax	2,570.7	2,166.9	2,920.7	2,580.5	1,619.4
Income tax expense	(667.1)	(730.4)	(591.4)	(522.5)	(485.0)
Profit for the period	1,903.6	1,436.5	2,329.3	2,058.0	1,134.4

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The following table presents selected operational data:

I. Operating Results

	As of and for the year ended December 31,		
	2015	**2014**	**2013**
Industry Data			
Population of Turkey (in millions)(1)	78.7	77.7	76.7
Turkcell Data(2)			
Number of mobile postpaid subscribers at end of period (in millions)(3)	16.6	15.2	14.0
Number of mobile M2M subscribers at end of period (in millions)	1.9	1.5	1.4
Number of mobile prepaid subscribers at end of period (in millions)(3)	17.4	19.4	21.2
Number of fiber subscribers at end of period (in thousands)	899.4	735.1	570.0
Number of ADSL subscribers at end of period (in thousands)	620.8	456.2	275.4
Number of IPTV subscribers at end of period (in thousands)	223.7	60.1	
Total subscribers at end of period (in millions)(3)	35.8	35.9	36.0
Mobile average monthly revenue per user (in TRY)(4)	24.5	22.5	21.7
Postpaid	38.5	37.7	37.3
Postpaid (excluding M2M)	42.7	41.5	41.1
M2M	3.3	3.2	3.4
Prepaid	12.4	11.6	11.8
Fixed Residential average monthly revenue per user (in TRY)(4)	48.7	47.4	44.4
Mobile average monthly minutes of use per subscriber(5)	296.6	275.3	259.3
Mobile Churn(6)	27.3%	28.3%	27.4%
Fixed Churn(7)	16.7%	17.7%	17.0%
Number of Turkcell employees at end of period	3,851	3,319	3,316
Number of employees of consolidated subsidiaries at end of period(8)	12,798	12,311	10,999

(1) The population of Turkey for 2015, 2014 and 2013 is based on TUIK s announcements.

(2) For a discussion of how these metrics affect our revenues, please see Item 5A. Operating Results, VI. Year Ended December 31, 2015 Compared to the Year Ended December 31, 2014 a. Revenues .

(3) Subscriber numbers do not include subscribers in Ukraine, Belarus, Northern Cyprus and Germany or those of Fintur subsidiaries.

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

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

(6) Churn rate is the percentage calculated by dividing the total number of subscriber disconnections during a certain period by the average number of subscribers for the same period. For these purposes, we define average number of subscribers as the number of subscribers at the beginning of the period plus one half of the total number of gross subscribers acquired during the period. Churn refers to our mobile subscribers in Turkey that are both voluntarily and involuntarily disconnected from our network. Additionally, in the fourth quarter of 2015, 379 thousand subscriptions which were not topped-up within the stipulated period were also disconnected.

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

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

II. Exchange Rate Data

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

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

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

The hyperinflationary period in Turkey ceased by December 31, 2005 and commenced in Belarus on January 1, 2011 and ceased by January 1, 2015. Accordingly, the economy of Belarus was considered to transit out of hyperinflationary status and determined to cease applying IAS 29 starting from January 1, 2015.

The following table sets forth, for the periods and the dates indicated, the CBRT s buying rates for U.S. Dollars. These rates may differ from the actual rates used in preparation of our Consolidated Financial Statements and other information appearing herein. The $/TRY exchange rate on March 10, 2016 was TRY 2.908= $1.00.

	2016(2)(3)	**2015(2)**	**2014(2)**	**2013(2)**	**2012(2)**	**2011(2)**
High	3.050	3.060	2.367	2.160	1.889	1.907
Low	2.904	2.278	2.071	1.746	1.734	1.496
Average(1)	2.966	2.720	2.188	1.901	1.793	1.670
Period End	2.908	2.908	2.319	2.134	1.783	1.889

Source: CBRT

(1) Calculated based on the average of the daily exchange rates of each month during the relevant period.
(2) These columns set forth the CBRT s buying rates for U.S. Dollars expressed in Turkish Lira.
(3) Through March 10, 2016.

	March 2016(1)	**February 2016**	**January 2016**	**December 2015**	**November 2015**	**October 2015**
High	2.961	2.967	3.050	2.970	2.920	3.025
Low	2.908	2.904	2.918	2.877	2.804	2.867

Source: CBRT

(1) Through March 10, 2016.

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.

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

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

In this market, we currently face intensifying competition from two other operators, Vodafone and Turk Telekom Group, including its wholly-owned subsidiary Avea. As part of the changes to our strategy announced in 2015, we have begun taking an integrated approach to the mobile, fixed and TV businesses. When viewing mobile and fixed as a single converged market, we are the second largest player in Turkey in terms of revenue, after the Turk Telekom Group, whereas when viewing the mobile market alone, we are the market leader.

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

As other operators in Turkey are also moving towards converged services, aggressively priced converged offers may have an adverse effect on our revenue, ARPU and our market share. Furthermore, convergence may increase the level of competition from other operators that have not been our traditional competitors, such as television service providers, that may prevent us from acquiring new customers. On the other hand, our market position may be adversely impacted if we fail to provide converged services on a timely or competitive basis relative to our competitors.

Turkey s principal telecommunications regulator, the ICTA, has interfered, and may continue to interfere, with our ability to price our services and respond to competitive pressures. Regulatory actions such as the ICTA s regulations on our retail pricing and the ICTA s ongoing pressure on interconnection rates and maximum retail prices 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. Regulatory actions have often favored our competitors, and have facilitated increased competition. It is also possible that the ICTA may act to regulate converged offers, and we cannot predict the impact that such regulation will have on our ability to execute our convergence strategy and on our competitive position. Furthermore, sub-brand initiatives of the existing competitors, and new licenses and authorizations issued by the regulator such as Fixed Telephony Service (FTS) and Mobile Virtual Network Operator (MVNO) licenses have made it easier and/or more attractive for new direct and indirect competitors to enter the market.

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

With respect to terminals, there is an increasing emphasis in the Turkish market on terminal bundled campaigns. Increased demand for terminal bundled campaigns will continue to lead higher working capital requirements and bad debt expense. Working capital requirements related to terminal financing and bad debt expenses are planned to be managed by our consumer finance company, which commenced operations in 2016.

Competition in the market may also be adversely affected by changes in a number of other areas that are not specific to telecommunications, such as regulatory changes in the financial services industry, which is now more relevant to us following the establishment of our consumer finance company, tax, increases in interest rates, depreciation of the Turkish Lira against U.S. Dollar or Euro, macroeconomic developments and changes in consumer behavior, which could in turn adversely affect our financial results and the development of our business.

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

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

TeliaSonera, our partner in Fintur Holdings B.V. (Fintur) through its 58.55% stake, has initiated a process to divest its Eurasian assets. In line with our growth strategy and as the minority (41.45%) shareholder in Fintur (operating in Kazakhstan, Azerbaijan, Georgia and Moldova), we submitted a binding offer to acquire TeliaSonera s 58.55% stake in Fintur and its 24% direct stake in Kcell JSC (Kazakhstan). No assurance can be given that we will acquire these stakes on commercially viable terms. These acquisitions will entail certain risks, including an increase in our debt, increased exposure to fluctuations in currencies that have been prone to devaluation, increased exposure to countries that have a high risk of corruption and other compliance issues. Furthermore, we will be exposed to risks in our ability to successfully integrate these companies, their systems and their networks and to implement new strategies, and to the reaction of customers, competitors and regulators. If we do not complete these acquisitions, we also face the risk that TeliaSonera may sell to another party, leaving us as a minority shareholder with a new majority shareholder not chosen by us. Should there be a disagreement between us and the other shareholder in the future, no assurance can be given that we will be able to take the course of action that we believe appropriate, including with respect to operational and strategic matters. We may also have difficulty exiting, should we choose to do so, at an acceptable price.

New investments may not achieve expected returns or returns that are in line with those of our core business, which may cause high value erosion. In many of the markets and businesses in which we have invested or may invest, it may take several years and significant investments to achieve desired profitability, if at all. In addition, if an asset in which we have invested does not provide the expected returns, we may need to make further investment or we may consider disposal at a sale price that may be below carrying value or liquidation.

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

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

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

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

In the areas of customer protection and unsolicited electronic communications for the purposes of direct marketing and processing of personal data, new regulations have been enacted in 2015 that limited our marketing and advertising activities and those that we could undertake for our corporate customers. This may weaken our brand image or limit our flexibility to respond to customer needs immediately or to proactively offer our converged services, which in turn could lead to customer and revenue loss. This has also led to a decline in revenues generated by corporate services such as bulk SMS.

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

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

With a substantial portion of our revenues, assets and business derived from and located in Turkey, and denominated in Turkish Lira, adverse developments in the Turkish economy are likely to have a material adverse effect on our business and financial condition. The performance of the Turkish economy may be affected by global, regional and domestic economic and political developments. In our view, the biggest threats to the global economy, including

Turkey, into 2016 are the sustainability of economic growth and the sustainability of current low energy prices, which have generally benefitted the Turkish economy and the country s current account deficit. The effect of prolonged low energy prices on commodity exporter countries in the region such as Russia, Saudi Arabia and Iran may negatively affect terms of trade between these countries and Turkey. Other potential threats to the Turkish economy result from uncertainty regarding the normalization of U.S. monetary policy, high volatility caused by concerns regarding Chinese growth, continuing Eurozone deflation risks, and geopolitical tensions and instability in Ukraine and the Middle East, including along Turkey s borders and in the southeastern part of Turkey, in the Commonwealth of Independent States (CIS), the Balkans and Caucasus regions. The Turkish economy is also sensitive to instability in the domestic political environment, which has been a factor in recent years. After the general elections held in June 2015 failed to result in a majority government, early elections that were held on November 1, 2015, which saw another term of single party government and eased political uncertainties. Moreover, political decisions in the local, regional or global arena to limit internet access (including limiting access to YouTube or twitter) may negatively impact our revenues.

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The Turkish economy has grown for 24 successive quarters, including growth of 2.9% in 2014 and 3.4% in the first nine months of 2015. If the Turkish economy slows or develops in unexpected ways, this may have an adverse impact on our operations and financial condition.

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

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

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

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

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

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

In Ukraine, the local currency, the Ukrainian Hryvnia (UAH), depreciated against the U.S. Dollar by 97% in 2014 and by 52% in 2015. The UAH has depreciated against the U.S. Dollar by 9.1% in 2016 as of March 10, 2016. Furthermore, the National Bank of Ukraine, among other measures, continues to impose certain restrictions on the processing of client payments by banks and on the purchase of foreign currency on the inter-bank market. There remains further currency devaluation risk as the country is suffering from continuing instability as noted above, and has a large current account deficit and high external funding needs. As of December 31, 2015, our outstanding debt balance related to our Ukrainian operations was UAH 3.6 billion (equivalent to TRY 441.8 million). lifecell s foreign currency revenues were 23% of its total revenues and its foreign currency operational expenses were estimated at 22% of the total as of December 31, 2015.

Our development strategy in Ukraine in 2015 was marked by our acquisition of the 44.96% in lifecell that we did not own, with a view to strengthening our regional position, a restructuring of lifecell s balance sheet, and the acquisition of a 3G license at a cost of UAH 3,355 million (equivalent to TRY 406.5 million as of December 31, 2015) paid in 2015, plus UAH 358 million (equivalent to TRY 43.3 million as of December 31, 2015) paid in 2015 for spectrum conversion and an additional UAH 426 million (equivalent to TRY 51.6 million) committed to be paid and indexed to inflation. These increases in our investment have further increased our country and currency risk exposure. There can be no assurance that we will be able to develop a 3G network on commercially reasonable terms and that we will not experience delays in developing our network, in each case harming our competitive position and the value of our investment.

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

The economic situation is fragile in Belarus. The country remains vulnerable to global shocks which may trigger renewed weakness in the country s ability to service its external debt and further depreciation of the local currency, Belarusian Rubles (BYR), which could in turn lead to a further reduction in the value of our investment in this country. The BYR depreciated against the U.S. Dollar by 25% in 2014 and further depreciated in 2015 by 57%. Devaluation risks still remain, as limited currency reserves, high debt repayments and the current account deficit coupled with the close ties to the currently troubled Russian economy puts the recent BYR stabilization at risk and creates inflationary and devaluation pressure. In line with our strategic priority of improving our balance sheet structure, the outstanding debt of Belarusian Telecom has been restructured. As part of the restructuring, Belarusian Telecom s total existing intra-group loans were converted into subordinated loans, provided directly by Turkcell. As of December 31, 2015, Belarusian Telecom s outstanding debt was BYR 39.5 billion (equivalent to TRY 6.2 million as of December 31, 2015) owed to financial institutions and a 612 million (equivalent to TRY 1,945 million as of December 31, 2015) subordinated loan owed to Turkcell.

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

There are ongoing political discussions regarding the reunification of Cyprus, which may bring growth opportunities for our subsidiary, Turkcell Kuzey Kibris, but may also lead to risks including unfavorable changes in applicable regulations, an increase in competition, an increase in capex requirements and loss of revenues.

Corruption is an area of significant concern in emerging markets. We are subject to laws such as the U.S. Foreign Corrupt Practices Act, which prohibit corrupt payments to governmental officials or certain payments or remunerations to customers. Violations of these laws and regulations could result in significant fines and penalties, criminal sanctions against us, companies in which we are invested, and our and their officers and employees and could adversely affect our business in affected countries. Such violations or allegations of violations may also adversely affect our reputation, our revenue or our overall financial performance. There can be no assurance that acts of corruption will not occur or be alleged in respect of any of our activities or those of our affiliates. In this regard, Turkcell has received and responded to a request from the U.S. Securities and Exchange Commission (SEC) to submit documents and information related to Uzbekistan and the Uzbek subsidiary of TeliaSonera (which is the majority owner of Fintur).

We hold a 41.45% stake in Fintur, which has operations in Kazakhstan, Azerbaijan, Georgia and Moldova, and TeliaSonera holds the remainder. Allegations have been made regarding improper payments relating to the operations of Kcell, 51% subsidiary of Fintur. With respect to Kcell and the other Fintur companies, through our representation on the Fintur board, we remain vigilant about such allegations, however there can be no assurance that such issues will not be substantiated or that new allegations will not arise. Furthermore, should we increase our interest in Fintur following TeliaSonera s announced exit, we may increase our exposure to such issues in the Fintur companies. More generally, there can be no assurance that acts of corruption will not occur or be alleged in respect of any of our activities, including but not limited to those of the Fintur companies.

If our bid to acquire Fintur and TeliaSonera s direct stake in Kcell is successful, we will significantly increase our exposure to Azerbaijan, Georgia, Kazakhstan and Moldova, including the exposure to the Azeri and Kazakh currencies, which have recently experienced significant devaluation.

In addition to the foregoing, the new Turkish Commercial Code and related legislation may require us to provide new capital or other financial support to certain of our controlled subsidiaries, which may divert resources from other needs. Our international and Turkish subsidiaries may not benefit us in the way we expect for the reasons cited above, as well as other reasons, including general macroeconomic conditions, poor management and legal, regulatory or political obstacles. For many of these subsidiaries, we do not expect to achieve desired levels of profitability in the near or mid-term, and we may be required to record impairments. We may also in response to such conditions consider increasing, restructuring or exiting certain of our investments.

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

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

We are exposed to foreign exchange rate risks because our income, expenses, assets and liabilities are denominated in a number of different currencies, primarily Turkish Lira, U.S. Dollars, Euros, Ukrainian Hryvnia, Belarusian Rubles and Azerbaijani Manat. In particular, a substantial majority of our equipment expenditures 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, Azerbaijani Manat and Euro. If our bid to acquire Fintur and TeliaSonera s direct stake in Kcell is successful, we will significantly increase our exposure to Azerbaijan, Georgia, Kazakhstan and Moldova. In addition, we are exposed to such currency mismatches with respect to certain capital expenditures and off-balance sheet obligations, in particular our obligations in respect of universal service for the installation of infrastructure in uncovered areas of Turkey, a service that we have contracted to provide for an amount in TRY, but which requires expenditures in foreign currencies. See Item 8. Financial Information and Note 31 to our audited Consolidated Financial Statements included in Item 18. Financial Statements of this annual report on Form 20-F.

The TRY depreciated by 25.4% against the U.S. Dollar in 2015, driven mainly by an increase in internal macroeconomic and political volatility as well as expectations regarding the Federal Reserve s increasing interest rates and downward emerging markets growth outlook. In 2015, the Belarusian Ruble depreciated against the U.S. Dollar by 56.7% while the Ukrainian Hryvnia depreciated by 52.2%. During the same period the Belarusian Ruble depreciated by 24.8% and the Ukrainian Hryvnia depreciated by 21.3% against the TRY. In December 2015, the Azerbaijani Manat was allowed to float and total depreciation of the Manat against the U.S. Dollar reached 98.8% in 2015. Risks of further devaluation remain as the country struggles to bring its balance of payments for its energy-dependent economy back into equilibrium. The Kazakhstan Tenge depreciated by 86.2% against the U.S. Dollar in 2015 with most of the depreciation taking place after the Kazakhstan Central Bank switched to a floating foreign exchange rate regime in August 2015.

Sudden increases in inflation or the devaluation of these currencies or other currencies in which we generate revenue, have had, and may continue to have, an adverse effect on our consolidated financial condition or liquidity. In the current economic environment and considering the fragile economic conditions in Belarus and the current situation in Ukraine, there is a possibility of further devaluation. There are no tools to hedge foreign exchange rate risks effectively due to restricted and undeveloped financial markets in these countries.

Fluctuations of Turkish Lira, Ukrainian Hryvnia, Belarusian Rubles, Azerbaijani Manat and Kazakhstan Tenge, on the one hand, and U.S. Dollars and Euros, on the other, have had and may have an unfavorable impact on us. We may enter into derivative transactions to manage the risk with respect to the Turkish Lira; however, these transactions have a cost and do not fully cover all of our risks. As of December 31, 2015, our consolidated debt was TRY 4,214.2 million. Turkcell Turkey s debt balance was TRY 3,766.2 million, of which TRY 1,630.8 million ($560.9 million) was denominated in U.S. Dollar and TRY 1,627.7 million (512.2 million) in Euro. The debt balance of lifecell was TRY 441.8 million, denominated in UAH. Meanwhile, Belarusian Telecom had a debt balance of TRY 6.2 million, denominated in BYR. In 2015, we obtained financing lines of around $2.9 billion (part in Dollars and part in Euro) to be utilized for the refinancing needs of the Company and our subsidiaries and to fund infrastructure investments and any other potential investment opportunities, which would significantly increase our indebtedness if fully drawn. Of this amount, we issued a Eurobond with an aggregate principal amount of US$500 million and drew 500 million of debt under our loan agreement with China Development Bank. We are likely to increase our debt for the financing of infrastructure investments, licence fee payments and any other potential investment opportunities or if we succeed in our bid to acquire Fintur and TeliaSonera s direct stake in Kcell. In addition, no assurance can be given that unexpected cash outflows will not be required that could further erode liquidity and increase borrowing requirements.

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

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

As of December 31, 2015, our consolidated debt was TRY 4,214 million. TRY 2,439 million of our debt portfolio consisted of financing obligations paying interest at fixed rates. The remainder of our debt portfolio pays interest at floating rates, which has been favorable in the current interest rate environment, but would expose us to increased costs if rates increase further. In 2015, we obtained financing lines of around $2.9 billion (part in Dollars and part in Euro) to be utilized for the refinancing needs of the Company and our subsidiaries and to fund infrastructure investments and any other potential investment opportunities, which would significantly increase our indebtedness if fully drawn. Of this amount, we issued a Eurobond with an aggregate principal amount of $500 million and drew 500 million of debt under our loan agreement with China Development Bank. We are likely to increase our debt for the financing of infrastructure investments, licence fee payments and any other potential investment opportunities or if we succeed in our bid to acquire Fintur and TeliaSonera s direct stake in Kcell.

In 2015, we received investment grade ratings from Moody s, Standard & Poor s and Fitch Ratings. These investment grade ratings may not be sustained in the event of a decrease in Turkey s country rating or a decrease in our free cash flow, an increase in our net debt position or more generally a change in financial policies and projections, a material increase in investment and acquisition plans or shareholder returns and an increase in corporate governance issues.

In June 2011, we engaged in a forward start collar agreement for some portion of our debt which is due in 2015 and exposed to interest rate risk. The collar hedges variable interest rate risk for the period between 2013 and 2015 and has expired.

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

Our ability to deal with zoning limitations, right of way conflicts with major municipalities, increase in frequency costs, alleged health risks with BTS, dependence on suppliers for network equipment and failure to abide by the requirements of our licenses or applicable regulations may affect our ability to maintain operational excellence.

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

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

We have recently been awarded a license allowing us to deploy a 4.5G network in Turkey. There are certain coverage and local production obligations imposed by the tender. Potential increase in coverage requirements or failure to abide by the requirements of our licenses or applicable regulations may have an adverse effect on our business and financial condition.

We are expecting a major step forward in the development of telecommunications in Turkey with the deployment of IMT Advanced (known commercially as 4.5G) networks in 2016. Our 4.5G build-out will require significant financial investments and there can be no assurance that we will be able to develop 4.5G networks on commercially reasonable terms, that we will not experience delays in developing our networks or that we will be able to meet all of the license terms and conditions. The auction for the 4.5G license was held on August 26, 2015. Although we were awarded the broadest frequency band of any mobile operator, the cost of the 4.5G license as well as the capital expenditure required in connection with our 4.5G build-out is expected to be material. Furthermore, the license agreement contains certain onerous terms that may weigh on the profitability of this investment and may have an adverse effect on our 4.5G investment plans in the future. These include terms regarding minimum required usage of domestic equipment in meeting infrastructure obligations (equipment that is currently not available on the market), an active network sharing obligation for a portion of the population, high coverage obligations for roads and railroads and significant taxes and spectrum usage fees, which will increase as the number of frequencies used increases. No assurance can be given that we will not experience delays in developing our 4.5G network or that competing licensees will not complete their build-outs before we do. Demand for 4.5G services may also not be at the level we expect, such that the return of investment we make in connection with 4.5G may not meet our expectations. Any of the foregoing could harm our competitive position and our profitability.

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

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

There are alleged health risks, zoning limitations related to our Base Transceiver Stations (BTS) may adversely affect our ability to provide services at certain areas.

We are aware of allegations that there may be health risks associated with the effects of electromagnetic signals from BTS and from mobile handsets. While we believe that there is currently no substantiated link between exposure to electromagnetic signals at the level transmitted by our BTS and mobile handsets and long term damage to health, the actual or perceived health risks of mobile communications devices could adversely affect us through a reduction in subscribers, reduced usage per subscriber, increased difficulty in the leasing and acquisition of site locations for base stations and exposure to potential liability. Furthermore, we may not be able to obtain insurance with respect to such liability on commercially reasonable terms.

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

Furthermore, there are zoning limitations related to our BTS that require operators to obtain construction permits and certificates, which may be costly and may have an adverse effect on our operating results. Zoning law in Turkey may require mobile operators to obtain certifications for all existing and new BTS, which may result in significant compliance costs and/or closing of BTS for which certification cannot be obtained, negatively impacting our financial condition. Any difficulty in maintaining or building BTS due to health concerns and our inability to obtain the required permission and certificates, may negatively impact the quality of our network, including our ability to expand and upgrade it, and affect our operational performance.

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

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

Like all operators, we purchase our mobile communications network equipment, from a limited number of major suppliers. Our business is dependent on a small number of critical suppliers in areas such as network infrastructure, information systems and handsets and distribution. We also rely on a small number of distributors and, in 2015, we have decreased the number of distributors that we work with in Turkey from five to two, which may further increase the concentration risk. Any financial difficulty or failure of any of our suppliers in terms of timing and quality and of any of our distributors may adversely affect our business and financial condition. There can be no assurance that we will be able to obtain equipment from one or more alternative suppliers on a timely basis in the event that any current supplier for any reason, including that the technological requirements for our increasingly advanced infrastructure are too complex, is unable or unwilling to satisfy our demands. This could also affect our competitive position, if our suppliers stay behind technological developments compared to the suppliers of our competitors.

Adverse economic conditions have negatively affected and may continue to affect our domestic and international suppliers, leading to a contraction in their business, which in turn may lead to a decrease in the quality of the services that they render to us and adversely affect timely delivery of such services, negatively impacting our business and operations. In addition, our existing and new license agreements or new regulations may require us to purchase network equipment from specified suppliers or meet certain specifications regarding our existing suppliers. Equipment from these suppliers may not always be compatible with our existing equipment or the supplier may fail to integrate it, and our employees may not be familiar with the technical specifications and maintenance requirements of equipment from these suppliers. Furthermore, if our suppliers fail to meet the requirements, we may end up violating the terms of our license agreements. These factors could also have a material adverse effect on our business and financial condition.

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

Our principal shareholders are Sonera Holding B.V. and Turkcell Holding A.S., which hold 13.07% (not including additional shares totaling approximately 0.94% that TeliaSonera holds, according to public filings) and 51.00%, respectively, of Turkcell s shares as of March 10, 2016, based on the Company s share book. Turkcell Holding A.S. is 52.91% owned by Cukurova Telecom Holdings Limited and 47.09% by Sonera Holding B.V., which according to public filings (a Schedule 13D filed in November 2009), is a wholly owned subsidiary of TeliaSonera Finland Oyj, which in turn is a wholly owned subsidiary of TeliaSonera AB (TeliaSonera). Cukurova Telecom Holdings Limited is 51% owned by Cukurova Finance International Limited and 49% by Alfa Telecom Turkey Limited. According to public filings (a Schedule 13D filed in November 2009), Alfa and TeliaSonera entered into an agreement regarding a possible consolidation of their holdings in Turkcell into a new company. In a Schedule 13D filing, Alfa has deleted references to this agreement.

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

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

Our Articles of Association contain quorum and majority requirements, at various levels, for shareholder meetings and decisions. Failure to achieve a quorum or the required majority vote can block decisions that require shareholder approval. Prior to our shareholders meeting held in 2015, we have had difficulty convening shareholder meetings and numerous items submitted to our shareholders have not been approved, including the distribution of dividends, the approval of our dividend policy, the election of independent board members, the release of directors for actions taken and the approval of financial statements. In 2012, 2013 and 2014, due to lack of quorum, the annual general assemblies could not convene. Our board of directors has called an annual general assembly to be held on March 29, 2016. No assurance can be given that quorum requirements will be met and that actions will be taken for the future general assembly meetings.

A number of new corporate governance requirements were enacted under Turkish regulations by the Capital Markets Board of Turkey (CMB) with mandatory effect from June 30, 2012.

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

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

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

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

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

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

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

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

We are heavily dependent on IT and NT systems, suppliers of IT and NT services and our IT and NT employees for the continuity of our business and we are continually upgrading and converting our IT and NT systems. Although we devote significant resources to the development and improvement of IT and NT and of security, backup and continuity systems, we could still experience IT and network failures and outages due to system deficiencies, human error, security breaches, terrorist or other destructive acts, natural disasters such as earthquakes and floods, unsuccessful migration to alternative or improved IT and NT systems, or other factors. We have experienced an increased number of attempted cyber-attacks of varying degrees of sophistication by unauthorized parties attempting to obtain access to our computer systems and networks. As of the date of this annual report, we believe that no such attacks have succeeded in obtaining access to our critical systems, although such attacks in practice may develop over long periods of time during which they can remain undetected. Computer hackers routinely attempt to breach the security of technology products, services, and systems. If successful, these could result in, for example, unauthorized access to, misuse, loss, or destruction of our data or systems and theft of sensitive or confidential data, including personal information of our employees and customers, and theft of services and/or funds. In the event of such breaches, we could be exposed to potential liability, litigation, and regulatory action, as well as the loss of existing or potential customers, damage to our reputation, and financial loss. In addition, the cost and operational consequences of responding to breaches and implementing remediation measures could be significant.

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

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

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

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

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

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

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

Our former Chief Executive Officer, Mr. Sureyya Ciliv, resigned from his position effective January 31, 2015. Mr. Kaan Terzioglu was appointed as our Chief Executive Officer on April 1, 2015. In 2015, there have been organizational changes in our Company, including changes to our management team, to our structure and business strategy and further changes may be made. Although, we have taken measures to prevent major disruptions to our operations, no assurance can be given that the changes being implemented will achieve their objectives, or that they will not have an adverse effect on our business. Failure to implement these changes successfully could adversely affect our ability to compete effectively, which could impact our revenues, operations, or results of operations.

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

We are subject to investigations and regular audits by governmental authorities in Turkey, including the Competition Board, the ICTA, tax authorities and certain other parties, and governmental authorities in other countries in which we have operations. We are currently involved in various claims and legal actions with such authorities. We have set aside provisions for certain of our ongoing disputes based on applicable accounting standards. However, no assurance can be given that the provisions we set aside will be sufficient to cover our actual losses under these matters, and that new disputes will not arise under which we would face additional liabilities and reputational risk. For a more detailed discussion of disputes that we presently believe to be significant, see Item 8. Financial Information and Note 34 to our audited Consolidated Financial Statements included in Item 18. Financial Statements of this annual report on Form 20-F.

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In particular, we have an ongoing dispute regarding the application of the Turkish Special Communication Tax to prepaid card sales made by our distributors. The tax authority has assessed a significant special communication tax and a related penalty against our company as a result of a tax investigation regarding the years 2008 to 2012. The tax amount assessed with respect to the Company is TRY 211.1 million as principal and TRY 316.6 million as tax penalty totaling TRY 527.6 million. The dispute is being litigated in a variety of courts and lower courts have notified their verdicts (some in our favor, some partially in our favor and partially against us, and some against us). These verdicts are being appealed by the party against which they were rendered and the appeal processes are ongoing. For those cases decided against us, interest shall apply at a rate of 2.50 % interest per month for the period between February 15, 2008 and November 18, 2009; 1.95 % interest per month for the period between November 19, 2009 and October 18, 2010 and 1.40 % interest per month for the period between October 19, 2010 and the payment date on the principal amount. Accordingly, in the event of an adverse decision in some or all of the cases under dispute, the interest payable could amount to a significant portion of the tax assessment and substantially increase our overall liability. In the case that the aforementioned lawsuits finalize against us, no interest shall be calculated on the penalty, on the condition that the payment is made in due time after the finalization. While we intend to vigorously defend our rights and our position in this case, no assurance can be given regarding the final outcome. If decided against us, these cases could have a material and adverse effect on our results of operations and our financial condition. Currently, we are under tax investigation for the year 2013 and may face investigations in respect of later years, and there is a risk that we may incur a special communication tax and penalties as a result of such investigations.

Due to our license, we pay the Undersecretariat of the Treasury (the Turkish Treasury) a monthly treasury share equal to 15% of our gross revenue including some exemptions. The Turkish Treasury may change its opinions based on interpretations of treasury share calculations. Therefore unanticipated treasury share liabilities and fines may also be levied. We have also had several long running disputes with the Turkish Treasury regarding claims for payments of additional treasury share and allegations of deficient treasury share and contribution share payments and penalties imposed within the context of our 2G and 3G Concession Agreements. We are also involved in several disputes regarding administrative fines imposed by the ICTA and ICTA s additional radio utilization and usage fee requests made after ICTA s investigations on number of subscribers and radio utilization and usage fees regarding the years 2010-2011, 2012 and 2004-2009. For a more detailed discussion of our disputes that we presently believe to be significant, see Note 34 to our audited Consolidated Financial Statements included in Item 18. Financial Statements of this annual report on Form 20-F.

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

We maintain and regularly review internal control over our financial reporting. However, internal control over financial reporting has inherent limitations and there is no assurance that a system of internal control over financial reporting, including one determined to be effective, will prevent or detect all misstatements on a timely basis. A control system, no matter how well-designed and operated, can provide only reasonable, not absolute, assurance regarding financial statement preparation and presentation. Our systems may not always allow us to detect and prevent fraud or other misconduct by our employees, representatives, agents, suppliers or other third parties. We may be exposed to fraud or other misconduct committed by our employees, representatives, agents, suppliers or other third parties that could subject us to litigation, financial losses and sanctions imposed by governmental authorities, as well as affect our reputation. Such misconduct could include misappropriating funds, conducting transactions that are outside of authorized limits, engaging in misrepresentation or fraudulent, deceptive or otherwise improper activities, including in return for any type of benefits or gains or otherwise not complying with applicable laws or our internal policies and procedures.

Our latest review as of December 31, 2015, has revealed certain deficiencies in our controls, although none that we believe constitute material weaknesses . However, our controls have in the past suffered from these and lesser deficiencies and no assurance can be given that others will not emerge in the future. A failure to detect or correct deficiencies and weaknesses in a timely manner could have an adverse effect on the accuracy of our financial reporting.

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 B.V. and Turkcell Holding A.S., which hold 13.07% (not including additional shares totaling approximately 0.94% that TeliaSonera holds, according to public filings) and 51.00%, respectively, of Turkcell s shares based on the Company s share book. Turkcell Holding A.S. is 52.91% owned by Cukurova Telecom Holdings Limited and 47.09% by Sonera Holding B.V., which according to public filings (a Schedule 13D filed in November 2009), is a wholly owned subsidiary of TeliaSonera Finland Oyj, which in turn is a wholly owned subsidiary of TeliaSonera AB (TeliaSonera). 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 Kucukyali Plaza, Aydinevler Mahallesi Inonu Caddesi No:20 Kucukyali Ofispark B Blok, Maltepe, Istanbul, Turkey. Our telephone number is +90 (212) 313 10 00. Our website address is www.turkcell.com.tr. In July 2000, we completed our initial public offering with the listing of our ordinary shares on the Borsa Istanbul and our ADSs on NYSE.

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

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

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

In 2013, we won an auction held by the Turkish Ministry related to universal service, which requires installing sufficient infrastructure to uncovered areas with a population of less than 500 and the operation of the service for three years. We started the service in August 2013 and as of the end of 2015, infrastructure covering 1,793 settlements has been installed (out of the three-year target of 1,799) within the scope of the project, with network-sharing technology. Although the related contract has recently expired, we continue to provide services in this project, since the terms of services are, as a result of such expiration, unclear. The terms and conditions regarding the continuation of existing services in 1,799 locations, the addition of new rural locations within the scope of the universal service and extension of universal services to 3G and 4.5G are under examination by the Ministry of Transport Maritime Affairs and Communications.

Our subscriber base has grown substantially since we began operations in 1994. At year-end 1994, we had 63,500 subscribers. By year-end 2015, that number for the Group had grown to 68.9 million.

In 2015, we had total revenues of TRY 12,769.4 million, our adjusted EBITDA totaled TRY 4,140.5 million and we reported a net income attributable to the owners of Turkcell amounting to TRY 2,067.7 million.

For the year ended December 31, 2015, we spent approximately TRY 8,536.2 million on capital expenditures including non-operational items and 4.5G license fee, compared to TRY 2,144.8 million and TRY 1,822.3 million in 2014 and 2013, respectively.

In the 4.5G auction held on August 26, 2015, we were awarded a total frequency band of technology agnostic 172.4 MHz, the largest amount of spectrum of any operator, for 1,623.5 million (excluding VAT and interest payable on the installments). The license fee will be paid in four equal semi-annual installments of 413.8 million (including interest payable), the first installment 706 million, including VAT, was paid on October 26, 2015. We expect to commence offering 4.5G services from April 1, 2016. The 4.5G license is effective for 13 years until April 30, 2029.

Following the 4.5G auction, we have a total frequency bandwidth of 234.4 MHz. Our share of the total bandwidth of the market also increased to 43%. We acquired twice the bandwidth acquired by Vodafone while paying the same amount in terms of price per MHz, and 56% more bandwidth than Avea while paying only 9% more per MHz. Moreover, we paid the lowest per subscriber price for 1 MHz in the auction at 0.28 per subscriber, compared to 0.44 and 0.52 paid by Vodafone and Avea, respectively. We believe the frequencies we acquired, including the widest frequency bands on 1800 MHz and 2600 MHz, in the 4.5G auction will make us the only operator in Turkey able to provide the fastest 4.5G speed of 375 Mbps following the build-out of our 4.5G network. We expect that these speeds will increase to 1000 Mbps in the future through carrier aggregation. This will allow customers to access mobile services at a speed comparable to fiber broadband speeds.

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

4.B Business Overview

We are the leading mobile telecommunications operator and the second largest converged telecommunications company in Turkey in terms of revenue, with a 35.5% share among the three major operators in the Turkish telecommunications market (Turkcell Turkey, Turk Telekom and Vodafone) according to the operators announcements for the year ended December 31, 2015. In 2015, Turkcell Turkey has positioned itself as a converged player in the total telecommunications market in line with our new strategic priorities. We have shifted to a new organizational structure with the aim of increasing efficiency and simplifying our business processes, as well as strengthening our position as a provider of converged communications and technology services. We have taken steps to integrate our marketing efforts, sales channel and technical platform as well as to establish customer services as a key focus area.

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

We have differentiated our network in terms of quality and speed of service, with extensive spectrum rights covering 43% of the total spectrum available, extensive 3G coverage (covering over 95% of the population) and the broadest 4.5G license of any operator in terms of spectrum allocation.

We have also focused on building out an advanced fiber network to support our mobile and fixed offerings (including broadband and television), through our 35,269 km fiber network, which reached 15 cities in Turkey as of December 31, 2015. As a result, we had a 54% subscriber market share of the fiber market as of December 31, 2015 according to the operators announcements, despite not being the incumbent fixed line operator, and expect this to be a key focus area going forward.

We are in compliance with all of our license requirements in all material respects.

Effective from 2015, we have changed our reportable segments in order to align the segments with our convergence strategy. Following this change, our business is divided into two main reportable segments: Turkcell Turkey and Turkcell International. The total number of subscribers in the five countries where we have consolidated operations reached 51.5 million as of December 31, 2015. In Turkey total mobile, fixed and IPTV subscribers were 35.8 million.

Turkcell Turkey. Our Turkish telecommunications business represents the largest share of our business, accounting for 89.9% of our revenues and 90.8% of our Adjusted EBITDA in 2015. During the first half of 2015 we realigned our strategy in Turkey to focus on developing innovative and integrated telecommunications solutions for consumer, corporate and wholesale customers in Turkey by leveraging our leading brand, extensive customer base, technological capabilities and strong distribution channels. We have invested in what we believe to be the most advanced mobile and fiber networks in Turkey and were recently awarded the broadest spectrum in 4.5G auction in Turkey, which we expect will provide us with a competitive advantage by allowing us to provide high quality and speedy service across the Turkish mobile telecommunications industry.

Turkcell International. Turkcell International accounted for 6.7% of our Group revenues in 2015. We have telecommunications operations in a number of emerging market geographies that we believe are complementary to our operations in Turkey as a result of our cultural affinity and the potential to export our business model. These geographies include Ukraine (which accounted for 4.5% of our revenues in 2015), Belarus (which accounted for 1.1% of our revenues in 2015), the Turkish Republic of Northern Cyprus (which accounted for 1.0% of our revenues in 2015) and Germany (which accounted for 0.1% of our revenues in 2015). We also operate in Azerbaijan, Kazakhstan, Georgia and Moldova through our equity accounted investee, Fintur (which accounted for 17.8% of our net income attributable to equity holders of the Company in 2015).

Other Subsidiaries and intersegment eliminations. Other Subsidiaries and intersegment eliminations mainly comprises our information and entertainment services in Turkey and Azerbaijan and call center revenues, and accounted for 3.4% of our revenues in 2015.

We have a strong track record of profitable operations with total revenues for 2015 of TRY 12,769.4 million and Adjusted EBITDA in 2015 of TRY 4,140.5 million. We have achieved these results while continuing to invest in our network to support our strategy of offering innovative solutions, with capital expenditures for 2015 of TRY 8,536.2 million.

We serve a broad range of consumer, corporate and wholesale customers, which accounted for 79.5%, 17.7% and 3.4% of Turkcell Turkey revenues (not including other revenues and prior to consolidation eliminations) in 2015. As part of the realignment of our strategy, we have emphasized the importance of customer services and established customer services as a separate focus area. In terms of the services we provide, voice, data, services and solutions, messaging and other accounted for 52.4%, 30.8%, 5.7% , 4.9% and 3.4% of our Turkcell Turkey revenues, respectively, in 2015. Revenues from data and services and solutions have been growing rapidly, with growth of 38.1% and 38.5%, respectively, in 2015. Voice revenues declined by 2.7% and messaging revenues declined by 13.5% over the same period following prevailing industry trends.

We have maintained a leverage strategy that we believe to be prudent and we have taken significant steps to improve the capital structure of our investments in Ukraine and Belarus through debt restructurings in July and August 2015, respectively, which we expect will position our investments well for future growth. Revenues from our operations in Ukraine through lifecell LLC (lifecell) were UAH 4,476.5 million in 2015, and lifecell s EBITDA for the same period was UAH 1,485.2 million. Belarusian Telecom s revenues were BYR 825.8 billion in 2015, and its EBITDA for the same period was BYR 18.1 billion.

We are the only company listed on both the NYSE and the Borsa Istanbul, with a market capitalization of TRY 21.8 billion as of December 31, 2015, making us the fourth most valuable publicly traded company in Turkey.

I. Industry

a. *Overview*

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

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. The simcard s digital memory allows for 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. Data communication in GSM networks started with speeds of 9.6 kilobits per second (Kbps) and continued to improve with

High Speed Circuit Switched Data (HSCSD), General Packet Radio Service (GPRS) and Enhanced Data rates for GSM Evolution (EDGE) technologies. Today, GSM networks can provide high-speed wireless data services of up to 300 Kbps.

The mobile telecommunications industry has increasingly provided mobile data/internet services and used 3G/HSPA+ as a technology platform that is more suitable for data transmission. Currently, many advanced technology platforms are being developed to enable the provision of more sophisticated data services.

In the early 3G networks, the platform was only able to provide network speeds up to 384 Kbps. By using the 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 megabits per second (Mbps). High Speed Packet Access Evolution (HSPA+) further enhanced the mobile broadband experience and increased the data capacity of HSPA. HSPA+ enhances mobile broadband with peak rates of 63.3 Mbps.

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The latest mobile communications technology available in the commercial networks is 4.5G (IMT-Advanced) which is a 4.5G technology relying on All-IP architecture which runs over a currently deployed IP/MPLS Network and offers ultrafast mobile broadband speeds of more than 1000 Mbps with latencies of less than 10 ms. 4.5G networks have also evolved to offer voice services (VoLTE) and new services like LTE Broadcast (eMBMS). The strategic advantage of an IP-based solution is that having all-IP based infrastructure and services enables operators to deliver a broader, deeper communications portfolio incorporating voice, data and video in addition to other communication services.

Fiber optics (optical fibers) are long, thin strands of very pure glass about the size of a human hair. They are arranged in bundles called optical cables and used to transmit communication signals over long distances. Fiber-optic data transmission systems send information over fiber by turning electronic signals into light. Fiber-optic networks have been used for decades to transmit large volumes of traffic. The economics of fiber networks have also allowed for connecting the fiber directly to the home, creating a fiber-to-the-home (FTTH) network.

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

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

According to a TUIK announcement, the estimated median age of the Turkish population is 31, which is lower than elsewhere in Western Europe, and the majority of the population lives in urban areas. In addition, there were 78.7 million people living in Turkey as of December 31, 2015.

There are currently three major operators in the telecommunications sector in Turkey, Turkcell Turkey, Vodafone Telekomunikasyon A.S. (Vodafone) and Turk Telekomunikasyon A.S. (Turk Telekom and together with Avea and TTNET, Turk Telekom Group). In 2015, the total revenue of the Turkish mobile and fixed markets was TRY 32.8 billion compared to TRY 29.9 billion in 2014, according to the operators announcements (for the calculation of total market revenues, non-group call center revenues are added to Turkcell Turkey s reported revenue).

Vodafone entered the Turkish mobile market by acquiring Telsim on May 24, 2006 from the Savings Deposit Insurance Fund (SDIF) in August 2005. Avea is an operator majority-owned by Turk Telekom Group. Turk Telekom Group is 55% owned by Oger Telecom, a multi-national telecommunications operator 35% owned by Saudi Telecom Company. On April 29, 2015, Turk Telekom Group announced that it entered into a share transfer agreement with Is Bankasi, which owns 10.01% of Avea. Following completion of this transaction, Turk Telekom Group became the sole owner of Avea.

II. Strategy

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

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

Position Turkcell as a Converged Company

A key element of our strategy is to expand our range of multiple-play offerings, adding fixed, broadband and television customers to deliver a quad-play offering (including mobile, internet, fixed voice and TV) to the Turkish market. In this respect, we launched our IPTV service, Turkcell TV , at the end of 2014 and had reached 224 thousand subscribers as of December 31, 2015. As a result of the launch of our new offerings, we have grown our share of fiber residential triple-play subscribers (who subscribe to our internet, voice and TV bundles) and mobile triple play subscribers (who subscribe to voice, data and strategic services).

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We have also realigned our organization and have taken steps to integrate our mobile and fixed network platforms to provide a seamless experience to our customers. We also integrated our sales and marketing functions with the goal of providing a full range of mobile, fixed and broadband products and services across all channels.

Strengthen Our Position in Turkey

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

We continued to create value for our customers through our services and solutions which we serve through our superior network. We increased our focus on strategic services including BiP, Turkcell Music, Smart Storage, Sports and Turkcell TV+. BiP, our integrated IP-based communication platform, has been downloaded by 4.8 million people; global downloads reached 184 thousand as of December 31, 2015. We believe that these services will facilitate our strategies shift from being a telecom operator to a technology services company. We are also seeking to expand in other adjacent business areas in Turkey, such as mobile finance and mobile education. Furthermore, we are pursuing opportunities to grow inorganically in Turkey to add new capabilities and/or widen the range of our product/service offerings.

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

Focus on International Expansion

We aim to improve the performance of our international subsidiaries and increase their revenue contribution to the Group. Following the restructuring of debt at both our Ukrainian and Belarusian subsidiaries, we believe we have positioned these businesses to be able to achieve profitable growth. As the third largest mobile operator in Ukraine and Belarus, we have been successful in gaining market share and improved performance in underlying currency terms. We also believe that the 3G license we acquired in Ukraine will contribute to our ability to grow revenues.

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

Create Predictable and Sustainable Value

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

III. Customer Segmentation and Services

a. ***Customer Segmentation***

In Turkey, we have a total of 35.8 million customers including 34.0 million mobile line, 1.5 million fixed broadband and 224 thousand IPTV customers. We serve a broad range of consumer, corporate and wholesale customers, which accounted for 79.5%, 17.7% and 3.4% of Turkcell Turkey revenues in 2015, excluding other revenues and consolidation eliminations. Revenues attributable to consumer and corporate segments grew by 10.2% and 6.5%, respectively in 2015, while revenues attributable to the wholesale segment increased by 9.4% over the same period.

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

The aims of the segmentation are:

- to increase the loyalty of existing Turkcell customers;
- to ensure behavioral and emotional brand loyalty; and
- to ensure a seamless series of positive brand experiences throughout all customer touch points, as well as to attract new customers.

Consumer Segments

The consumer segments for our mobile business on which we focus include youth, professionals, households and premium customers with differentiated mobile communication offers, as well as campaigns and co-branded activities with selected companies from other sectors to create added values to targeted segments. For our fixed business, the only consumer segment is residential.

Corporate Segments

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

Wholesale Segment

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

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

For the wholesale data and voice services, the main strategy is to become the regional junction point of the hyper-connected world.

b. ***Services***

We currently provide high quality mobile and fixed voice, data, TV and other services to our subscribers throughout Turkey. We provide a range of mobile services to our customers, enabling them to call, text, access the internet, stream music and watch videos and roam abroad. We provide these services through our network of over 41,300 base stations providing 99.85% 2G and 95.03% 3G coverage in Turkey. Our mobile subscribers can choose between our postpaid and prepaid services. Currently, postpaid subscribers sign a subscription contract and receive monthly bills for services. Prepaid subscribers must purchase a starter pack, which consists of a simcard with balance of TRY 35, while the top-up cards (both physical and digital) can be purchased in amounts ranging from TRY 15 to TRY 360. As of December 31, 2015, we had approximately 17.4 million prepaid subscribers and 16.6 million postpaid subscribers, compared to approximately 19.4 million prepaid subscribers and 15.2 million postpaid subscribers as of December 31, 2014.

We provide a range of fixed services in Turkey including voice, broadband and TV services to consumers and a wider range of services to our corporate customers, including cloud and traffic carrying. We provide these services through a combination of our own fiber infrastructure and leased copper. As of December 31, 2015, we had approximately 1.5 million fixed line customers of which 899 thousand were fiber and 621 thousand were ADSL customers. We cover 2.4 million homes with our fiber infrastructure.

(i) Voice Services

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

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(ii) Broadband

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

We commercially launched 3G simultaneously in 81 province centers and major cities in Turkey at the end of July 2009 and reached 95.03% population coverage as of December 31, 2015 and 17.7 million 3G-enabled handsets in our network. Smartphones, which are defined as the devices that have a full touchscreen and/or complete keyboard (Qwerty/Qwertz) plus an open operating system, (eg. Symbian OS, Palm, Windows Mobile, Android), are an important component for the growth of our mobile broadband business. The smartphone penetration on our network reached 52% by the end of December 2015, up from a 40% penetration at the end of 2014. It is expected that 4.5G services will be commercially launched in Turkey on April 1, 2016. In order to increase penetration of the 4.5G services, Turkcell launched campaigns in which various 4.5G enabled smartphones were offered to Turkcell customers by dealers at competitive prices. The table below shows the number of smartphones in our network and smartphone penetration for the periods indicated:

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

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

A wide variety of data offers are made available as part of our voice and terminal bundled campaigns, where terminals are sold by dealers, to increase 3G device penetration, create a unique terminal experience and enhance the broadband internet experience. Distributors, dealers and Turkcell offer joint campaigns to the subscribers, which may include the sale of devices by the dealer and/or distributor and a communication service to be provided by us. In particular campaigns, the dealer makes the handset sale to the subscribers whose instalments will be collected by us based on the letter of undertaking signed by the subscriber. These campaigns contain a variety of devices such as feature phones, smartphones, 3G modems and tablets. Throughout 2015, we maintained our position as leader of handset campaigns through our dealer channel and we delivered attractive joint campaigns with top of the class models of brands in high demand such as Samsung, Apple, and LG. We have also launched Turkcell-branded T series smartphones and a tablet with Android operating systems since 2010, which we believe contributes to increase in smartphone penetration, data usage and further builds customer loyalty by offering a technologically advanced product at a competitive price. The latest version of the T-series, the T60, was launched in June 2015 and ranked third in September 2015 in terms of smartphone sales in Turkey according to an independent research company.

We extend our value propositions to our broadband products by not charging our customers for activation, modem or installation services and by offering high-speed fiber broadband at attractive prices. Moreover, we use a segment-based approach to maintain customer loyalty, with offers tailored on a customer-by-customer basis.

We offer fixed broadband internet packages to our residential customers. We also offer internet, voice and TV bundles, where we benefit from the use of our own fiber. We need the incumbent s network to provide services outside our fiber zones, therefore we are able to offer double-play packages only with internet and voice to our customers due to the limitations of the ADSL network.

(iii) Other Services

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 subscribers to help them connect to life.

Consumer Products and Services

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

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

Turkcell has developed a number of Turkcell-branded mobile applications in-house. Turkcell App Market is a localized application store for users to download both free and paid mobile applications to their supported handsets. It enables people to download more than 10,000 applications including Turkcell-branded applications and third party applications such as news, games and sports. As of December 31, 2015, Turkcell has 52 active Turkcell-branded mobile applications that were downloaded from the Turkcell App Market over 6 million times in 2015.

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

- *BiP* is an Integrated IP-based communication application
- *Turkcell* TV+ enables Turkcell subscribers to watch live television channels and on-demand video content on their mobile devices and through IPTV platform
- *Turkcell Music* is a digital music platform to stream and download music,
- *Goals on Your Mobile* allows fans to follow their team and be updated on a wide variety of categories such as game scores and player transfers,
- *Smart Storage* is a cloud service that facilitates data storage; and
- *Mobile finance* provides fast, secure and convenient services for our customers financial needs such as mobile payment, remote payment, money transfer, utility payment and direct carrier billing.

Integrated IP-Based Communication App (BiP)

BiP is available for all operators subscribers on iOS and Android platforms through App Store and Play Store and has been downloaded 4.8 million times in 169 countries as of December 31, 2015. The application supports five languages including Turkish, English, Ukrainian, Belarusian and Russian.

The most important features of Turkcell s IP-based communication app BiP include:

- Instant messaging, sending photos, videos and audios,

- Group messaging with multiple people;

- High quality VoIP and video call;

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

- Secret chat Disappearing messages in the pre-defined time;

- Communicating with non-BiP users via SMS; and

- Sharing location.

The latest Official Accounts feature of BiP allows corporate brands, television and radio programs or celebrities to send real-time information to BiP followers and interact with them via instant messaging, VoIP or video call. Similar to the product offered in Turkey, BiP in Ukraine, includes voice and video call features in addition to messaging capabilities. lifecell subscribers also benefit from free data when using BiP. BiP is also planning to provide instant call center solutions with official accounts in the near future.

Turkcell TV

Turkcell s multi-screen TV platform Turkcell TV+, launched in October 2014, delivers an enhanced television viewing experience to its subscribers anywhere, any time. Its unique features as compared to other platforms include the abilities to pause and rewind live streams, record to cloud and the capability to switch between four screens. As of December 31, 2015 Turkcell TV+ reached 558 thousand subscribers, 224 thousand of which were IPTV users. We expect that with the launch of 4.5G technology in Turkey, a more extensive content library, a new generation 4K-Ultra HD technology and application portfolio starting with YouTube, TV+ will become an even more popular and attractive service for both fixed and mobile users while playing an important role for the growth of Turkcell Group.

Turkcell Music

Turkcell s digital music service Turkcell Music enables its users, via an application, to access a number of songs free of data charges. Users have the flexibility to listen to their favorite songs offline as well. As of December 31, 2015 the Turkcell Music has been downloaded 5.2 million times since 2011.

Goals on Your Mobile

Goals on Your Mobile is a sports application tailored for the four biggest soccer clubs fans and have been downloaded by 1.6 million times as of December 31, 2015. The service plans to serve the customers new features, such as the fan profile system which offers special features for sports fans, location based games, wearable options such as fitness trackers integrated with the applications, in addition to making replay videos available instantly on the user s phone.

Cloud Services

Turkcell s personal cloud service, Turkcell Smart Storage, is a first in Turkey and provides its users with the ability to store their photos, documents, and videos in one secure, convenient and personal space with autosyncing abilities, and to share them easily. Turkcell Smart Storage has increased its user base to 1.7 million as of December 31, 2015.

Mobile Finance Business

Turkcell Odeme Hizmetleri A.S. (TOHAS) was founded in March 2015 to create a convenient payment solution for its users and to offer them a streamlined shopping experience. TOHAS has applied to the Banking Regulation and Supervision Agency (the BRSA) for the Payment Services and E-Money Institutions license under the related legislation. Turkcell Mobile Payment service expanded its merchant network and reached over 2,000 merchants by providing quick and easy payment methods to mobile app stores, restaurant chains, parking lots, transportation services, insurance premium payments and the airport fast track services.

Corporate Products and Services

Corporate Product Management provides corporate customers with a competitive advantage by providing non-core industrial solutions. Fleet Management, Employee Tracking, Push-to-Talk Services, Energy Monitoring Services and New Generation Cash Register Solutions are available to streamline customer processes and provide operational efficiency through new revenue streaming channels, better customer reach and experience.

Real-time Enterprise

Turkcell has started the Real-time Enterprise initiative which aims to transform traditional enterprise processes into innovative, mobile-centric, real-time business processes. Real-time Enterprise consists of 3 major strategies: Mobile Enterprise, Real-time Marketing and Zero Infrastructure Enterprise.

Mobile Enterprise uses end-to-end solutions running on smartphones and tablets, which are replacing computers, to access information from anywhere. The solutions consist of automation solutions such as field sales automation, M2M products such as Smart Fleet, Ekip Mobil and communication solutions such as the Turkcell Video Conference.

Real-time Marketing enables enterprises to reach the right and relevant audience at the right time and location. With the help of the big data analytics and the Internet of Things (IoT), Turkcell marketing solutions allow enterprises to understand their current or potential customers and provide the opportunity for effective marketing.

Zero Infrastructure Enterprise facilitates ownership of a flexible, scalable, reliable and secure IT and communication infrastructure without the burden of capital expenditure. Turkcell currently has datacenter investments, and provides collocation services as well as public and private clouds. Turkcell also offers managed IT services to fully managed enterprise ICT processes on behalf of their customers.

Turkcell Super Esnaf Application

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

Turkcell Smart Enablers Services

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

As of the date of this annual report, more than 300 companies evaluate their business processes and provide new technological services to their customers by using Turkcell Smart Enablers web services (APIs).

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

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

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

Authentication Services

Mobile Signature, which was launched in February 2007, enables mobile subscribers to sign electronic documents and transactions with a legally-accepted digital signature using GSM SIM cards. Mobile signature subscribers can easily verify their personal identity in a digital environment and complete transactions remotely, without needing to be physically present. One Time Password is widely used by corporate customers for two-level authentication controls on transactions. The service allows corporate customers to send a single-use password via SMS to consumers when providing authentication on transactions. It is widely used for online banking processes and login transactions.

Cloud Services

Turkcell offers a wide range of cloud solutions for its corporate customers. These services range from collocation solutions, to infrastructure, backup and security services. In 2015, Turkcell managed over 2000 virtual servers and protected more than 1 Petabyte of data for its corporate customers. As of December 31 2015, our datacenters are based across five locations on approximately 7,000 square meters.

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

Machine to Machine (M2M)

Since 2009, Turkcell has focused on its M2M business, whose principal markets in Turkey are car telematics, team tracking, fleet management, POS terminals, security alarms, smart metering, mobile health management, smart agriculture and sales force automation applications. Turkcell launched Turkey s first M2M Platform in March 2012. With the M2M Platform, customers can manage their devices more effectively. As of December 31, 2015, the number of M2M subscribers increased to 1.9 million compared to 1.5 million as of December 31, 2014.

Mobile Marketing

Turkcell utilizes mobile marketing and advertising channels to create additional value for its customers. In 2015, many companies sought to expand and reach their customers through corporate messaging products, differentiating themselves from the competition. Those companies to have created fast and efficient solutions to their marketing needs through the use of bulk messaging stand apart from the competition by enriching their messages in terms of visual aspects with rich content messages which is a corporate messaging service that enhances the customer s ability to send visual messages and by reaching their customers at the right place, at the right time, with our location-based SMS services. These companies also collected customer feedback by conducting satisfaction surveys using our Instant Response suite.

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

See Item 3.D. Risk Factors for a discussion of the regulatory changes affecting our mobile marketing business.

Turkcell Partner Network

Since 2002, Turkcell has been developing new products and services with its partners. Beginning in 2004, these partnerships were established under the Turkcell Partner Network programs. The Turkcell Partner Network is a business ecosystem comprising more than 200 registered business partners functioning as application service providers, content providers, service provider system integrators, independent service vendors, and original equipment manufacturer business partners. This ecosystem comprises a business network of more than 10,000 professionals recruited by our partners and their distribution channels. Functioning in a versatile business environment, the Turkcell Partner Network is reinforced with a framework of development programs, technological systems and digital communications infrastructure to announce, publicize, process, monitor, grade, analyze, improve, regulate and sustain partnership management schemes and models. By utilizing this framework, partners in the Turkcell Partner Network are evaluated on a semi-annual basis on financial and customer experience performances.

(iv) *Wholesale*

(i) International Roaming

Our coverage extends to many countries in the world. As of December 31, 2015, we believe we have further enhanced our position as a leading mobile operator of international roaming services by expanding our partnership in 208 destinations throughout the world, pursuant to commercial roaming agreements with 695 operators.

Since July 2002, we have provided roaming services for prepaid subscribers of foreign mobile operators visiting Turkey. We were the first operator to provide such a service in Turkey. This service, called Passive Customized Applications for Mobile Network Enhanced Logic (passive CAMEL), can only be enabled if both operators have installed the passive CAMEL system on their networks. As of December 31, 2015, we offered prepaid roaming to the prepaid subscribers of 410 operators in 154 destinations.

Since October 2004, we have offered roaming services for Turkcell prepaid subscribers traveling abroad. This service, called Active Customized Applications for Mobile Network Enhanced Logic (active CAMEL), can only be enabled if both operators have installed the CAMEL system on their networks. As of December 31, 2015, we offered prepaid roaming to Turkcell prepaid subscribers through 422 operators in 174 destinations.

Since October 2002, we have offered GPRS roaming. As of December 31, 2015, we allowed our subscribers to access the internet and reach their email accounts while traveling, through 558 GPRS roaming partners across 197 destinations.

As of December 31, 2015, our subscribers can send SMS to more than 695 mobile operators located in 207 destinations, including North America and China and in order to balance international SMS traffic, we have 63 International SMS Interworking Agreements in place.

Since December 2005, our subscribers have been able to send and receive MMS to and from subscribers of foreign operators. As of December 31, 2015, our subscribers were able to send MMS to 138 mobile operators in 74 destinations.

On July 30, 2009, we became the first operator in Turkey to launch 3G Roaming services in many different locations around the world. As of December 31, 2015, our subscribers enjoyed high speed mobile internet connections with 388 operators in 163 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 arm s-length terms that we believe to be in line with industry standards. Under the roaming arrangements in the listed countries, our net revenues for roaming on our Turkish network totaled less than TRY2.9 million in 2015 and our net expense for our subscribers roaming on the networks of operators in the listed countries was less than TRY2.5 million in 2015. In terms of revenue generation, we do not believe that our roaming arrangements with operators in Cuba, Iran, Sudan, Libya and Syria are material.

(ii) Wholesale Voice

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

As of December 31, 2015, Turkcell Superonline had interconnection agreement with more than fifty local and international carriers. Turkcell has interconnection agreements with Turk Telekom, Vodafone, Avea and Fixed Telephony Service Operators and via these agreements parties connect their networks to enable the transmission of calls to and from their mobile communications system. As of December 31, 2015, Turkcell had interconnection agreement with 28 fixed line and mobile operators and carriers.

For Turkcell, current interconnection rates are based on the ICTA s, decision on the MTRs and FTRs. ICTA designated Turkcell as an operator having significant market power in the mobile access and call origination markets. Due to this designation, Turkcell is obliged to provide access and call origination service to MVNOs and directory services. As of December 31, 2015, Turkcell had agreements with 12 Directory Service Providers. Commercial negotiations in view of reaching agreements with MVNOs are ongoing. For more information, see Item 4.B. Business Overview Regulation of the Turkish Telecommunications Industry .

(iii) Wholesale Data

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

Starting from 2010, as a consortium member of Regional Cable Network (RCN) Project, we are linking Asia to Europe through our fiber optic infrastructure, which represents a milestone in the communications history and completing our vision to make Istanbul the regional traffic exchange point and to transform the Silk Road into the Fiber Road.

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Today, we provide telecom services to more than 70 international operators including Tier-1 companies. Currently, we carry more than 2 Terabit of international traffic.

IV. 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. The ICTA regulations and our license agreement regulates our tariffs in terms of minimum and maximum prices for GSM services. For more information on how our maximum and minimum price levels are established, see Item 4.B. Business Overview Regulation of the Turkish Telecommunications Industry .

We have various segmented tariff plans that target specific subscriber groups (postpaid or prepaid, corporate or consumer). In the postpaid segment, linear tariffs offer flat and on-net (Turkcell subscriber to Turkcell subscriber) usage advantages. A majority of our customers prefer all-inclusive packages which include minutes to Turkcell, intra-company calls (for the corporate segment) and all national directions, data and SMS. Turkcell also offers all-inclusive packages with annual fixed-price plans that include price discounts and/or extra minutes.

Turkcell s fixed offers are based on speed, quota and fair usage. The tariffs are designed upon the composition of the different needs of different customers. Turkcell s fiber offers high speeds throughout our own infrastructure up to 1000 Mbps, usually bundled with voice, devices and TV products. DSL offers up to 16 mbps and has voice bundled tariffs. In 2016, we expect that VDSL will be offered to our customers using DSL products, with higher speeds.

(i) Consumer Tariffs

We offer a variety of voice packages which include on-net and/or flat minutes. We also offer bundled versions of these packages including data and flat SMS.

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

We also have various mobile data bundled offers based on different customer needs according to their usage patterns such as lifestyle segments, data amount, usage hours, and seasonal usage. Examples include shared data packages, URL-based offers, throttling data packages, VINN (dongle) and VINN Wi-Fi offers, Kamu VINN and need-based VINN offers.

Today, more and more customers need reliable, consistent and uninterrupted internet connectivity both for mobile and fixed networks. At Turkcell, we focus on providing the best customer experience in all channels supported by competitive offers and an extensive network. We initiated our convergence program with two products for consumer and corporate segments, which include fixed broadband (fiber or DSL) and mobile broadband launched in December 2015. In 2016, we will continue providing the best service and fastest speed with 4.5G offers in mobile.

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

(ii) Corporate Tariffs and Loyalty Programs

We offer a variety of voice packages to our corporate customers to meet their communication needs. These packages include company, on-net and/or flat minutes. We also offer bundled versions of these packages including data and flat SMS.

We also offer various terminal campaigns in which voice, SMS and data packages can be bundled with different terminals. In addition, we provide various mobile data packages in order to meet different customer needs. These packages include shared data packages, URL-based packages, VINN Wi-Fi offers and tablet bundled campaigns.

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

We have dedicated voice and non-voice offers, and provide different benefits for artisans . We have a loyalty club called Artisans Club which addresses the 360-degree needs of artisans. The club offers advantages such as 30% discounted shipping with Yurtici Kargo and four-months free of Pronet Security Products and Services. In addition to dedicated products, tariffs and loyalty clubs for craftsmen, we created a Platinum platform in which craftsmen can receive extra Platinum Business benefits, as well as can benefit from customized customer experience processes which are designed only for them.

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

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

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

(iii) Wholesale Tariffs

Turkcell intends to provide advantageous price schemes to customers when abroad. With a customer-oriented focus, Turkcell offers products to subscribers with high- and low-roaming usage. For subscribers preferring low-usage, Turkcell offers a linear roaming tariff known as the Turkcell World Tariff . The subscribers, unless they apply for a specific roaming package, are subject to the Turkcell World Tariff when traveling abroad. In January 2013, the Smart Roaming Tariff was launched. With this tariff, voice/SMS bundle and data-only solutions are offered. The Smart Roaming Tariff activates automatically, if and only when, the subscriber makes/receives a call, sends an SMS or uses GPRS. The tariff is activated again after the limits are exceeded. Whenever the subscriber goes abroad again, the tariff is reactivated automatically with the first usage unless the subscriber has already opted out. Additionally, Platinum customers enjoy Super Roaming Campaign which enables them to use their domestic tariff while abroad by paying a daily fee. Other than the Smart and Super Roaming options, Turkcell offers advantageous voice, internet and SMS packages for high-usage levels. Overall, Turkcell aims to provide better roaming experiences with various pricing schemes that fit different usage patterns.

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

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

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

V. Churn

Mobile churn rate is the percentage of disconnected subscribers calculated by dividing the total number of subscriber disconnections during a period by the average number of subscribers for the same period. For these purposes, we define average number of subscribers as the number of subscribers at the beginning of the period plus one half of the total number of gross subscribers acquired during the period. Churn refers to subscribers that are both voluntarily and involuntarily disconnected from our network. Under our disconnection process, postpaid subscribers who do not pay their bills are disconnected and included in churn upon the commencement of a legal process to disconnect them, which commences approximately 180 days from the due date of the unpaid bill. Pending disconnection, non-paying subscribers are suspended from service (but are still considered subscribers) and receive a suspension warning, which in some cases results in payment and reinstatement of service. Prepaid subscribers who do not reload TRY for a period of 270 days are disconnected (this was changed in 2010 from 210 days). Under our churn policy, prepaid subscribers are disconnected from the system if they do not top-up above TRY10 during a nine month period. In the fourth quarter of 2015, 379 thousand subscriptions which were not topped-up at all within the stipulated period were disconnected. In 2015, the churn rate decreased to 27.3% from 28.3% in 2014, primarily due to churn actions such as voice/data bundle offers based on different customer needs. The fixed churn rate also decreased to 16.7% in 2015 from 17.7% in 2014.

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 TRY816.4 million and TRY727.7 million as of December 31, 2015 and 2014, respectively.

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

VI. Seasonality

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

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

VII. Mobile and Fixed Network

a. ***Coverage***

Statements regarding our 2G coverage are based on the ICTA s specifications as well as the TUIK s announcements regarding the population, and statements regarding our 3G coverage are based on the ICTA s 3G coverage calculation specifications issued on April 25, 2012. Our mobile communications network is designed to provide high-quality coverage to the majority of Turkey s population throughout the areas in which they live, work and travel. As of December 31, 2015, Turkcell covered 95.12% of Turkey and 99.85% of its population, including 100% of cities with a population of 1,000 or more. Coverage also includes a substantial part of the Mediterranean and Aegean coastline, and during 2015, we enhanced coverage in low-populated areas (populations of less than 1,000 people) as well. In terms of 2G, we have significantly exceeded the minimum coverage requirements of our license.

We have also expanded our mobile communications network to add capacity to existing service areas and to offer service to new areas, including the improvement of existing urban, suburban and intercity road coverage. In 2016, we will continue to expand our coverage and further enhance capacity in populated areas. As of the end of 2015, within the scope of the Ministry of Transport, Maritime Affairs and Communications Rural Coverage Project as part of universal services which we started in August 2013, infrastructure covering 1,793 settlements with populations of less than 500 has been installed as of the end of 2015, with network sharing technology, which enables all operators to use the same BTS, BSC and IP Transmission lines.

We commercially launched 3G simultaneously in 81 provinces and major cities in Turkey in July 2009. As of December 31, 2015, we covered 95.03% of Turkey s population and 99.85% of 16 metropolitan municipalities populations. As a result of the amendment to the Law for Metropolitan Municipalities, the number of metropolitan municipalities increased and the borders of some municipalities were extended. After this amendment, the ICTA increased our coverage obligations, defined in our concession agreement.. We filed a lawsuit for a stay of execution and the cancellation of this aforementioned decision. The Council of State granted a motion for the stay of execution of ICTA s aforementioned decision. The ICTA objected to this decision. The objection was also rejected in favor of Turkcell. The case is still pending.

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

In 2015, we continued to develop and improve the coverage and capacity of our network. In urban areas, we increased both coverage and capacity by placing network infrastructure in commercial sites such as shopping malls, business complexes and entertainment centers. We became the first mobile operator extending 3G coverage to all of the districts in Turkey.

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

Following the IMT-Advanced (4.5G) tender held on August 26, 2015, Turkcell acquired 10 MHz of 800 MHz for use and an additional 1.4 MHz of 900 MHz frequency bands. We plan to use these frequency bands that provide high signal penetration in order to provide IMT coverage and enhance 3G coverage.

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

As of December 31, 2015 our fiber network has reached to 35,269 kilometers and connects 77 of 81 cities. In 15 cities we have fiber to the home (FTTH) network and homepass, which means the number of premises that are connected to the fiber network, has reached 2.4 million. We also provide enterprise Wi-Fi services.

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

b. ***Quality of Service***

The ICTA published a Regulation on Quality of Service in the Electronic Communications Sector on September 12, 2010, effective as of December 31, 2011 (see Item 4.B. Business Overview Regulation of the Turkish Telecommunications Industry for further details). The Turkcell Network is currently above the standards set by the statement. As usual, Call Drop was one of the major Quality of Service figures that we focused on during 2015.

Dropped calls are calls that are terminated involuntarily and are measured by using the ratio of total dropped calls during the most congested hour of network traffic during the relevant time period to the traffic intensity in that congested hour. Using such industry standard for dropped calls, our dropped call rate for our 2G network has further decreased below 0.65%.

Turkcell also provides high quality services through its 3G network. In a short time, we have succeeded in reducing the 3G dropped call rate below the 2G network. Our dropped call rate for our 3G network is below 0.4%. The rate of service quality is being enhanced all the time due to investments in our 2G and 3G network to improve the quality and capacity of the network.

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

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We are the only operator in Turkey that can increase its carrier number up to six carriers, due to our A-type license agreement and the recent acquisition of new spectrum from the 2100 MHz band. We are using this capability to increase our capacity to provide superior services to a larger number of subscribers and improve coverage. In 2015, we continued to increase the number of carriers with the advantage of large spectrum assets. We believe we have sufficient bandwidth to serve our current and projected short-term subscriber base and we currently meet the capacity requirements of both our 2G and 3G subscribers. We intend to deploy additional frequencies in 2016.

Turkcell has been awarded the ISO 9001 certificate since 1999 and renews its ISO 9001 certification every two years in the fields of design, installation, operation, sales, after sales services of global mobile communications within Turkcell functions. The latest certification Turkcell was awarded is the ISO 9001:2008 Quality Management System Certificate in 2014. In addition, Turkcell received the ISO/IEC 20000-1:2005 IT Service Management System Certificate in January 2011. As the first telecommunications company to receive the ISO 20000-1:2005 certificate in Turkey, Turkcell has promoted the adoption of an integrated process approach to effectively deliver managed services to meet business requirements.

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

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

c. ***Network Evolution***

(i) Radio Network

We have already achieved a speed of up to 43.2 Mbps through dual-carrier technology in more than 99% of the base stations across the country. We have also implemented HSUPA 5.76 Mbps in our entire 3G network. In the GSM network, EDGE is used as a complementary technology to UMTS/HSPA. 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 of up to 300 Kbps. Today, all of our base stations support EDGE technology. 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 2015, we focused on 3-Carrier High-Speed Downlink Packet Access (3C-HSDPA) and Dual-Carrier High-Speed Uplink Packet Access (DC-HSUPA) technologies. Turkcell, together with Ericsson and Qualcomm Technologies, Inc., a wholly owned subsidiary of Qualcomm Incorporated, successfully demoed one of the world s first live 3C-HSDPA on a commercial network. 3C-HSDPA is engineered to increase user speeds for downlink by up to 50% throughout the entire cell compared to dual-carrier, regardless of network load. The demo recorded 63 Mbps downlink and 11.5 Mbps for uplink. In 2014, we also implemented 3C-HSDPA (63.3 Mbps) and DC-HSUPA (11.5 Mbps) technology in our 3G network becoming one of the first mobile operators to provide this service in its network. We believe our customers will be able to experience the highest download/upload speeds of 3G technology.

Turkcell s radio network has evolved to a multilayer structure including 3G Small Cell (such as Femto, pico and micro).

Turkcell acquired a total of 172.4 MHz frequency in the 4.5G auction on August 26, 2015. During 2015, we continued to work on the 4.5G technology as the next step in the network evolution path of mobile broadband services including field trials and network infrastructure readiness activities. In September 2015, we made a successful demo in which we reached speeds of up to 1200 Mbps with five carriers and 79.8 MHz Turkcell frequencies band in a lab environment with prototype LTE A modems. Turkcell aims to reach speeds of up to 375 Mpbs in the 4.5G network, following its commercial launch in April 1, 2016.

Turkcell became a member of the NGMN (Next Generation Mobile Networks) and also a member of the NGMN Board in 2013. Turkcell joined NGMN 5G work groups along with other global mobile operators to define the requirements of a 5G network during 2015.

(ii) Transmission Network

Turkcell is the first operator in Turkey to start deploying All-IP NodeBs throughout its network. We are not only expanding our 3G network but also migrating legacy TDM-GSM sites to IP through the deployment of Abis over IP technologies. Thus, we currently have an All-IP mobile backhaul of more than 20,000 BTSs and Node-Bs that provides resiliency, ease of operation and operational expense advantages. In addition to this, we have also invested in topology redundancy projects due to our IP/MPLS backhaul for better service availability. Backhaul bandwidth capacities were increased for wide coverage of 43.2 Mbps dual-carrier applications and the Microwave Radio Link network was modernized for Native Ethernet and Adaptive Modulation support to increase availability and reduce outages due to severe rain conditions. Usage of fiber connectivity is moving further from High-RAN aggregation points towards Low-RAN aggregation points. Furthermore, fiber to the site applications have been started for 4.5G readiness of sites with very high traffic. Due to higher bandwidth requirements of the 4.5G users, we are migrating from SDH based leased lines to DWDM or dark fiber multi-Gigabit Ethernet links on the high traffic aggregation points.

(iii) Core Network

The whole Turkcell Core Network is currently composed of new layered structure Next Generation Network (NGN) nodes. By using Geographical Redundant Pool (GRP) structure, we get (i) full redundant MSC-Ss, (ii) redundant physical interfaces to MGWs, (iii) CAPEX efficiency, and (iv) improvement in radio network KPIs.

We have deployed and continue to develop our GPRS network to provide the high speed and reliability to meet the demand of our businesses and consumers.

(iv) Fixed Network

Our fiber optic network provides up to 1000 Mbps high speed internet service in 15 cities across Turkey. We also provide superior triple play service experience to our subscribers. We are installing and investing in EDGE technology access equipment in our network. We believe that with this strategy Turkcell will be ready to offer future customer experiences.

Turkcell is the first company in the world that has realised commercial application of colorless and directionless ASON on a live traffic carrying network. Turkcell also introduced coherent 100G technology in the backbone along with optical ASON in the early stages at the end of 2012 and early 2013. Today, Turkcell continues its evolution plans via realizing tests for 1 Tbps per wavelength using super channels on existing DWDM networks.

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

(v) Services and Platforms

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

d. ***Network Operations***

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

e. ***Network Maintenance***

We have entered into several system service agreements. Under these agreements, our mobile 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 Turkey.

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

f. ***Site Leasing***

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

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

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

Turkcell BCMS is assisted by the coordinators and business continuity virtual team. Regular BCM training and awareness programs are carried out throughout the organization. The effectiveness of BCMS is monitored every year through internal/external audits, and integrated exercises, the results of which are reviewed in management review meetings. In 2015, we exercised and tested our business continuity plans, communication and warning procedures to ensure that they are consistent with the business continuity objectives.

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

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

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

Turkcell s ERM team is the owner of an enterprise risk database. A range of management tools are used for risk identification and evaluation such as Delphi surveys, workshops, brainstorming sessions, risk reporting from divisions risk contacts, in-depth interviews with the management team and research reports while coordinating the process of identifying and assessing risks. The risk database is monitored by the ERM team and critical risks are reported to the Early Detection of Risk Committee every two months.

VIII. Sales and Marketing

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

a. ***Sales Channel***

We support our sales efforts through one of the largest retail telecommunications distribution networks in Turkey, with approximately 1,080 exclusive stores, many with prime locations, as well as approximately 11,310 non-exclusive dealers. Our two exclusive distributors provide our products and services as well as handsets and aftersales services for this wide network of dealers, while 34 exclusive Turkcell distribution centers focus solely on non-exclusive dealers. We also have a door-to-door sales force and home technology management team, which makes approximately 60,000 connected home technology transaction per month. This provide us with an important channel to distribute our integrated solutions directly into the homes of Turkish consumers. We also operate a dedicated corporate direct sales team of approximately 600 personnel who can offer tailored solutions to their respective segments.

Our nationwide distribution channel is an important asset that helps us differentiate ourselves from our competitors and achieve our sales targets. Our strong and extensive distribution network consists of distributors, Turkcell Distribution Centers (TDC), Corporate Solution Centers, non-exclusive dealers, Turkcell Communication Centers (TIMs), and Turkcell Stores as well as points of sale for scratch cards and prepaid airtime, including digital channels, ATMs, Point of Sales (POSs), web, call centers, supermarkets, gas stations and kiosks. We sell postpaid and prepaid services to subscribers through our distribution network. The number of exclusive and non-exclusive dealers totaled approximately 12,390 sales points as of December 31, 2015.

Our exclusive retail network consists of powerful retail dealers with good locations, modern designs and superior after-sales service. TIMs lead the market with their user-friendly atmosphere, new products and services and dedicated employees. In 2009, TIMs were relaunched with the motto We aim to ease your life with technology in order to enhance our customer service-oriented image under the TIM brand. As of December 31, 2015, Turkcell had approximately 1,080 exclusive sales points. Every year, around 240 million visitors are served by our specialized sales force, which consists of approximately 8,180 people in TIMs. In addition, the six flagship Turkcell Stores in three cities (Istanbul, Ankara, Antalya), fully operated by Turkcell, continue to enhance Turkcell s brand image in the retail world by providing what we believe to be the best customer experience and introducing top-of-the-line new products and services to our customers. Moreover, we have 157 Technology Specialists in TIMs who coach the entire sales force, help customers experience technology and spread the latest technological information.

Our non-exclusive dealer network provides us with a high penetration of Turkcell products and services in Turkey. Our 34 TDCs are aimed at enhancing our distribution effectiveness in the non-exclusive channel and ensure the timely and efficient distribution of Turkcell products and merchandising materials. They also facilitate the Turkcell brand and offer awareness in this competitive channel.

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

We are working on attracting our customers to all of our channels through digital channels and by co-branding. We offer our customers fast and safe access to our products and services 7/24 via turkcell.com.tr, our Online Sales Channel. Another channel is our Self-Service Channel (which consists of ATMs, Call Centers, internet branches of banks, Kiosks, and in other channels, over 15 thousand national and local markets and post office branches) where we give our customers the opportunity to access Turkcell s products easily and quickly.

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

Sales Management develops strong relationships with and promotes brand loyalty among dealers through a variety of support and incentive programs. Training programs aim to educate dealers personnel on the technical 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, coupled with merchandising services, point-of-purchase (POP) materials and channel specific campaigns, help to support the sales efforts in all of our sales channels.

We address strategic enterprises, major enterprises, medium businesses, public enterprises and small businesses through five channels, which the first four of channels are focused from account managers and small businesses with indirect sales channels, corporate focused dealer organizations and telesales operations. With the objective of coordinating all sales processes, working closely with more customers and improving effectiveness and efficiency, corporate customers are managed directly by these sales channels. The main aim of this activity is to provide mobile services to strategic, public and major enterprises and medium and small businesses in order to meet their communication requirements and also to 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.

b. ***Advertising***

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

In 2016, our two main communication pillars will be what we believe is our superior 4.5G network and making Turkcell the most preferred telecom service provider both in mobile and fixed networks. Consequently, we aim to reposition our brand as the provider of the fastest and most convenient technologies for our customers. We will also seek to maintain our leadership in social responsibility and sponsorship projects in Turkey.

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

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

With respect to provision of customer services we mainly work with our subsidiary Global Bilgi Pazarlama Danisma ve Cagri Servisi Hizmetleri A.S. (Turkcell Global Bilgi). Turkcell Global Bilgi offers 24/7 contact center services at several sites and manages more than 200 million contracts annually. Turkcell s customer service strategies for contact centers are implemented by Turkcell Global Bilgi and we audit all of their operations along with monitoring whether customer services and customer satisfaction programs are executed in line with Turkcell s customer strategies. Turkcell Global Bilgi s success has been affirmed by a number of domestic and international awards received in 2015. Turkcell Global Bilgi was recognized as the global Top Ranking Performer in two categories by ContactCenterWorld.com. In the global awards ceremony held in Las Vegas, United States. Turkcell Global Bilgi received the top award in **Best use of Self-Service Technology** category with its full speech IVR solution which was developed in-house and which is based on native language understanding technology enabling the customer to interactively communicate with the system just by speaking during the whole transaction . The second award came in the **Best Home / Remote Agent Program** category. With regard to Turkcell s customer satisfaction, we received The Customer Satisfaction Sustainability Award at the National Quality Awards organized by the Turkish Quality Association (KalDer) for sustaining our number one ranking in the Turkish Customer Satisfaction Index for the past seven years. We also offer customer service at face-to-face communication centers named TIMs and Turkcell stores. Our approximately 1,080 exclusive stores are established all around Turkey in order to meet our customers technological needs and demands.

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We aim to channel our customers to reach us digitally. To realize this goal, we invest in our online self-service channels. The primary channel is our mobile application called My Account which provides our customers the ability to track the bills, usage and settings and make top-ups to their plans. In 2016, we plan to focus more on increasing sales through this application. Additionally, our customers can contact us via online chat available on both the website and the application. We also use online chat applications to reach our customers proactively when they are stuck on the website or need assistance while trying to buy a product. In light of the crowdsourcing trend, we also offer Turkcell Forum in order to facilitate our customers interactions with each other and opportunities for them to learn from their experiences. For corporate customers, account managers are assigned for exclusive service. An account manager is the single point of contact and provides proper solutions in response to customer needs. While managing our corporate customers through five sales segments, we also support our customers through e-mails, calls and dedicated back offices, under the umbrella of our Contact Center. We have Corporate Customer Representatives to support direct requests from our strategic and large enterprises and/or to support indirect requests received through our account managers. In addition, for small and medium businesses, we aim to meet faster and higher quality service standards by providing online solutions to satisfy the demands of our sales teams regarding their customers demands with our Field Support Desk . Moreover, we developed a mobile application called My Company for corporate customers, which helps them to manage all their GSM lines via mobile. Our corporate customers can experience the convenience and speed of doing self-service transactions for all lines by using this application.

Turkcell has been awarded the ISO 10002 certificate since 2011 and continuously renews its ISO 10002 certification every year in the scope of design, installation, operation, sales, and after-sales services of global mobile communications within Turkcell Functions. The latest certification is ISO 10002:2004 Quality Management-Customer Satisfaction-Complaints Handling Certificate, which was awarded in 2014.

IX. International and Domestic Subsidiaries

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

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

Our international and domestic endeavors will continue in 2016. We will continue to selectively seek and evaluate new investment opportunities both in our main and adjacent communication and technology business areas as well as the businesses outside of the scope of our core business.

Ukraine lifecell

We acquired our interest in our subsidiary Astelit (renamed as lifecell) 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 GSM 1800 license. On April 4, 2006, Astelit announced a merger of DCC and Astelit, which was completed on August 1, 2006. Our interest in Astelit was previously held through our wholly owned subsidiary, Turktell Uluslararasi Yatirim Holding A.S. (Turktell Uluslararasi). However, Turktell Uluslararasi merged into Turkcell and the registry record of Turktell Uluslararasi was deregistered on December 24, 2014.

On July 10, 2015, we completed the acquisition of SCM s 44.96% stake in our Netherlands-based subsidiary Euroasia, which owns 100% of LLC Astelit. The terms of the acquisition required a payment of $100 million as consideration for the acquisition, the payment of Astelit s debts obtained through and with guarantee of SCM Group, the termination of all guarantee agreements to which SCM Group is party, and the release of SCM Group in this regard. In accordance with IFRS 10 Consolidated Financial Statements , the acquisition of the remaining 44.96% in Astelit for a total consideration of $100 million was considered an equity transaction and the deficit representing the difference between the non-controlling interests was derecognized and the consideration paid for the acquisition of shares amounting to TRY 929 million was deducted from retained earnings in July 2015.

Following the acquisition of the 44.96% interest in Euroasia from SCM, Astelit s borrowings obtained from and with the guarantee of SCM Group have been repaid in July 2015. The Group converted a material portion of Astelit s borrowings to equity and restructured Astelit s remaining borrowings in order to mitigate the foreign exchange risks associated with borrowings denominated in foreign currency. Astelit s capital has been increased by $686 million (equivalent to TRY 1,995 million as of December 31, 2015) and Astelit obtained $66 million (equivalent to TRY 192 million as of December 31, 2015) subordinated loan directly from the Company in the third quarter of 2015. Additionally, under the guarantee of Turkcell, Astelit utilized loans fully denominated in local currency of UAH 3.55 billion (equivalent to TRY 430 million as of December 31, 2015). Regarding UAH 2.5 billion (equivalent to TRY 303 million as of December 31, 2015) of these loans, a cash collateral of $120 million (equivalent to TRY 349 million as of December 31, 2015) has been provided by Turkcell and recognized in other currents assets in the financial statements as of December 31, 2015.

Astelit began its operations in the Ukrainian market in February 2005 with its brand life:) During ten years, the brand became highly recognized in the market due to its focus on a young, innovative and flexible audience. After ten year successful history in the industry, on January 15, 2016 the company announced a new stage of its development which started with large-scale rebranding. Starting from 2016, the company now offers its services under the new brand lifecell and in connection therewith changed its trade name to lifecell LLC at February 2, 2016. This brand change marks a milestone in the operator s journey as a technology leader in Ukraine. lifecell adopted blue and yellow as its brand colors, bringing Turkcell and its Ukrainian subsidiary closer in terms of brand identity. Under the new brand identity and with ongoing investments in 3G+ infrastructure and services, lifecell will continue its story in the market, seeking to become Ukraine s top data operator and usher in new possibilities in the country s telecommunications landscape.

As of December 31, 2015, lifecell had 13.5 million registered subscribers, a 2.9% annual decrease from 13.9 million registered subscribers as of December 31, 2014. The majority of subscribers are prepaid subscribers as of December 31, 2015. lifecell s three-month active subscribers reached 10.6 million as of December 31, 2015 from 10.3 million subscribers as of December 31, 2014. 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 company has been known in the market as one of the most dynamic and innovative ever since lifecell was the first to introduce a number of new technologies and products that had previously been unavailable to Ukrainian subscribers. The company is highly motivated to keep its innovation leadership in marketing and sales. In 2011, lifecell adopted its new regional strategy, which divides the country into three major regions and focuses on each region with tailored marketing and sales activities. There are 6 lifecell customer service centers and 184 exclusive lifecell shops which are working in 91 cities of Ukraine as of December 31, 2015. In addition, the customers can order lifecell services in 144 branded sales points and 30,108 other GSM and non-GSM sales points throughout Ukraine. As of December 31, 2015, lifecell provided roaming services in 196 countries via 468 roaming partners.

As of December 31, 2015, lifecell operated in 100% of the cities of Ukraine (excluding Crimea) with a population of more than 2,000 inhabitants (2,257 settlements) and in total more than 28,871 settlements nationally, and all principal intercity highways and roads, which corresponds to coverage of approximately 98.85% of the whole population of Ukraine or 94.65% geographical coverage with 10,972 base stations. lifecell stopped recording revenues from Crimea starting from the end of September 2014 and impaired its assets in that region. lifecell is currently evaluating its options with respect to the disposition of its assets in Crimea. Furthermore, the current military and political crisis in the Eastern region (mainly in Donetsk and Luhansk) and with Russia remains unresolved, which could lead us to evaluate our options in the Eastern region. Cumulative capital expenditure for the development of lifecell s coverage amounted to $1,795 million as of December 31, 2015. In 2016, lifecell will continue investing to increase capacity of its network.

lifecell is dedicated to further developing innovations in the market. The National Commission for the State Regulation of Communications and Informatization (NCCIR) held the 3G license tender on February 23, 2015. lifecell submitted a bid of UAH 3,355 million (equivalent to TRY 406.5 million as of December 31, 2015) and was awarded the first lot, which is the 1920-1935 / 2110-2125 MHz frequency band. Official notification was received on March 2, 2015 and the license payment was made on March 19, 2015. In May 2015, lifecell has made payment of UAH 358 million (equivalent to TRY 43.3 million as of December 31, 2015) as a first installment for conversion of spectrum from military use and committed approximately UAH 426 million (equivalent to TRY 51.6 million as of December 31, 2015) for the remaining installments of the conversion. The committed amount will be subject to change according to the inflation rates at the date of the payments. After winning the tender, lifecell launched 3G services on June 4, 2015, becoming the first operator to offer a 3G+ network in Ukraine, which is available to nearly 4.6 million subscribers as of December 31, 2015 all over the country. lifecell launched 3G+ in Ukraine, a peak of evolution of third generation technology which allows lifecell subscribers to enjoy a speed of up to 63.3 Mbps.

Since May 2015, lifecell has continued to roll out its 3G + network and officially launched 3G + network in eight regional centers of Ukraine, including Lviv, Kyiv, Odesa, Dnipropetrovsk, Chernigiv, Mykolaiv, Vinnytsa and Kharkiv, with the population over one million citizens. Currently 3G+ from lifecell is available in nearly 200 towns in Ukraine and settlements including eight regional centers.

3G+ services of the lifecell network are used by more than 2.0 million subscribers as of December 31, 2015. At the beginning of September 2015, lifecell opened access to the 3G + network to all of its customers, regardless of the current or new customers tariff plan. In December 2015, lifecell received a Grand Prix and the Silver Award for its 3G+launch advertising campaign from the prestigious international competition Effie Awards, which is the only award in Ukraine evaluating effectiveness of marketing communication.

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

The NCCIR has drafted a glidepath for the decrease in mobile termination rates. According to the NCCIR plan, mobile termination rates were decreased to UAH 0.23 from UAH 0.36 starting from October 1, 2015, and planned to decrease to UAH 0.18 starting from July 1, 2016 and UAH 0.15 starting from January 1, 2017. This regulatory change may have a positive effect on our business in Ukraine. The regulatory authorities have been working on the draft law on Electronic Communications, called to update the telecom market regulations including identification of retail and wholesale markets and operators with Significant Market Power.

The Mobile Number Portability (MNP) Procedure and Technical Requirements have been prepared by the SSSC with the involvement of operators and adopted by state authorities. Tender for an MNP solution provider occurred on January 25, 2016. The planned launch date of MNP is in the beginning of the second quarter of 2016.

Belarusian Telecom

On July 29, 2008, Beltel Telekomunikasyon Hizmetleri A.S. (Beltel) signed a share purchase agreement to acquire an 80% stake in Belarusian Telecom, which provides services using GSM and UMTS technologies, for a consideration of $500 million. On August 26, 2008, control of Belarusian Telecom was acquired from Belarus State Committee on Property and $300 million of the total consideration was paid. An additional $100 million was paid in December 2009 and another $100 million was paid in December 2010. An additional payment of $100 million will be made to the seller when Belarusian Telecom records a full-year positive net income for the first time. For more information, see Note 25 (Other non-current liabilities) to our Consolidated Financial Statements.

At December 31, 2015, Belarusian Telecom had 1.5 million registered subscribers, the majority of whom were prepaid, Belarusian Telecom s three-month active subscribers reached 1.1 million as of December 31, 2015 from 1.0 million as of December 31, 2014. Belarusian Telecom had 152 exclusive and 401 non-exclusive sales points. At December 31, 2015, Belarusian Telecom operated 2G and 3G services in all cities with a population of more than 10,000, and provided 2G services on all principal intercity highways and roads of Republic of Belarus (total length of all Belarus highways and roads is 15,476 km), which corresponds to coverage of approximately 99.79% of the entire population of Belarus, or 94.1% geographical coverage.

In line with our strategic priority of improving our balance sheet structure, we have restructured the outstanding debt of Belarusian Telecom in 2015. As part of the restructuring, Belarusian Telecom s total existing intra-group loans were converted into a subordinated loan, provided directly by Turkcell. Following the restructuring, Belarusian Telecom s outstanding debt was BYR 39.5 billion (equivalent to TRY 6.2 million as of December 31, 2015) owed to financial institutions and a 612 million subordinated loan (equivalent to TRY 1,945 million as of December 31, 2015) owed to Turkcell as of December 31, 2015.

As of February 1, 2012, Mobile Number Portability was launched with a donor-initiated mechanism where subscribers who want to port their numbers had to apply to their existing operator, which was in favor of the dominant market players. In April 2014, the mobile number portability procedure was revised to a recipient-initiated mechanism. Popularity of the mobile number portability service has increased with the revision of the procedure and the port-in subscribers count has increased approximately 3 times in 2015 compared to the previous year.

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

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In Belarus, the only LTE license is owned by JLLC Belarusian Cloud Technologies (BeCloud) and BeCloud is the only infrastructure provider for LTE services. All operators are expected to use BeCloud s infrastructure to provide LTE services to their customers. BeCloud s LTE infrastructure exists only in Minsk and they are planning to expand their network in other oblast centers in 2016. Belarusian Telecom is planning to provide LTE services within the second quarter of 2016.

Turkcell Kuzey Kibris

Turkcell Kuzey Kibris, a 100% owned subsidiary of Turkcell, was established in 1999. As of December 31, 2015, Turkcell Kuzey Kibris had 0.5 million registered subscribers.

On April 27, 2007, Turkcell Kuzey Kibris signed a license agreement for the installation and operation of a digital, cellular and mobile telecommunication system with the Ministry of Communications and Public Works of the Turkish Republic of Northern Cyprus. The license agreement became effective on August 1, 2007 and replaced the previous GSM-Mobile Telephony System Agreement dated March 25, 1999, which was based on revenue-sharing terms. The new license agreement granted a GSM 900, GSM 1800 and IMT 2000/UMTS license, for GSM 900 and GSM 1800 frequencies, while the usage of IMT 2000/UMTS frequency bands was subject to the fulfillment of certain conditions. The license agreement is valid for 18 years from the date of signing. The license fee was $30 million including VAT and financed by Turkcell Kuzey Kibris through internal and external funds.

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

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

In 2012, Turkcell Kuzey Kibris acquired Internet Service Provider and Infrastructure establishment and operation licenses. Turkcell Kuzey Kibris applied for a right of way to major municipalities and the Ministry of Transportation (formerly known as Ministry of Transportation and Public Works which was separated into two authorities after the third quarter of 2015) in order to establish a national fiber optic infrastructure. On January 24, 2014, a protocol between Turkcell Kuzey Kibris and the Ministry of Transportation was signed for the right of way for highway sides. Total fiber optic infrastructure implementation reached 68 kilometers by the end of 2015.

The National Regulatory Authority started to decrease mobile termination rates gradually in 2014 and there were 2 decreases in 2015 which is around 56% on average and 70% in total.

The Ministry of Transportation reduced the call charges 30% for off-net calls as of January 1, 2015. These recent price regulations have a substantial adverse effect on our business. According to the requirements of Electronic Communications Law, prepaid lines were registered. In addition, technical preparations for IMEI registration requirement are almost completed and the requirement is expected to be put into implementation in early 2016.

Turkcell Europe

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

Until the end of 2014, Turkcell Europe continued its operation as a MVNO and offered Turkcell s service quality across both Germany and Turkey not only to the people of Turkish origin living in Germany but also those who have close commercial contact with Turkey. Besides providing advantageous offers to those who call Turkey from Germany, Turkcell Europe always aimed to provide its customers in Turkey and Germany with a unique user experience. As of December 31, 2015, Turkcell Europe had 0.3 million registered subscribers.

In order to increase the efficiency of our operations in Germany, we made changes to the business model prior to the termination of the contract with Deutsche Telekom AG, which occurred in August 2014. The wholesale traffic purchase agreement, signed between Turkcell s subsidiary Turkcell Europe GmbH operating in Germany and Deutsche Telekom for five years in 2010, has been modified to reflect the shift in business model to a marketing partnership . The new agreement between our company and a subsidiary of Deutsche Telekom was signed on August 27, 2014. The transfer of Turkcell Europe subscribers and operations to Deutsche Telekom s subsidiary was executed on January 15, 2015.

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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 subsidiaries.

Turkcell Global Bilgi

On October 1, 1999, we established Turkcell Global Bilgi in order to provide telemarketing, telesales, and call center services, particularly for Turkcell Group. In 2005, Turkcell Global Bilgi completed its transition from call center to contact center as Turkcell Global Bilgi started to manage customer contacts at every channel. Since then, in addition to providing services to Turkcell, Turkcell Global Bilgi offers services to companies in various sectors from the public sector to finance, energy and the retail sector. As of December 31, 2015, Turkcell Global Bilgi employed 9,179 employees, of whom approximately 57% provide us with customer care and retention services, around 36% serve customers of other clients while the remainder work as administrative personnel. We own 100% of Turkcell Global Bilgi.

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

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

Inteltek

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

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

In the context of evaluating investment opportunities in neighboring countries, Azerinteltek Closed Joint Stock Company (Azerinteltek) was incorporated on January 19, 2010 in Azerbaijan and is 51% owned by Inteltek.

Azerinteltek received authorization from the Ministry of Youth and Sport of the Republic of Azerbaijan and signed the Agreement with Azeridmanservis Limited Liability Company set under the Ministry of Youth and Sport of the Republic of Azerbaijan to organize, operate, manage and develop the fixed-odds and parimutuel sports betting business in Azerbaijan for a period of 10 years. Azerinteltek started its operations, with the brand name Topaz , on January 18, 2011 and reached 486 agents as of December 31, 2015. As of January 1, 2013, Azerinteltek was authorized to engage in the operation of lottery games by Azerlotereya for a period of 3 years. On January 1, 2016, Azerinteltek authorization regarding the sales of lottery tickets was extended for 1 year.

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

Turkcell Superonline

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

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

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

We believe that Turkcell Superonline differentiates itself through its steadfast commitment to the quality of after-sale services. Turkcell Superonline supplies corporations with industry-leading service-level agreements utilizing its professional technical support personnel and highly qualified team of consultants. Turkcell Superonline has been awarded the ISO 9001:2000 Quality Management System Certificate. Turkcell Superonline aims to become one of the leading innovative telecommunications operators in Turkey and it intends to continue to seize opportunities in the internet and telecommunications markets.

Turkcell Superonline won the tender of BOTAS, Turkey s state-owned pipeline company, for the indefeasible right to use the capacity of the fiber optic cables already installed by BOTAS for 15 years in 2009, including the right to install additional fiber optic cables and the right to use the capacity of these fiber optic cables during the same period. This transaction has been considered as a finance lease as the lease term is for the major part of the remaining useful life of the fiber optic cables already installed by BOTAS and Turkcell Superonline made a significant investment during the initial period of the lease agreement which is an indicator that the transaction is a finance lease. The recognized cost of the indefeasible right of use as of December 31, 2015 is TRY42.2 million. (December 31, 2014: TRY 42.2 million).

Turkcell Superonline began to provide 1000 Mbps service to homes in May 2011 for the first time in Turkey in line with the Turkcell Group s strategy to provide state-of-the-art technology for its customers with top-quality service. Turkcell Superonline has rendered Turkey one of the first five countries in the world where a 1000 Mbps connection is provided to homes thanks to this service option. Turkcell Superonline is the market leader and has 899 thousand fiber customers as of December 31, 2015.

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

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

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On January 31, 2014, Turkcell Superonline signed a share purchase agreement to acquire a 100% stake in Metronet Iletisim Teknoloji A.S. (Metronet). In April 2014, the control over Metronet was acquired from Es Mali Yatirim ve Danismanlik. A.S. for a consideration of TRY 27 million. Turkcell Superonline and Metronet merged on July 4, 2014. With this acquisition, Turkcell Superonline s fiber in-city coverage increased to 14 cities, up from the existing 12.

As of December 31, 2015, Turkcell Superonline has 35,269 km of fiber backbone covering 77 major cities in Turkey and has 11 border crossings. Turkcell Superonline has fiber in-city coverage in 15 cities and increased its homepasses to around 2.4 million as of December 31, 2015 from around 2.1 million a year ago. We have five border crossings to Europe, offering various diversity options to important European cities through protected and completely diverse routes. With our stable fiber infrastructure and six border crossings to the East, we offer capacity services through Middle-East, CIS and Asia. Our next generation network designed over this strong infrastructure enables us to deliver high quality solutions to telecom operators, multinational and national private corporations and the governmental institutions.

With the target of transforming Silk Road into Fiber Road, Turkcell Superonline cooperates with over 70 international operators and takes important steps for evolving Istanbul into the world s newest internet base due to its geostrategic location. Accordingly, we provide a bridge between East and West, which supplies a continuous connection with a speed of light, by partnering with the Tier-1 operators and projects such as RCN between Asia, Middle East and Europe which will extend from the city of Fujairah in the United Arab Emirates to Istanbul in Turkey and then to Europe and will serve as a gateway to the Internet for 2 billion people. In the scope of the RCN project, Turkcell Superonline is represented as a member of the Procurement Group Subcommittee as Chairman of the Operational and Maintenance Subcommittee. Six operators are involved in this project: Syria Telecom, Zain and Orange from Jordan, Mobily from the Kingdom of Saudi Arabia, Etisalat-United Arab Emirates and Turkcell Superonline. The project is operating in the Jordan, Kingdom of Saudi Arabia and United Arab Emirates segments only.

Turkcell Superonline aims to continue to invest in and expand its own fiber optic network and further utilize the group synergy created with Turkcell. The Company intends to continue to take advantage of business opportunities within the broadband industry in 2016.

Global Tower

Global Tower, founded in 2006, is a wholly owned subsidiary of Turkcell and the leading technology infrastructure operator in Turkey. Its 100% owned subsidiary in Ukraine, UkrTower, was founded in 2009. With the vision of Carrying Communication Everywhere , Global Tower rented, built and leased towers for Telecom Operators and TV and Radio Broadcasters in Turkey and Ukraine. Today, Global Tower s core business consists of renting from landlords, selling electronic equipment, installation, implementation, maintenance, tower and rooftop site leasing. Global Tower serves diverse markets including telecommunications, TV and radio broadcasting and providing technology services. The main goal of Global Tower in targeted markets is to increase cost efficiency by sharing sites and services. Global Tower s site sharing business model eliminates the initial investment costs of its clients, decreases environmental impacts and promotes efficient use of resources. Many of the most famous radio and TV channels of Turkey have placed their transmitters on Global Tower sites. In 2015 Global Tower has started providing end to end service to TV and radio broadcasters mainly to leading national radios among all Turkish cities. End to end service consists of tower and system room leasing, electronic broadcasting system maintenance and providing broadcasting equipment. Besides Telecom Networks, SCADA/Telemetry Networks implementation and maintenance are in Global Tower s scope. From the day it was established, Global Tower has achieved a rapid and persistent growth and aims to continue its growth by providing high-quality and efficient services.

Turkcell Teknoloji

Turkcell Teknoloji, a wholly owned subsidiary of Turkcell, commenced operations in 2007 in the TUBITAK Marmara Research Center Technological Free Zone in Kocaeli, Turkey. In 2015, Turkcell Teknoloji consolidated its operations in Kucukyali Technology Plaza, Maltepe, Istanbul, Turkey. Turkcell Teknoloji s new R&D center employs 678 researchers (excluding part-time employees) who have been accredited by the Ministry of Science, Technology and Industry. Turkcell Teknoloji s established team of experts develops a wide range of convenient and reliable solutions with innovative roadmaps. Through integrated intelligence and high-performance core capabilities, (Big Data Analytics, SIM, Network, IoT), Turkcell Teknoloji s comprehensive portfolio addresses the following domains: SIM asset and services management, location-based

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services, new generation value-added services, roaming solutions, big data processing, business intelligence applications, CRM solutions, sales force solutions, network management, mobile finance, terminal applications, cloud solutions, mobile marketing, machine-to-machine communication platforms, revenue management solutions and campaign management solutions.

Turkcell Teknoloji has been continuing to export technology and software to CIS, Europe, Middle East and Africa. The Turkcell Teknoloji Campaign Management System is deployed and used in six countries and Roaming Solutions is used in 10 countries. In 2015, Turkcell Technoloji implemented its roaming solutions in Almadar, Libya and delivered many change requests, which means additional development for existing products, to its customer base which are spread out in 13 countries.

To ensure a permanent competitive edge and value for its solutions, Turkcell Teknoloji cooperates with a wide network of national and international R&D companies, universities and research centers and plays an active role in international R&D programs. With the goal of being Turkey s leading R&D and innovation base, Turkcell Teknoloji demonstrates the value it attached to innovation with its increasing number of patents each year. In 2015, the Turkcell Teknoloji R&D Center submitted over 145 new national patent applications. As of December 31, 2015, Turkcell Teknoloji has 513 national and 56 international patents applications and 145 granted patents. Turkcell Teknoloji s IPR performance is among the top three in Turkey and it has over 30 TUBITAK (The Scientific and Technological Research Council of Turkey) supported projects, of which seven are currently running.

Turkcell Finansman A.Ş.

Turkcell Finansman A.Ş. (Turkcell Finansman), a wholly owned subsidiary of Turkcell, was established on October 22, 2015 with the approval of the Banking Regulation and Supervision Agency (BRSA -financial institutions regulator in Turkey) in order to provide financial solutions to its customers such as consumer loans. The company has commenced its operations in February 2016 after receiving BRSA s operational permission.

Turkcell Finansman is aiming to provide effective financing solutions to its customers with a prudent risk management within the scope of the regulatory legislations. To ensure a permanent competitive edge and value for its solutions, Turkcell Finansman cooperates with a wide network of Turkcell point-of-sales.

Equity Accounted Investments

(i) Fintur

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

TeliaSonera, which is one of our major shareholders and also our partner in Fintur through a 58.55% stake, announced on September 17, 2015 that it had initiated a process in relation to its Eurasian assets with the ultimate aim of a complete exit. In line with our growth strategy in the region, and as the minority shareholder in Fintur (which includes assets in Kazakhstan, Azerbaijan, Georgia and Moldova), we appointed strategic and financial advisors in order to explore our strategic options to acquire the remaining stake in Fintur. On February 26, 2016, we submitted a binding offer for the remaining 58.55% stake of Sonera Holding B.V in Fintur that we do not own and TeliaSonera s 24% direct stake in Kcell operating in Kazakhstan.

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, 2015, Azercell had approximately 4.1 million subscribers, of which approximately 0.5 million were postpaid and approximately 3.6 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%. Azercell was granted a 3G license in the fourth quarter of 2011 and a 4G license in the second quarter of 2012.

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Azercell s licenses are up for renewal in November/December 2016. Although we understand from TeliaSonera that at this stage they have no reason to expect material modifications to the terms of the licenses, no assurance can be given that Azercell will get the necessary renewal on terms that are commercially reasonable for us.

Geocell

At December 31, 2015, Fintur indirectly owned 100% of Geocell Ltd. (Geocell), which operates a GSM network and offers mobile telephony services in Georgia. As of December 31, 2015, Geocell had approximately 1.9 million subscribers, of which approximately 0.1 million were postpaid, approximately 0.3 million were paid-in-advance subscribers that had postpaid services but paid in advance and approximately 1.5 million were prepaid. Geocell was granted a 3G license in the second quarter of 2006 (frequencies was granted in the third quarter of 2009) and a 4G license in the first quarter of 2015.

Kcell

Fintur owns 51% of Kcell. In 2012, the remaining 49% was acquired by TeliaSonera from Kazakhtelecom JSC, the Kazakh incumbent fixed line telecom provider. TeliaSonera sold 25% of the shares minus one share in Kcell in an Initial Public Offering (IPO) on the London and Kazakhstan Stock Exchanges, which was completed in December 2012. Following the completion of the IPO, TeliaSonera s effective ownership in Kcell is 61.74%. Kcell offers mobile telephony services in Kazakhstan and had approximately 10.4 million subscribers as of December 31, 2015, of which approximately 0.3 million were postpaid, approximately 1.0 million were paid-in-advance subscribers and approximately 9.1 million were prepaid. Kcell was granted a 3G license in the fourth quarter of 2010 and a 4G license in the first quarter of 2016.

Moldcell

At December 31, 2015, Fintur directly and indirectly owned 100% of Moldcell S.A. (Moldcell), which offers GSM services in Moldova. As of December 31, 2015, Moldcell had 0.9 million subscribers, of which approximately 0.1 million were postpaid, approximately 0.3 million were paid-in-advance subscribers and approximately 0.5 million were prepaid. Moldcell was granted a 3G license in the third quarter of 2008 and a 4G license in the fourth quarter of 2012.

(ii) A-Tel

On August 9, 2006, Turkcell acquired 50% of A-Tel s shares. A-Tel is a joint venture and the remaining 50% of its shares are held by Bilgin Holding A.S. Bilgin Holding s 50% shares were acquired by the Savings Deposit Insurance Fund (SDIF) on October 18, 2004 in return to the debts of Bilgin Holding against the SDIF. Further, pursuant to the decision dated April 25, 2013, the SDIF resolved to reassign the shares in its possession to Bilgin Holding. A-Tel was involved in marketing, selling and distributing our prepaid systems. It acted as our only dealer for Muhabbet Kart (a prepaid card), and received 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 had 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 provided important support to our sales and marketing activities. However, the service provider and distribution agreement with A-Tel was annulled through a notification dated January 31, 2012, effective August 1, 2012. Additionally, Turkcell s whole stake in A-Tel has been sold to Bereket Holding A.S. (formerly known as Bilgin Holding) for a consideration of TRY 31 million as at the transaction date pursuant to a share sale agreement signed on August 27, 2014.

X. Potential Investments

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

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

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TeliaSonera, which is one of our major shareholders and also our partner in Fintur through a 58.55% stake, announced on September 17, 2015 that it had initiated a process in relation to its Eurasian assets with the ultimate aim of a complete exit. In line with our growth strategy in the region, and as the minority (41.45%) shareholder in Fintur (which includes assets in Kazakhstan, Azerbaijan, Georgia and Moldova), we appointed strategic and financial advisors in order to explore our strategic options to acquire the remaining stake in Fintur. On February 26, 2016, we submitted a binding offer for the remaining 58.55% stake of Sonera Holding B.V in Fintur that we do not own and for TeliaSonera s 24% direct stake in Kcell operating in Kazakhstan.

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

Based on our information and the information provided to us by our affiliates, as of the date of this annual report, we believe that certain of our business activities in Iran in 2015, and the business activities of certain of our affiliates, are subject to disclosure pursuant to ITRA Section 219. During the year ended December 31, 2015, Turkcell and lifecell provided direct international roaming services in Iran through agreements with the following GSM operators: MTN Irancell, Taliya Iran, KIFZO and Rightel. During the year ended December 31, 2015, Turkcell had gross revenues of approximately TRY 0.82 million and a profit of approximately TRY 0.65 million, while lifecell had gross revenues and net profits of approximately $5,269 attributable to these agreements. Turkcell has developed an OTT product called BiP which is available for download online for free. The Company believes that there have been downloads from within Iran, which have generated no revenue or profits.

Turkcell Superonline provided Transit IP and leased line services through network interface agreements with Telecom Infrastructure Company of Iran (TIC). During the year ended December 31, 2015, gross revenues and net profits attributable to these agreements were approximately TRY 4.3 million and TRY 2 million, respectively.

We have made enquiries of our major shareholders and TeliaSonera has also informed us that TeliaSonera Region Europe has bilateral roaming agreements with TCI Mobile Company of Iran and MTN Irancell. During the year ended December 31, 2015, TeliaSonera Region Europe had gross revenues of approximately 67,316 and no profits.

TeliaSonera has also informed us that certain Fintur companies had revenues under roaming agreements in Iran in 2015 with the following GSM operators: TCI Mobile Company of Iran/Irantelecom, MTN Irancell, Taliya Iran, Telecommunication kish Company (IRNKI), Rafsanjan Industrial Complex (Coop) (IRNRI) and Rightel. During the year ended December 31, 2015, we understand that Azercell (Azerbaijan) had gross revenues and net profits of approximately $68,579.72 and $657.22, respectively, Kcell (Kazakhstan) had gross revenues of approximately $6,050.98 and a loss of $3,444.88 and Moldcell (Moldova) had gross revenues of approximately $551.33 and net profits of approximately $473.01. In addition, during the year ended December 31, 2015, we understand that Ncell (Nepal), Tcell (Tajikistan), and Ucell (Uzbekistan) had gross revenues totaling approximately $26,003.10 and net profits of approximately $23,115.40.

Although it is difficult to do with a reasonable degree of certainty, we have concluded that our Iranian business partners described in this section may be owned or controlled indirectly by the Government of Iran. However, to our knowledge, none of the services provided by Turkcell and our affiliates in Iran described in this section have been used by the Government of Iran to commit serious human rights abuses against the people of Iran. Furthermore, we understand that the U.S. Department of the Treasury s Office of Foreign Assets Control has issued a general license authorizing U.S. persons to engage in certain of the activities described in this section. We, and our affiliates, intend to continue the activities described in this section in 2016.

XII. Regulation of the Turkish Telecommunications Industry

a. ***Overview***

All telecommunications activity in Turkey is regulated by the ICTA. The Electronic Communications Law No. 5809 (the Electronic Communications Law), which came into force on November 10, 2008, is the principal law

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governing telecommunications activity in Turkey. The Electronic Communications Law was published to correspond to the rapidly-evolving Turkish telecommunications industry, and all secondary regulations have been updated to be in accordance with this law. The duties of the ICTA, which may be exercised in a manner that is adverse to our operations and our financial results, include those described below.

b. *ICTA*

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

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

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

Under Article 51 of the Electronic Communications Law, the ICTA is authorized to determine the principles and procedures related to the process of personal data and protection of privacy and has published Regulations o the Protection of Privacy and Processing of Personal Data . With its decision rendered on April 9, 2014 and published in the Official Gazette on July 26, 2014, the Turkish Constitutional Court decided that Article 51 of the Electronic Communications Law is a violation of Article 20(3) of the Constitution, which stipulates data protection as a constitutional measure and that the measures should be regulated by the laws and therefore annulled the aforementioned provision (Article 51). The Article 51 of the Electronic Communications Law, which was repealed by Turkish Constitutional Court, was amended and came into force on April 15, 2015. In the amended Article 51, the main principles of recording and sharing subscribers personal data are defined in general.

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

- Creation and protection of a free and efficient competitive environment.

- Protection of consumer rights and interests.

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

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

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

Ensuring the conformity of electronic communications systems to international norms.

Protection of information safety and communication confidentiality.

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

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

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

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

The Cabinet of Ministers Decision No. 27984 and dated July 4, 2011 allowed the use of the universal service fund to extend the mobile GSM network coverage listed in the annex of the decision to uncovered areas with a population of 500 or less. On February 13, 2013, we were appointed as universal service provider after a tender process and the related contract was signed on February 20, 2013. Under the aforementioned contract, Turkcell duly carried out its undertakings for installing sufficient infrastructure to cover 1,799 rural locations and the investment and operating expenses are compensated by the universal service fund of the Ministry of Transport, Maritime Affairs and Communications. Following the expiration of aforementioned contract as of March 3, 2016, the terms and conditions regarding the continuation of existing services in 1,799 locations, addition of new rural locations within the scope of the universal service and extension of universal services to 3G/4.5G are under examination by the Ministry of Transport Maritime Affairs and Communications.

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

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

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

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

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

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

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

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

According to this regulation, the ICTA may intervene in the structure of our tariffs or may impose certain criteria relating to the revision of our tariffs. Pursuant to its decision dated December 8, 2009, the ICTA designated Turkcell as having Significant Market Power in the Mobile Access Call Origination Market while all three operators were designated as having Significant Market Power in Mobile Call Termination Market . As a result of the significant market power designation in the Mobile Access and Call Origination Market , our Company is obliged to provide access and call origination services to other operators such as MVNOs and Directory Services Operators on a cost-based basis, while competitors can set their prices freely on commercial basis. Being an operator designated as having Significant Market Power in the Mobile Access and Call Origination Market may have the effect of reducing the rates that we can charge other operators, such as MVNOs, which would have a material adverse effect on our business and results of operations. We cannot estimate the impact of such designation as there are currently no MVNOs in the market. Based on the ICTA s market analysis for the 2012-2015 period, Turkcell was designated as the only operator with Significant Market Power in the Mobile Access and Call Origination Market . Currently the Mobile Call Termination Market and Mobile Access and the Call Origination Market are being analyzed by the ICTA. Upon the renewal of market analyses, operators having the Significant Market Power will be determined for the 2016-2019 period.

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

The ICTA abolished the Regulation On Quality of Service (issued in 2005), and published a new Regulation On Quality of Service in the Electronic Communications Sector, effective as of December 31, 2011 and applicable to all operators that provide service to end users, which sets out the procedures and principles to control the conformity of the services of operators. Mobile telephone operators are required to meet new service quality requirements and submit a report based on these requirements every three months to the ICTA. Additional requirements for service quality must be fulfilled. If the operators fail to reach these requirements more than once, this may result in the imposition of penalties. The results of quality measurements can also be made publicly available.

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

The ICTA abolished the Regulation on Administrative Fines to be imposed on the operators (issued in 2004) and published a new Regulation on Administrative Fines, Sanctions and Precautions to be imposed on operators, effective as of February 15, 2014. The ICTA retains the right to impose fines in the event an operator: submits incorrect or misleading documents or fails to submit documents as requested by the ICTA; does not submit such documents in a timely manner; does not permit inspection or audits to be made by the ICTA; uses unpermitted equipment or equipment not complying with standards or alters technical features of equipment; or does not pay fees arising from its use of licenses and frequencies or does not comply with the provisions of license agreements, telecommunications licenses and general authorizations or the legislation. The ICTA is authorized to impose sanctions and precautions as well as administrative fines.

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

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

(i) 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.

(ii) Fixed Line Telephone Services

The ICTA issued Fixed Telephony Service (FTS) licenses pursuant to the Regulation on Authorization regarding the Electronic Communications Sector, which enables existing long-distance telephony services (LDTS) operators, such as our subsidiary Turkcell 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.

On February 3, 2010, the ICTA published a new Regulation entitled The Right of Way in Execution of the Electronic Communications 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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f. ***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 became operational in the fourth quarter of 2008. Since we believe the MNP regulations conflict with our rights under our license agreement, without due compensation, we filed a lawsuit in 2007 for the cancellation of the MNP regulation. While we do not object to the substance of mobile number portability, we do, however, believe that our rights under our license agreement should remain protected or, if they are violated, we should be justly compensated. The Court rejected the case in June 2009 and we appealed the decision. The Plenary Session of the Chambers for Administrative Cases approved the court decision. We applied for the correction of the decision and this process is still pending. In 2009, the ICTA issued a new Regulation on MNP, abolishing the 2007 regulation. For new subscriptions, subscribers cannot port out to another operator in the first three months.

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

In 2008, the ICTA published the Regulation on Security of Electronic Communication , which determines the principles and procedures for precautions to be taken by the operators for eliminating or derogating the risks caused by threads or weaknesses of (i) the physical area of the operators, data, hardware/software security and reliability, and (ii) sustaining the reliability of human resources. In accordance with the regulation, our Company is required to comply with TS ISO/IEC 27001 or ISO/IEC 27001 standards. Turkcell was the first mobile operator in Turkey to receive the ISO/IEC 27001:2005 certification for its Network Operations function in 2008 covering all operations throughout Turkey. In 2011, Turkcell s IT function was also certified for ISO/IEC 27001:2005 and Turkcell s ISO/IEC 27001:2005 scope became one of the largest among telecommunication operators in Europe. In 2015, Information and Communications Technology and Network departments successfully passed ISO 27001:2013 audits and was deemed to be in compliance with ISO 27001:2013 version. By having an ISO/IEC 27001:2013 certificate covering telecom infrastructure operations, Turkcell fulfils its regulatory obligations and offers its customers the benefits of an internationally-recognized secure management of operations and services. In July 2014, the ICTA revised the above regulation by adding a special clause on cyber security, which required the company to set up and maintain a specialized team to detect, prevent and report all cyber events and work in coordination with the National Cyber Event Reaction Center, available 24/7.

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

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

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

Any person or legal entity may file a complaint with the Competition Board. The Competition Board can take necessary measures to prevent violations and may impose fines on those who are liable for such prohibited practices.

The Competition Board may impose fines of up to 10% of the annual gross income of the operators, which is constituted by the end of the previous financial year and determined by the Competition Board. The ICTA and the Competition Board entered into a Protocol on Cooperation in 2002, followed by a new Protocol in 2011. The original Protocol established a framework whereby the ICTA and the Competition Board can cooperate on legal actions and policies regarding measures, regulations and inspections that affect competition conditions and competition in the telecommunications sector. The new Protocol regulates the mechanisms to improve cooperation between the ICTA and the Competition Board.

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

The Law No. 6360 on the Establishment of Metropolitan Municipalities in Fourteen Provinces and of Twenty-Seven Districts and Amending Certain Laws and Decree Laws was published in the Official Gazette on December 6, 2012

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and enacted on March 30, 2014 through municipal elections. The Law, increasing the number of metropolitan cities from 16 to 30, dissolves the legal entity of villages and special provincial administrations in cities where there are metropolitan municipalities. By the amendment of the Law for Metropolitan Municipalities, the number of metropolitan municipalities increased and the borders of some metropolitan municipalities were extended. After this amendment, the ICTA increased our coverage obligations, defined in our concession agreement, by its decision, based on this law amendment which requires us to make material capital expenditures. We filed a lawsuit for the stay of execution and cancellation of the ICTA s aforementioned decision. The Council of State granted a motion for the stay of execution of ICTA s aforementioned decision. The ICTA objected to this decision. The objection was also rejected in favor of Turkcell. The case is still pending. Since then the ICTA has been working on a new regulation aligned with the law no. 6360.

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

The Ministry of Transport, Maritime Affairs, and Communications, in coordination with the Ministry of Environment and Urban Planning, published a draft regulation on the Implementation of any kind of base station, antenna, tower, waveguide, container and related equipment and facility in fixed and mobile communication infrastructure in September 2013. This draft regulated is expected to come into force in 2016. Following the publication of the regulation, mobile operators will be obliged to pay additional certificate fees according to the scale of charges, from governorships or municipalities, such as a site selection certificate. This may lead to additional certificate fees and operational costs, such as permission processes for implementation of base stations, which may take longer.

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

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

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

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

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

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

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

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

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

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

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

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

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

General

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

Terms and Conditions

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

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

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

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

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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 the ICTA, we may also be required, throughout the term of our license, to cover at most two additional areas each year. Except in the event of force majeure, we must pay a late performance penalty of 0.2% of the investment in the related coverage area per day for any delay of more than six months in fulfilling a coverage area obligation. As of today, we have met and surpassed all coverage obligations.

Service Offerings

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

Service Quality

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

Tariffs

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

The standard tariffs and the maximum tariffs set by the ICTA have been established in Turkish Lira and the ICTA s schedule of standard tariffs and maximum rates are premised on the TRY/$ Exchange Rate in effect on the date they were approved by the ICTA. Although we believe the tariff structure in our license will, in most instances, permit adjustments designed to offset devaluations of the Turkish Lira against the U.S. Dollar, any such devaluation that we are unable to offset will require us to use a larger portion of our revenue to service our non-Turkish Lira foreign currency obligations. Additionally, in the event that the ICTA were to establish maximum tariffs at levels below those that would enable us to adjust our rates to offset devaluations, this could have a material adverse effect on our business, consolidated financial condition, results of operations or liquidity.

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, under Article 13 of the Electronic Communications Law, in the event of determination of the significant market power of the operator, the ICTA may determine the lower and upper limit of the tariffs and principles and procedures of the application of the same. Based on such Article, the ICTA may take a similar decision which will have an effect on our future tariffs. With respect to our retail tariffs, in the fourth quarter of 2007, the ICTA intervened in 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 a board resolution dated March 25, 2009, the ICTA set a lower limit for solely Turkcell s on-net retail tariffs. In addition, the ICTA with its board decision dated April 25, 2012 decided on the lower limit to be applied to our campaigns (specified offers and packages provided to specific customers for a limited time period) as well as on our tariffs, which further impacted our ability to price our services and respond to competitive pressures. Furthermore, with a board resolution dated March 13, 2013, the ICTA raised the lower limit to be applied on our tariffs to 0.0535 TRY/min from

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0.0313 TRY/min. Simultaneously, the ICTA also decided that a lower limit on our SMS tariffs should be applicable over a rate of 0.0291 TRY/SMS. On the other hand, the ICTA excluded the campaigns from the scope of this decree, which was added in its decision dated April 25, 2012. The amendments were effective from July 2013 onwards. With the same board resolution, the ICTA linked the mobile termination rates to minimum on-net voice levels with a parameter of 1.7 such that our minimum on-net prices should be set multiplying the mobile termination rate with the above-mentioned parameter of 1.7. In addition, the ICTA with board resolutions dated April 12, 2013 and June 17, 2013, lowered the mobile termination rates for Turkcell from TRY 0.0170 to TRY 0.0043 for SMS and from TRY 0.0313 to TRY 0.0250 for voice. As a result, our minimum on-net price level has been decreased to TRY 0.0073 for SMS and TRY 0.0428 for voice due to the above-mentioned parameter. Moreover, with a board resolution dated January 6, 2014, the ICTA decided to bring the above-mentioned amendment back on our campaigns, which was effective as of February 1, 2014.

These pricing regulations are valid on each and every single voice tariff and campaign, whereas we are obliged to maintain our minimum on-net SMS rate on network base. The table below shows the current on-net prices and MTR rates:

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

The maximum tariffs set by the ICTA 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. 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. In 2011, the maximum tariff on SMS decreased by 48% and the maximum tariff on mobile voice increased by 4%. In 2013, the maximum tariff on mobile voice increased by approximately 6% to TRY 0.439, while as of January 2014 the maximum tariff on SMS decreased by 20% to TRY 0.332. With a board resolution dated March 26, 2014, price caps for voice increased to 0.4625 TRY/min by 5.4% as of July 2014. A new board decision dated March 18, 2015, was effective as of April 1, 2015, according to which, maximum tariffs remained the same. Finally, with a board decision dated September 28, 2015, which became effective as of November 1, 2015, price caps for voice and SMS remained the same, whereas price caps for some services (e.g. SIM card change, number change etc.) were decreased. The table below shows the evolution of maximum tariffs on voice and SMS:

TRY	Maximum tariff on voice	Maximum tariff on SMS
13.10.2008	0.80	0.71
27.04.2009	0.64	0.73
12.10.2009	0.65	0.74
01.04.2010	0.40	0.80
01.10.2010	0.40	0.80
01.04.2011	0.42	0.42
01.10.2011	0.42	0.42
01.04.2012	0.42	0.42

01.10.2012	0.42	0.42
01.04.2013	0.44	0.42
01.10.2013	0.44	0.42
01.01.2014	0.44	0.33
01.07.2014	0.46	0.33
01.04.2015	0.46	0.33
01.11.2015	0.46	0.33

We filed lawsuits for the cancellation and stay of execution of some of the aforementioned decisions of the ICTA. Some of the lawsuits are pending while others were rejected by the courts and we have appealed these decisions. The Plenary

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Session of The Chambers for Administrative Cases approved some of the First Instance Courts decisions. We applied for the correction of the decision process for the two respective decisions. For the other lawsuits, the appeal process and the correction of the decision process are pending.

The ICTA has in the past intervened and may again 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 the maximum price cap during the first minute of all calls. The usage behavior and our financial results will be adversely affected if the ICTA intervenes on charging periods.

Relationship with the ICTA

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

License Suspension and Termination

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

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

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

If our license is terminated 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 the ICTA, or an institution designated by the ICTA, without consideration, the network management center, the gateway exchanges, and the central subscription system, which are the central management units of the GSM network. We may apply to the ICTA between 24 and six months before the end of the 25-year license term for the renewal of the license. The ICTA may renew the license, taking into account the legislation then currently in effect.

Applicable Law and Dispute Resolution

Under our license agreement, any dispute arising from 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.

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

In 2008, the ICTA conducted a tender process to grant four separate licenses to provide IMT 2000/UMTS services and infrastructure. We were granted the A-type license, which provides the widest frequency band, at a consideration of EUR 358 million (excluding VAT). We signed the license agreement relating to 3G authorization on April 30, 2009. 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.

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

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

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

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

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

In the IMT- Advanced (4.5G) tender held on August 26, 2015, to grant spectrum usage for 800 MHz, 900 MHz, 1800 MHz, 2100 MHz (FDD,TDD) and 2600 MHz (FDD, TDD), the Company purchased a total of 172.4 MHz, the broadest 4.5G (IMT) spectrum allocation of any operator in Turkey (including widest frequency bands on 1800 MHz, 2100 MHz and 2600 MHz) for 1,623.5 million (excluding VAT and interest payable on the installments). The license fee will be paid in four equal semi-annual installments of which the first installment including VAT was paid on October 26, 2015.

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

The 4.5G licensing process is finalized by signing of IMT License Commitments Document by Turkcell and therefore, the ICTA granted Turkcell 4.5G License on October 27, 2015. The 4.5G License is effective for 13 years until April 30, 2029. According to the License, Turkcell expects to commence providing 4.5G services from 1 April 2016.

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

a) must achieve population coverage of 95% of the population of Turkey and coverage of 90% of the population within the borders of all cities and all city districts within eight years

b) must cover 99% of highways, high speed railroads and tunnels with lengths more than one kilometers within eight years, 95% of double roads within six years and 90% of conventional railroads within ten years

c) is obliged to share actively with other mobile operators, any new 3G or 4.5G site which it will decide to build within settlement areas with population of less than 10.000 and highways, double roads, tunnels, high speed railroads and conventional railroads.

from the effective date of the License granted to the Company.

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

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

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

Ukraine License Agreement

lifecell owns three activity licenses, one for GSM 900, GSM 1800 and a technology neutral license, issued for 3G. As at December 31, 2015, lifecell owned 26 frequency use licenses for UMTS 2100, GSM 900, GSM 1800, CDMA and microwave Radiorelay, which are regional and national. In addition to the GSM licenses, lifecell owns one license for international and long-distance calls and eight PSTN licenses for eight regions in Ukraine. 3G activity and frequency licenses were issued in March 2015 and are valid for 15 years. Additionally, lifecell holds a specific number range three NDC codes for mobile networks, four permissions on a number of resources for short numbers, eleven permissions on a number of resources for SS-7 codes (7 regional and 4 international), one permission on a number of resources for Mobile Network Code and sixteen permissions on a number of resources for local ranges for PSTN licenses.

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

Belarus License Agreement

Belarusian Telecom owns a license, issued on August 28, 2008, for a period of 10 years, which was valid till August 28, 2018. However, in accordance with the Edict of the President of the Republic of Belarus dated November 26, 2015, numbered 475, the license is now issued without limitation of the period of validity. Starting from March 1, 2016 the license is valid from the date of the licensing authority s decision on its issue and for an unlimited period. Under the terms of its license, Belarusian Telecom is required to gradually increase its geographical coverage until the end of 2017. Belarusian Telecom has fulfilled all coverage requirements except covering all Belarusian settlements. The number of uncovered settlements is 648 out of a total of 22,552 settlements.

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Turkcell Superonline Authorizations

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

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

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

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

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

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

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

In accordance with Article 7 of the aforementioned Electronic Communications Law, the ICTA may determine the operators that have significant market power in the relevant market as a result of market analysis. After determination of the operators who have significant market power, the ICTA may impose additional liabilities for such operators in order to protect the competitive environment. On December 15, 2005, the ICTA designated Turkcell, Vodafone, and Avea as operators holding significant market power in the GSM Mobile Call Termination Services Market and designated Turkcell individually as an operator holding significant market power in the Access to GSM Mobile Networks and Call Originating Markets . According to the new Regulation published in the Official Gazette dated September 1, 2009, numbered 27336, unless otherwise agreed, any decisions taken by the ICTA in the years 2005 and 2006 relating to market analysis were valid and effective until the end of calendar year 2009. Pursuant to its decision dated December 8, 2009, the ICTA designated Turkcell individually as an operator holding significant market power in the Access to Mobile Networks and Call Originating Markets and designated Turkcell, Vodafone and Avea as operators holding significant market power in the

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Mobile Call Termination Market . Based on the market analysis of the ICTA for the 2012-2015 term, all three operators were declared as operators holding significant market power in the Mobile Call Termination Market and Turkcell is once again recognized as the only operator holding significant power in Access to GSM Mobile Networks and Call Originating Markets . As explained above, market analysis for both markets will be renewed in 2016.

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

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

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

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

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

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

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

Subsequently, the provisions that regulate the ICTA approval of the examination fee determined by the Co-Location and Facility Sharing incumbent have been removed, opening up the Co-Location and Facility Sharing process to negotiation. In addition, the Facility Sharing incumbent s right to allocate a facility for its own network and investment plans has been reduced to 25% of the facility.

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

In the 4.5G Authorization Document, in provinces with population of less than 10.000 and at sites to cover highways, double roads and railroads, any new 3G or 4.5G site to be built must be shared actively by all operators within this region. Current government officials declared that research and development (R&D) and production & development (P&D) in Turkey for high-tech products and services will be supported and some incentives will be introduced in the near future. One of the biggest local vendors in the defense industry that is already producing telecom equipment for the military declared it is planning to produce a 4.5G base station for commercial networks after 2015. In the 4.5G Authorization Document, usage of locally-produced equipment in network was obliged, with rates up to 45%. Yet if the lack of such equipment or absence in the demand for production of such equipment is proved by mobile operators, mobile operators will be free of this obligation specifically for the related term. We informed the ICTA that we support any local R&D and P&D, as long as it complies with international technical and financial standards and can be sustainable. However, the 4.5G Authorization Document does not provide details on the compliance with international standards. The ICTA may oblige operators to buy and use the locally produced products, independent of the quality standards, if a local vendor produces sufficient equipment to support the mobile operators demands. This may cause technical problems in our network. Should such technical problems occur, it could negatively affect our quality of service, leading to increased costs for the 4.5G infrastructure roll-out and could negatively affect our customer experience.

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

The ICTA published a Regulation on Consumer Rights in the Electronic Communications Sector on July 28, 2010 (which abolished the Regulation published on December 22, 2004) and made some changes to such regulation on June 20, 2013. This regulation introduces some radical changes to the electronic communications sector. With this regulation, the ICTA determined new procedures/changes regarding: the process and timing of churn steps, the obligation of operators to keep subscribers informed of services, including, but not limited to, informing customers about amendments of the campaigns and tariffs, the consumer complaints solution mechanism, billing processes and safe internet.

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

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

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

Under Article 51 of the Electronic Communications Law, the ICTA is authorized to determine the principles and procedures related to the process of personal data and protection of privacy. In this manner, ICTA had published Regulations on the Protection of Privacy and Processing of Personal Data . With its decision rendered on April 9, 2014 and published in the Official Gazette on July 26, 2014, the Turkish Constitutional Court decided that Article 51 of the Electronic Communications Law is a violation of Article 20(3) of the Constitution, which stipulates data protection as a constitutional measure and that the measures should be regulated by the laws and therefore annulled the aforementioned provision (Article 51). The Article 51 of the Electronic Communications Law, which was repealed by Turkish Constitutional Court, was amended and came into force on April 15, 2015. In the amended Article 51, the main principles of recording and sharing subscribers personal data are defined in general.

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

w. ***Regulation on Electronic Commerce***

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

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

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

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

x. ***Registered Email Service Regulation***

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

y. ***Turk Telekom, Vodafone and Avea Interconnection Agreements***

(i) General

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

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

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

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

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

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

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We have ongoing disputes with Turk Telekom, Vodafone and Avea over these agreements and with the ICTA regarding its decision related to these agreements. On December 30, 2015, Turkcell Group and Turk Telekom Group reached an agreement to mutually settle the ongoing lawsuits, enforcement procedures and disputes between Turkcell companies including Turkcell Iletisim Hizmetleri AS, Superonline Iletisim Hizmetleri AS, Kule Hizmet ve Isletmecilik AS and Turk Telekom Group companies including Turk Telekomunikasyon AS, Avea Iletisim Hizmetleri AS and TTNet AS. In this regard, we made a payment of TRY 225 million to Turk Telekom Group which is the net of rights, receivables and claims of both parties (excluding VAT and special communication tax, including all other tax and financial obligations and interest) on January 14, 2016. See Item 8.A. Consolidated Statements and Other Financial Information Legal Proceedings .

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

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

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

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

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

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

	SMS (TRY Kurus)			
	TURKCELL	VODAFONE	AVEA	TURK TELEKOM
01/04/2010	1.70	1.73	1.87	1.70
01/07/2013	0.43	0.43	0.47	1.70
31/10/2014	0.43	0.43	0.47	1.70

	MMS (TRY Kurus)		
	TURKCELL	VODAFONE	AVEA
31/10/2014	0.86	0.86	0.94

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

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

(i) Interconnection/Call Termination Agreements

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

(ii) International Transit Traffic Services Agreements

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

(iii) SMS Termination Agreements

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

aa. ***MVNO Services***

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

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

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

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

Turkcell entered into agreements relating to the provision of directory services with 12 Directory Service Providers, which are licensed to provide directory services by the ICTA. The aforementioned agreements determine the principles and procedures related to the access of companies to the Turkcell database, the provision of directory services to the subscribers

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and the clearing procedure of the parties. Such agreements are valid and binding for a term of one year. However, if neither party notifies the other party one month before the expiration of the agreement of its request to terminate, the agreement will automatically be renewed for another one-year term.

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

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

dd. ***Prospective Legislation and Regulations***

The Electronic Communications Law provides that current telecommunications legislation shall be revised and amended. The revision and amending processes are still ongoing. However, during this period, all regulations and communiqués that were effective prior to the publication of the Electronic Communications Law will still be valid and binding, on the condition that they are not contrary to the provisions of the Electronic Communications Law.

4.C Organizational Structure

The following chart lists each of our key subsidiaries (including our ownership interest in Fintur) and our proportionate direct and indirect ownership interest as of March 10, 2016:

(1) Global Odeme Sistemleri A.S. (formerly Corbuss) is 11% directly and 89% indirectly (in total 100%) owned by Turkcell. Global Odeme Sistemleri (Global Odeme) was renamed Global Odeme Hizmetleri on February 5, 2015. Subsequently, Global Odeme Hizmetleri was renamed Turkcell Odeme Hizmetleri A.S. on September 18, 2015.
(2) Turkcell Finansman A.S was incorporated on October 22, 2015.
(3) On July 10, 2015, Turkcell Iletisim Hizmetleri A.S. completed the acquisition of 44.96% of the shares of Euroasia Telecommunications Holding B.V., a subsidiary based in Netherlands, in which Turkcell held 55.04% shares.

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(4) On November 25, 2015, the Board of Directors decided on the mergers of Euroasia Telecommunications Holding B.V being entirely acquired by Beltur Coöperatief U.A. and Turkcell Interaktif Dijital Platform ve Icerik Hizmetleri A.S being entirely acquired by Superonline Iletisim Hizmetleri A.S.

For information on the country of incorporation of our key subsidiaries, see Item 4.B. Business Overview .

4.D Property, Plant and Equipment

As of December 31, 2015, we operated 65 facilities including network data centers, of which 57 were located in Turkey, the rest in Northern Cyprus, Belarus, Ukraine and Azerbaijan.

We own six buildings (Beyoglu, Maltepe, Kartal, Davutpasa, Mahmutbey, Halkali), located throughout Istanbul, as operation of mobile switching centers, network data centers, customer service offices and warehouse. Others are in Bodrum, Ankara (Cinnah, Sogutozu, Ivedik), Malatya, Izmit, Tekirdag/Corlu, Zonguldak, Aydin, Denizli, Konya, Karaman, Erzurum, Balikesir, Mugla, Mersin, Sakarya, Hatay, Adana, Diyarbakir, Samsun, Izmir, Antalya, Trabzon, Bursa, Van, Kayseri, Gaziantep, Minsk (Belarus), which we use for administration, sales and other service centers as well marketing and operation of mobile switching centers and network data centers.

In September 2015, our headquarters moved to Kucukyali from Beyoglu bringing internal functions and group companies Turkcell Technoloji and Turkcell Superonline together in Istanbul, generating operational efficiencies.

In addition to Kucukyali (headquarters), we also lease buildings in Istanbul (Maltepe, Umraniye, Levent, Maslak), Edirne, Eskisehir, Manisa, Samsun, Trabzon, Bodrum, Ankara, Izmir, Gaziantep, Sanliurfa, Adana, Diyarbakir, Antalya, Artvin, Van (Ercis), Siirt, Karabuk, Corum, places outside of the Turkey such as Baku (Azerbaijan), Lefkosa (Northern Cyprus), Minsk, (Belarus), Kiev, Dnepr, Sumy, Kharkiv (Ukraine), for similar purposes, including marketing and sales, operation of mobile switching centers and network data centers.

As of December 31, 2015 we also had 209 owned and 1,098 leased vehicles, used for operational purposes and provided as benefits to our employees.

a. ***Core Network Infrastructure***

Our core network consists of three site Geographically Redundant Next Generation Home Location Register Home Subscriber Server (NG HLR / HSS), a combined Number Portability Switch Relay Function (SRF) and Number Portability Database and Signal Transfer Point (STP). The Core Network is common for 2G and 3G radio networks and carries voice over IP, with combined Mobile Switch Centers/Visitor Location Registers (MSC/VLR), Media Gateways (MGW), Charging Control Node (CCN) and Virtual Private Network (VPN). 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 and also Policy and Charging Rules Function (PCRF) for subscriber policies. In addition, we already deployed Data Optimization equipment for customer experience.

We have switches in Istanbul, Ankara, Izmir, Adana, Antalya, Bursa, Corlu (Tekirdag), Diyarbakir, Erzurum, Gaziantep, Hatay, Kayseri, Kocaeli, Malatya, Mersin, Mugla, Samsun, Trabzon, and Van. We also had Remote BSC (RBSC) location at Elazig which was moved to Malatya at the end of 2015.

In addition, we own switch buildings in different cities in Turkey, such as Istanbul (Mahmutbey, Kartal, Maltepe), Mugla, Izmit, Diyarbakir, and Erzurum. Switch buildings are where the network switching equipment, such as MSC, MGW, BSC and RNC, is located.

b. ***Access Network Infrastructure***

Our Access Network consists of Base Station Controllers (BSC) and Radio Network Controllers (RNC) at Network Data Centers (NDC) and BTS and Node-Bs located on rooftops or towers. In 2014, we started calling our OMCs (Operation Maintenance Centers) as NDCs (Network Data Centers). 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. 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.

At the end of December 2015, we owned over 41,300 base stations (2G+3G/HSDPA) and leased the land underlying such base stations.

In 2009, the ICTA resolved that operators may transfer the right of use of their towers to third parties. In accordance with this resolution, we transferred the rights of some towers to Global Tower.

c. *Transmission Network Infrastructure*

Turkcell s mobile backhaul utilizes various transport technologies to provide for an efficient, resilient and cost effective transmission network. Connectivity between sites is provided using Microwave Radio Links and leased lines carried over Synchronous Digital Hierarchy (SDH) and Ethernet over Dense Wavelength Division Multiplexing (DWDM) where appropriate. Cell sites with site connectivity are mostly served by point-to-point microwave radio links owned and managed by Turkcell, make up more than 90% of our network. Interconnections with other Public Land Mobile Networks (PLMN), Public Switched Telephone Networks (PSTN), Long Distance Telephony Services (LDTS) and small operator companies are realized through leased line connections. More than 90% of our leased line network connectivity is currently provided by our subsidiary Turkcell Superonline . The rest of the leased lines are provided by the incumbent Telekom operator Turk Telekom . With the growth of data usage and in preparation for 4.5G , fiber optic connectivity to cell cites has also become a part of our network topology. As a result the overall infrastructure capacity usage is fully optimized and a high grade of availability is achieved through topology resiliency and packet base IP mobile backhaul network infrastructure.

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion and analysis of our management with regard to our financial condition and the results of our operations should be read together with the Consolidated Financial Statements included in this annual report. In addition to historical information, the following discussion contains forward-looking statements based on current expectations that involve risks and uncertainties. Actual results and the timing of certain events may differ significantly from those projected in such forward-looking statements due to a number of factors, including those set forth in Item 3.D. Risk Factors and elsewhere in this annual report.

I. Overview of the Turkish Economy

2015 was another challenging year for global markets with a further deceleration of activity in key emerging and developing economies. The slowdown was accompanied by a further drop in commodity prices and volatility in financial markets. Turkey s credit rating was kept the same at all three major rating agencies with only Standard &Poor s still remaining one notch below investment grade. The Turkish economy has grown for twenty four quarters in a row and grew by 3.4% in the first nine months of 2015. Based on market estimates, the year-on-year GDP growth in Turkey is expected to be at around 3.0% in 2015 and 3.1% in 2016. 2016 is expected to be an even more challenging year globally due to high volatility from differing monetary policies from developed markets. On the U.S. side, the Federal Reserve (FED) has increased its policy rate for the first time since 2006 with a pickup in economic activity and a strong labor market. The European Central Bank has extended the maturity of its quantitative easing program by at least six months to March 2017 and is expected to increase the size of its bond buying program in 2016. The Bank of Japan has introduced negative interest rates for excess reserves for the first time to revive growth and inflation in the world s third-largest economy. Furthermore, the recent drop in oil prices continues to give energy-importing countries like Turkey an opportunity in account rebalancing while increasing the pressure on public finances of energy exporting emerging market countries.

The TRY depreciated by 25.4% against the U.S. Dollar in 2015, and depreciated by 0.02% as of March 10, 2016 based on closing rates as of December 31, 2015. Market players continue to expect further devaluation in the TRY in 2016. The annual inflation rate increased to 8.8% by the end of 2015 from 8.2% at the end of 2014 led by an increase in food prices and pass through effects due to the TRY depreciation. The latest CBRT expectations survey, as of February 18, 2016, indicated that inflation is expected to be at 8.5% at the end of 2016. The current account deficit decreased to approximately 4.5% of GDP in the first 11 months of 2015 from approximately 5.7% in 2014. The current account deficit is expected to continue narrowing in 2016 due to low energy prices. Potential capital outflows due to a decrease in global USD liquidity and rising U.S. interest rates may have a negative impact on the Turkish economy if not counterbalanced by European Central Bank and Bank of Japan actions.

Turkey held parliamentary elections in June 2015 but failed to form a government and therefore early elections took place in November 2015. Early elections resulted in a single majority government with AKP gaining the majority of the parliament. On a regional level, recent political tensions with Russia and further instability in the CIS, Balkans, Middle East, North Africa and Caucasian regions may impact the development of the Turkish economy. Tension in Ukraine, Syria and the Middle East region remain the most important neighboring political risks.

II. Taxation Issues in the Telecommunications Sector

Under current Turkish tax laws, there are several taxes imposed on the services provided by telecommunications operators in Turkey. These taxes are charged to subscribers by mobile operators and remitted to the relevant tax authorities. They may be charged upon subscription, on an annual basis or on an *ad valorem* basis on the service fees charged to subscribers.

The following are the most significant taxes imposed on our telecommunications services:

a. ***Special Communications Tax***

The Turkish government imposed a special 25% communications tax on mobile telephone services as part of a series of new taxes levied to finance public works required to respond to the earthquakes that struck Turkey s Marmara region in 1999. This tax is paid by mobile users and collected by mobile operators. As of August 2004 other telecom services (*i.e.*, fixed lines and TV/radio transmission) are also included within the scope of special communication tax.

Under Law No. 5838, which became effective on March 1, 2009, wired, wireless and mobile internet service providers are subject to a special 5% communications tax (previously such tax was 25% on mobile, 15% on fixed lines). Other than mobile internet services, all mobile telecommunication services are subject to a special 25% and other telecommunication services (*i.e.*, fixed lines and TV/radio transmission) are subjected to 15% tax rate. The tax collected from subscribers in one calendar month is remitted to the tax authorities within the first 15 days of the following month.

Under Law No. 6322, effective July 1, 2012, new mobile subscriptions for Machine to Machine (M2M) simcards is not subject to the special communication tax levied upon new subscriptions.

The special communications tax on new mobile subscriptions was TRY 44 and TRY 40 in 2015 and 2014, respectively. As of January 1, 2016, the special communications tax on new subscriptions levied is TRY 46. The tax has had a correlative negative impact on mobile usage.

b. ***Value Added Tax (VAT)***

Like all services in Turkey, services provided by GSM operators are subject to VAT, which is 18% of the service fees charged to subscribers. We declare VAT to the Ministry of Finance within 24 days and remit VAT paid by our subscribers within the first 26 days of the month following when the tax was incurred, after the offset of input VAT incurred by us.

VAT for roaming services was, until November 3, 2009, calculated solely on the mark-up amount on subscribers invoices for roaming services. Following the Ministry of Finance s declaration of a change in its position regarding roaming charges, we began imposing VAT and the special communications tax on the entire amount of roaming charges, starting from November 3, 2009, to comply with this change in position.

Reverse charge VAT is calculated on the invoices issued by foreign GSM operators.

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c. ***License and Annual Utilization Fees***

According to Article number 46 of the Electronic Communications Law, subscribers registered in the system are subject to both license and annual utilization fees. GSM operators are charged with the duty of collecting of these fees.

The license fee is paid once on the subscription per subscriber. The license fee was TRY 17.95 and TRY 16.30 in 2015 and 2014, respectively. As of January 1, 2016, the license fee is TRY 18.95.

The payment of the annual utilization fee to the government depends on whether a subscriber is postpaid or prepaid. For postpaid subscribers, the monthly utilization fee was TRY 1.50 and TRY 1.36 in 2015 and 2014, respectively, and is charged to subscribers monthly. For prepaid subscribers, the annual utilization fee is calculated by multiplying the number of registered prepaid subscribers at the previous year end by the annual utilization fee and the calculated bulk annual utilization fee is paid by mobile operators the following year on the last business day in February. As of January 1, 2016, the monthly utilization fee is TRY 1.58. We decided to collect utilization fees from most of our prepaid subscribers starting from June 2011.

d. ***Special Consumption Tax***

The Special Consumption Tax (SCT) is a tax on prescribed goods, which includes mobile phones. The SCT is charged on mobile phones either when they are imported or when they are sold by Turkish manufacturers. The SCT rate on mobile phones (mobile phones are legally defined as transmitter/receiver cellular phones) was 20% prior to October 13, 2011, and the SCT calculated in accordance with the 20% rate must not fall below TRY 40 per cellular phone device (Temporary Article 6 of Special Consumption Tax Code).

The SCT rates were raised on some motor vehicles, mobile phones, alcoholic beverages and tobacco products by a decision of the Board of Ministers, which was published in the Official Gazette on October 13, 2011. The SCT rate over cellular phones was increased from 20% to 25% and the minimum SCT amount to be calculated was increased to TRY 100 (previously the minimum SCT amount was TRY 40) effective from October 13, 2011.

The SCT rates on some motor vehicles, mobile phones and alcoholic beverages were raised by a decision of the Board of Ministers, which was published in the Official Gazette on January 1, 2014. The minimum SCT amount to be calculated over cellular phones was increased to TRY 120 effective from January 1, 2014. By a decision of the Board of Ministers, which was published in the Official Gazette on January 1, 2016, the minimum SCT amount to be calculated over cellular phones was increased to TRY 160 effective from January 1, 2016.

For a description of various tax related disputes to which we are party, see Item 8.A. Consolidated Statements and Other Financial Information Legal Proceedings .

III. Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based upon our Consolidated Financial Statements, which have been prepared in accordance with IFRS as issued by the IASB. The preparation of these financial statements requires us to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of the financial statements and for the period then ended. On an ongoing basis, we evaluate the estimates used. We base our estimates on historical experience, actuarial estimates, current conditions and various other assumptions that we believe to be reasonable under the circumstances. These estimates form the basis for making judgments about the carrying values of assets and liabilities and are not readily apparent from other sources. Actual results may differ from these estimates. Our critical accounting policies are disclosed in Note 3 (Significant Accounting Policies) to our Consolidated Financial Statements in this Form 20-F.

IV. Change in Reportable Segments and in Reporting Currency

Beginning in 2015, we have modified our reportable segments to match our new internal operating and reporting structure, itself driven by our converged communications and technology services strategy which emphasizes marketing and sales around consumer and corporate customer groups.

Our operations are now aggregated under two main reportable segments, Turkcell Turkey and Turkcell International:

The Turkcell Turkey segment comprises mainly our telecommunication and technology services activities in Turkey and includes the operations of Turkcell, Turkcell Superonline, Turkcell Satis, group call center operations of Turkcell Global Bilgi, Turktell, Turkcell Teknoloji, Turktell Interaktif, Global Tower, Rehberlik, Turkcell Odeme and Turkcell Gayrimenkul.

The Turkcell International segment comprises mainly our telecommunication and technology services activities outside of Turkey and includes the operations of lifecell, Belarusian Telecom, Kibris Telekom, Eastasia, Euroasia, Beltur, Beltel, UkrTower, Global LLC, Turkcell Europe, Lifetech LLC and Fintur.

Our Other reportable segment is comprised mainly information and entertainment services in Turkey and Azerbaijan, non-group call center operations of Turkcell Global Bilgi and consumer financing service operations of Turkcell Finansman A.S. The accounting policies of our reportable segments are the same as those described in the summary of significant accounting policies.

With effect from Q4 2015, our financial statements are presented in TRY only, the currency in which we recognize the majority of our revenues and expenses. We will no longer present financial statements in USD. This change will allow us to align our Turkish and US reporting.

5.A Operating Results

Our audited Consolidated Financial Statements as at December 31, 2015 and December 31, 2014 and for each of the years in the three-year period ended December 31, 2015 included in this annual report have been prepared in accordance with IFRS as issued by the IASB.

I. Overview of Business

Turkcell, a joint stock company organized and existing under the laws of the Republic of Turkey, was formed in 1993 and commenced operations in 1994. We operate under a 25-year GSM license (the 2G License) and a 20-year GSM license (the 3G License). We were granted the 2G License in April 1998 upon payment of an upfront license fee of $500 million. On April 30, 2009, we signed a license agreement with the ICTA, which provides authorization for providing IMT 2000/UMTS services and infrastructure. We acquired the A-type license providing the widest frequency band for a consideration of EUR 358 million (excluding VAT). The 3G License is effective for 20 years starting from April 30, 2009. Pursuant to the agreement, we started to provide IMT 2000/UMTS services as of July 30, 2009.

Under our 2G License, we pay the Undersecretariat of the Treasury (the Turkish Treasury) a monthly treasury share equal to 15% of our gross revenue. Of such fee, 10% is paid to the Ministry of Transport, Maritime Affairs and Communications of Turkey (Turkish Ministry) for the universal service fund.

We believe that the build-out of our network in Turkey is substantially completed. As of December 31, 2015, our network covered 100% of Turkish cities with a population of 1,000 or more and the majority of Turkey s tourist areas and principal intercity highways (according to the Turkish Statistical Institute 2012 Census). We currently meet the coverage requirements of our 2G license in all material respects.

In accordance with our 3G license agreement, we are required to cover the population within the borders of all metropolitan municipalities and within the borders of all cities and municipalities in three and six years, respectively. Moreover, we are required to cover the population in all settlement areas with a population higher than 5,000 and 1,000 in eight and ten years, respectively, following the date of the agreement. As of December 31, 2015, we had reached 95.0% population coverage.

In the 4.5G auction held on August 26, 2015, we agreed to purchase the use of 172.4 MHz, the largest amount of spectrum of any operator, for 1,623.5 million (excluding VAT and interest payable on the installments). The license fee will be paid in four equal semi-annual installments of 413.8 million (together with interest payable), the first installment being paid the day before the signing date of the license together with applicable VAT for the total sum. We agreed to purchase the use of widest frequency bands on 1800 MHz and 2600 MHz. We believe that these will allow us to offer high quality 4.5G services. We expect to commence offering 4.5G services from April 1, 2016. The 4.5G License is effective for 13 years until April 30, 2029.

Other than our 2G, 3G and 4.5G licenses, we also operate under interconnection agreements with other operators that allow us to connect our networks with those operators to enable the transmission of calls to and from our mobile communications system through existing digital fixed telephone switches. For example, we have an interconnection agreement with Turk Telekom that provides for the interconnection of our network with Turk Telekom s fixed-line network. Under our agreement with Turk Telekom, as amended, we pay Turk Telekom an interconnection fee per call based on the type and length of the call for calls originating on our network and terminating on Turk Telekom s fixed-line network, as well as fees for other services. We also collect an interconnection fee from Turk Telekom for calls originating on their fixed-line network and terminating on ours. We also have interconnection agreements with Vodafone and Avea pursuant to which we have agreed, among other things, to pay interconnection fees to them for calls originating on our network and terminating on theirs, and they have agreed to pay interconnection fees for calls originating on their networks and terminating on our networks.

As at December 31, 2015, management believes that the Company is in compliance with the above mentioned license and interconnection agreements conditions and requirements in all material respects.

Our subscriber base has grown substantially since we began operations in 1994. At year-end 1994, we had 63,500 subscribers. By year-end 2015, that number for the Group had grown to 68.9 million including subscribers of subsidiaries and equity accounted investments.

In 2015, Turkcell Turkey has positioned itself as a converged player in the total telecommunication market in line with our new strategic priorities. We shifted to a new organizational structure with the aim of increasing efficiency and simplification in our business processes, as well as strengthening our position as a provider of converged communications and technology services. Through our merged sales channels and integrated technical platform, we have generated efficiencies. Meanwhile, customer services have become a separate focus area.

Going forward, we will monitor our market share in terms of total telecom revenues as a converged player instead of mobile only revenues, or subscribers. In this regard, positioned as the second player in the converged market, our priority will be to increase our 35.5% revenue share within this market through differentiating our services and solutions, while remaining attuned to profitability.

We provide high-quality mobile and fixed voice, data, TV and other services over our network. We will continue to focus on our customer-oriented approach and our ability to provide quick and differentiated solutions to meet customers needs through lifestyle segments.

In the mobile segment, we increased our postpaid subscriber base from 44% in 2014 to 49% in 2015 due to our focus on value. As of December 31, 2015, we had 17.4 million prepaid and 16.6 million postpaid subscribers in our Turkish mobile network. Our average MoU in Turkey increased 8% to 296.6 minutes in 2015 from 275.3 minutes in 2014, as a result of our higher incentives and higher package utilization. Our mobile average revenue per user in Turkey increased to TRY 24.5 in 2015 compared to TRY 22.5 in 2014 mainly due to continued strong growth in data usage and an increase in the 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 minimum and maximum prices on our retail tariffs. For a more detailed discussion of these factors, please see Item 4.B. Business Overview Regulation of the Turkish Telecommunications Industry and Item 5.D. Trend Information .

Churn rate is the percentage calculated by dividing the total number of subscriber disconnections during a period by the average number of subscribers for the same period. For these purposes, we define average number of subscribers as the number of subscribers at the beginning of the period plus one half of the total number of gross subscribers acquired during the period. Churn refers to subscribers that are both voluntarily and involuntarily disconnected from our network. Our churn rate for mobile operations in Turkey was 27.3% for the year ended December 31, 2015, compared to 28.3% for the year ended December 31, 2014.

In the fixed segment, we increased our subscriber base from 1.2 million for the year ended December 31, 2014 to 1.5 million for the year ended December 31, 2015. 59% of the subscriber base are fiber customers (899 thousand subscribers).

We have an allowance for doubtful receivables in our Consolidated Financial Statements for non-payments and disconnections that amounted to TRY 816.4 million and TRY 727.7 million as of December 31, 2015 and 2014 respectively, which we believe is adequate. The main reason for the increase in allowance for doubtful receivables is an impairment loss recognized amounting to TRY 196.6 million which was netted off with a write-off of overdue receivables amounting to TRY 105.4 million.

II. International and Other Domestic Operations

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

III. Revenues

Revenues include voice, data, messaging, services and solutions, wholesale and other revenues. Other revenues mainly consist of revenues from our retail business, call center business, information and entertainment services and tower business.

IV. Operating Costs

a. ***Direct Cost of Revenues***

Direct cost of revenues includes treasury shares, transmission fees, base station rent and energy expenses, billing costs, cost of goods sold, depreciation and amortization charges, repair and maintenance expenses directly related to services rendered, roaming charges paid to foreign mobile communications operators for calls made by our subscribers while outside Turkey, interconnection fees mainly paid to Turk Telekom, Vodafone and Avea, handset costs where the Company is the principal in the sale of the handsets, and wages and salaries and personnel expenses for technical personnel.

b. ***Administrative Expenses***

Administrative expenses consist of fixed costs, including company cars, office rental, office maintenance, travel, insurance, consulting, collection charges, wages, salaries and personnel expenses for non-technical, non-marketing, and non-sales employees, and other overhead charges. Our administrative expenses also include bad debt expenses of our subscribers and customers.

c. ***Selling and Marketing***

Selling and marketing expenses consist of dealer and distributor commissions, advertising, uncharged prepaid frequency usage fees, wages, salaries and personnel expenses of sales and marketing related employees, and other expenses, including travel expenses, office expenses, insurance, company car expenses, and training and communication expenses.

d. ***Results of Operations***

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

	For the years ended December 31,		
	2015	**2014**	**2013**
(in TRY millions)			
Revenues	12,769.4	12,043.6	11,407.9
Direct cost of revenues	(7,769.5)	(7,383.9)	(7,063.9)
Gross profit	**4,999.9**	**4,659.7**	**4,344.0**

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(in TRY millions)	For the years ended December 31, 2015	2014	2013
Administrative expenses	(625.3)	(562.7)	(550.3)
Selling and marketing expenses	(1,901.9)	(1,974.6)	(1,843.6)
Other income/(expense), net	(225.9)	(76.3)	(58.9)
Results from operating activities	**2,246.8**	**2,046.1**	**1,891.2**
Finance costs	(799.5)	(1,247.0)	(204.6)
Finance income	756.1	955.4	759.9
Net finance (costs)/income	**(43.4)**	**(291.6)**	**555.3**
Monetary gain		205.1	176.9
Share of profit of equity accounted investees	367.3	207.3	297.3
Profit before income taxes	**2,570.7**	**2,166.9**	**2,920.7**
Income tax expense	(667.1)	(730.4)	(591.4)
Profit for the year	**1,903.6**	**1,436.5**	**2,329.3**
Attributable to:			
Equity holders of the Company	2,067.7	1,864.7	2,325.9
Non-controlling interest	(164.1)	(428.2)	3.4
Profit for the year	**1,903.6**	**1,436.5**	**2,329.3**

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

Statement of Operations Data (% of revenue)	For the years ended December 31, 2015	2014	2013
Revenues	**100.0**	**100.0**	**100.0**
Direct cost of revenues	(60.8)	(61.3)	(61.9)
Gross margin	39.2	38.7	38.1
Administrative expense	(4.9)	(4.7)	(4.8)
Selling and marketing expenses	(14.9)	(16.4)	(16.2)
Other operating income/(expense), net	(1.8)	(0.6)	(0.5)
Results from operating activities	**17.6**	**17.0**	**16.6**

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V. Segment Overview

(in TRY millions)	Turkcell Turkey 2015	Turkcell Turkey 2014	Turkcell International 2015	Turkcell International 2014	Other 2015	Other 2014	Intersegment Eliminations 2015	Intersegment Eliminations 2014	Consolidated 2015	Consolidated 2014
Consumer segment revenue	9,127.3	8,282.3							9,127.3	8,282.3
Corporate segment revenue	2,031.7	1,907.4							2,031.7	1,907.4
Other Turkcell Turkey revenue	321.9	290.5							321.9	290.5
Turkcell International revenue			856.1	1,137.9					856.1	1,137.9
Other revenue					458.6	457.8			458.6	457.8
Eliminations							(26.2)	(32.4)	(26.2)	(32.4)
Total revenue	**11,480.9**	**10,480.2**	**856.1**	**1,137.9**	**458.6**	**457.8**	**(26.2)**	**(32.4)**	**12,769.4**	**12,043.6**
Contribution to consolidated revenue	11,466.3	10,457.1	844.4	1,128.8	458.7	457.7			12,769.4	12,043.6
Reportable segment Adjusted EBITDA*	3,759.6	3,326.4	246.0	281.0	134.5	154.6	0.5	(0.2)	4,140.5	3,761.8
Finance income	732.0	930.4	22.9	19.0	96.1	140.9	(94.9)	(134.8)	756.1	955.4
Finance cost	231.4	125.8	(1,127.2)	(1,497.8)	(68.7)	(124.3)	165.0	249.4	(799.5)	(1,247.0)
Monetary gain				205.1						205.1
Depreciation and amortization	(1,457.0)	(1,311.6)	(200.8)	(319.2)	(10.2)	(8.8)	0.2	0.2	(1,667.8)	(1,639.4)
Share of profit of equity accounted investees		4.5	367.3	202.8					367.3	207.3
Capital expenditure	7,751.7	1,982.3	770.2	158.0	14.3	4.5			8,536.2	2,144.8
Bad debt expense	(188.0)	(141.5)	(8.3)	(14.5)	(0.3)	0.0			(196.6)	(155.9)

(in TRY millions)	Turkcell Turkey 2014	Turkcell Turkey 2013	Turkcell International 2014	Turkcell International 2013	Other 2014	Other 2013	Intersegment Eliminations 2014	Intersegment Eliminations 2013	Consolidated 2014	Consolidated 2013
Consumer segment revenue	8,282.3	7,892.7							8,282.3	7,892.7
Corporate segment revenue	1,907.4	1,758.9							1,907.4	1,758.9
Other Turkcell Turkey revenue	290.5	245.6							290.5	245.6

Turkcell International revenue			1,137.9	1,209.5					1,137.9	1,209.5
Other revenue					457.8	333.5			457.8	333.5
Eliminations							(32.4)	(32.2)	(32.4)	(32.2)
Total revenue	**10,480.2**	**9,897.1**	**1,137.9**	**1,209.5**	**457.8**	**333.5**	**(32.4)**	**(32.2)**	**12,043.6**	**11,407.9**
Contribution to consolidated revenue	10,457.1	9,874.5	1,128.8	1,200.3	457.7	333.1			12,043.6	11,407.9
Reportable segment Adjusted EBITDA*	3,326.4	3,149.3	281.0	288.3	154.6	107.7	(0.2)	(0.9)	3,761.8	3,544.5
Finance income	930.4	740.1	19.0	17.4	140.9	144.2	(134.8)	(141.9)	955.4	759.9
Finance cost	125.8	10.6	(1,497.8)	(331.3)	(124.3)	(123.9)	249.4	240.0	(1,247.0)	(204.6)
Monetary gain			205.1	176.9					205.1	176.9
Depreciation and amortization	(1,311.6)	(1,173.2)	(319.2)	(413.7)	(8.8)	(7.9)	0.2	0.4	(1,639.4)	(1,594.4)
Share of profit of equity accounted investees	4.5	(0.7)	202.8	298.0					207.3	297.3
Capital expenditure	1,982.3	1,541.5	158.0	274.0	4.5	6.8			2,144.8	1,822.3
Bad debt expense	(141.5)	(137.4)	(14.5)	(15.9)	0.0	(0.0)			(155.9)	(153.4)

* For a definition of adjusted EBITDA, please see footnote 9 of the table in Item 3.A. Selected Financial Data .

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Turkcell Turkey

a. ***2015 compared to 2014***

Total revenues generated by Turkcell Turkey increased 9.5%, to TRY 11,480.9 million in 2015 from TRY 10,480.2 million in 2014, mainly due to a 38.1% growth in data revenues driven by the increase in mobile broadband and fixed broadband revenues impacted by increased smartphone penetration, higher user numbers and a rise in data consumption; a 38.5% increase in services revenues which was partially offset by a 2.7% decrease in voice revenues. For a more detailed discussion of the factors affecting our revenues, please see Item 4.B. Business Overview Regulation of the Turkish Telecommunications Industry and Item 5.D. Trend Information .

Turkcell Turkey s Adjusted EBITDA increased 13.0% to TRY 3,759.6 million in 2015 from TRY 3,326.4 million in 2014, mainly due to an increase in revenues which was partially offset by an increase in direct cost of revenues and administrative expenses. The increase in the direct cost of revenues mainly resulted from an increase in treasury share expenses, interconnection cost, wages, salaries and personnel and network related expenses. The increase in administrative expenses mainly resulted from an increase in bad debt expenses and wages, salaries and personnel expenses.

Net finance income decreased by 8.8% to TRY 963.4 million in 2015 from TRY 1,056.2 million in 2014 mainly

due to a decrease in interest earned on time deposits as a result of decreased cash balances and an increase in interest expenses mainly from interest expenses on settlement costs incurred regarding ongoing lawsuits, enforcement procedures and disputes with Turk Telekom Group. These impacts were partially set off by an increase in net foreign exchange gain.

Depreciation expense increased 11.1% to TRY 1,457.0 million in 2015 from TRY 1,311.6 million in 2014 mainly as a result of an increase in the capex additions.

b. ***2014 compared to 2013***

Total revenues generated by Turkcell Turkey increased 5.9%, to TRY 10,480.2 million in 2014 from TRY 9,897.1 million in 2013, mainly due to a 36.7% growth in data revenues driven by the increase in mobile broadband and fixed broadband revenues impacted by increased smartphone penetration, higher user numbers and a rise in data consumption; a 11.6% increase in services revenues which was partially offset by a 1.2% decrease in voice revenues. For a more detailed discussion of the factors affecting our revenues, please see Item 4.B. Business Overview Regulation of the Turkish Telecommunications Industry and Item 5.D. Trend Information .

Turkcell Turkey s Adjusted EBITDA increased 5.6% to TRY 3,326.4 million in 2014 from TRY 3,149.3 million in 2013, mainly due to an increase in revenues which was partially offset by an increase in direct cost of revenues and sales and marketing expenses. The increase in the direct cost of revenues mainly resulted from an increase in treasury share expenses and network related expenses. The increase in selling and marketing expense mainly resulted from an increase in uncharged prepaid frequency usage fees, selling expenses and wages, salaries and personnel expenses.

Net finance income increased 40.7% to TRY 1,056.2 million in 2014 from TRY 750.7 million in 2013, mainly due to an increase in foreign exchange gain and interest earned on time deposits and assigned contracted receivables. The positive impact of significant change in net foreign exchange position, mainly due to an increase in foreign exchange denominated cash balance and a decrease in foreign exchange denominated borrowings, was partially offset by a lower depreciation of 8.6% in 2014 compared to a 19.7% depreciation of the TRY against the USD in 2013. Interest income on time deposits increased mainly due to an increase in cash balances and interest rates. The increase in interest earned on assigned contracted receivables is parallel to the increase in those receivables.

Depreciation expense increased 11.8% to TRY 1,311.6 million in 2014 from TRY 1,173.2 million in 2013 to mainly as a result of an increase in the capex additions.

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Turkcell International

a. ***2015 compared to 2014***

Total revenues generated by Turkcell International decreased by 24.8%, to TRY 856.1 million in 2015 from TRY 1,137.9 million in 2014 mainly due to currency devaluation in Ukraine and Belarus against the Turkish Lira in 2015. The annual growth rates, in terms of local currency, of our major subsidiaries, lifecell and Belarusian Telecom were 10.5% and 6.2% respectively. The revenue growth in lifecell, which operates in Ukraine, was mainly driven by the increase in three-month active subscriber base to 10.6 million from 10.3 million and also 2.9% higher blended ARPU (three-month active) due to higher mobile broadband usage. The revenue growth in Belarusian Telecom, which operates in Belarus, was mainly due to expansion of the subscriber base along with increased voice, mobile broadband and mobile services revenues.

Turkcell International s Adjusted EBITDA decreased by 12.5% to TRY 246.0 million in 2015 from TRY 281.0 million in 2014 due to the negative impact of currency devaluation in Ukraine and Belarus against the Turkish Lira. The majority of the segment Adjusted EBITDA is driven by lifecell which grew by 20.0% in terms of local currency in 2015 compared to 2014 due to effective cost management and better revenue mix.

Net finance cost decreased by TRY 374.5 million to a TRY 1,104.3 million loss in 2015 from a TRY 1,478.8 million loss in 2014, mainly due to decrease in foreign exchange loss as a result of debt restructuring in lifecell and Belarusian Telecom, foreign exchange losses recognized directly in the foreign currency translation reserves in equity as part of net investment in foreign operation accounting and lower devaluation of the UAH against the USD in 2015 which is partially offset by higher devaluation of the BYR against USD in 2015 compared to 2014. Foreign exchange losses in lifecell amounted to TRY 465.5 million and TRY 991.2 million and foreign exchange losses in Belarusian Telecom, amounted to TRY 392.6 million and TRY 294.5 million in 2015 and 2014, respectively.

b. ***2014 compared to 2013***

Total revenues generated by Turkcell International decreased by 5.9%, to TRY 1,137.9 million in 2014 from TRY 1,209.5 million in 2013 mainly due to currency devaluation in Ukraine and Belarus against the Turkish Lira in 2014. The annual growth rates, in terms of local currency, of our major subsidiaries, lifecell and Belarusian Telecom were 12.7% and 15.6% respectively. The revenue growth in lifecell was mainly driven by 12% increase in three-month active subscriber base to 10.3 million from 9.2 million. The revenue growth in Belarusian Telecom was mainly due to a strong position in data and growth in value added services despite a slight decrease in terminal revenues.

Turkcell International s Adjusted EBITDA decreased by 2.5% to TRY 281.0 million in 2014 from TRY 288.3 million in 2013 due to the negative impact of currency devaluation in Ukraine and Belarus against the Turkish Lira. The majority of the segment Adjusted EBITDA is driven by lifecell which grew by 12.8% in terms of local currency in 2014 compared to 2013 due to continued focus on business efficiency and operational profitability.

Net finance cost deteriorated by TRY 1,164.9 million to a TRY 1,478.8 million loss in 2014 from a TRY 313.9 million loss in 2013, mainly due to an increase in foreign exchange loss as a result of the devaluation of UAH and BYR against USD in 2014. Foreign exchange losses in lifecell, which operates in Ukraine, amounted to TRY 991.2 million and TRY 7.6 million and foreign exchange losses in Belarusian Telecom, which operates in Belarus, amounted to TRY 294.5 million and TRY 123.6 million in 2014 and 2013, respectively.

VI. Year Ended December 31, 2015 Compared to the Year Ended December 31, 2014

We had 34.0 million mobile subscribers in Turkey, including 17.4 million mobile prepaid subscribers, as of December 31, 2015, compared to 34.6 million mobile subscribers in Turkey, with 19.4 million mobile prepaid subscribers, as of December 31, 2014. During 2015, we recorded a decrease of 624 thousand Turkish mobile subscribers.

In the fixed segment, we increased our subscriber base to 1.5 million, of which 899 thousand were fiber customers for the year ended December 31, 2015 from 1.2 million of which 735 thousand were fiber customers for the year ended December 31, 2014.

In Ukraine, we had 13.5 million and 13.9 million registered subscribers as of December 31, 2015 and 2014, respectively. During 2015, we lost approximately 0.4 million Ukrainian registered subscribers although we increased our 3 months active subscribers from 10.3 million to 10.6 million. This was primarily due to successful regional strategy, effective regional tariffs and campaigns.

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a. ***Revenues***

Total revenues for the year ended December 31, 2015 increased 6.0% to TRY 12,769.4 million in 2015 from TRY 12,043.6 million in 2014.

Total revenues generated by Turkcell Turkey increased 9.5%, to TRY 11,480.9 million in 2015 from TRY 10,480.2 million in 2014, mainly due to a 38.1% growth in data revenues driven by the increase in mobile broadband and fixed broadband revenues impacted by increased smartphone penetration, higher user numbers and a rise in data consumption; a 38.5% increase in services revenues which was partially offset by a 2.7% decrease in voice revenues.

Postpaid subscriber usage is generally higher than prepaid subscriber. In Turkey, during 2015, we maintained our focus on the postpaid segment, with newly launched campaigns, offers and promotions to switch customers from the prepaid to the postpaid segment. We focus on postpaid subscribers because there is, in general, higher average revenue per postpaid subscriber and a lower churn rate. In 2015, postpaid average revenue per user excluding M2M subscribers was TRY 42.7 whereas prepaid average revenue per user was TRY 12.4. These figures indicate that postpaid average revenue per user is approximately 3.4 times the prepaid average revenue per user. Therefore, the increase in the number of postpaid subscribers has a positive effect on blended average revenue per user.

Total revenues generated by Turkcell International decreased by 24.8%, to TRY 856.1 million in 2015 from TRY 1,137.9 million in 2014 mainly due to currency devaluation in Ukraine and Belarus against the Turkish Lira in 2015 and decline in Turkcell Europe revenues due to change in its business model. The annual growth rates, in terms of local currency, of our major subsidiaries, lifecell and Belarusian Telecom were 10.5% and 6.2% respectively.

Other subsidiaries revenues and intersegment eliminations, mainly comprised of our information and entertainment services and call center revenues, grew by 1.6% to TRY 432.4 million in 2015 from TRY 425.5 million in 2014.

b. ***Direct cost of revenues***

Direct cost of revenues, including depreciation and amortization, increased by 5.2% to TRY 7,769.5 million in 2015 from TRY 7,383.9 million in 2014, due to an increase in depreciation and amortization charges, treasury shares and universal funds paid, network related expenses, wages and salaries and other items.

Depreciation and amortization charges (including impairment charges) increased by 1.7%, to TRY 1,667.8 million in 2015 from TRY 1,639.4 million in 2014. The amortization expense for our GSM license and other telecommunication operating licenses was TRY 125.3 million in 2015 and TRY 116.0 million in 2014.

Treasury shares and universal funds paid to the Turkish Treasury and Ministry of Transport, Maritime Affairs and Communications (Turkish Ministry) increased 7.4%, to TRY 1,601.2 million in 2015 from TRY 1,491.4 million in 2014 which was mainly due to the increase in mobile revenues.

Interconnection and termination costs increased 0.8% to TRY 1,327.0 million in 2015 from TRY 1,316.6 million in 2014 due to the decrease of interconnection traffic of lifecell and revised operational structure of Turkcell Europe which was partially offset by the increase in off net traffic of Turkey operations.

Transmission costs increased by 6.7% to TRY 113.6 million in 2015 from TRY 106.4 million in 2014. Furthermore, radio costs increased by 9.9%, to TRY 911.5 million in 2015 from TRY 829.7 million in 2014 mainly due to the cumulative investment impact and increased taxes and costs, such as rent and energy.

Wages, salaries and personnel expenses for technical personnel increased 12.0% to TRY 734.7 million in 2015 from TRY 655.7 million in 2014, mainly due to the periodic increase in wages and salaries and the increase in number of personnel.

Roaming expenses increased 17.3%, to TRY 108.1 million in 2015 from TRY 92.2 million in 2014, mainly due to depreciation of the TRY against the EUR and increased traffic.

Billing and archiving costs decreased 11.2% to TRY 73.3 million in 2015 from TRY 82.5 million in 2014, mainly due to the increase in the usage of the electronic and SMS invoices for billing.

Other costs in direct cost of revenues increased 5.3% to TRY 1,232.3 million in 2015 from TRY 1,169.9 million in 2014 mainly due to the increased contribution of our subsidiaries to our revenues, particularly in the fixed broadband, and retail businesses.

As a percentage of revenues, direct cost of revenues decreased 0.5 percentage points to 60.8% in 2015 from 61.3% in 2014, as a result of decreases in interconnection and termination expenses of 0.5 pp and depreciation and amortization expenses of 0.6 pp as opposed to a rise in the operational expenses of certain subsidiaries.

Gross profit margin increased 0.5 percentage points from 38.7% in 2014 to 39.2% in 2015.

c. ***Administrative expenses***

Administrative expenses increased 11.1%, to TRY 625.3 million in 2015 from TRY 562.7 million in 2014, mainly due to an increase in wages and salary expenses arising from periodic increases in such figures, together with the increase in bad debt expenses resulting from the increase in assigned contracted receivables. As a percentage of revenues, general and administrative expenses increased to 4.9% for the year ended December 31, 2015, from 4.7% in 2014.

Wages, salaries and personnel expenses for non-technical and non-marketing employees increased 13.6%, to TRY 240.3 million in 2015 from TRY 211.6 million in 2014, primarily due to periodic increases in wages and salaries.

Bad debt expenses increased 26.1%, to TRY 196.6 million in 2015 from TRY 155.9 million in 2014, mainly due to the increase in assigned receivables.

We provided an allowance of TRY 816.4 million and TRY 727.7 million for doubtful receivables for the years ended December 31, 2015 and 2014, respectively, depending on the likelihood of recoverability of trade and other receivables based on the aging of the balances, historical collection trends and general economic conditions.

Other administrative expenses, including collection and consulting expenses, decreased 3.5% to TRY 188.4 million in 2015 from TRY 195.2 million in 2014.

d. ***Selling and marketing expenses***

Selling and marketing expenses decreased 3.7%, to TRY 1,901.9 million in 2015 from TRY 1,974.6 million in 2014, primarily due to a decrease in selling expenses and marketing expenses partially offset by an increase in wages and salary expenses. As a percentage of revenues, selling and marketing expenses decreased from 16.4% for the year ended December 31, 2014 to 14.9 % for the year ended December 31, 2015.

Selling expenses, which consist of distributor and dealer commissions and other selling expenses decreased 8.8%, to TRY 783.2 million in 2015 from TRY 858.8 million in 2014, mainly due to value focused approach of our customer acquisition strategy.

Marketing expenses, which consist of advertising, market research and sponsorships expenses decreased 5.0%, to TRY 428.6 million in 2015 from TRY 451.4 million in 2014.

Wages, salaries and personnel expenses for selling and marketing employees increased 6.5%, to TRY 381.6 million in 2015 from TRY 358.3 million in 2014, mainly due to periodic increase in wages and salaries.

Prepaid subscribers uncharged frequency usage fee expenses increased 2.8%, to TRY 191.4 million in 2015 from TRY 186.2 million in 2014.

e. ***Other operating income/(expense)***

Other net operating expenses increased to TRY 225.9 million in 2015 from TRY 76.3 million in 2014, mainly due to commercial agreements termination expenses and litigation expenses as explained in Note 34 (Commitments and Contingencies, Legal Proceedings) to our Consolidated Financial Statements in this Form 20-F.

f. ***Results from operating activities***

Results from operating activities increased by 9.8% to TRY 2,246.8 million in 2015 from TRY 2,046.1 million in 2014. As a percentage of revenues, results from operating activities also increased from 17.0% in 2014 to 17.6% in 2015 mainly due to a decrease in direct cost of revenues and selling and marketing expenses as a percentage of revenues.

g. ***Net finance income/cost***

Net finance cost improved to a TRY 43.4 million net expense in 2015 from a TRY 291.6 million net expense in 2014, due to a decrease in finance cost to TRY 799.5 million in 2015 from TRY 1,247.0 million in 2014, which was partially offset by the decrease in finance income to TRY 756.1 million in 2015 from TRY 955.4 million in 2014.

Finance income decreased 20.9% to TRY 756.1 million in 2015 from TRY 955.4 million in 2014, mainly due to a decrease in interest earned on time deposits due to declined cash balance.

Finance cost improved 35.9% to TRY 799.5 million in 2015 from TRY 1,247.0 million in 2014, mainly due to the decrease in net foreign exchange losses from TRY 1,110.8 million in 2014 to TRY 489.3 million in 2015. Net foreign exchange loss decreased mainly due to debt restructuring in lifecell and Belarusian Telecom, foreign exchange losses recognized directly in the foreign currency translation reserves in equity as part of net investment in foreign operation accounting and lower devaluation of the UAH against USD in 2015 compared to 2014 which is partially offset by higher devaluation of the BYR against USD in 2015 compared to 2014. Foreign exchange losses in 2015 and 2014 were mainly attributable to our net foreign exchange position in our foreign operations.

Foreign exchange gains and losses arising from payables to foreign operations as a part of debt restructuring of lifecell and Belarusian Telecom and the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognized directly in equity in the foreign currency translation. In 2015, the Company has recognized net foreign exchange losses net of tax amounting to TRY 62.3 and TRY 200.2 resulting from net investment in lifecell and Belarusian Telecom respectively, in foreign currency translation differences in the consolidated financial statements in accordance with accounting policy for net investment in foreign operations.

h. ***Monetary gain***

No monetary gain was recognized in 2015, as hyperinflationary accounting ceased in Belarus starting from January 1, 2015. Monetary gain was TRY 205.1 million in 2014.

i. ***Share of profit of equity accounted investees***

Our share of profit of equity accounted investees increased 77.2% to TRY 367.3 million in 2015 from TRY 207.3 million in 2014, mainly due to a higher net income contribution from Fintur. In 2014, due to non-cash charges in the Fintur financials, stemming from the write-down of operational assets and impairment charges relating to goodwill and fixed assets, our financials were impacted negatively by TRY 116 million on the basis of our 41.45% share in Fintur.

j. ***Income tax expense***

Income tax expense decreased 8.7% to TRY 667.1 million in 2015 from TRY 730.4 million in 2014.

The effective tax rate was 26.0% and 33.7% for the years ended December 31, 2015 and 2014, respectively.

Our domestic tax rate is 20%. Differences between the effective tax rate and our domestic tax rate include, but are not limited to, the effect of allowance for deferred tax assets, tax rates in foreign jurisdictions, dividend income from investment in associates subject to certain tax exemptions (including Fintur), tax-exempt income and non-deductible expenses. The high effective tax rate in 2015 and 2014 is mainly due to the fact that since it is not probable that taxable profit will be available against which the unused tax losses or unused tax credits of lifecell and Belarusian Telecom can be utilized, no deferred tax asset is recognized on any loss incurred in lifecell and Belarusian Telecom.

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k. ***Non-controlling interests***

Non-controlling interests in the net profit of our consolidated subsidiaries is classified separately in the consolidated financial statements of operations under non-controlling interests . Loss allocated to non-controlling interests amounted to TRY 428.2 million for the year ended December 31, 2014, compared to a TRY 164.1 million for 2015.

Loss allocated to non-controlling interests from lifecell s net loss amounted to TRY 209.3 million in 2015 and TRY 479.7 million in 2014. In addition, profit allocated to non-controlling interests from net profit generated by Inteltek for the years ended December 31, 2015 and 2014 amounted to approximately TRY 38.4 million and TRY 36.1 million respectively.

l. ***Profit for the year attributable to equity holders of the Company***

Profit for the year attributable to equity holders of the Company increased to TRY 2,067.7 million in 2015 from TRY 1,864.7 million in 2014, mostly due to increase in results from operating activities and share of profit of equity accounted investees, lower foreign exchange losses recorded, which was partially netted off with the decrease in interest income earned on time deposits, rise in interest expense and other expense items.

VII. Year Ended December 31, 2014 Compared to the Year Ended December 31, 2013

We had 34.6 million mobile subscribers in Turkey, including 19.4 million prepaid subscribers, as of December 31, 2014, compared to 35.2 million mobile subscribers in Turkey, with 21.2 million prepaid subscribers, as of December 31, 2013. During 2014, we recorded a decrease of 548 thousand Turkish GSM subscribers.

In the fixed segment, we increased our subscriber base to 1.2 million, of which 735 thousand were fiber customers for the year ended December 31, 2014 from 0.8 million of which 570 thousand were fiber customers for the year ended December 31, 2013.

In Ukraine, we had 13.9 million and 12.6 million registered subscribers as of December 31, 2014 and 2013, respectively. During 2014, we gained approximately 1.3 million new Ukrainian GSM subscribers despite losing subscribers in Crimea. This was primarily due to successful regional strategy, effective regional tariffs and campaigns.

a. ***Revenues***

Total revenues for the year ended December 31, 2014 increased 5.6% to TRY 12,043.6 million in 2014 from TRY 11,407.9 million in 2013.

Total revenues generated by Turkcell Turkey increased 5.9%, to TRY 10,480.2 million in 2014 from TRY 9,897.1 million in 2013, mainly due to a 36.7% growth in data revenues driven by the increase in mobile broadband and fixed broadband revenues impacted by increased smartphone penetration, higher user numbers and a rise in data consumption; a 11.6% increase in services revenues which was partially offset by a 1.2% decrease in voice revenues.

Postpaid subscriber usage is generally higher than prepaid subscriber. In Turkey, during 2014, we maintained our focus on the postpaid segment, with newly launched campaigns, offers and promotions to switch customers from the prepaid to the postpaid segment. We focus on postpaid subscribers because there is, in general, higher average revenue per postpaid subscriber and a lower churn rate. In 2014, postpaid average revenue per user excluding M2M users was TRY 41.5 whereas prepaid average revenue per user was TRY 11.6. These figures indicate that postpaid average revenue per user is approximately 3.6 times the prepaid average revenue per user. Therefore, the increase in the number of postpaid subscribers has a positive effect on blended average revenue per user.

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Total revenues generated by Turkcell International decreased by 5.9%, to TRY 1,137.9 million in 2014 from TRY 1,209.5 million in 2013 mainly due to currency devaluation in Ukraine and Belarus against the Turkish Lira in 2014 The annual growth rates, in terms of local currency, of our major subsidiaries, lifecell and Belarusian Telecom were 12.7% and 15.6%, respectively.

Other subsidiaries revenues and intersegment eliminations, mainly comprised of our information and entertainment services and call center revenues, grew by 41.2% to TRY 425.5 million in 2014 from TRY 301.3 million in 2013.

b. ***Direct cost of revenues***

Direct cost of revenues, including depreciation and amortization, increased 4.5% to TRY 7,383.9 million in 2014 from TRY 7,063.9 million in 2013, due to an increase in treasury shares and universal funds paid, network related expenses, wages and salaries, depreciation expenses and other items.

Treasury shares and universal funds paid to the Turkish Treasury and Ministry of Transport, Maritime Affairs and Communications (Turkish Ministry) increased 2.8% to TRY 1,491.4 million in 2014 from TRY 1,450.2 million in 2013, which was lower than the increase in revenues due to the increased contribution of our subsidiaries to revenues.

Transmission costs increased by 13.8% to TRY 106.4 million in 2014 from TRY 93.5 million in 2013. Furthermore, radio costs and expenses increased 9.4% to TRY 829.7 million in 2014 from TRY 758.6 million in 2013, mainly due to the cumulative investment impact and increased taxes and costs, such as rent and energy.

Wages, salaries and personnel expenses for technical personnel increased 4.6% to TRY 655.7 million in 2014 from TRY 626.6 million in 2013, mainly due to the periodic increase in wages and salaries.

Depreciation and amortization charges (including impairment charges) increased 2.8%, to TRY 1,639.4 million in 2014 from TRY 1,594.4 million in 2013, mainly due to the increase in depreciation and amortization charges of Turkcell Turkey companies, which was partially offset with the decrease in the after tax impairment loss for Belarusian Telecom to TRY 34.9 million in 2014 from TRY 61.2 million in 2013. The amortization expense for our GSM license and other telecommunication operating licenses was TRY 116.0 million in 2014 and TRY 124.1 million in 2013.

Roaming expenses increased 15.8%, to TRY 92.2 million in 2014 from TRY 79.6 million in 2013, mainly due to 14.2% depreciation, on average, of the TRY against the EUR, and increased traffic despite the decreasing unit costs.

Interconnection and termination costs decreased 6.1% to TRY 1,316.6 million in 2014 from TRY 1,402.0 million in 2013, due to the impact of interconnection fee cuts effective July 1, 2013, which was partially offset by the increase in off net traffic.

Billing and archiving costs decreased 7.3%, to TRY 82.5 million in 2014 from TRY 89.1 million in 2013, mainly due to the increase in the usage of the electronic and SMS invoices for billing.

Other costs in direct cost of revenues increased 20.6% to TRY 1,169.9 million in 2014 from TRY 969.9 million in 2013, due to the increased contribution of our subsidiaries to our revenues, particularly in the fixed broadband and retail businesses.

As a percentage of revenues, direct cost of revenues decreased 0.6 percentage points to 61.3% in 2014 from 61.9% in 2013, as a result of decreases in interconnection and termination expenses of 1.4 percentage points and depreciation and amortization expenses of 0.4 pp as opposed to a rise in the operational expenses of certain subsidiaries.

Gross profit margin increased 0.6 percentage points from 38.1% in 2013 to 38.7% in 2014.

c. ***Administrative expenses***

Administrative expenses increased 2.3%, to TRY 562.7 million in 2014 from TRY 550.3 million in 2013, mainly due to an increase in wages and salary expenses arising from periodic increases in such figures, together with the increase in bad debt expenses resulting from the increase in assigned contracted receivables. As a percentage of revenues, general and administrative expenses decreased to 4.7% for the year ended December 31, 2014, from 4.8% in 2013.

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Wages, salaries and personnel expenses for non-technical and non-marketing employees increased 1.9%, to TRY 211.6 million in 2014 from TRY 207.6 million in 2013, primarily due to periodic increases in wages and salaries, which was partially netted off with the decrease in the number of personnel.

Bad debt expenses increased 1.7%, to TRY 155.9 million in 2014 from TRY 153.4 million in 2013, mainly due to the increase in assigned receivables. We provided an allowance of TRY 727.7 million in 2014 and TRY 691.6 million in 2013 for doubtful receivables, depending on the likelihood of recoverability of trade and other receivables based on the aging of the balances, historical collection trends and general economic conditions.

Other administrative expenses, including collection and consulting expenses increased 3.0% to TRY 195.2 million in 2014 from TRY 189.4 million in 2013.

d. ***Selling and marketing expenses***

Selling and marketing expenses increased 7.1%, to TRY 1,974.6 million in 2014 from TRY 1,843.6 million in 2013, primarily due to an increase in selling expenses, uncharged frequency usage fees for prepaid subscribers and wages and salary expenses, partially offset by a decrease in marketing expenses. As a percentage of revenues, selling and marketing expenses increased from 16.2% for the year ended December 31, 2013 to 16.4% for the year ended December 31, 2014.

Selling expenses, which consist of distributor and dealer commissions and other selling expenses, increased 8.6%, to TRY 858.8 million in 2014 from TRY 790.8 million in 2013, mainly due to an increase in dealer commissions arising from increased postpaid activations.

Prepaid subscribers uncharged frequency usage fee expenses increased 23.1%, to TRY 186.2 million in 2014 from TRY 151.3 million in 2013, mainly as a result of the decrease in the total amount charged to subscribers and higher tariffs.

Wages, salaries and personnel expenses for selling and marketing employees increased 8.3%, to TRY 358.3 million in 2014 from TRY 330.9 million in 2013, mainly due to periodic increase in wages and salaries.

Total marketing expenses, which consist of advertising, market research and sponsorships expenses decreased 3.6% to TRY 451.4 million in 2014 from TRY 468.3 million in 2013.

e. ***Other operating income/(expense)***

Other net operating expenses increased to TRY 76.3 million in 2014 from TRY 58.9 million in 2013, mainly due to payments and provisions for the penalties imposed by the ICTA for not complying with the relevant regulations as explained in Note 34 (Commitments and Contingencies, Legal Proceedings), partially offset by the absence of impairment recognized on our investment in T-Medya Yatirim Sanayi ve Ticaret AS (T-Medya) and Aks Televizyon Reklamcilik ve Filmcilik Sanayi ve Ticaret AS (Aks TV) that existed in 2014 but not 2015, and the proceeds from the sale of A-Tel which is also explained in Note 16 (Investments in Equity Accounted Investees) to our Consolidated Financial Statements in this Form 20-F.

f. ***Results from operating activities***

Results from operating activities increased by 8.2% to TRY 2,046.1 million in 2014 from TRY 1,891.2 million in 2013. As a percentage of revenues, results from operating activities also increased from 16.6% in 2013 to 17.0% in

2014 mainly due to a decrease in direct cost of revenues and administrative expenses as a percentage of revenues.

g. ***Net finance income/cost***

Net finance cost/income deteriorated to a TRY 291.6 million net expense in 2014 from a TRY 555.3 million net income in 2013, due to an increase in finance cost from TRY 204.6 million in 2013 to TRY 1,247.0 million in 2014, which was partially offset by the increase in finance income from TRY 759.9 million in 2013 to TRY 955.4 million in 2014.

Finance income increased 25.7%, to TRY 955.4 million in 2014 from TRY 759.9 million in 2013, mainly due to an increase in interest earned on time deposits and assigned contracted receivables.

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Finance cost increased 509.5%, to TRY 1,247.0 million in 2014 from TRY 204.6 million in 2013, mainly due to the increase in foreign exchange losses from TRY 75.6 million in 2013 to TRY 1,110.8 million in 2014. Foreign exchange loss increased mainly due to devaluation of the Ukrainian Hryvnia together with the depreciation of the Belarusian Ruble against the U.S. Dollar in 2014. Foreign exchange losses in 2014 and 2013 were mainly attributable to our net foreign exchange position in our foreign operations.

h. ***Monetary gain***

Monetary gain which we recognize from our Belarusian operations increased 15.9% to TRY 205.1 million in 2014 from TRY 176.9 million in 2013, as a result of an increase in the balance of non-monetary items. The economic environment in Belarus deteriorated significantly starting from the second quarter of 2011 and the three-year cumulative inflation rate exceeded 100% at the end of 2011. As a result, Belarus was considered a hyperinflationary economy. As a consequence, the accounting rules for Reporting in hyperinflationary economies are being applied to our Belarusian operations starting from the year ended December 31, 2011. With respect to this, monetary gain is recorded as a result of the effect of general inflation and calculated as the difference resulting from the restatement of non-monetary assets, equity and statement of income items.

The three-year cumulative inflation at the end of 2011 of 153% was primarily influenced by the high inflation experienced in 2011 of 109%. The decrease in the inflation rate in subsequent years led the three-year cumulative rate as of the end of 2014 to decrease to 65%.

i. ***Share of profit of equity accounted investees***

Our share of profit of equity accounted investees decreased 30.3% to TRY 207.3 million in 2014 from TRY 297.3 million in 2013, mainly due to a lower net income contribution from Fintur, mainly due to non-cash charges of $125 million in the Fintur financials, stemming from the write-down of operational assets and impairment charges relating to goodwill and fixed assets. These charges negatively impacted our financials by TRY 116 million on the basis of our 41.45% share in Fintur.

j. ***Income tax expense***

Income tax expense increased 23.5% to TRY 730.4 million in 2014 from TRY 591.4 million in 2013.

The effective tax rate was 33.7% and 20.2% for the years ended December 31, 2014 and 2013, respectively.

Our domestic tax rate is 20%. Differences between the effective tax rate and our domestic tax rate include, but are not limited to, the effect of allowance for deferred tax assets, tax rates in foreign jurisdictions (including Fintur), tax-exempt income and non-deductible expenses. The increase in the effective tax rate in 2014 is mainly due to the fact that since it is not probable that taxable profit will be available against which the unused tax losses or unused tax credits of lifecell and Belarusian Telecom can be utilized, no deferred tax asset is recognized on any loss incurred in lifecell and Belarusian Telecom.

k. ***Non-controlling interests***

Non-controlling interests in the net profit of our consolidated subsidiaries is classified separately in the consolidated financial statements of operations under non-controlling interests . Loss allocated to non-controlling interests amounted to TRY 428.2 million for the year ended December 31, 2014, compared to a TRY 3.4 million gain for 2013.

Loss allocated to non-controlling interests from lifecell s net loss amounted to TRY 479.7 million in 2014 and TRY 27.3 million in 2013. In addition, profit allocated to non-controlling interests from net profit generated by Inteltek for the years ended December 31, 2014 and 2013 amounted to approximately TRY 36.1 million and TRY 26.0 million respectively.

l. ***Profit for the year attributable to equity holders of the Company***

Profit for the year attributable to equity holders of the Company decreased to TRY 1,864.7 million in 2014 from TRY 2,325.9 million in 2013. This was mostly due to deterioration in net finance cost and share of profit of equity accounted investees, which was partially netted off with the increase in results from operating activities and non-controlling interests.

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VIII. Effects of Inflation

The annual inflation rates in Turkey were 8.8%, 8.2% and 7.4% for the years ended December 31, 2015, 2014 and 2013, respectively, based on the Turkish consumer price index. An increase in unprocessed food and services inflation in addition to pass through effects from TRY depreciation, pushed inflation higher in 2015. The current inflation target set by the CBRT in its February 18, 2016 Inflation Report is 7.5%, with a 70% confidence interval between 6.1% and 8.9% for 2016. The most recent CBRT expectations survey, dated January 14, 2016, indicates that consumer inflation will be around 8.5% by the end of 2016, which is above the CBRT s target. Administrative price hikes introduced at the beginning of year and minimum wage increase both attributed to the negative expectations on inflation in 2016, however the drop in energy prices could offset these effects in up to a certain level. For additional information, see Item 3.A. Selected Financial Data Exchange Rate Data and Item 3.D. Risk Factors .

Though the inflationary pressures in Belarus improved through 2015, mainly due to BYR devaluation not significantly affecting the food and non-food segments, inflation still remained in double digits at the end of 2015. CPI has been gradually moderating since the second quarter of 2015 and fell to 12% at year end from 17.1% in January 2015 amid the Central Bank s defensive tight monetary policy. Despite a slowdown in inflation, tight monetary policy is set to continue due to concerns about external imbalances and currency stability. Macroeconomic stability is still fragile due to the country s reliance on Russia and the Russian economy being challenged by decreasing oil and gas prices. External vulnerability remains a major concern and next year s financing picture remains challenging due to Russia being the primary source of finance. Given Belarus lowest level of foreign currency reserves since 2011 coupled with the high debt repayments due this year and the current account deficit, and the depreciating Russian Ruble, these factors may create further devaluation and thus inflationary pressures.

The fixed exchange rate regime (revised to floating exchange regime in early 2015) and the recession caused a persistent deflation in Ukraine. Ukraine experienced deflation until May 2012 when the political and economic tensions with Russia began to escalate and the rise in inflation continued even after the annexation of Crimea in April 2014. After 21 months of political instability, annual inflation increased to 43.3% in December 2015 from 25% at the end of 2014. Ukraine has also undergone economic and financial reforms due to the requirements of its financial aid package agreement with IMF. The increase in inflation was mainly driven by the services segment of the economy, which doubled due to the IMF agreement on tariff prices hikes while UAH depreciation negatively affected both the food and non-food segments. The inflationary environment is expected to normalize to approximately 15-20% in 2016 due to expected economic recovery and currency stability.

IX. Foreign Currency Fluctuations

We conduct our business in several currencies other than functional currencies of each of our locations. As a result of our exposure to foreign currency, exchange rate fluctuations have a significant impact, in the form of both translation and transaction risks, on our Consolidated Financial Statements.

Exchange rate movements impact our assets and liabilities denominated in currencies other than TRY, Ukrainian Hryvnia (UAH), Belarusian Rubles, Euro and Azerbaijani Manat for our operations in Turkey, Ukraine, Belarus, Germany and Azerbaijan, respectively. We hold some of our cash portfolio in foreign currency to manage our non-TRY denominated liabilities in Turkey. Additionally, derivative financial instruments such as forward contracts, swap contracts and options are used.

The foreign exchange risks in Turkey as the result of purchases and borrowings in U.S. Dollars and Euros have been manageable, as there is a developed market enabling the hedging of such risk; however, in Belarus and Ukraine, there are no tools to hedge foreign exchange rate risks effectively due to restricted and undeveloped financial markets. In

Belarus, no international bank offers hedging instruments and local banks are too undercapitalized to be able to enter into transactions.

In Ukraine, the only hedging tool seemed to be non-deliverable forwards (NDF) which is a cash settled product in U.S. Dollar, a short term forward contract on a non-convertible foreign currency which could not be delivered offshore. However, with the National Bank of Ukraine forbidding any NDF settlement, the already liquidity-thin market has become virtually non-existent. As of December 31, 2015, following military actions, political instability, civil unrest, the return of the currency to free float and economic problems, the Ukrainian Hryvnia depreciated against the U.S. Dollar by 52.2% in 2015.

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In the current economic environment and considering the aforementioned fragile economic conditions, there is a possibility of further devaluations in Ukraine and Belarus.

Our foreign currency risk management policy is focused on hedging foreign currency exposure arising from non-TRY denominated liabilities and purchase commitments. See Item 11. Quantitative and Qualitative Disclosures about Market Risk .

X. Interest Rate Hedging

Monitoring and examining financing opportunities to improve our financial flexibility and performance has been a continuous process for us. Depending on the availability in both domestic and international debt/capital markets, we continuously monitor new financing alternatives for contingency purposes as well as to fund potential new investments or acquisitions. We are exposed to interest rate risk as part of our total debt portfolio is based on floating rates. We also closely monitor various hedging alternatives to hedge our interest rate risk with a minimum cost. In June 2011, we engaged in a forward start collar agreement for some portion of our debt which was due in 2015 and exposed to interest rate risk. The collars hedged variable interest rate risk for the period between 2013 and 2015 which have currently expired.

a. *New Accounting Standards Issued*

See Note 3 (Significant accounting policies, new standards and interpretations) of our Consolidated Financial Statements in this Form 20-F.

5.B Liquidity and Capital Resources

a. *Liquidity*

We require significant liquidity to finance capital expenditures for the expansion and improvement of our mobile communications network, for operational capital expenditures, for working capital, and to service our debt obligations. A summary of our consolidated cash flows for the years ended December 31, 2015, 2014 and 2013 is as follows:

TRY million	2015	2014	2013
Net cash generated by operating activities	1,901.3	1,990.8	2,210.6
Net cash used in investing activities	(3,830.9)	(1,378.0)	(1,085.5)
Net cash generated by/(used in) financing activities	(4,619.5)	93.0	(230.5)
Net cash increase/ (decrease) in cash and cash equivalents	(6,549.1)	705.8	894.6
Effects of foreign exchange rate fluctuations on cash and cash equivalents	436.0	197.7	235.0

Net cash provided by our operating activities was TRY 1,901.3 million in 2015 and TRY 1,990.8 million in 2014.

The increase in profit amounting to TRY 467 million compared to 2014 has a positive impact on net cash generated by operating activities. We consider the subtotal after the adjustments for profit for the period in order to analyze the increase in cash from operating activities. Since these lines are adjusting in nature, they are to be excluded from net cash from operating activities, as they either do not have any effect on net cash from operating activities or they have an offsetting effect on the changes in working capital. As a result, the trend in cash from operating activities should be correlated with the trend in results from operating activities, income tax expense and dividends received. The corresponding subtotal, after adjustments, increased to TRY 4,127.0 million in 2015 from TRY 3,768.0 million in 2014. Furthermore, the increase in interest paid to TRY 153.5 million in 2015 from TRY 94.1 million in 2014, the increase in the income tax to TRY 751.1 million in 2015 from TRY 699.3 million in 2014 and the increase in change in other current assets had a higher negative impact on cash generated by operating activities which partially offset the change in trade receivables, trade payables and other payables. These changes resulted in a 4.5% decrease in net cash provided by our operating activities.

Net cash used by investing activities increased to TRY 3,830.9 million in 2015 from TRY 1,378.0 million in 2014. The change in net cash used by investing activities is mainly due to the increase in capital expenditures. For the year ended December 31, 2015, we spent approximately TRY 2,135.4 million on acquisition of property, plant and equipment compared to TRY 1,553.6 million in 2014. We also spent approximately TRY 2,461.6 million on acquisition of intangible asset compared to TRY 575.9 million in 2014.

We have used net cash in our financing activities for the year 2015 amounting to TRY 4,619.5 million, whereas we had TRY 93.0 million of net cash generated for 2014. The change is mainly attributable to dividends paid with respect to the years ended December 31, 2010, 2011, 2012, 2013 and 2014. The repayment of loans and borrowings also increased net cash used in our financing activities which partially netted off with the proceeds from issuance of bonds. In 2015, dividend paid amount was TRY 4,025.5 million, compared to TRY 8.2 million in 2014. In addition, we repaid TRY 6,551.0 million of our loans and borrowings in 2015, compared to TRY 4,635.7 million in 2014. The cash generation from the issuance of bonds was TRY 1,439.9 million in 2015.

b. ***Sources of Liquidity***

We had applied to the Capital Markets Board and, on September 15, 2015, obtained its approval of an issuance certificate to issue bonds, commercial paper or any other debentures with an amount up to $1 billion (or its equivalent in another currency) to real and legal persons domiciled outside of Turkey through private placement and/or sales to qualified investors without a public offering. On October 2015, we issued a Eurobond with an aggregate principal amount of $500 million, 10-year maturity, a redemption date of October 10, 2025 and coupon rate of 5.75% based on a 5.95% reoffer yield to qualified investors domiciled outside of Turkey. The bond issuance was completed and the proceeds of the issue were transferred to the Company s account on October 15, 2015 and the notes are now listed on the official list of the Irish Stock Exchange.

On September 16, 2015, we signed a club loan facility with a group of international banks with a U.S. Dollar tranche in the maximum amount of $500 million and a Euro tranche in the maximum amount of 445 million. The facility has a maturity of five years, with principal amortization during the last three years of the loan. Interest is payable semi-annually. The facility can be drawn down in one or more installments at any time prior to June 30, 2016. The facility is unsecured with an interest rate of three-month LIBOR/EURIBOR +2.0% per annum. As of December 31, 2015 the company has not utilized any amount under this agreement.

On October 23, 2015 we signed a loan agreement package with China Development Bank (CDB) for an amount of up to EUR500 million available for two years, to refinance certain of the Group s existing loans, and for an amount of up to EUR750 million available for three years, to finance certain of our procurement requirements from Chinese suppliers in relation to certain of our infrastructure investments. The total loan package has a final maturity of 10 years, with principal amortization during the last seven years of the loan and will be paid back in equal installments. The annual interest rate of the loan is EURIBOR +2.20%. As of December 31, 2015 an amount of 500 million has been utilized.

Our loans from financial institutions consist of local and international bank borrowings, finance lease obligations with either fixed or floating interest rates. A significant portion of our bank borrowings is utilized to finance our consolidated subsidiaries financing needs and acquisition of GSM licenses. All of our loans are denominated in U.S. Dollar, BYR, EUR, HRV or TRY. The floating interest rate is Libor + 2.6% for the loans denominated in U.S. Dollars. The fixed interest rates vary from 18.0% to 28.0% for the loans denominated in U.S. Dollars, from 8.3% to 10.9% for the loans denominated in TRY, from 12.0% to 16.0% for the loans denominated in BYR, from 20.0% to 25.0% for the loans denominated in HRV and the fixed Euro rate is 3.4%. The loans are payable over the period from 2016 to 2025.

The ratio of our loans and borrowings to equity was 29% as of December 31, 2015, compared to 22% as of December 31, 2014. We have been able to maintain our leverage at a satisfactory level and well in line with our targets. For more information, see Note 26 to our Consolidated Financial Statements.

The auction for the 4.5G license was held on August 26, 2015 and the capital expenditure required in connection with our 4.5G build-out is expected to be material. The tender price of the 4.5G license amounting to EUR 1,623.5 million (equivalent to TRY 5,158.7 million as at December 31, 2015) (excluding VAT of 18%) will be paid in four equal installments amounting to EUR 1,655.3 million (equivalent to TRY 5,259.9 million as at 31 December 2015) including interest and excluding VAT of 18%. On October 26, 2015, we made the payment amounting to TRY 1,321.9 million for the original amount of EUR 413.8 million (including interest) as first installment and total VAT amounting to TRY 933.4 million for the original amount of EUR 292.2 million in cash.

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We are continuing our efforts to selectively seek out and evaluate new investment opportunities. These opportunities could include the purchase of licenses and acquisitions in markets inside and outside of Turkey.

Under the current assumptions and circumstances, we expect to generate adequate levels of cash to maintain a positive cash position in the future and to have positive cash flow related to our communications and technology activities in Turkey. According to our current business plan for the operations in Turkey, we believe that we will be able to finance our current operations, capital expenditures, and financing costs and maintain and enhance our network through our operating cash flow existing credit facilities and other available credit lines. However, we continue to experience difficult pricing and competitive conditions in our markets, which we expect will continue. In addition, the increase in the volume of assigned contracted receivables may continue to result in higher working capital requirements. The working capital requirements related to terminal financing and bad debt expenses are planned to be managed by our consumer finance company, which commenced operations in 2016. We are also facing increased capital needs to finance our technological and geographic expansion, which may increase our net cash used for investing activities. These pressures have reduced, and may continue to reduce, our liquidity and may lead to an increase in borrowing needs and net cash used by financing activities.

Our cash outflows through 2016 include possible dividend payments, depending on the result of our general assembly meetings, quarterly corporate tax payments, 4.5G licence fee payments, capital expenditures and working capital needs.

We expect that our total operational capital expenditures as a percentage of revenues in 2016 will be around 20%, with increased investments in preparation for the transition of the mobile network to 4.5G, further expansion of the fiber network, and the roll out of lifecell s 3G+ network.

The forward-looking statements made here regarding our liquidity and any other financial results are not a guarantee of performance. They are subject to risks and uncertainties that could cause future activities and results of operations to be different from those set forth in this annual report.

Important factors that may adversely affect our projections include general economic conditions, changes in the competitive environment, legal risks, developments in the domestic and international capital markets, increased investments, changes in telecommunications regulations and mismatches between the currencies in which we generate revenue and hold liquid assets and the currencies in which we incur liquid obligations and debt. See Item 3.D. Risk Factors for a discussion of these and other factors that may affect our projections.

c. *Capital Transactions*

All share amounts and per share figures reflected in our historical financial statements have been restated retrospectively for the aforementioned stock splits.

d. *General Economic Conditions*

Turkey s growth was 3.4% in the first nine months of 2015 and based on market estimates, growth for 2016 is expected to be around 3.1%, mainly driven by the domestic demand.

e. *Dividend Payments*

On March 26, 2015, the Ordinary General Assembly of Shareholders approved a dividend distribution for the years ended December 31, 2010, 2011, 2012, 2013 and 2014 amounting to TRY 3,925.0 million (equivalent to $1,535.9

million as of March 26, 2015), which represented 42.5% of net distributable income for the relevant years. The dividend was paid on April 6, April 8 and April 13, 2015 to shareholders, and was funded from cash on hand that we had accrued in light of our inability to receive approvals to pay dividends in prior periods.

For additional details regarding our dividend policy, see Item 8.A. Consolidated Statements and Other Financial Information Dividend Policy .

5.C Research and Development, Patents and Licenses, etc.

We own a number of patents, utility models, trademarks and industrial designs.

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The activities of our technology center, which houses all of our R&D operations in a single location, include the following:

- Partnership software development, customization and/or integration of software products of suppliers through the service and product development processes;

- Developing network infrastructure strategies in a fast evolving information-communication technologies world; and

- Designing short and long-term technology road maps for our operations.

Internally developed software arising from our R&D works amounted to approximately TRY 123.1 million, TRY 110.4 million and TRY 79.6 million in 2015, 2014 and 2013, respectively. Internally-developed software does not include any costs relating to the research phase.

5.D Trend Information

a. ***Changing Subscriber Base***

The proportion of postpaid subscribers in our subscriber base in Turkey was 49%, 44% and 40% in 2015, 2014 and 2013, respectively, due to our value focus.

The majority of our subscriber base, however, consists of prepaid subscribers. Trends indicate that prepaid subscribers have more control over their usage patterns.

b. ***Regulations affecting our prices***

The ICTA has on several occasions intervened to place caps on the tariffs that we charge in the Turkish market. The ICTA s intervention in our retail voice and SMS prices, has, 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 also intervened to decrease interconnection rates.

With respect to the interconnection rates that we charge, after a 33% reduction for Turkcell in 2008, the interconnection rates issued by the ICTA on March 25, 2009 for all mobile operators in Turkey provided for a further 29% decrease, on average, among all operators. On February 10, 2010, there was an additional 52% reduction in Turkcell s interconnection rates. Finally, with the ICTA s board resolution dated June 17, 2013, our mobile termination rates have been set at TRY 0.0250, a 20% decline from TRY 0.0313. In addition, the ICTA with a board resolution dated April 12, 2013, lowered SMS termination rates for Turkcell from TRY 0.0170 to TRY 0.0043. With its latest decision dated October 22, 2014, the ICTA also set the tariff for MMS termination rates for Turkcell at TRY 0.0086.

With respect to minimum tariffs, with a board resolution dated March 25, 2009, the ICTA set a lower limit solely for Turkcell s on-net retail tariffs. In 2013, the ICTA linked the mobile termination rates to minimum on-net voice levels with a parameter of 1.7 such that our minimum on-net prices should be set by multiplying the mobile termination rate with the above mentioned parameter of 1.7. As a result, the ICTA increased the minimum tariff to be applied by Turkcell from TRY 0.0313 to TRY 0.0428 for voice and to set the minimum tariff of TRY 0.0073 for SMS, applicable to both tariffs and campaigns. The amendments for tariffs were effective as of July 2013 and for campaigns as of February 2014. These pricing regulations are valid on each and every single voice tariff and campaign, whereas we are obliged to maintain our minimum on-net SMS rate on network base.

With respect to the maximum tariffs, 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 maximum tariff on mobile voice increased by approximately 6% to TRY 0.439 in 2013 and by approximately 5.4% to 0.4625 as of July 2014, while as of January 2014 the maximum tariff on SMS decreased by 20% to TRY 0.332. A new board decision dated March 18, 2015 was effective as of April 1, 2015; in which maximum tariffs remained the same. Finally, with a board decision dated September 28, 2015 which has been effective as of November 1, 2015; price caps for voice and SMS were remained the same, whereas price caps for some services (e.g. SIM card change, number change etc.) were decreased.

Further cuts in interconnection rates and changes in minimum and maximum tariffs will make us redesign our tariffs and will impact our operational results, depending on pricing trends and marketing strategies in the Turkish mobile communications market. Currently Mobile Call Termination Market and Mobile Access and Call Origination Market are being analyzed by ICTA. Upon the renewal of market analyses, SMP operators will be determined for the 2016-2019 period.

Given these factors, it is difficult to predict with any degree of certainty the growth and usage patterns of our subscribers and our ability to maintain or increase revenues or profitability. General economic conditions, competitive pressures and the trend in our retail and interconnection pricing have exerted, and will continue to exert, pressure on our financial results.

c. ***Liquidity***

Our activities have traditionally generated a strong positive cash flow. According to our current business plan for the operations in Turkey, we believe that we will be able to finance our current operations, capital expenditures, and financing costs and maintain and enhance our network through our operating cash flow and existing credit facilities and other available credit lines. However, we continue to experience difficult pricing and competitive conditions in our markets, which we expect will continue. In addition, the increase in the volume of assigned contracted receivables may continue to result in higher working capital requirements. The working capital requirements related to terminal financing and bad debt expenses are planned to be managed by our consumer finance company, which commenced operations in 2016. We are also facing increased capital needs to finance our technological and geographic expansion, which may increase our net cash used for investing activities. Furthermore, we are likely to increase our debt if we succeed in our bid to acquire Fintur and TeliaSonera s direct stake in Kcell. These pressures have reduced, and may continue to reduce, our liquidity and may lead to an increase in borrowing needs and net cash used by financing activities.

We expect that our total operational capital expenditures as a percentage of revenues in 2016 will be around 20%, with increased investments in preparation for the transition of the mobile network to 4.5G, further expansion of the fiber network, and the roll out of lifecell s 3G network.

d. ***Currency devaluation and impairments***

Our results of operations and the value of certain of our assets have been adversely affected by devaluations in the currencies of certain countries, in particular Ukraine, Belarus, and Turkey. Further currency devaluation remains a risk and may continue to have an adverse effect in the future. Furthermore, operational and technological changes, general macroeconomic conditions, legal, regulatory or political obstacles in Ukraine and Belarus may lead to further impairments in the values of certain of our assets in the future.

5.E Off-Balance Sheet Arrangements

Off-balance sheet arrangements refer to any transaction, agreement, or other contractual arrangement involving an unconsolidated entity (other than contingent liabilities arising from litigation, arbitration or regulatory actions) under which a company has:

- provided guarantee contracts;
- retained or contingent interests in transferred assets;
- any obligation under derivative instruments classified as equity; or

any obligation arising out of material variable interests in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to the company, or that engages in leasing, hedging, or research and development arrangements with the company.

We routinely enter into operating leases for property in the normal course of business. The future minimum operating lease payments under non-cancellable leases amount to TRY 377.0 million in 2015 and TRY 264.8 million in 2014.

a. ***Contingent Liabilities***

The following table illustrates our major contingent liabilities as of December 31, 2015.

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			Amount of contingent liability expiration per period				
			Remaining commitment				
	Total amount committed	**At December 31, 2015**	**Indefinite***	**Less than one year**	**1-3 years**	**3-5 years**	**Over 5 years**
TRY million							
Bank Letters of Guarantee	803.8	803.8	591.0	129.1	27.2	2.2	54.3

* Bank letters of guarantee are not given for a specific period. Most of the guarantees will remain as long as the business relationship with the counterparty continues.

As of December 31, 2015, we are contingently liable in respect of bank letters of guarantee obtained from banks and given to custom authorities, private companies and other public organizations amounting to TRY 803.8 million. We also provided guarantees to private companies amounting to TRY153.8 million and provided restricted cash amounting to TRY 349.2 million deposited at a local bank as guarantees in connection with the loans utilized by lifecell.

See Item 5.B. Liquidity and Capital Resources Sources of Liquidity .

5.F Tabular Disclosure of Contractual Obligations

The following tables illustrate our major contractual and commercial obligations and commitments as of December 31, 2015.

		Payments due by period			
Contractual Obligations	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**After 5 years**
(TRY million)					
Loans and borrowings (*)	5,370.2	742.7	854.6	658.5	3,114.4
Finance lease obligations	49.0	6.6	10.6	10.6	21.2
Payable in relation to the acquisition of Belarusian Telecom	290.8			290.8	
Operating leases	377.0	163.5	127.9	78.1	7.5
Total Contractual Cash Obligations	6,087.0	912.8	993.1	1,038.0	3,143.1

* Includes undiscounted interest and excludes finance lease obligations.

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Other Commercial Commitments (TRY million)	Total	Amount of Commitment Less than 1 year	1-3 years	3-5 years	After 5 years
Purchase obligations	2,752.1	1,769.8	945.6	36.7	

As at December 31, 2015, outstanding purchase commitments with respect to the acquisition of property, plant and equipment, inventory and purchase of sponsorship and advertisement services amount to TRY 2,752.1 million.

5.G Safe Harbor

Not applicable.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

6.A Directors and Senior Management

I. Board Members

Under the Turkish Commercial Code and our Articles of Association, the Board of Directors is responsible for our management. Our Articles of Association mandates a Board of Directors containing seven members.

Members of our Board of Directors are generally appointed for a term of three years. However, as the General Assembly could not convene due to a lack of quorum for meetings, in a series of resolutions in 2013, the CMB appointed new members to our Board, who shall remain members until new members are elected by the General Assembly or until the CMB announces a new resolution. The CMB stepped in based on its statutory authority to take actions *ex officio* where publicly held companies whose shares are traded on the exchange fail to comply with corporate governance principles partially or completely. The CMB with its resolution dated March 11, 2013, announced the replacement of Mehmet Bulent Ergin, Tero Erkki Kivisaari and Oleg Adolfovich Malis on our Board of Directors with three new members, Atilla Koc, Mehmet Hilmi Guler and Ahmet Akca, who serve as independent board members according to article 17/2 of the Capital Markets Law No. 6362. The CMB with its resolutions dated August 15, 2013 and September 13, 2013 announced the appointment of Mehmet Bostan, Bekir Pakdemirli, Jan Erik Rudberg and Erik Belfrage, as board members who satisfy the independence criteria. The latter two members were chosen from the independent nominees list submitted by TeliaSonera. They were appointed by the CMB pursuant to sub-paragraph (k) of the first paragraph of article 128 of Capital Markets Law No. 6362, in place of members of our Board of Directors who were elected at the general assembly meeting on April 29, 2010 for a duty period of three years and whose duty periods have expired and whose successors could not be elected at the general assembly meetings.

As of March 10, 2016, our Board of Directors had the following members:

Name	Date appointed to the Board of Directors by Capital Markets Board resolution
Ahmet Akca (Chairman)	March 11, 2013
Atilla Koc	March 11, 2013

Bekir Pakdemirli	August 15, 2013
Erik Belfrage	September 13, 2013
Jan Erik Rudberg	September 13, 2013
Mehmet Bostan	August 15, 2013
Mehmet Hilmi Guler	March 11, 2013

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II. Executive Officers

We are managed on a day-to-day basis by the Corporate Executive Team with the guidance of the Board of Directors. Officers do not have fixed terms of office. The following table sets forth the name and office of each member of our Corporate Executive Team as of March 10, 2016.

Name	Office
Kaan Terzioglu	Chief Executive Officer
Serhat Demir	Executive Vice President Legal and Regulation
Murat Dogan Erden	Executive Vice President Finance
Murat Erkan	Executive Vice President Sales
Ilker Kuruoz	Executive Vice President Technology
Seyfettin Saglam	Executive Vice President Business Support
Ilter Terzioglu	Executive Vice President Strategy
Dogus Kuran	Senior Vice President Customer Services
Ismail Butun	Senior Vice President Retail Sales
Tugrul Cora	Senior Vice President Corporate Sales
Serkan Ozturk	Senior Vice President ICT
Gediz Sezgin	Senior Vice President Network Technologies
Banu Isci Sezen	Senior Vice President Turkcell Academy

III. Biographies

a. *Current Board Members*

Ahmet Akca[1], born in 1956, was appointed to the Board of Directors by Capital Markets Board decision. He also acts as the president of Turkcell s Audit Committee. From 1980 to 1988, Mr. Akca served as a Foreign Trade Manager in the glass and food industry. In 1988, he became CEO of an International Trading Company, a position he held until 1992. He later started his own business, which he still runs. Mr. Akca is the founder and Chairman of the Board of Directors of the logistics company Akca Lojistik Hizmetleri ve Ticaret A.S. He was a member of the Committee of Trustees in January 2010, at the time of the Bezmialem Vakif University establishment, and has been serving as the Chairman of the Committee of Trustees since November 2011. After studying mathematics at Middle East Technical University and sociology at Istanbul University for a certain period, Mr. Akca graduated from the Bursa Economics and Commercial Sciences Academy s Department of Economics.

Atilla Koc[1], born in 1946, was appointed to the Board of Directors by Capital Markets Board decision. He also serves as a member of the Audit Committee of Turkcell s Board of Directors. Having working as an Undersecretary at the Ministry of Interior and as the Chief of Police in Konya, he served as the District Governor of the Ulubey, Nusaybin and Bayindir districts, and as the Governor of Siirt and Giresun provinces. He has also been the Prime Minister s Undersecretary, the General Secretary of Ankara Metropolitan Municipality, and the Central Governor. Then, Mr. Koc served as AKP Aydin deputy in 22nd and 23rd period of Grand National Assembly of Turkey and the Minister of Culture and Tourism in the 59th Government. Mr. Koc graduated from Ankara University s Faculty of Political Science.

Mehmet Hilmi Guler[1], born in 1949, was appointed to the Board of Directors by Capital Markets Board decision. He also serves as a member of the Audit Committee of Turkcell s Board of Directors. He formerly worked as a Project Engineer and Group Chairman at TUSAS Aerospace Industries. He also served as Vice President and Board Member of the Scientific and Technological Research Council of Turkey (TUBITAK), as Chairman and General Manager of the Machines and Chemical Industries Board (MKEK), as the General Manager and Chairman of Etibank, as the Chief Undersecretary to the Prime Minister, and as Board Member and Executive Director at ERDEMIR and IGDAS. Mr. Guler also served as Minister of Energy and Natural Resources in the 58th, 59th and 60th Governments. Mr. Guler graduated from Middle East Technical University s Department of Metallurgical and Materials Engineering where he obtained his Master s and Doctorate degrees.

Mehmet Bostan[2], born in 1971, was appointed to the Board of Directors by Capital Markets Board decision. He serves as the Chairman of the Board of Directors of Turkcell Global Bilgi since 2014 and Turkcell Global Odeme Sistemleri since 2015. Mr. Bostan formerly worked as Senior Relationship Manager at BNP Ak Dresdner Bank A.S., Manager at TSKB, Chief Turkey Representative of Dresdner Bank AG and Deputy General Manager at Gunes Sigorta. He has served as as the General Manager and Board Member of Vakif Emeklilik since 2010. He is a Board Member of the Pension Monitoring Center and Turkish Tennis Federation. Mr. Bostan graduated from International Relations, from the Faculty of Economics, at Istanbul University. He holds an MBA from Bilgi University.

Bekir Pakdemirli[2], born in 1973, was appointed to the Board of Directors by Capital Markets Board decision. Over the past 10 years, Mr. Pakdemirli has worked as Regional Manager for the Middle East of a multinational company, General Manager of a ceramic company in Izmir and General Manager of a publicly-listed food company. Currently, he is Business Development Manager of the company McCain, and provides consultancy services on management, finance, efficiency and restructuring to corporations. Mr. Pakdemirli is a Board Member of Tarkem, historical Kemeralti Inc., a Member of Board of Trustess of the Anatolia Foundation for Autism and a member of the Capital Market Investors Association. Mr. Pakdemirli presents a weekly economic program on Ege TV. Mr. Pakdemirli is an amateur captain, amateur pilot and amateur radio operator. After graduating from Bilkent University, Faculty of Business Administration, he completed his Master s degree in Management at Baskent University. Currently, Mr. Pakdemirli is working towards his PhD degree in Economics at Celal Bayar University.

Jan Erik Rudberg[3], born in 1945, was appointed to the Board of Directors by Capital Markets Board decision. He is currently Chairman of the Board of Directors of Kcell JSC (Independent Director) and the Chairman of the Board of Directors of Hogia AB. Since 2010, Mr. Rudberg is also a member of the Board of Directors of OJSC Megafon (Independent Director). Between 1994 and 2003, he held various executive positions at Telia AB after having served as the Chief Executive Officer of Tele2 AB, Executive Vice President of Nordbanken AB, Chief Executive Officer of Enator AB, as well the Chief Executive Officer of Ericsson Information Systems Sweden AB and holding several managerial positions at IBM. Mr. Rudberg has a degree in Economics and Business Administration from the Gothenburg School of Economics.

Erik Belfrage[3], born in 1946, was appointed to the Board of Directors by Capital Markets Board decision. In the 70 s and 80 s, Mr. Belfrage worked as a Swedish diplomat in Geneva, Washington, Bucharest, Beirut, and in Paris. Since 1987, he has served as Senior Vice President at SEB, and as an advisor to Dr. Peter Wallenberg, an advisor to the Chairman at the companies Investor AB Jacob Wallenberg and SEB Marcus Wallenberg. In 2012 Mr. Belfrage set up a consultancy, Consilio International AB, where he also is the Chairman. The firm advises large Nordic corporates. Currently, Mr. Belfrage is chairman of several boards. He holds an MBA from the Stockholm School of Economics.

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Appointed by the Capital Markets Board as independent board member pursuant to Article 17, paragraph two, of Capital Markets Law No. 6362 on March 11, 2013.

[2] The board members who satisfy independency criteria were appointed by the Capital Markets Board pursuant to sub-paragraph (k) of the first paragraph of Article 128 of Capital Markets Law No. 6362 on August 15, 2013.

[3] The board members who satisfy independency criteria were appointed by the Capital Markets Board pursuant to sub-paragraph (k) of the first paragraph of Article 128 of Capital Markets Law No. 6362 on September 13, 2013.

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b. ***Board members who were removed by the CMB and whose duty period expired***

The CMB with its resolution dated March 11, 2013, announced the replacement of Mehmet Bulent Ergin, Tero Erkki Kivisaari and Oleg Adolfovich Malis on our Board of Directors with three independent members, Atilla Koc, Mehmet Hilmi Guler and Ahmet Akca. Furthermore, due to the fact that remaining Board members term of duty have expired as of April 2013, namely Colin J Williams, Karin B Eliasson, Alexey Khudyakov and Gulsun Nazli Karamehmet Williams, the CMB, with its resolution dated August 15, 2013, announced the appointment of two new members, Mehmet Bostan and Bekir Pakdemirli, in order to reach the quorum stipulated under the articles of association of the Company. Further, with its resolution dated September 13, 2013, in addition to its previous appointment of 5 members, it announced the appointment of two new members, Jan Erik Rudberg and Erik Belfrage. Please refer to our 2012 Form 20-F for the biographies of the previous members of the Board.

c. ***Executive Officers***

Kaan Terzioglu, born in 1968, was appointed as Turkcell s Chief Executive Officer on April 1, 2015. He began his professional life in 1990 as an Independent Auditor and CPA at Arthur Andersen Turkey. In 1992, Mr. Terzioglu joined Arthur Andersen USA as the IT Strategies and Security Specialist, and in 1994, began working at Arthur Andersen Belgium as the Leader of Information Management and Digital Strategy Services. In 1998, he was appointed Vice President of Consultancy Services Turkey Operations. Between 1999 and 2012, he served as the Team Leader of E-Commerce Strategies for the EMEA region, Sales Director of Advanced Technologies for the EMEA region, Managing Director of Technology Marketing Organization for the EMEA region, and the Vice President of Central and Eastern Europe at Cisco Systems Brussels branch, respectively. Between April 3, 2012 and April 1, 2015, Mr. Terzioglu was a Member of the Board of Directors at Akbank, Aksigorta A.S., Teknosa Ic ve Dis Ticaret A.S. and Carrefoursa A.S. Kaan Terzioğlu graduated from the Department of Business Administration at Bogazici University.

Serhat Demir, born in 1974, joined Turkcell as the Executive Vice President of the Legal and Regulation Function in May 2015. Mr. Demir started his career in 1997 at Dun & Bradstreet s Turkey office. He worked in Legal Advisory at Yildiz Holding between 2003 and 2007 and became Legal Advisor of Çalik Holding in 2007. Between 2009 and 2015, he served as Director of Legal Affairs at Çalik Holding, and at the same time, as a board member at various group companies operating in the holding, telecom and finance sectors. Serhat Demir graduated from the Faculty of Law at Istanbul University.

Murat Dogan Erden, born in 1969, started his career at the Treasury and Capital Markets Department of Bankers Trust Turkey. He joined Turkcell as the Director of Treasury and Risk Management in 2001. Since 2006, Mr. Erden has served as a Member of the Board of Directors of Turkcell Group companies and continues his Board of Directors activities. Mr. Erden is a graduate of Istanbul High School and the Department of Economics at Boğaziçi University and received his MBA degree from San Diego State University in 1995. He completed the Wharton Executive Development Program and holds certificates in Mergers and Acquisitions and Strategic Finance and Derivatives from similar international institutions.

Murat Erkan, born in 1969, joined Turkcell Group in June 2008 as the General Manager of Turkcell Superonline and as of December 1, 2015, he was appointed Executive Vice President of Sales. Prior to this position he had served as the Senior Vice President of Retail and Active Sales and Senior Vice President of Home and Consumer Business, respectively. Mr. Erkan who started his professional life at Toshiba, became an Application Engineer at Biltam Mühendislik and then became the first System Engineer of Turkey at Cisco Turkey. He served as Chief Officer at Cisco Systems in charge of technology, sales, business development and channel management for ten years. Prior to his position at Turkcell Superonline, Mr. Erkan had been the Business Unit Manager at Aneltech working on solutions related to Telecommunication, Mobile, ICT, the defense industry and industrial products sectors since 2006. Murat

Erkan graduated from the Yildiz Technical University Electronics and Telecommunication Engineering Department. He completed the Strategic Marketing Program at Harvard Business School in 2010.

Ilker Kuruoz, born in 1970, joined Turkcell as Services and Product Development Division Head in 2006. He has been serving as the Executive Vice President of Technology since December 2013. Previously, he was the Chief Information and Communication Technologies Officer of Turkcell. Ilker Kuruoz started his professional life in 1994 at ABT. He then worked at NCR as a System Consultant, at Garanti Teknoloji as a Division Manager and in Accenture as Senior Manager. Ilker Kuruoz graduated from Bilkent University in Computer Engineering and Information Sciences and received a Master s Degree from the same university.

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Seyfettin Saglam, born in 1971, joined Turkcell as Chief Group Human Resources Officer in July 2014. He was appointed Executive Vice President of Business Support Officer in April 2015. He began his career in MSC Consulting Inc. in 1998. He worked as an HR professional at Tekstilbank and as the Human Resources Group Manager at Yildiz Holding, responsible for Packaging, IT, Finance and Retail Groups. He served as the Assistant General Manager of T.C. Ziraat Bankasi. Subsequently, he was appointed Vice Chairman and Member of the Executive Committee at Rixos Hotels and Sembol Construction Inc. Mr. Saglam served as an Executive Vice President of Borsa İstanbul. He graduated from the Department of Sociology at Middle East Technical University. He received a Master s degree from the Marmara University Business Administration Department in International Quality Management. He completed the HR Management and Leadership Programs at INSEAD.

Ilter Terzioglu, born in 1966, was appointed as the Executive Vice President of Strategy in October 2015. He had worked for Ericsson Turkey as the Assistant General Manager responsible for Turkcell between 1994 and 2002 and joined Turkcell as Business Strategies, Regulation and Risk Consolidation Division Head in 2003. Previously, he served as Senior Vice President of International Business under the Strategy Function. He has also undertaken the roles of acting Chief of International Business, Chief Strategic Projects Officer and Chief Network Operations Officer at Turkcell. Prior to joining Turkcell, he had worked as Assistant General Manager at Turkcell Group companies, including Show TV and Superonline. He graduated from the Department of Econometrics at Istanbul University

Dogus Kuran, born in 1973, joined Turkcell as Senior Vice President of Customer Services Function as of October 1, 2015. He had begun his career at Alcatel-Teletas. After holding executive positions in sales, business development and internet solutions consultancy within Cisco Systems and Microsoft Turkey organizations, he served as Chief Sales and Operations Officer at Ericsson Turkey. Prior to his position in Turkcell, he worked as a partner at the Accenture Turkey Office responsible for the telecommunication, media and technology sectors. Mr. Kuran graduated from the Istanbul Technical University, Electrical and Electronics Engineering department in 1995. He received his Master s degree in Management Engineering from Portland State University in 1997.

Ismail Butun, born in 1973, joined Turkcell as Senior Vice President of Retail Sales on January 2016. Mr. Bütün started his career at the Çuhadaroğlu Holding Moscow office. Between 1997 and 2000, Mr. Butun worked at Enka Group Foreign Trade department in Moscow as Sales and Business Development Manager. Starting from 2000, he worked at Nestle as CPW Turkey Country Manager, Central Asia Marketing Director in Uzbekistan and Turkey National Chain Stores Sales Manager. After 2011, he served at Nestle s Global Headquarters in Switzerland, first as Business Excellence Manager at the Global Customer and Sales Management department and then as Marketing Manager at the Beverages Strategic Business unit. Most recently, Mr. Butun was the General Manager of Nestle Turkey Beverages Group and also served as a Board Member. Ismail Butun, graduated from the Bogaziçi University Business Administration department in 1996.

Tugrul Cora, born in 1969, was appointed as the Senior Vice President of the Corporate Sales Function in July of 2015. He joined the company in 2010, he served as the Director of Medium Business Management, and subsequently as the Director of Strategic and Major Accounts Management. Mr. Cora began his career at Aselsan, later holding various sales and management positions at Digital Equipment Turkey, Compaq Computer and Hewlett-Packard, then serving as the CEO of Millenicom Telecommunications between the years of 2004 and 2010. He graduated from the Faculty of Electrical and Electronic Engineering at Middle East Technical University in 1991. He received his MBA from Virginia Polytechnic Institute and State University in 1993.

Serkan Ozturk, born in 1976, was appointed as the Senior Vice President of Information and Communication Technologies under the Technology Function in September of 2015. He joined Turkcell as Project Manager in 2000. Previously, he worked as project supervisor and manager at the Turkcell Project Management office between 2000 and 2009. He served as Chief Information Technologies Officer in lifecell between 2009 and 2010 and in Turkcell

Superonline between 2010 and 2011. Prior his to his recent appointment, he has been serving as director of Customer Relations Management and Business Intelligence Solutions (CRM and BIS). Serkan Ozturk graduated from Middle East Technical University Electrical and Electronics Engineering department. He received his MBA degree from Istanbul University.

Gediz Sezgin, born in 1966, was appointed as the Senior Vice President of Network Technologies in October 2015. He joined Turkcell joined Turkcell as Network Engineer in 1995. Previously, he was Senior Vice President of Information and Communication Technologies, Chief Information and Communication Technologies Officer, Director of Application

Operations, Director of Service Network under the ICT Function and held various executive positions in the Technology Function. Mr. Sezgin started his career at Alcatel Teletas in 1991. He graduated from Istanbul Technical University in Electronics and Communication Engineering and received his Master s degree from the same university.

Banu Isci Sezen, born in 1972, was appointed as the Senior Vice President of Turkcell Academy in April 2015. Ms. Sezen joined Turkcell Human Resources in 2003. Previously, she was Chief Turkcell Group Human Resources Officer, Director of Turkcell Academy and held various executive positions in Turkcell. She led the restructuring of Turkcell Academy as a Corporate University in 2005. Before joining Turkcell, she worked at Izmir Mercantile Exchange Futures and Options, Garanti Bank, Humanitas Dogus and Baris Insurance in managerial positions. She is a graduate of Counseling and Psychological Guidance Department at Bogazici University.

6.B Compensation

The compensation paid to members of the Board of Directors for their service on the Board is approved by the shareholders at General Assemblies. In accordance with the Company s corporate governance practices, the Board, although it has no final authority on remuneration, upon the recommendation of the Compensation Committee may decide on a proposal to the General Assembly as to whether Board members will be remunerated, and if such is the case, the form and amount of compensation to be paid to the Board members. At our Annual General Assembly held on April 29, 2010, it was decided that our Chairman would receive a net sum of 250,000 per year and each Board member would receive a net sum of 100,000 per year for the period of their service, effective February 25, 2010.

For the year ended December 31, 2015, we provided, paid and accrued an aggregate of approximately TRY 66.9 million to our executive officers and members of the Board of Directors including: indemnities, salaries, bonuses and other benefits. There was no deferred or contingent compensation accrued for the year payable to executive officers and members of the Board of Directors other than that already included in the TRY 66.9 million. Furthermore, we do not maintain any profit sharing, pension or similar plans. We have Directors, and Officers, Liability Insurance that covers our directors and officers from liabilities that arise in connection with performing their duties and our liabilities in connection with our directors and officers performance of their duties. The coverage amount is $400 million, and there are a number of insurers, each covering a different layer of the policy. The Directors and Officers Liability insurance is London based, but it is provided through Mapfre Genel Sigorta A.S., an insurance company in Turkey. The policy will expire on September 2, 2016, and we will consider renewing its insurance limit based on the terms and conditions offered.

6.C Board Practices

Under Turkish Commercial Code and our Articles of Association, our Board of Directors is responsible for our management. The Articles of Association provide for a Board of Directors consisting of seven members. Members of our Board of Directors are generally appointed for a term of three years. However, in a series of resolutions in 2013, the CMB appointed new members to our Board, who shall remain members until new members are elected or until the CMB announces a new resolution.

For more information on our directors and the period during which each director has served on the board, see Item 6.A. Directors and Senior Management.

Committees of the Board of Directors

a. *The Audit Committee*

We are required under Turkish laws and regulations, U.S. securities laws and regulations and the rules of the New York Stock Exchange (NYSE) to have an Audit Committee of the Board of Directors appointed from among the independent members of the Board of Directors. Our Audit Committee currently has three members: Mr. Ahmet Akca, Mr. Mehmet Hilmi Guler and Mr. Atilla Koc. All of the members are considered independent under the U.S. Sarbanes-Oxley Act of 2002, the rules promulgated thereunder by the U.S. Securities and Exchange Commission, the applicable rules of the NYSE and the CMB Corporate Governance Principles. Mr. Ahmet Akca, Mr. Mehmet Hilmi Guler and Mr. Atilla Koc are relying on Rule 10A-3(b)(1)(iv)(B).

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Similar to the Swiss Code, board committees in Turkish law merely have a decision-shaping , rather than decision-taking role. Additionally, as per a decision of the Board of Directors, the responsibility of the Audit Committee members is also considered as a joint responsibility of all Board members.

The principal duties of the Audit Committee include the following:

- assisting the board s oversight of the quality and integrity of our financial statements and related disclosure;
- overseeing the implementation and efficiency of our accounting system;
- pre-approving the appointment of and services to be provided by our independent auditors;
- preparing and monitoring the agreement between us and the independent auditor and overseeing the performance and efficiency of our independent audit system and internal audit mechanisms; and
- establishing procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting control systems or auditing matters and establishing procedures for the confidential, anonymous submission by our employees of concerns regarding questionable accounting or auditing matters.

b. ***The Corporate Governance Committee***

The Corporate Governance Committee, based on the CMB s corporate governance principles, mainly assists the Board of Directors with the development and implementation of our corporate governance principles and presents if needed to the Board of Directors remedial proposals to that end. Duties and working principles of the Corporate Governance Committee are determined within the framework of the regulations, provisions and principles in the Turkish Commercial Code, Capital Market Law, Articles of Association of the Company and Capital Market Board s Corporate Governance Principles . In the relations between the Company and our shareholders, the Committee assists the board. To that end, it oversees the investor relations activities.

The current members are Mr. Mehmet Hilmi Guler, Mr. Mehmet Bostan, Mr. Bekir Pakdemirli and Mr. Nihat Narin our Investor Relations and Business Development Director who is *ex officio* member of the committee in conformity with the relevant CMB communiqué. Mr. Guler is the Chairman of the Corporate Governance Committee.

c. ***The Candidate Nomination Committee***

On April 27, 2012, the Candidate Nomination Committee was established in accordance with the CMB corporate governance principles to perform independent board member candidate nomination and performance assessment processes. The current members are Mr. Ahmet Akca, Mr. Mehmet Hilmi Guler, Mr. Atilla Koc, Mr. Mehmet Bostan and Mr. Bekir Pakdemirli. Mr. Akca is the Chairman of the Candidate Nomination Committee.

d. ***The Compensation Committee***

On December 19, 2012, in conformity with the CMB corporate governance principles, our Board established a Compensation Committee to operate under our Board of Directors. The current members are Mr. Atilla Koc, Mr. Mehmet Hilmi Guler and Mr. Mehmet Bostan. Mr. Koc is the Chairman of the Compensation Committee. The Board also adopted the Compensation Committee s Charter and approved that the Compensation Committee shall execute the duties relating to compensation issues which were earlier granted to the Corporate Governance Committee by the Corporate Governance Committee Charter and the Compensation Committee shall be authorized in lieu of the Corporate Governance Committee in Total Remuneration Policy for the Board of Directors and Top Executives adopted by our Board. The Committee determines the remuneration principles that apply to the Board members and senior management taking into account the long-term strategic goals of the Company. It sets out the remuneration criteria for the Board members and senior management s performance and makes compensation recommendations to the Board.

e. ***The Early Detection of Risks Committee***

The Early Detection of Risks Committee has been established in conformity both with the new Turkish Commercial Code and CMB corporate governance principles to assist the Board in early detection of risks that may jeopardize the Company s existence, development and continuation, and to assist the Board in taking the necessary measures and remedial actions to manage such risks. The current members are Mr. Mehmet Hilmi Guler, Mr. Mehmet Bostan and Mr. Bekir Pakdemirli. Mr. Guler is the Chairman of the Early Detection of Risks Committee.

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On January 28, 2016 the Board has adopted new charters relating to all of the above mentioned committees.

6.D Employees

From our formation in 1993, we have grown from approximately 90 employees to 16,649 employees (disabled employees working at home are not included in the number of total employees) as of December 31, 2015. Due to our customer growth and the increasing need for competent employees, we focus on the quality of our recruitment. The following table sets forth the number of employees by activity employed by us at December 31, 2015, 2014 and 2013.

	2015	2014	2013
Turkcell			
Board of Directors Office[1]	14		
Group Internal Audit	41	19	24
CEO Office	13	9	10
Legal & Regulation[2]	92	92	
Corporate Communications[3]	38		41
Turkcell Academy[4]	50		
Business Support[5]	336		
Finance	233	298	313
Strategy[6]	28		
Customer Services[7]	95		
Marketing[8]	270		
Sales[9]	1,091		
Technology Group[10]	1,550		
International Business		11	11
Consumer Sales		331	318
Consumer Marketing		252	235
Corporate Business		798	795
Information & Communication Technologies		596	589
Network Technologies		643	649
Products & Services		65	47
Group Human Resources		194	202
Group Strategy & Strategic Planning		5	
Investor Relations		6	
Legal Affairs			39
Regulation Strategies & Wholesale Business			43
Subtotal	**3,851**	**3,319**	**3,316**
Subsidiaries			
Turkcell Global Bilgi	9,179	7,880	6,549
lifecell LLC	1,037	1,108	1,131
Belarusian Telecom	355	419	520
Global Bilgi LLC	836	798	801
Turkcell Superonline[11]	26	670	615
Turkcell Teknoloji	712	766	754
Kibris Telekom	208	168	169
Others[12]	445	502	460

Subtotal	**12,798**	**12,311**	**10,999**
Total	**16,649**	**15,630**	**14,315**

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[1] As of June 2015, Board of Directors function is organized to consolidate Board of Directors support tasks.
[2] As of January 2014, Regulation Strategies and Wholesale Business and Legal Affairs have been merged under the Regulation & Legal function.
[3] As of June 2015, Corporate Communications function reports directly to the Chief Executive Officer.
[4] As of August 2015, Turkcell Academy directly reports to the Chief Executive Officer.
[5] As of August 2015, Group Human Resources is structured as Business Support function.
[6] As of November 2015, Group Strategy & Strategic Planning, Investor Relations are positioned under Strategy function.
[7] As of August 2015, customer and product experiences functions are consolidated under Customer Services function.
[8] As of August 2015, Consumer and Corporate Business functions are transformed into Sales, Marketing and Customer Services functions.
[9] As of August 2015, Consumer and Corporate Business functions are transformed into Sales, Marketing and Customer Services functions.
[10] As of January 2014, the Technology Group function has been established and Information & Communication Technologies, Network Technologies, Products & Services, and Global Tower functions report directly to the Chief Technology Officer.
[11] As of August 2015, main functions of Turkcell Superonline such as Sales, Marketing, Network and Technology are centralized under Turkcell related functions.
[12] Others include the following subsidiaries: Inteltek Internet Teknoloji Yatirim ve Danismanlik Ticaret A.S., Global Tower, Ukrtower, Azerinteltek and Turkcell Satis ve Dagitim A.S., Turkcell Odeme Hizmetleri and Lifetech.

We remain confident that high levels of subscriber satisfaction will be possible with continued investment in our people. To that end we continue to strive to attract the best talent in the market.

We are able to recruit highly qualified employees due to our leader position in the Turkish mobile communication market and our strong corporate identity. Stringent hiring and training standards have resulted in a professional organization with high-caliber employees within a challenging workplace.

With regard to employee compensation and benefits, the major principles of our policy are to preserve internal equity and external competitiveness and reflect individual performance in compensation packages.

Significant factors involved in the process of determining compensation and benefits for our employees are our grading structure (based on the Hay Grading system), market movement data and individual performance. We make salary adjustments once yearly. Principal factors in salary adjustments are market movements and economic indicators (e.g., the rate of inflation). We pay performance bonuses quarterly to sales employees and annually to all other employees in accordance with individual and company performance results. Our performance evaluation system evaluates the whole year performance of our employees through target setting-based on strategic objectives and 360-degree evaluation. Benefits packages are designed in line with the local market practice and linked to grade bands/levels where the benefits package improves as the grade band/level increases. We run a flexible benefits plan that allows our employees to select from a pool of choices that suit them such as several shopping and travel vouchers, allowance for children and payment to the Defined Contribution Plan (the DCP). The DCP is a voluntary pension system in which we and the employee make equal contributions. After a vesting period of three years, the employee gets ownership of the contribution we made. The DCP covers all employees who have been working with us for a minimum of six months. As of 2016, a long-term incentive plan will be offered to the management of Turkcell and group companies. The long-term incentive plan is subject to company performance measures and linked to our share price performance.

Each of our employees undergoes an orientation program incorporating classroom training and e-learning training. The training provides employees with information concerning corporate culture and ethics, an introduction to our services, basic mobile communications knowledge and functions of departments. Each employee has the opportunity to participate in the individual, organizational, functional and managerial development programs after regular analyses of his or her training needs. In addition, each employee receives specific training for his or her particular job.

Our employees are not members of any union, and there is no collective bargaining agreement with our employees. We have not experienced any work stoppages.

6.E Share Ownership

Based on reporting made to us in March 2016, we believe that the aggregate amount of shares owned by our Board members and senior officers at such time was 6,650 ordinary shares. No individual Board member or senior officer owned 1% or more of our outstanding shares.

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ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

7.A Major Shareholders

The following table sets forth our major shareholders ordinary share ownership representing approximately 64.12% of our company s capital. This information is current as of March 10, 2016, based on the Company s official share book. Our shareholders do not have different voting rights.

Name and Address of Owner	Nominal TRY Value of Shares Owned[1]	Percent of Class
Sonera Holding B.V.[2] P.O. Box 8675 NL 3009 AR Rotterdam The Netherlands	287,632,179.557	13.07%
Cukurova Holding A.S. Buyukdere Cad.Yapi Kredi Plaza A Blok Kat: 15, 34330, Levent, Istanbul, Turkey	995,509.429	0.05%
Turkcell Holding A.S.[3] Buyukdere Cad. Yapi Kredi Plaza A Blok Kat: 15 34330, Levent, Istanbul, Turkey	1,122,000,000.238	51.00%
Shares Publicly Held	789,372,310.776	35.88%[4]
Total	2,200,000,000.000	100.00%

(1) On April 29, 2005, the General Assembly approved a revaluation of our ordinary shares from TL 1,000 to TRY 1. The revaluation resulted in the formation of fractional shares, which have not yet been merged into whole ordinary shares. Therefore, we give the nominal value of the ordinary shares owned rather than the units or fractional units thereof.

(2) Controlled by TeliaSonera. On September 11, 2009, Sonera Holding, B.V. entered into a derivative transaction with Citibank, N.A. that was settled on October 30, 2009, resulting in Sonera Holding s acquisition of 6,418,710 of Turkcell s ADS (representing 16,046,775 shares) at a price of $17.30 per ADS.

(3) Controlled directly by Cukurova Telecom Holdings Limited that owns 52.91% of its shares. 51% of Cukurova Telecom Holdings Limited s shares are controlled by Cukurova Finance International Limited and 49% are controlled by Alfa Telecom Turkey Limited. For more information, see footnote 4 below and Item 3.D Risk Factors Turkcell s complex ownership structure and ongoing disagreements among our main shareholders have adversely impacted and may continue to impact decision-making on important matters. These ongoing disputes may lead to further regulatory or legal actions, and affect the ownership and control of our shares .

(4) We calculate shares publicly held by deducting from total shares outstanding those shareholders named above. However, a different level of shares publicly held is arrived at when calculating according to Turkish regulations, see Free Float Definition Rules in Item 10.B. Memorandum and Articles of Association Capital Structure Free Float Definition Rules . Based on public filings of TeliaSonera, we understand that approximately 0.94% of the shares

they own in our Company is a part of float, which is in addition to 13.07% of our shares (for a total of 14.02%) held by Sonera Holding B.V., which is controlled by TeliaSonera (see footnote 2). According to an announcement made by Lazard Asset Management on Borsa Istanbul s Public Disclosure Platform on January 13, 2015, it currently holds 5.24% of our publicly held shares.

As of March 10, 2016, Turkcell had 65,691,198 ADRs outstanding held by 49 registered ADR holders. To the best of our knowledge, as of December 31, 2015, in accordance with the loan agreements signed between our shareholders and various banks, 0.05% of shares having a nominal value of TRY 995,509.429 have been pledged by our shareholders as security in favor of such banks.

Muflis Bilka Kaynak Iletisim San ve Tic. A.S. completed the sale of its 137,199.575 shares in our Company through the Central Registry Agency as of March 30, 2012. These shares are now classified as publicly held shares of the Company and Muflis Bilka is therefore no longer listed as an ordinary shareholder.

On January 25, 2013, MV Holding registered 26,021,712.590 shares through the Central Registry Agency. These shares are now classified as publicly held shares of the Company and MV Holding is therefore no longer listed as an ordinary shareholder.

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7.B Related Party Transactions

We have entered into agreements with our executive officers and with several of our current and former shareholders or affiliates of shareholders. We believe that all of such agreements are on terms that are comparable to those that would be available in transactions with unrelated parties. Our policy is to seek price quotes for services and goods we purchase and select the most favorable price. Additionally, our Board has adopted the Rules to be Applied to Related Parties in Purchasing/Selling Assets and Services along with Transfers of Liabilities to be applied by the relevant employees within the company and its group companies on November 22, 2014. For a discussion of our Related Party Transactions for fiscal year 2015, see Note 35 to our Consolidated Financial Statements.

7.C Interests of Experts and Counsel

Not Applicable.

ITEM 8. FINANCIAL INFORMATION

8.A Consolidated Statements and Other Financial Information

Audited Consolidated Financial Statements as of December 31, 2015 and 2014 and 2013, and for each of the years in the three-year period ended December 31, 2015, are included in Item 18. Financial Statements .

Our Company s Board of Directors decided to appoint Basaran Nas Bagimsiz Denetim ve Serbest Muhasebeci Mali Musavirlik A.S. (PricewaterhouseCoopers) as the independent audit firm to audit our accounts and operations for the year 2016. The decision will be submitted to the approval of our shareholders at the next Annual General Assembly Meeting of our Company.

I. Legal Proceedings

For a discussion of the various claims and legal actions in which we are involved, see Note 34 (Commitments and Contingencies) to our Consolidated Financial Statements in this Form 20-F.

II. Dividend Policy

On March 26, 2015, the Ordinary General Assembly of Shareholders approved a dividend distribution for the years ended December 31, 2010, 2011, 2012, 2013 and 2014 amounting to TRY 3,925.0 million (equivalent to $1,535.9 million as of March 26, 2015), which represented 42.5% of distributable net income for the relevant years. The dividend was paid on April 6, April 8 and April 13, 2015 to shareholders, and was funded from cash on hand that we had accrued in light of our inability to receive approvals to pay dividends in prior periods.

We have adopted a dividend policy, which is included in our Corporate Governance Guidelines. As adopted, our general dividend policy is to pay dividends to shareholders with due regard to trends in our operating performance, financial condition and other factors. Since 2004, the Board of Directors has endeavored to distribute cash dividends of at least 50% of our distributable net profits per fiscal year, although the payment of dividends remains subject to our cash flow requirements, applicable Turkish laws and the approval of, or amendment by, the Board of Directors and the General Assembly of Shareholders.

In order to comply with the Capital Markets Board s Communiqué on Dividends II-19.1 dated January 23, 2014, the Turkcell Board of Directors amended its dividend distribution policy proposal in February 2014, as stated below, which was approved by the Ordinary General Assembly held on March 26, 2015:

The Company shall target a dividend payout of at least 50% of its distributable net income as cash. This policy will be subject to the Company s cash projections, business outlook, investment plans and capital market conditions. The actual dividend decision will be made for each fiscal year separately with the approval of the General Assembly of Shareholders. Dividend distribution shall be started on a date to be determined by the General Assembly of Shareholders which shall not be later than the end of the year in which the General Assembly convenes. The Company, in accordance with laws and regulations, may consider distributing advance dividends or making the dividend payment in equal or unequal installments.

Additionally, in order to create added value for its shareholders, the Company may also consider share repurchase programs depending on the conditions set forth above and applicable regulation.

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In accordance with Turkish law, the distribution of profits and the payment of an annual dividend with respect to the preceding financial year are subject to a recommendation which may be made by the Board of Directors each year for approval by the shareholders at the annual general assembly. The Board may decide whether or not to recommend a distribution of profits together with the amount of dividends, and the shareholders, through the general assembly, may accept, amend or reject such proposal, if any. Dividends are payable on a date proposed by the Board of Directors and determined at the general assembly of shareholders, which date, under the CMB requirements, must be earlier than the end of the financial year in which the general assembly decides on dividend distribution. However, the CMB is authorized to designate another deadline for distribution of dividends in any given year.

Annual profits are calculated and distributed in accordance with our Articles of Association after deduction from our annual revenues of all expenses, depreciation, taxes, required reserves and any losses from the previous years.

Pursuant to CMB regulations, dividend distributions of publicly held companies are regulated as follows.

From the distributable net dividend calculated as per the CMB s regulations, the entire amount calculated according to the CMB regulations regarding the requirement of minimum dividend distribution shall be distributed in the event such amount can be covered by the distributable net dividend in the statutory records. In the event the entire amount cannot be covered by the distributable net dividend in the statutory records, the total distributable net dividend in the statutory records shall be distributed. In the event there is net loss in the financial statements prepared as per the CMB regulations or statutory records, there shall be no dividend distribution.

The new Capital Markets Law, which came into force on December 30, 2012, stipulates that public companies shall distribute dividends in line with their dividend policy determined by their general assembly and in conformity with the relevant legislation. However, the new law entitles the Board to regulate dividends. The CMB also published a Communiqué on Dividends (II-19.1) on January 23, 2014 and entered into force on February 1, 2014. Within the scope of the Communiqué, companies shall distribute dividends through a general assembly resolution in accordance with current legislation and the policies of the company. As per the Communiqué, dividends may be distributed in installments in case a general assembly resolution is adopted in this regard. The Communiqué also sets out the principles and procedures for the distribution of dividends. This new Communiqué revoked the Communiqué on the Principles Regarding the Distribution of Dividends and Interim Dividends to be Followed by Publicly Held Joint Stock Companies subject to the Capital Markets Law Serial: IV No: 27, dated November 13, 2001.

To the extent we declare dividends in the future, we will pay those dividends in Turkish Lira. In the case of ordinary shares held in the form of ADSs, dividends will be converted into U.S. Dollars by the depositary for the ADSs, to the extent it can do so on a reasonable basis, and will be distributed to the holders of the ADSs. Because exchange rates between the Turkish Lira and the U.S. Dollar fluctuate continuously, a holder of ADSs will be subject to currency fluctuation generally, but particularly between the date on which dividends are declared and the date dividends are paid. Under current Turkish regulations, dividends or other distributions paid in respect of the ordinary shares or ADSs generally will be subject to withholding taxes. See Item 10E. Taxation .

8.B Significant Changes

Not applicable.

ITEM 9. THE OFFER AND LISTING
9.A Offer and Listing Details

Our capital consists of ordinary shares. Pursuant to an amendment in Turkish Capital Markets Law and a communiqué issued by the CMB, our shares traded on the Borsa Istanbul were dematerialized as of November 2005. For detailed information on the dematerialization of our shares, see Item 10.B. Memorandum and Articles of Association Transfer of Shares .

Our ordinary shares are traded on the Borsa Istanbul under the symbol TCELL and our ADSs are traded on the NYSE under the symbol TKC . Currently two ADSs represent five of our ordinary shares. Our ADSs are evidenced by American Depositary Receipts (ADRs). On July 6, 2011, we signed an amended and restated Deposit Agreement (the Deposit Agreement) with Citibank N.A. (Citibank), as depositary (the Depositary), Turkcell and holders of ADRs, which transferred our ADR program from JPMorgan Chase Bank to Citibank.

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Since January 1, 2006, capital gains realized without meeting a one-year holding period are subject to a withholding tax in Turkey. On July 7, 2006, a provision was added to article 1/a of Code 5527 stating that foreign-based taxpayers, natural persons and corporations are subject to 0% tax. See Item 10.E. Taxation .

The table below sets forth, for the periods indicated, the reported high and low closing quotations (as extracted from Bloomberg) on the NYSE and the Borsa Istanbul. All quotations have been adjusted to take into account all dividends we have issued in the form of shares and cash.

	New York Stock Exchange ($ per ADS)		Borsa Istanbul (TRY per Ordinary Share)	
	High	**Low**	**High**	**Low**
Annual information for the past five years				
2015	14.35	8.38	13.55	9.90
2014	14.42	10.48	12.81	9.36
2013	15.43	11.25	11.07	8.86
2012	14.02	9.41	10.07	7.03
2011	15.40	9.00	9.51	6.39
Quarterly information for the past two years 2015				
First Quarter	14.35	10.21	13.55	10.81
Second Quarter	12.02	10.53	12.65	11.15
Third Quarter	11.90	8.68	12.70	10.55
Fourth Quarter	10.66	8.38	12.20	9.90
Quarterly information for the past two years 2014				
First Quarter	11.96	10.48	10.38	9.36
Second Quarter	13.84	11.73	11.72	9.99
Third Quarter	14.42	11.27	12.16	10.25
Fourth Quarter	14.30	11.17	12.81	10.16
Monthly information for most recent six months				
October 2015	10.06	8.62	11.80	10.50
November 2015	10.66	9.52	12.20	11.10
December 2015	9.65	8.38	11.13	9.90
January 2016	8.86	7.86	10.52	9.42
February 2016	9.42	8.94	11.20	10.44
March 2016 (as of March 10, 2016)	10.09	9.40	11.84	11.08

Fluctuations in the exchange rate between the Turkish Lira and the U.S. Dollar will affect any comparisons of ordinary share prices and ADS prices.

On March 10, 2016, the closing price per ordinary share on the Borsa Istanbul was TRY 11.58 and per ADS on the NYSE was $9.99. The Depositary confirmed that we had 66,963,834 ADRs outstanding as of the close of business on December 31, 2015. We had 65,691,198 ADRs outstanding as of the close of business March 10, 2016.

9.B Plan of Distribution

Not applicable.

9.C Markets

Our ADSs are traded on the NYSE under the symbol TKC and our ordinary shares are traded on the Borsa Istanbul under the symbol TCELL .

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9.D Selling Shareholders

Not applicable.

9.E Dilution

Not applicable.

9.F Expenses of the Issue

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

10.A Share Capital

Not applicable.

10.B Memorandum and Articles of Association

I. General

We are registered in the Istanbul Trade Registry under number 304844. Pursuant to Article 3 of our Articles of Association, as amended on January 30, 2009, at the Extraordinary General Assembly, we are incorporated primarily for the provision of any telephone, telecommunication and similar services in compliance with the Telegraph and Telephone Law number 406 and services stated in the GSM Pan Europe Mobile Telephone System bid that was signed with the Ministry of Transport, Maritime Affairs and Communications and to operate within the authorization regarding the IMT-2000/UMTS services and the infrastructure.

II. Board Members

a. ***General***

According to our Articles of Association, the Board of Directors is comprised of seven members elected by the general assembly. An increase in the number of members of the Board of Directors must be approved by the general assembly. However, in a series of resolutions in 2013, the CMB appointed new members to our Board, who shall remain members until new members are elected or until the CMB announces a new resolution. With the new Turkish Commercial Code Act number 6102 (TCC), which came into force on July 1, 2012, the requirement of having a share of company in order to become a member of Board of Directors has been abolished. The individuals who do not have any shares in the company have been provided an opportunity to be elected as members of the Board of Directors and carry out such duty. Additionally, the TCC mandated that the Board members who have been elected as a representative of a legal entity be required to resign and that the new Board members (as individuals or representatives of the legal entity) be required to be appointed in their place until October 1, 2012 at the latest. Currently none of the directors on our Board are either representatives of shareholders that are legal entities or shareholders themselves.

The TCC does not require a Board member to be a Turkish citizen. There is no minimum age for the directors, provided that a Board member has reached the age of majority, which is 18, and there is no mandatory retirement age under applicable law. The conditions to be a Board member are regulated by the new TCC and the conditions to be an independent board member are regulated by the related CMB legislation.

b. ***Board Members   Interest***

The TCC forbids a Board member to enter into a transaction with us in any area relating to business, either on the Board member s own behalf or on behalf of someone else, thus preventing the abuse of duty by Board members and protecting our interests (TCC Article 395) without the authorization of the general assembly. Our general assembly may authorize our Board members to enter into these types of transactions through a specific provision in our Articles of Association, or our general assembly may grant such a right on a yearly basis.

Interested Board members cannot participate in and sign such resolutions. If we suffer any loss because of a Board member s failure to raise such an issue, the Board member shall be held liable to compensate us for the loss incurred due to such matters related to relatives.

Under TCC Article 396, without the authorization of the general assembly, the Board members are barred from participating in similar commercial activities outside our Company. Board members cannot become shareholders with unlimited liability or become Board members of companies active in similar types of business. A specific provision in our Articles of Association or our general assembly may grant such a right on a yearly basis.

Furthermore, based on the Corporate Governance Communiqué numbered II-17.1, which was published in the Official Gazette dated January 3, 2014, replacing the previous regulatory framework, in cases where shareholders having a management control, members of the board of directors, managers with administrative liability and their spouses, or relatives by blood or marriage up to second degree, conduct a significant transaction with the company or its subsidiaries which may cause a conflict of interest, and/or conduct a transaction on behalf of themselves or a third party, which is in the field of activity of the company or its subsidiaries, or become an unlimited shareholder to a corporation which operates in the same field of activity as the company or its subsidiaries, such transactions need to be included in the general assembly agenda as a separate item for providing detailed information at the general assembly meeting on the matter and need to be recorded in the minutes of the meeting.

c. ***Compensation***

Any remuneration payable to Board members in relation to their Turkcell board membership shall be determined by our general assembly. The Board of Directors has no authority to determine such remuneration. At our Annual General Assembly held on April 29, 2010, it was decided that our Chairman would receive a net sum of 250,000 per year and each Board member would receive a net sum of 100,000 per year for the period of their service, effective February 25, 2010.

According to a CMB Communiqué Serial: IV, No: 56 Concerning the Establishment and Implementation of the Corporate Governance Principles, which was published in the Official Gazette dated December 30, 2011, a written Remuneration Policy for Board members and senior management was prepared. This Policy was posted on the company s website and submitted at the Annual General Assembly as a separate agenda item for information. The Corporate Governance Communiqué numbered II-17.1, which was published in the Official Gazette dated January 3, 2014 and replaced the Communiqué Serial: IV, No: 56, kept this requirement as a mandatory corporate governance principle dealing with Financial Rights of Board Members and Executives Having Administrative Responsibility. The Annual General Assembly meeting of our Company pertaining to the years 2010, 2011, 2012, 2013 and 2014 has been convened on March 26, 2015. The same item was on the agenda for the Annual General Assembly meeting held in 2015 and shareholders have been informed. Payment plans such as stock options or those based on company performance are not used in the remuneration of independent Board members. Remuneration of independent board members must safeguard the independency level.

d. ***Borrowing Power***

To the extent the relevant provisions of Turkish law allow, the Board of Directors of our Company is the body entitled to, directly or through representatives authorized by the Board of Directors, resolve to exercise our powers to borrow money or give any form of guarantee or surety relating to our or any third party s obligations. The CMB adopted a rule on September 9, 2009, which was announced in its weekly bulletin in connection with credit extensions, that public companies can provide guarantees or pledges, including mortgages, to third parties, provided such third party (i) is fully consolidated in the company s financial statements or (ii) the ordinary business operations of the company directly requires providing guarantees, pledges or mortgages. At the Ordinary General Assembly held on April 29, 2010, Article 3 entitled Purpose and Subject Matter of Turkcell s Articles of Association was amended in line with CMB s rule dated September 9, 2009. Under our Articles of Association, our Board of Directors is authorized to issue debentures and other securities subject to the TCC, Turkish Capital Markets Law and other relevant legislation. Under Turkish Capital Markets Law, the total value of capital market instruments shall not exceed the amount specified by the CMB, for each type of instrument. However, as a general rule, the total value of debentures and other debt instruments that a publicly held company may issue as capital market instruments may not exceed the balance remaining after deducting the losses, if any, from the total sum of the outstanding and paid-up capital as shown on the latest independently audited financial statements submitted to the CMB, plus reserves and the revaluation fund stated in the latest financial statement approved by the general assembly. Pursuant to Article 3 of our Articles of Association, as amended on October 2, 2009 at the Extraordinary General Assembly, and as effective on

October 7, 2009, we can extend credits to companies in which we have direct or indirect shareholding interest, both in Turkey and overseas, as well as to our main company and group companies, in Turkish Lira or other foreign currencies, on the condition that such extensions do not conflict with applicable laws and regulations. In addition, the TCC similarly allows group companies to extend credits and guarantees to each other without abusing their authority The Corporate Governance Communiqué numbered II-17.1, which was published in the Official Gazette dated January 3, 2014, incorporated the rule which was announced in its weekly bulletin on September 9, 2009 in its Article 12. Furthermore, as per Article 12, board resolutions with regard to providing guarantees or pledges including mortgages within the framework of ordinary business operations of the company should be signed by the majority of independent board members. In case the majority of independent board members do not approve the resolution, dissenting opinions should be announced to the public. In such resolutions, related board members, if any, could not participate to the relevant board meeting.

e. ***CMB Rules Regarding Transactions with Related Parties***

Initially, based on the CMB Communiqué Serial IV, No. 56, dated December 30, 2011, the approval of the majority of the independent members was necessary for any and all kinds of related party transactions of the company (related parties referred in the Communiqué will be determined in accordance with the Turkish Accounting Principles No. 24, equivalent of IAS 24), as well as for the resolutions of the board of directors with respect to giving guarantees, pledges and mortgages in favor of third parties. The CMB in a further announcement clarified that listed companies could adopt one board/general assembly resolution for the execution of transactions of a continuous and extensive nature with related parties unless the terms of those transactions had changed. In the event such changes occur, new board/general assembly resolutions will be needed. The new Capital Markets Law dated December 30, 2012 empowered the CMB to determine the nature of such transactions. Accordingly, the CMB with its Communiqué Serial IV, No. 63 dated February 22, 2013 restricted the scope and set out that only material related party transactions, as opposed to all kinds of transactions, shall be submitted to the approval of independent members. In cases where the majority of the independent members do not approve such material transaction, the case shall be disclosed to the public in a manner covering sufficient information with respect to the transaction within the scope of public disclosure arrangements, and the transaction shall be submitted to the general assembly for approval. During such general assembly meetings, a resolution shall be adopted by vote in which the parties to the transaction as well as the individuals related thereto are not entitled to vote. Meeting quorum shall not be necessary for the general assembly meetings to be held for those cases. Such resolutions shall be adopted by simple majority of the attendees having the right to vote. The Company shall incorporate related mandatory provisions of the said Communiqué in its Articles of Association (along with other mandatory provisions relating to corporate governance, see Item 16.G. Corporate Governance). The Corporate Governance Communiqué numbered II-17.1, which was published in the Official Gazette dated January 3, 2014, defined the materiality as set out by the Communiqué Serial IV, No. 63. Accordingly, a 10% threshold will be applied in comparison with the relevant criteria such as total annual assets, annual revenues or market value of the company. When a transaction s amount is above this 10% threshold, the majority vote of independent board members will be sought. Additionally, in order to ensure internal compliance with the CMB s related party transactions, our Board has adopted the Rules to be Applied to Related Parties in Purchasing/Selling Assets and Services along with Transfers of Liabilities to be applied by the relevant employees within the company and its group companies on November 22, 2014.

III. Capital Structure

a. ***General***

Our Board of Directors has adopted the authorized share capital system which, under Turkish law, allows us to increase our issued share capital up to the authorized share capital amount upon resolution by our Board and without need for further shareholder approval. On January 23, 2008, the CMB amended its Communiqué on principles regarding the registered capital system. According to this amendment, the registered capital ceiling authorization given by the CMB shall be valid for five years, including the year in which the authorization is granted. As this five-year term ended in January 23, 2013, as done in 2014, the Company applied for the CMB s authorization in order to determine its capital ceiling for a five-year term between 2016 and 2020, and will amend its Articles of Association accordingly at the next ordinary general assembly meeting, which is expected to be held on March 29, 2016. In an effort to harmonize new legislation with the Capital Markets Law numbered 6362, which entered into force on December 30, 2012, the CMB released the Communiqué on the Registered Capital System II-18.1 which became effective on December 25, 2013. The new Communiqué mostly includes regulations in line with the former Communiqué (Serial: VI, No: 38) and de facto practice of the CMB. As for the determination of the ceiling, the new Communiqué contemplates a limitation for the ceiling and states that the registered capital ceiling shall not be more than five times the issued capital or the equity, whichever is higher. The new Communiqué also sets out that the registered capital ceiling may be exceeded once within the scope of each ceiling (i) through conversion of all kinds of internal resources and dividends into the share capital; and (ii) as a result of transactions requiring general assembly resolutions such as mergers and spin-offs. However, both the former legislation and the new Communiqué provide that the registered capital ceiling may not be exceeded with capital increases through cash. As in the former regime, the registered capital ceiling approved by the CMB is valid for five years including the year in which the approval is granted. Upon the expiry of the term, even if the registered capital ceiling has not been reached, in order for the board of directors to adopt a capital increase resolution, the board of directors must obtain authorization for a new period at the first general assembly upon the approval of the CMB for the same ceiling or a new ceiling. The term of this authorization may be extended for five year periods through a general assembly resolution. In the event such authorization is not obtained, the new Communiqué emphasizes that companies may not realize a capital increase through a board of directors resolution, whereas under the former Communiqué, companies were deemed to be excluded from the registered capital system. The increase of the registered capital ceiling, extension of the permission period, capital increase and relevant resolutions of the board of directors shall be disclosed to the public within the framework of the CMB disclosure rules.

b. ***Preemption Rights***

We may increase our capital only through the issuance of new shares, and such issuances may come in the form of a rights offering or a bonus issue. Under Turkish law, existing shareholders are entitled to subscribe for new shares, also known as preemption rights, in proportion to their respective shareholdings each time we undertake a capital increase. Our Board of Directors will generally recommend that new shares be issued at prices equal to their nominal value, which entitles the existing shareholders to subscribe for shares at a significant discount from their current market price. The exercise of preemption rights by shareholders must be made within a subscription period which we announce, which may not be less than 15 days nor more than 60 days after the issuance of the preemption rights circular. Shareholders who do not wish to subscribe for new shares may sell their rights on the Borsa Istanbul (BIST). Any shares not subscribed for by the existing shareholders or purchasers of the rights coupons are sold on the BIST at the current market price. Any differences between the rights issue price and the price realized for the shares on the BIST would accrue to our surplus account. Preemption rights of shareholders related to a rights offering may be restricted wholly or in part either by an affirmative vote of the holders of a majority of the outstanding shares at an ordinary or extraordinary general assembly or a resolution adopted by the Board of Directors to such effect, provided that such authority is conferred upon the Board of Directors. CMB rules stipulate that such authority may be conferred upon the Board of Directors of companies that have received permission from the CMB to adopt the authorized capital system. As per the new Communiqué on the Registered Capital System II-18.1, the General Assembly shall approve the amendments to the articles of association with respect to granting authorization to the board of directors to restrict the pre-emptive rights of the shareholders to acquire new shares. Contrary to the former Communiqué, the new Communiqué has not foreseen a meeting quorum. With regard to the decision quorum, the former Communiqué differentiated between companies making an initial public offering and public companies, whereas the new Communiqué has not stipulated any such distinction. Accordingly, the new Communiqué regulates that shareholders holding 2/3 of the shares having voting rights shall provide affirmative votes. In addition, the new Communiqué has prescribed that if at least shareholders holding half of the voting shares are present at the meeting, the decision quorum shall be the majority of the shares participating in the meeting.

By the amendment to the Articles of Association, we have conferred such authority on our Board of Directors. The CMB further requires that the right of the Board of Directors to restrict the preemption rights of shareholders applies equally with respect to all shareholders. Under Turkish law, bonus issues may be undertaken in order to convert all or a portion of the revaluation fund and reserves of a company into share capital.

c. ***Dividend Distribution and Allocation of Profits***

Our Board of Directors recommends annual dividends, which then must be approved by our shareholders at their annual general assembly. Dividends are payable on a date determined at the annual general meeting. Under current rules, the Board of Directors may decide whether or not to recommend a distribution of dividends, and our shareholders at our annual general meeting may decide whether or not to distribute dividends in any year. According to new Capital Markets law, we may freely determine the amount of dividends to be distributed based on the Dividend Policy, pursuant to applicable Turkish laws and upon the approval of, or amendment by, the Board of Directors and the General Assembly of Shareholders. The Board decides whether or not to recommend an allocation of profits, as well as the amount of dividends, and the shareholders, through the general assembly, may accept, amend or reject such proposal, if any.

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The new dividend distribution regime is governed by a CMB Communiqué on Dividends II-19.1 which was published in the Official Gazette dated January 23, 2014, numbered 28891, which entered into force on February 1, 2014. Within the scope of the Communiqué, companies shall distribute dividends through a general assembly resolution in accordance with current legislation and the policies of the company. As per the Communiqué, dividends may be distributed in installments in case a general assembly resolution is adopted in this regard. The Communiqué has also determined the principles and procedures for the distribution of dividends. The CMB allows public companies the possibility of choosing the timing and payment method of the dividend distribution on the condition that the company s own dividend policy should regulate this. In any case, according to the new Communiqué, distribution should commence until the end of the financial year in which the general assembly decided on distributing a dividend.

In order to comply with this Capital Markets Board s Communiqué, the Turkcell Board of Directors amended its dividend distribution policy proposal in February 2014, as stated below, and approved by the Ordinary General Assembly held on March 26, 2015:

The Company shall target a dividend payout of at least 50% of its distributable net income as cash. This policy will be subject to the Company s cash projections, business outlook, investment plans and capital market conditions. The actual dividend decision will be made for each fiscal year separately with the approval of the General Assembly of Shareholders. Dividend distribution shall be started on a date to be determined by the General Assembly of Shareholders which shall not be later than the end of the year in which the General Assembly convenes. The Company, in accordance with laws and regulations, may consider distributing advance dividends or making the dividend payment in equal or unequal installments.

Additionally, in order to create added value for its shareholders, the Company may also consider share repurchase programs depending on the conditions set forth above and applicable regulation.

In parallel with the new Capital Markets Law, the new Communiqué on Dividends sets ground rules for donations: articles of association of public companies should contemplate it and an annual limit should be determined by the general assembly. On February 24, 2015, within the framework of the CMB regulations, our Board has resolved that, by means of determining the upper limit for the total amount of donations to be made by the Company within the year 2015 as up to 0.2% of our Company s revenue included in the annual consolidated financial tables relating previous fiscal year announced to the public pursuant to CMB regulations, this abovementioned upper limit is approved by General Assembly of our Company. On January 28, 2016, our Board of Directors has resolved to determine the upper limit for the total amount of donations to be made by our Company within the year 2016 as up to 1% of our Company s revenue as set forth in the annual consolidated financial statements for the previous fiscal year as announced to the public pursuant to Capital Markets Board regulations. This limit shall be submitted for the shareholders approval at the next General Assembly of our Company.

Dividends are payable by transfer to the account of the shareholders with a bank in Turkey corresponding to the relevant portion of their shares. Shareholders entitlement to cash dividends remains in effect for a period of five years following the date of the general assembly approving such distribution, after which time they are transferred to the Turkish government.

Part of our remaining net profit may be distributed to our shareholders as a second dividend or retained by us as retained earnings, all at the discretion of our general assembly.

For additional details regarding our dividend policy see Item 8.A. Consolidated Statements and Other Financial Information Dividend Policy .

d. ***Voting Rights***

Shareholders are entitled to one vote per share on all matters submitted to a vote of our shareholders.

CMB Communiqué Serial IV, No. 56 dated December 30, 2011 (see Item 16.G. Corporate Governance for further information), initially stated that transactions considered as material (transfer, acquisition or lease of all or significant portion of company assets or constitution of limited property right there on; providing concession or changing content or subject of existing concessions and being delisted) under certain conditions those material transactions will need to be approved by the general assembly. In the event that parties to such transactions are related parties, such related parties shall not vote at the general assembly. The new Capital Markets law dated December 30, 2012 further expanded the scope of material transactions , which were exhaustively enumerated by the aforementioned Communiqué by adding the term like at the beginning of the enumeration. However, the topic has once again been regulated by another CMB Communiqué Serial IV, No. 63 dated February 22, 2013, and the term of material transactions with regard to the implementation of Corporate Governance Rules is again exhaustively defined in parallel with the Communiqué dated 2011.

The CMB issued the Communiqué No. II-23.1 on Common Principles Regarding Material Transactions and the Right of Separation (published in the Official Gazette dated December 24, 2013, No. 28861). Material transactions of public companies are exhaustively enumerated. Some of the issues covered by the Communiqué are listed below:

- procedures and principles applicable to the material transactions of publicly held companies;
- exercise of the right of separation in relation to the material transactions and the cases where the right of separation is not applicable;
- pricing of the right of separation in non-listed companies;
- mandatory tender offer in connection with the material transactions; and
- mandatory meeting and decision quorums applicable to general assembly meetings with regard to material transactions.

e. ***Transfer of Shares***

Subject to the limitations described below, shares may be sold and transferred by endorsement and delivery.

In practice, shares in registered form traded on the BIST are represented by the share certificates endorsed in blank, enabling such shares to be transferred as if they were in bearer form. As per the amendment in the then in force Capital Markets Law and a communiqué issued by the CMB in this respect, our Company s shares traded at the Borsa Istanbul were dematerialized as of November 2005.

Legal and actual dematerialization of the share certificates commenced on November 28, 2005. Beginning from November 28, 2005, it is prohibited for companies registered on the ISE to issue new share certificates, in consideration of rights issues or bonus issues. The new shares arising out of capital increases shall be transferred to the accounts of the rightful owners by registration.

A seven-year term given for the dematerialization of physical shares ended on December 31, 2012 and physical shares which were not delivered for dematerialization were supposed to become the property of the Company. However, according to the new Capital Markets Law which came into force on December 30, 2012, such undelivered physical shares are now transferred to the Investor Compensation Center and sold three months following the transfer on the Investor Compensation Center s accounts. However, the Turkish Constitutional Court in its decision published in the Official Gazette on November 12, 2015, nullified the provisions of the Capital Markets Law regarding the ownership transfer of such undelivered physical shares to the Investor Compensation Center on the ground that such language contradicted with Art. 13 (Restriction of fundamental rights and freedoms) and Art. 35 (Right to property) of the Constitution.

Concerning registration of share transfers, the Company will take into account the Central Registry Agency s data without requiring any application from the interested parties. Provisions regarding the nominal values of the share certificates of the Company are regulated in the temporary article of the Company s Articles of Association and such article was approved at the Ordinary General Assembly Meeting on April 29, 2005. The temporary article reads as follows:

Decree 32 on the Protection of the Value of the Turkish Currency issued in August 1989, as amended from time to time, provides that persons not resident in Turkey may purchase and sell our shares, provided that such purchase is effected through a bank or broker authorized pursuant to applicable Turkish capital markets legislation. Turkish capital markets legislation requires that shares of a company quoted on a Turkish securities exchange be traded exclusively on such exchange. The CMB has indicated that this requirement applies only to intermediary institutions licensed for trading on the stock exchange and to trade orders placed with them by investors. Accordingly, our shareholders that are not resident in Turkey may transfer such shares only on the ISE. This requirement does not apply to transfers of ADSs.

Under Turkish law, in the event that one of our shareholders transfers shares to any other shareholder or to any other third party investor, either foreign or local, the Foreign Investment General Directorate (FIGD) must be notified within one month of the transfer of shares.

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Under Article 8 of the Electronic Communications Law, electronic communications services is rendered and/or electronic communications network or infrastructure is established and operated following the authorization made by the ICTA. Authorization is granted through the notification made in accordance with the principles and procedures determined by the ICTA, in case the resource allocation is not necessary, or given of usage right, in case the resource allocation, which means allocation of frequency, satellite position etc., is necessary. Furthermore, under the Authorization Regulation Regarding Telecommunication Services and Infrastructure Regulation, the ICTA must be notified in case of any share transfers within one month of the transfer of shares at the latest and in the event that the share transfer results in a change in control, such transfer of our shares by any of our shareholders should be realized with the written permission of the ICTA.

Under our Articles of Association, the Board of Directors is entitled to restrict the transfer of shares to foreigners in order to comply with Turkish shareholding requirements under Turkish law.

f. ***Disclosure of Beneficial Interests in the Shares***

The Turkish Regulation on public disclosure of listed companies was regulated by the CMB Communiqué Serial VIII, No. 54 on Principles Regarding Public Disclosure of Material Events dated February 2009. The CMB released a new Communiqué on Public Disclosure of Material Events (II-15.1) which was published in the Official Gazette dated January 23, 2014, numbered 28891, which entered into force on February 23, 2014. Insider information, which means any non-public information that may possibly affect the value of capital market instruments and investors decisions, is required to be disclosed immediately by listed companies. Shareholders disclosure requirement would arise if they exceed the shareholding ratios established in the Communiqué II-15.1 (5%, 10%, 15%, 20%, 25%, 33%, 50%, 67% and 95%). Disclosure of insider information may be delayed to protect the legitimate interests of the company without causing market manipulation. For those that have administrative responsibilities in Turkcell (including Board members and high-ranked executives), or are closely related persons, that purchase and sell Turkcell s capital market instruments (including, but not limited to, Turkcell shares), such transactions will need to be declared to the Borsa Istanbul; however, according to the Communiqué II-15.1, if the cumulative amount of the above-mentioned Turkcell transactions does not exceed TL 50,000, such declaration will not be needed (TL 100,000 for the company s securities other than shares). This upper limit represents the total amount of all transactions made by both Board members/high-ranked executives and their closely related persons of the company and that of its subsidiaries which represent more than 10% of the total assets according to the latest annual financial statements of the company. Closely related persons means: wives/husbands, children and individuals sharing the same residence at the time of transaction and corporations; legal entities run by, directly/indirectly controlled by or whose economic interests are similar with that of Board members; and high-ranked executives of the Company. The CMB by its decision dated June 27, 2014 issued new guidelines for the announcement of material events for public companies based on Article 27 of the Communiqué II-15.1, thus repealing the old guidance which was prepared in conformity with the Communiqué Serial VIII, No:54.

In addition, the CMB adopted a short-swing-profit rule for company executives. The CMB has published the Communiqué No. VI-103.1 Regarding Managers Payment of Net Purchase and Sale Gains to the Issuers (published in the Official Gazette dated December 12, 2013, No. 28849). The Communiqué VI 103.1 relies on the Capital Markets Law Article 103/4 and indicates that (i) the board members and the committee members of an issuer, (ii) the persons with administrative responsibilities at the issuer and (iii) the persons that have the power to determine and control the issuer s financial and operational policies, decisions or targets directly or indirectly, shall pay the net gains they have obtained through the purchases and sales within the same six-month period. It is indicated in the Communiqué VI 103.1 that the purpose of this regulation is to remove the inequality of opportunity between the persons who receive insider information about the issuers easier and faster due to their positions and the investors that reach the insider information after public disclosure.

In addition, according to the Communiqué on Voluntary and Mandatory Tender Offers (Communiqué Serial IV No. 44) issued by the CMB on September 2, 2009, the mandatory tender offer shall be triggered when, directly or indirectly, more than 50% of our Company s shareholding is acquired or management control of a public company is taken over through acquiring (i) the necessary number of shares granting the right to elect or (ii) privileged shares allowing the nomination of the majority of the board of directors. Communiqué Serial IV No. 44 also stipulates certain circumstances which will not trigger a mandatory offer, such as management control changes of the company by a voluntary tender offer and share transfers by privileged shareholders with management control or persons acting together resulting in a possession of more than 50% of the capital or voting rights. The new Capital Markets Law incorporates those rules under its relevant provisions. The

Communiqué on Tender Offer (II-26.1) which repeals the Communiqué Serial: IV No: 44 was published by the Capital Markets Board in the Official Gazette dated January 23, 2014, numbered 28891, which entered into force on the date of its publication. Through the Communiqué, the procedures and principles regarding mandatory and voluntary tender offers as a result of a change in management control have been regulated in compliance with the new Capital Markets Law No. 6362. Moreover, the definition of management control has been regulated as the direct or indirect acquisition of more than 50% of the share capital or the voting rights individually or collectively. Holding more than fifty percent of the voting rights of a corporation directly or indirectly, alone or jointly with persons acting in concert, or regardless of such percentage, holding privileged shares enabling their holder to elect a simple majority of the total number of the members of the board of directors or to nominate for the said number of directors in the general assembly meeting, is considered and treated as an acquisition of control.

The Communiqué on Tender Offer (II-26.1) was modified on February 27, 2015 and the following situation has been added amid cases where a mandatory tender offer will not be triggered. Following the purchase by a third party of a portion of the shares of a controlling shareholder, on the condition that this third party has 50% or less of voting rights of the company, should such third party share equally or less than the management control of the company with this controlling shareholder by virtue of a written agreement, this situation is not considered a trigger for a mandatory tender offer for this third party.

In parallel, the Capital Markets Law No. 6362 introduces a squeeze-out right: in the event the shareholding of a shareholder reaches a threshold, which shall be determined by secondary legislation of the CMB, such shareholder shall have the right to purchase the shares of the minority shareholders and the minority shall have the right to sell their shares. The CMB released the Communiqué on Squeeze-Out Rights and Statutory Put Option Rights (II-27.1) on January 2, 2014 in the Official Gazette numbered 28870, which became effective as of July 1, 2014. This Communiqué was replaced with the Communiqué II-27.2 which entered into force upon its publication in the Official Gazette dated November 12, 2014 and numbered 29173 (the new Communiqué). According to the Communiqué II-27.1, if the controlling shareholder, directly or indirectly, holds at least 95% of the voting rights in a public company as a result of a mandatory tender offer or by any other means, the controlling shareholder has the right to squeeze out all other shareholders regardless of whether they hold privileged shares. As per the new Communiqué, in the event that a shareholder holds at least 98% of the voting rights in a public company either as a result of a mandatory tender offer or by any other means, or if the controlling shareholder already satisfying this threshold acquires an additional share, the controlling shareholder will be entitled to the right to squeeze-out all other shareholders. Once the squeeze-out right arises, the remaining minority shareholders will be entitled to the right to sell-out their shares. The new Communiqué also stipulates a transition period. Accordingly, the threshold of 95% shall continue to apply to squeeze-out rights that arose before December 31, 2014 and a new threshold of 97% shall apply to squeeze-out rights that will arise thereafter until December 31, 2017. The new Communiqué regulates the squeeze-out and the put option rights under the same provision. Accordingly, the controlling shareholder is obliged to make a public disclosure, if and when the controlling shareholders shareholding ratio reaches at least 98% of the voting rights or acquires additional shares to enhance its status. The remaining minority shareholders are entitled to exercise their sell-out rights within three months following the public disclosure. The three-month period is statutory and the sell-out rights of the minority shareholders shall expire at the end of such period. The minority shareholder willing to exercise its sell-out right shall notify the public company in writing of its request. The board of directors shall procure the preparation of a valuation report in order to determine the purchase price for the minority shares within one month upon the sell-out request. Upon application of the controlling shareholder for exercising the squeeze-out right, and approval of the board of directors about the fulfillment of the conditions for exercising the squeeze-out right, the company shall apply to the CMB for issuance of new shares to replace the cancelled ones. A delisting application to the relevant stock exchange is also required. All payment and settlement transactions shall be conducted via the Central Registration Agency. The controlling shareholder shall deposit the share purchase amount to the company s account, within three business days following the notification made by the company at the latest, and the company shall transfer such amount to the relevant minority shareholders account on the second succeeding business day to complete the share transfer transactions. As for the calculation of the purchase price, the purchase price during exercising of the squeeze-out right shall be equivalent to the average of the weighted daily stock market price within the 30-day period prior to the disclosure stating that the controlling shareholder has reached at least 98% of the voting rights or acquired additional shares for traded shares. The Communiqué refers to a fair price for the exercise of the sell-out right. Accordingly, (i) the price determined for the squeeze-out right; (ii) the price determined per each share group through a valuation report; (iii) the price of a mandatory tender offer within the year preceding the public disclosure of control, if any; and (iv) the average of the weighted average prices on the exchange pertaining to the previous six months, previous year and previous five years shall be compared. The highest value shall be determined as the purchase price when the sell-out right is exercised. The controlling shareholder is required to make a public disclosure if and when (i) the voting rights held by it exceed or fall below 98% of the total voting rights in the company; or (ii) it acquires additional shares when it already holds 98% or more of the voting rights. Additionally, the controlling shareholder is also obliged to make a public disclosure, if and when it decides to exercise the squeeze-out right. The company as well is obliged to disclose the (i) squeeze-out right requests, the procedure of squeeze-out and the results of the squeeze-out; (ii) application of a sell-out right including the total number of shareholders making an application for exercising their sell-out rights, the percentages of their voting rights, and the total price to be paid for the exercised sell-out rights; (iii) the results of valuation reports for determining the share price and (iv) the results of exercising the sell-out right including information on the number of shareholders who have used such right and their voting right percentages and the voting right percentage of the controlling shareholder.

g. *Free Float Definition Rules*

While 35.88% of our Company is listed on the stock exchange, the number of our Company s free floating shares as of March 10, 2016 was 765,908,887.05 according to the Report on Free Float Ratios released by the Central Registry Agency in accordance with the Capital Markets Board s decision 21/655 of July 23, 2010, as amended by its decision 24/729 of August 18, 2010, and its free float ratio was 34.81%. The difference between these rates results from the exclusion of shares which are: i. held by a public entity, ii. held by the company s incorporators and its affiliates (companies subject to consolidation), iii. held by shareholders who may be a natural person or a corporate body and control at least 10% of the Company s capital, iv. held by a) the members of the Company s Board of Directors and the Board of Auditors, b) General Manager or executives who are equal to or superior to a general manager in terms of their powers and functions, c) senior executives who report to General Manager or executives who are equal to or superior to a general manager in terms of their powers and functions, v. owned by the savings funds or foundations of companies, vi. provided as equity capital pursuant to regulations applicable to the capital markets legislation or as a collateral in respect of a margin trading or as a collateral except the ones which are given as a collateral only for Central Depository Bank markets, vii. which are legally restricted and cannot be subject to purchase and sale, viii. prohibited, ix. seized in the definition of free float ratio. The difference may result from one or more situations described in the decision and it is not possible for our Company to know it.

h. *Trading Rules*

According to the CMB Communiqué II-17.1 on Corporate Governance, public companies whose shares are traded on the National Market, Second National Market and Collective Products Market of the exchange shall be divided into three groups in accordance with their systemic significance considering their market values and the market values of the shares in active circulation. The average of the closing prices in the second session of the last trading days of March, June, September and December and the rates of the shares in active circulation is the basis of the calculation of the market price and the price of the shares in active circulation. In cases where different share groups of the same company are traded on the exchange, all of such groups shall be taken into consideration. This calculation shall be made by the CMB each year in January to determine the groups in which the corporations are included and the list shall be published by the Board Bulletin. In this regard, the numerical thresholds to be used for grouping are set forth below:

a) First group: Companies whose average market value is above TRY 3 billion and average market value in actual circulation is above TRY 750 million;

b) Second group: Companies among those excluded from the first group, the average market value of which is above TRY 1 billion and average market value in actual circulation is above TRY 250 million.

c) Third group: Companies among those excluded from the first and second groups, the shares of which are traded on National Market, Second National Market and Collective Products Market.

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Accordingly, the CMB by its decision numbered 31/1080 and dated October 30, 2014 determined the following thresholds and measures, which are effective as of January 2, 2015:

		Current or Additional Measures				
Group	**Value of the Shares in active circulation (TRY)**	**Market Maker or Liquidity Builder**	**Trading Method**	**Margin Trading or Short Selling**	**Equity Ratio of Short Settlement**	**Gross Settlement Method**
A	30 Million and above		Continuous Auction	YES	General Provisions	NO
B	10 - 30 Million		Continuous Auction	YES	100%	NO
C	Below 10 Million	YES	Continuous Auction	NO	100%	NO
		NO	Uniform Price			

According to the latest CMB decision, Turkcell is listed under Group A companies.

i. ***Protection of Minority Shareholders***

Under Turkish securities law, minority shareholders, defined as those who hold 5% or more of our share capital, have the right, among other things, to request our Board of Directors to:

- invite the shareholders to an extraordinary general assembly;
- request that a matter be included on the agenda at both ordinary and extraordinary general assembly;
- request the appointment of special auditors; if the general assembly rejects this request, minority shareholders may apply to the court for the appointment of a special auditor;
- take action against Board members who have violated the Turkish Commercial Code or the articles of association of a company or who have otherwise failed to perform their duties;

pursuant to the TCC, provided there is a good reason, minority shareholders may claim from the competent court to rule in favor of dissolution of the Company; and

if provided by the Articles of Association of the Company, certain minority groups may be represented at the Board of Directors.

According to the new Capital Markets Law, in the event a shareholder votes against a material transaction in a general assembly meeting, as briefly described above, such shareholder obtains a right to exit from the company by selling his/her shares. If the shareholder uses that right, the company is required to purchase the shareholder s shares.

j. ***Liquidation***

In the event of liquidation, our shareholders are entitled to participate in any surplus in proportion to their shareholdings.

k. ***Changes in Capital Structure***

Any increase in our Company s registered capital ceiling requires an amendment to our Articles of Association and therefore shareholder approval through a general assembly. Such amendment is subject to the prior approval of the Ministry of Customs and Trade and the CMB. Our Board of Directors may also restrict the rights of existing shareholders and offer new shares to third parties. Changes in the voting and dividend rights of our shareholders require an amendment to our Articles of Association and approval by the general assembly. Such amendment is also subject to the prior approval of the Ministry of Customs and Trade and the CMB. Furthermore, under the Turkish Commercial Code, during the general assembly meetings held to amend the articles of association of a joint stock company, each share shall be entitled to only one vote, even if otherwise is provided under its articles of association.

Any decrease in our share capital requires an amendment to our Articles of Association. If we undertake to cancel our shares, we must notify any existing creditors, and within two months of notification, they may request payment or, if their receivables are not due and payable, we must create a security interest in their favor. Capital reduction is rarely applied in Turkey.

l. ***Share Buy-Backs***

The new TCC contains several rules enabling Turkish companies to repurchase their own shares if they satisfy certain conditions. Accordingly, shares representing up to 10% of the total share capital of the company may be acquired by the company itself. Before the entry into force of the new TCC, the CMB had taken an anticipatory step by enabling listed companies to buy back their own shares. The CMB announced this on August 11, 2011, in its Weekly Bulletin numbered 2011/32, and this announcement describes in detail the procedures and principles which apply to such buy-back transactions.

In accordance with the new Capital Markets Law dated December 30, 2012, the Communiqué on Share Buyback numbered II-22.1 was published in the Official Gazette on January 3, 2014. The Communiqué regulates the principles and procedures of share buybacks or the establishment of pledges over their own shares by public companies. Essentially, the Communiqué governs the principles regarding the (i) share buybacks of public companies or accepting their own shares as pledges; (ii) sell-out of repurchased shares or their amortization; (iii) public disclosure of such transactions; and (iv) safe harbor provisions where share buybacks will not be deemed insider trading or manipulation of the market.

Our Company currently is considering and evaluating the possibility to redeem its own shares. On February 18, 2016 a buyback plan of up to TRY 200 million was announced to be submitted for the approval of the shareholders at the Ordinary General Assembly for 2015.

m. ***General Assemblies***

Right holders, who have a right to attend the general assembly meetings, can attend such meetings by electronic means pursuant to article 1527 of the new TCC. Pursuant to the Communiqué on Electronic General Assembly Meetings held in Joint Stock Companies, the Company shall invite the right holders to attend, to deliver an opinion and to vote by electronic means, either setting up the electronic general assembly system; or purchase related services from the system providers that are specifically found for such purposes.

According to the new TCC, the general assembly meeting procedures should be regulated under the Internal Guidelines to be approved by the general assembly and registered at the Trade Registry. Accordingly, general assembly meeting procedures shall be executed with the related provisions of the Turkish Commercial Code, Articles of Association and the Internal Guidelines.

The following matters are among the ones required by the TCC and our Articles of Association to be included on the agenda of ordinary general assembly meeting:

- review of the annual reports of our Board of Directors and the auditors;

- the approval, amendment or rejection of the statement of financial position and statement of profit and loss prepared for the preceding financial year, the release of our Board of Directors from liability in respect of actions taken by them in the preceding financial year, and the proposals of our Board of Directors for the allocation and distribution of any of our net profits;

- the approval of the remuneration of the Board members; and

- the re-election or replacement of directors and/or auditors whose terms of office have expired.

Shareholders representing at least 5% of our share capital may, by written notice, require any additional matters to be included on the agenda for discussion at any of our general assemblies.

Notices covering general assemblies (including postponements and rescheduling), which include the agenda of any such general assembly, must be published in the Trade Registry Gazette and at least two leading Turkish newspapers published in Istanbul, determined by us, at least two weeks before the date fixed for the meeting in accordance with the TCC and three weeks before the date fixed for the meeting in accordance with CMB regulation. The TCC requires us to send notice of any general assembly by registered mail to each person registered in our books as a holder of shares and to those shareholders who have deposited at least one share certificate representing shares with us and have indicated a notice address. Under the Capital Markets Law, such notice requirement does not apply to holders of registered shares, which are also traded in the stock market.

Any shareholder holding any of our shares (excluding ADRs) and wishing to attend general assembly meetings to vote must present his/her identification document to our Head Office before the start of the meeting in order to obtain an entry permit for that meeting. Holders of the non-public registered shares in our share book of registered shares need not comply with such requirement to attend a general assembly. Any shareholder not wishing to attend any such general assembly in person may appoint another person as a proxy. Shareholders attending the general assembly meeting by electronic means should follow the procedures established by the related legislation.

Except as set out by the provisions of the TCC and our Articles of Association, the required quorum at any general assembly is shareholders representing at least one-quarter of the share capital. If such quorum is not present when a general assembly is convened, the meeting shall be adjourned, in which event the meeting is reconvened within a month, with shareholders or their proxies present at such meeting. Resolutions of general assembly meetings must be passed by a majority of the shareholders or their proxies present at such meetings.

As per the new Capital Markets Law, unless a higher quorum is accepted in the articles of association of public companies, affirmative votes of two-thirds of shareholders representing the share capital present at the general assembly (and this, without requiring a quorum) is needed for the following decisions: restricting preemptive rights of shareholders, authorizing the Board to restrict such preemptive rights in a registered capital system and reduction of the share capital and material transactions of the company as defined by the law. Nevertheless, if shareholders representing at least half of the company share capital are present at the meeting, simple majority decides unless a higher quorum is accepted by the articles of association.

In addition, the new Capital Markets Law stipulates that the CMB may require including some topics in the general assembly agenda to be discussed by the general assembly or to inform the shareholders at the general assembly.

According to our Articles of Association, the meeting quorum requirement at general assemblies is 51% of our share capital. Resolutions of our general assemblies must be passed by the shareholders (or their proxies) representing the majority of the votes of the shareholders present at that meeting.

The quorum requirement at general assemblies convened to increase our share capital ceiling is 51% of our share capital. Resolutions of general assemblies relating to capital increases must be passed by a majority of our shareholders or their proxies present at such meeting.

The meeting quorum requirement at general assemblies convened to amend our Articles of Association (excluding capital ceiling increase) is two-thirds of our share capital. Resolutions of our general assemblies to amend our Articles of Association (excluding capital ceiling increase) shall be passed by the shareholders (or their proxies) representing at least 2/3 of the votes of the shareholders present at that meeting.

Changing our jurisdiction or increasing the obligations of the shareholders requires unanimous shareholder approval.

10.C Material Contracts

We are not a party to any material contracts other than those entered into in the ordinary course of business, except with regard to the settlement of certain legal disputes. For information regarding these settlements, see Item 8.A. Consolidated Statements and Other Financial Information Legal Proceedings and Note 33 (Guarantees and purchase obligations) to our Consolidated Financial Statements in this Form 20-F.

10.D Exchange Controls

Banks in Turkey set their own foreign exchange rates independently of those announced by the Central Bank. Pursuant to Decree 32 on the Protection of the Value of the Turkish Currency, most recently amended in 2003, the government eased and ultimately abolished restrictions on the convertibility of the Turkish Lira for current account and nonresident capital account transactions by facilitating exchange of the proceeds of transactions in Turkish securities by foreign investors, which enabled Turkish citizens to purchase securities on foreign exchanges. These changes also permitted residents and nonresidents to buy foreign exchange without limitation and to transfer such foreign exchange abroad without ministerial approval.

Turkish citizens are permitted to buy unlimited amounts of foreign currency from banks and to hold foreign exchange in commercial banks. Capital transfers outside Turkey of more than $5 million still require approval of the Turkish government. Although we believe it is unlikely that exchange controls will be reintroduced in the near term, any such exchange controls may materially adversely affect our results of operations.

As of December 31, 2015, exchange restrictions and state controls exist in some jurisdictions in which Turkcell operates. The local currencies of Turkcell s subsidiaries in both Ukraine and Belarus are not convertible outside of their respective countries. Future movements of exchange rates will affect the carrying values of Turkcell s assets and liabilities. The translation of underlying local currency amounts into USD in Turkcell s Consolidated Financial Statements should not be construed as a representation that such local currency amounts have been, could be or will in future be converted into USD at the exchange rates shown or at any other exchange rate.

As of December 31, 2015, significant exchange restrictions and state controls exist in most jurisdictions in which Fintur operates. The local currencies of Fintur subsidiaries in Kazakhstan, Azerbaijan, Georgia and Moldova are not convertible outside of their respective countries. Future movements of exchange rates will affect the carrying values of the Fintur s assets and liabilities. The translation of underlying local currency amounts into USD in Fintur s consolidated financial statements should not be construed as a representation that such local currency amounts have been, could be or will in future be converted into USD at the exchange rates shown or at any other exchange rate.

10.E Taxation

The following discussion is a summary of the material Turkish and United States federal income tax considerations relating to the ownership and disposition of our shares or ADSs. The discussion is based on current law and is for general information only. The discussion does not address all possible tax consequences relating to the ownership and disposition of shares, or ADSs, and holders are urged to consult their tax advisors regarding the applicable tax consequences of holding and disposing of the shares or ADSs based on their particular circumstances.

The discussion is based upon laws and relevant interpretations thereof in effect as of the date of this annual report, all of which are subject to change, possibly with retroactive effect. This summary is also based in part on representations of the Depositary and assumes that each obligation provided for in, or otherwise contemplated by, the Deposit Agreement or any related document will be performed in accordance with the terms of such agreement.

I. Republic of Turkey Taxation

The following summary of Turkish tax law as in force on the date of this annual report describes the principal tax consequences for Turkish residents and U.S. holders (as defined below in Taxation United States Federal Income Taxation) of the ownership and disposition of shares and ADSs. It is not a complete description of all the possible tax consequences of such ownership and disposition. Shareholders should consult their own tax advisors concerning the Turkish and other tax consequences applicable in their particular situations.

a. *Corporate Taxation*

A corporation that has its legal and/or business center in Turkey (a Resident Corporation) is subject to a corporate tax, which is levied at 20% on such corporation s taxable income. Resident Corporations are required to pay an advance corporation tax , also at 20%, on a quarterly basis.

b. *Taxation of Dividends*

In the event that a Resident Corporation distributes dividends to individual shareholders (resident or non-resident), or to non-resident corporations that do not have a permanent establishment (fixed place of business or permanent representative) in Turkey (and are not subject to rate-reducing provisions in applicable bilateral tax treaties), a 15% withholding tax is payable by the Resident Corporation on behalf of its shareholders. In the event that Resident Corporations distribute dividends to resident legal entities or to non-resident legal entities that have a permanent establishment in Turkey, such distributions are not subject to withholding tax.

Cash dividends received by Resident Corporations from other Resident Corporations are not subject to corporate tax. Dividends in cash received by resident individuals from Resident Corporations are subject to a withholding tax at the rate of 15% (as discussed above) and must file an annual income tax declaration. The withholding tax amount shall be deducted from the annual income tax. 50% of the dividend income received by resident individuals from Resident Corporations is exempt from the annual income declaration. The remaining 50% must be declared if it exceeded TRY 30,000 in 2016 and TRY 29,000 in 2015 (TRY 27,000 in 2014).

Under the Income Tax Treaty between the United States of America and the Republic of Turkey, signed March 28, 1996 (the Treaty), the withholding tax rate is limited to 20% (including the surcharges on dividends paid by a Turkish Resident Corporation) of the gross amount of the dividends unless the beneficial owner of shares is a company which owns at least 10% of the voting stock of the company paying the dividends (in which case the rate would be limited to 15%). Because the current withholding tax rate applicable to publicly-traded corporations, such as Turkcell, is only 15%, the Treaty does not affect the current rate of Turkish withholding tax for U.S. holders. Cash dividends paid on ordinary shares or ADSs to a U.S. holder that does not have a permanent representative or place of business in Turkey will not be subject to taxation in Turkey, except in respect of the 15% income withholding tax discussed in the previous section. The distribution of dividends in kind (*i.e.*, bonus shares) is not subject to a withholding tax, and such dividends in kind are not subject to an income declaration.

c. *Taxation of Capital Gains*

(i) Gains realized by Residents

For shares acquired on or after January 1, 2006:

Gains realized by resident individuals on the sale of shares traded on the Borsa Istanbul (such as Turkcell shares) or ADSs that represent shares traded on the Borsa Istanbul (such as Turkcell ADSs) to residents or non-residents are exempt from income tax, provided that the holding period of such shares or ADSs exceeds one year. Where this holding period has not been met, there is a withholding tax from the gains derived from capital. The current rate for such withholding tax is 0%.

Gains realized by Resident Corporations on the sale of shares traded on the Borsa Istanbul (such as Turkcell shares) or ADSs that represent shares traded on the Borsa Istanbul (such as Turkcell ADSs) to residents or non-residents shall benefit from the withholding exemption, if a one-year holding period is met. However, where this holding period has not been met, there is a withholding tax from the gains derived from capital gains. The current rate for such withholding tax is 0%.

Gains realized by Resident Corporations on the sale of shares or to residents or non-residents must be included in corporate income and are subject to the applicable corporate tax. Upon fulfillment of the stated conditions in Article 5 of the Corporate Tax Law, 75% of capital gains derived from the sale of the shares will be exempt from corporate income tax.

For shares acquired before January 1, 2006:

Capital gains derived from shares held by an investor (both individuals and corporations) for over three months are not subject to any withholding tax. Where this holding period has not been met, capital gains received by individuals are computed by deducting the original cost of the shares or ADSs, after the application of a cost adjustment (which uses the Producer Price Index determined by the Turkish Statistical Institute to eliminate gain arising solely from inflation), from the amount received upon the sale or disposition of the shares or ADSs. Total capital gains are subject to declaration on the income tax return if they exceeded TRY 24,000 in 2016, TRY 23,000 in 2015 and TRY 21,000 in 2014.

Gains realized by Resident Corporations on the sale of shares are subject to the applicable corporate tax. Upon fulfillment of the stated conditions in Article 5 of the Corporate Tax Law, 75% of capital gains deriving from the sale of the shares will be exempt from corporate income tax.

(ii) Gains realized by U.S. holders

U.S. holders that do not have a permanent establishment in Turkey are exempt from Turkish tax on capital gains generated from the sale of shares quoted on an exchange, such as Turkcell shares, under Article 13 of the Treaty. U.S. resident legal entities having a permanent establishment (fixed place of business or permanent representative) in Turkey generally are subject to tax in Turkey on capital gains arising from the sale of such shares and should consult their own Turkish tax advisors as to the rules applicable to them. As of July 7, 2006, the withholding tax rate applicable to non-resident holders of shares has been reduced to 0%.

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U.S. holders who invest via ADSs will not have to comply with any procedures to avoid withholding tax, since gains derived from Turkcell ADSs are not generated in Turkey. However, U.S. holders who hold their shares directly in Turkey must comply with certain procedures to establish their exemption from Turkish capital gains withholding tax and are urged to consult their own tax advisors in this regard.

In addition, certain rules and procedures may need to be complied with in order to avoid Turkish withholding tax upon the conversion of ADSs to shares and from shares to ADSs in Turkey. U.S. holders are urged to consult their own tax advisors in this regard.

Pursuant to a Turkish Constitutional Court decision, which annulled the income tax provision regulating the 0% withholding application on capital gains for non-resident individuals and corporations, the withholding tax regime has once again become subject to regulation pursuant to a law numbered 6009, which came into force on August 1, 2010. Pursuant to this new regulation, a 10% withholding on capital gains is applied to individual investors and a 0% withholding is applied to corporate investors, irrespective of the residency status. Non-resident corporate deposit receipt holders (depositaries 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 withholding levels to 5 percentage points.

d. ***Taxation of Investment and Mutual Funds***

(i) Taxation on the Fund Level:

The gains realized from portfolio investment activities by resident Investment and Mutual Funds are exempt from corporate tax but are subject to withholding tax for the gains of stocks held and bonds/bills issued before January 1, 2006. Withholding tax rates are as follows:

- if the institutions maintain a minimum of 25% of their portfolios invested in Turkish equity shares on a monthly weighted average basis, the applicable rate of withholding tax is 0%; and

- if the percentage of Turkish equity shares in the portfolios of such institutions is below 25% during any month during the year, the applicable rate of withholding tax is 10%.

Gains from stocks purchased after January 1, 2006 and/or bonds and bills issued after January 1, 2006 are subject to withholding of 0%.

A non-resident Investment or Mutual Fund may also qualify for this taxation regime if it appoints a permanent representative in Turkey, registers with the Turkish tax office, maintains legal books and meets the other tax requirements in Turkey.

(ii) Taxation on the Investor Level:

The gains realized by investors for participating within FUND are subject to taxation depending on the date of purchase of the FUND by the individual investors.

For FUND shares purchased before January 1, 2006, gains are not subject to income tax withholding. Capital gains received by individuals are computed by deducting the original cost of the shares after the application of a cost adjustment (which uses the Producer Price Index determined by the Turkish Statistical Institute to eliminate gains arising solely from inflation), from the amount received upon the sale or disposition of the shares. Total capital gains are subject to declaration on income tax returns if they exceeded TRY 24,000 in 2016, TRY 23,000 in 2015 and TRY 21,000 in 2014 (TRY 21,000 in 2013) and are required to be declared in compliance with the Turkish Tax Regime. For FUND shares purchased after January 1, 2006:

1. If the FUND maintains at least 51% of the portfolio invested in the Borsa Istanbul Market and is held for more than a one-year period, gains shall not be subjected to withholding. Such gains shall be declared in compliance with the Turkish Tax Regime.

2. If the FUND does not meet the conditions above, gains shall be subject to withholding at 10% for resident investors. In cases where non-resident investors can certify their own residency status, 0% withholding shall be applied.

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3. Pursuant to a Turkish Constitutional Court decision, which annulled the income tax provision regulating the 0% withholding application on capital gains for non-resident individuals and corporations, the withholding tax regime has once again become subject to regulation pursuant to a law numbered 6009, which came into force on August 1, 2010. Pursuant to this new regulation, a 10% withholding on capital gains is applied to individual investors and a 0% withholding is applied to corporate investors, irrespective of the residency status. Non-resident corporate deposit receipt holders (depositaries 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.

e. ***Stamp Taxes***

According to the Turkish Stamp Tax Law (Law No. 488), all agreements and documents specified in the law with a monetary value indicated thereon are subject to a stamp tax with rates from 0.189% to 0.948%, which is calculated on the aggregate amount of such agreement or document. Stamp tax to be calculated for a particular PAPER was capped at a maximum of TRY 1,487,397.70 per original in 2013 and TRY 1,545,852.40 per original in 2014, TRY 1,702,138.00 per original in 2015 and will be capped at a maximum of TRY 1,797,117.30 per original in 2016.

f. ***Certain Additional Tax Regulations***

Changes in the Ministry of Finance s interpretation of the taxation codes, especially changes regarding consumption taxes (Value Added Tax and Special Communication Tax), may adversely affect consumer prices. In addition to the prospective financial impact of such changes, unanticipated tax liabilities and fines may also be levied against our financial results in prior years since a Turkish company s operations in the previous five years may be subject to financial investigation. Regulations that became effective July 1, 2010, however, have strengthened our rights with regards to this risk, particularly with regards to the following:

- Tax inspectors shall not issue tax audit reports that contradict Decrees, Public Acts, Statutory Rules, General Communiqués and Circulars promulgated;

- In the event that the tax authority differentiates previous interpretations of taxation codes via promulgated General Communiqués and Circulars, the new interpretation shall not be applied to previous transactions; and

- Transactions that are compliant with rulings taken from the Tax Office shall be relieved from both tax penalty and overdue interest. Such shelter is valid only for a taxpayer that has applied for the ruling.

II. United States Federal Income Taxation

The following discussion is a summary of the material U.S. federal income tax considerations applicable to the ownership and disposition of shares or ADSs by you, if you are a U.S. holder. In general you will be a U.S. holder if:

- you are the beneficial owner of our shares or ADSs;

- you are either (i) an individual resident or citizen of the United States, (ii) a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) created in or organized under the laws of the United States, any state thereof or the district of Columbia, (iii) an estate whose income is subject to U.S. federal income taxation regardless of its source, or (iv) a trust if a U.S. court can exercise primary supervision over the administration of the trust and one or more U.S. persons are authorized to control all substantial decisions of the trust;

- you own our shares or ADSs as capital assets (which generally means for investment purposes);

- you own directly, indirectly or by attribution less than 10% of our outstanding share capital or voting stock;

- you are fully eligible for benefits under the Limitation on Benefits article of the Treaty; and

- you are not also a resident of Turkey for Turkish tax purposes.

The Treaty benefits discussed generally are not available to holders who hold shares or ADSs in connection with the conduct of business through a permanent establishment, or the performance of personal services through a fixed base, in Turkey.

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If a partnership (including for this purpose any entity or arrangement treated as a partnership for U.S. federal income tax purposes) holds shares or ADSs, the tax treatment of a partner generally will depend upon the status of the partner and the activities of the partnership. A partner in a partnership that holds shares or ADSs is urged to consult its own tax advisor regarding the specific tax consequences of owning and disposing of its shares or ADSs.

The summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to any particular holder, including tax considerations that arise from rules of general application or that are generally assumed to be known by U.S. holders. This summary is based on provisions of the Internal Revenue Code of 1986, as amended (the Code), existing and proposed U.S. Treasury Regulations, rulings, administrative pronouncements, judicial decisions and the Treaty, all as of the date of this annual report. All of these authorities are subject to change, possibly with retroactive effect, and to differing interpretations. In addition, this summary does not discuss all aspects of U.S. federal income taxation that may be applicable to investors in light of their particular circumstances or to U.S. holders who are subject to special treatment under U.S. federal income tax law, including insurance companies, U.S. expatriates, dealers in stocks or securities, banks or financial institutions, tax-exempt organizations, regulated investment companies, retirement plans, traders in securities who elect to apply a mark-to-market method of accounting, persons who acquired their shares pursuant to the exercise of employee stock options or otherwise as compensation, persons holding shares as part of a straddle, hedging or conversion transaction, persons subject to the alternative minimum tax, and persons having a functional currency other than the U.S. Dollar.

U.S. holders are urged to consult with their own tax advisors regarding the tax consequences of the ownership or disposition of shares or ADSs, including the effects of federal, state, local, foreign and other tax laws with respect to their particular circumstances.

a. ***Dividends***

If we make distributions to you, you generally will be required to include in gross income as dividend income the amount of the distributions paid on the shares (including the amount of any Turkish taxes withheld in respect of such dividend as described above in Taxation Republic of Turkey Taxation). Dividends paid by us will not be eligible for the dividends-received deduction applicable in some cases to U.S. corporations.

Any dividend paid in Turkish Lira, including the amount of any Turkish taxes withheld therefrom, will be includible in your gross income in an amount equal to the U.S. Dollar value of the Turkish Lira calculated by reference to the spot rate of exchange in effect on the date the dividend is received by you, in the case of shares, or by the Depositary, in the case of ADSs, regardless of whether the Turkish Lira are converted into U.S. Dollars. Any gain or loss resulting from currency exchange fluctuations during the period from the date the dividend is includible in your gross income to the date such payment is converted into U.S. Dollars generally will be treated as U.S. source ordinary income or loss. Special rules govern, and elections are available to, accrual method taxpayers to determine the U.S. Dollar amount includible in income in the case of taxes withheld in a foreign currency. Accrual basis taxpayers are urged to consult their own tax advisors regarding the requirements and elections applicable in this regard.

Any dividends paid by us to you with respect to shares or ADSs will be treated as foreign-source income and generally will be categorized as passive category income or, in the case of certain U.S. holders, general category income for foreign tax credit purposes.

Subject to limitations, you may elect to claim a foreign tax credit against your U.S. federal income tax liability for Turkish income tax withheld from dividends received in respect of shares or ADSs. The rules relating to the determination of the foreign tax credit are complex. Accordingly, you should consult your own tax advisor to determine whether and to what extent you would be entitled to the credit. If you do not elect to claim a foreign tax credit, you may instead claim a deduction for Turkish income tax withheld, but only for a year in which you elect to do so with respect to all foreign income taxes. A deduction does not reduce tax on a dollar-for-dollar basis like a credit, but the deduction for foreign taxes is not subject to the same limitations applicable to foreign tax credits.

Certain non-corporate U.S. holders (including individuals) are eligible for reduced rates of U.S. federal income tax in respect of qualified dividend income received. For this purpose, qualified dividend income generally includes dividends paid by a non-U.S. corporation if, amongst other things, the U.S. holder meets certain minimum holding periods and the non-U.S. corporation satisfies certain requirements, including that either (i) the shares (or ADSs) with respect to which the dividend income has been paid are readily tradable on an established securities market in the United

States or (ii) the non-U.S. corporation is eligible for the benefits of a comprehensive U.S. income tax treaty (such as the Treaty) which provides for the exchange of information. We currently believe that dividends paid with respect to our shares and ADSs should constitute qualified dividend income for U.S. federal income tax purposes, and we anticipate that our dividends will be reported as qualified dividends on Forms 1099-DIV delivered to U.S. holders. In computing foreign tax credit limitations, non-corporate U.S. holders may take into account only a portion of a qualified dividend to reflect the reduced U.S. tax rate applicable to such dividend. Each U.S. holder of shares or ADSs is urged to consult its own tax advisor regarding the availability to it of the reduced dividend tax rate in light of its own particular situation and regarding the computations of its foreign tax credit limitation with respect to any qualified dividend income paid by us, as applicable.

The U.S. Treasury has expressed concerns that parties to whom ADSs are released may be taking actions that are inconsistent with the claiming of foreign tax credits or reduced tax rates in respect of qualified dividends by U.S. holders of ADSs. Accordingly, the discussion above regarding the creditability of Turkish withholding tax on dividends or the availability of qualified dividend treatment could be affected by future actions that may be taken by the U.S. Treasury with respect to ADSs.

b. ***Sale, Exchange or other Disposition of Shares or ADSs***

Upon the sale, exchange or other disposition of shares or ADSs, you generally will recognize capital gain or loss equal to the difference between the amount realized on the disposition and your adjusted tax basis in your shares or ADSs (as determined in U.S. Dollars). Gain or loss upon the disposition of shares or ADSs generally will be U.S.-source gain or loss, and will be treated as long-term capital gain or loss if, at the time of the disposition, your holding period for the shares or ADSs exceeds one year. If you are an individual, capital gains generally will be subject to U.S. federal income tax at preferential rates if specified minimum holding periods are met. The deductibility of capital losses is subject to significant limitations.

The surrender of ADSs in exchange for shares pursuant to the Deposit Agreement governing the ADSs will not be a taxable event for U.S. federal income tax purposes. Accordingly, you will not recognize any gain or loss upon such surrender.

c. ***Net Investment Income Tax***

Certain U.S. holders that are individuals, estates or trusts and whose income exceeds certain thresholds generally will be subject to a 3.8% tax on net investment income , including, among other things, dividends on, and gains from the sale or other taxable disposition of, our shares and ADSs, subject to certain limitations and exceptions. You should consult your own tax advisor regarding the effect, if any, of such tax on your ownership and disposition of our shares and ADSs.

d. ***Passive Foreign Investment Company Status***

We currently believe that we were not a passive foreign investment company (a PFIC) for U.S. federal income tax purposes for the taxable year ending December 31, 2015. However, this conclusion is a factual determination that must be made annually and thus may be subject to change. A non-U.S. corporation will be classified as a PFIC for any taxable year if at least 75% of its gross income consists of passive income (such as dividends, interest, rents, royalties or gains on the disposition of certain minority interests), or at least 50% of the average value of its assets consists of assets that produce, or are held for the production of, passive income. If we were characterized as a PFIC for any taxable year, you would suffer adverse tax consequences. These consequences may include having gains realized on the disposition of shares or ADSs treated as ordinary income rather than capital gains, and being subject to punitive interest charges on certain dividends and on the proceeds of the sale or other disposition of the shares or ADSs. Furthermore, dividends paid by a PFIC would not be qualified dividend income (as discussed above) and would be taxed at the higher rates applicable to other items of ordinary income. You should consult your own tax advisor regarding the potential application of the PFIC rules to us and to your ownership of our shares and ADSs.

e. *U.S. Information Reporting and Backup Withholding*

Dividend payments with respect to shares or ADSs and proceeds from the sale, exchange, redemption or other disposition of shares or ADSs may be subject to information reporting to the Internal Revenue Service (the IRS) and possible U.S. backup withholding at a current rate of 28%. Certain exempt recipients (such as corporations) are not subject to these information reporting requirements. Backup withholding will not apply, however, to a holder who furnishes a correct taxpayer identification number or certificate of foreign status and makes any other required certification or who is otherwise exempt from backup withholding. U.S. persons who are required to establish their exempt status generally must provide IRS Form W-9 (Request for Taxpayer Identification Number and Certification). Non-U.S. holders generally will not be subject to U.S. information reporting or backup withholding. However, such holders may be required to provide certification of non-U.S. status (generally on IRS Form W-8BEN or W-8BEN-E, as applicable) in connection with payments received in the United States or through certain U.S.-related financial intermediaries.

Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against a holder s U.S. federal income tax liability, and a holder may obtain a refund of any excess amounts withheld by filing the appropriate claim for refund with the IRS and furnishing any required information.

In addition, U.S. holders should be aware of annual reporting requirements with respect to the holding of certain foreign financial assets, including our shares and ADSs that are not held in an account maintained by certain types of financial institutions, if the aggregate value of all of such assets exceeds $50,000 (or $100,000 for married couples filing a joint return). You should consult your own tax advisor regarding the application of the information reporting and backup withholding rules to our shares and ADSs and the application of the annual reporting requirements to your particular situation.

10.F Dividends and Paying Agents

Not Applicable.

10.G Statement by Experts

Not Applicable.

10.H Documents on Display

Reports and other information of Turkcell can also be inspected without charge and copied at prescribed rates at the public reference facility maintained by the SEC in Room 1580, 100 F Street, N.E., Washington, D.C. 20549. Copies of these materials are also available by mail from the Public Reference Section of the SEC, at 100 F Street, N.E., Washington D.C. 20549, at prescribed rates.

10.I Subsidiary Information

Not Applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

I. Overview

We are exposed to foreign exchange rate risks because our income, expenses, assets and liabilities are denominated in a number of different currencies, primarily Turkish Lira, U.S. Dollars, Euros, Ukrainian Hryvnia, Azerbaijani Manat and Belarusian Rubles. In particular, a substantial majority of our debt obligations and equipment expenses are currently, and are expected to continue to be, denominated in U.S. Dollars and Euros, while the revenues generated by the corresponding activities are denominated in other currencies, in particular the Turkish Lira, Ukrainian Hryvnia and Belarusian Rubles. Similarly, we are subject to market risk deriving from changes in interest rates that may affect the cost of our financing. We provide a detailed analysis of our foreign exchange and interest rate risks in Note 31.

a. ***Foreign Exchange Risk Management***

Our functional currency is the TRY for operations conducted in Turkey, but certain revenues, purchases, operating costs and expenses and resulting receivables and payables are denominated in a number of different currencies. In particular, a substantial majority of our debt obligations and equipment expenses are currently, and are expected to continue to be, denominated in U.S. Dollars, and Euros, while the revenues generated by the corresponding activities are denominated in other currencies, in particular the Turkish Lira, Ukrainian Hryvnia and Belarusian Rubles. Transactions denominated in foreign currencies are recorded at the exchange rates prevailing at the dates of the transactions. Assets and liabilities denominated in foreign currencies are converted into functional currency at the exchange rates prevailing at the reporting date, with the resulting exchange differences recognized in the determination of net income. In 2015, net foreign exchange losses were valign="bottom" style="width:06.92%;border-top:1pt none #D9D9D9 ;border-left:1pt none #D9D9D9 ;border-bottom:1pt none #D9D9D9 ;border-right:1pt none #D9D9D9 ;padding:0pt;">

(456)

(456)

Common

(19,231)

(19,231)

Tax benefit from exercise
of stock options

6,677

6,677

Exercise of stock options (2)

549

6

137

(10,218)

16,243

6,031

Stock-based compensation

2,750

2,750

Balance at March 26, 2016

33

49

38,557

386

6,317

(105,856)

186,550

(4,576)

459,642

536,195

Net income

61,526

61,526

Other comprehensive income:

Pension liability adjustment
($2,203 pre-tax)

1,415

1,415

Dividends (1):

Preferred

(447)

(447)

Common

(22,070)

(22,070)

Conversion of Class C
Prefered Stock

(11)

(16)

250

2

14

—

Tax benefit from exercise
of stock options

3,510

3,510

Exercise of stock options

205

2

5

(356)

(1,004)

(1,358)

Stock-based compensation

2,483

2,483

Balance at March 25, 2017

22

33

39,012

390

6,322

(106,212)

191,553

(3,161)

498,651

581,254

Net income

63,935

63,935

Other comprehensive loss:

Pension liability adjustment
[($558) pre-tax]

(390)

(390)

Dividends (1):

Preferred

(368)

(368)

Common

(23,601)

(23,601)

Reclassification of tax effects
to Retained Earnings

(697)

697

—

Dividend payable

(28)

(28)

Exercise of stock options

154

2

8

(351)

5,165

4,816

Stock-based compensation

2,858

2,858

Balance at March 31, 2018

22

$

33

39,166

$

392

6,330

$

(106,563)

$

199,576

$

(4,248)

$

539,286

$

628,476

---

(1) Dividends paid per common share or common share equivalent were $.72, $.68 and $.60, respectively, for the years ended March 31, 2018, March 25, 2017 and March 26, 2016.

(2) Includes the receipt of treasury stock in connection with the exercise of stock options and to partially satisfy tax withholding obligations.

The accompanying notes are an integral part of these financial statements.

MONRO, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended Fiscal March		
	2018	2017	2016
	(Dollars in thousands)		
	Increase (Decrease) in Cash		
Cash flows from operating activities:			
Net income	$ 63,935	$ 61,526	$ 66,805
Adjustments to reconcile net income to net cash provided by operating activities -			
Depreciation and amortization	49,335	44,629	39,769
Stock-based compensation expense	2,858	2,483	2,750
Excess tax benefits from share-based payment arrangements	—	—	(8)
Net change in deferred income taxes	15,485	11,256	6,589
Gain on bargain purchase	(13)	—	—
(Gain) loss on disposal of assets	(1,198)	85	(41)
Change in operating assets and liabilities (excluding acquisitions)			
Trade receivables	(88)	(74)	(1,477)
Inventories	(8,399)	5,044	1,555
Other current assets	(4,076)	(2,879)	(6,847)
Other non-current assets	1,863	5,680	2,886
Trade payables	5,151	9,605	7,079
Accrued expenses	(1,582)	(3,224)	2,414
Federal and state income taxes receivable	(658)	63	6,212
Other long-term liabilities	(930)	(3,580)	(1,399)
Long-term income taxes payable	(448)	(679)	217
Total adjustments	57,300	68,409	59,699
Net cash provided by operating activities	121,235	129,935	126,504
Cash flows from investing activities:			
Capital expenditures	(39,122)	(34,640)	(36,834)
Acquisitions, net of cash acquired	(23,439)	(142,567)	(49,018)
Proceeds from the disposal of assets	4,071	1,583	2,625
Net cash used for investing activities	(58,490)	(175,624)	(83,227)
Cash flows from financing activities:			
Proceeds from borrowings	344,843	470,027	336,942
Principal payments on long-term debt, capital leases and financing obligations	(395,521)	(404,303)	(366,707)
Exercise of stock options	4,816	3,492	8,602
Excess tax benefits from share-based payment arrangements	—	—	8
Dividends paid	(23,969)	(22,517)	(19,687)
Deferred financing costs	—	—	(2,180)

Net cash (used for) provided by financing activities	(69,831)	46,699	(43,022)
(Decrease) increase in cash	(7,086)	1,010	255
Cash at beginning of year	8,995	7,985	7,730
Cash at end of year	$ 1,909	$ 8,995	$ 7,985

The accompanying notes are an integral part of these financial statements.

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MONRO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Background

Monro, Inc. and its wholly owned subsidiaries, Monro Service Corporation and Car-X, LLC (together, "Monro", the "Company", "we", "us", or "our"), are engaged principally in providing automotive undercar repair and tire sales and services in the United States. Monro had 1,150 Company-operated stores, 102 franchised locations, five wholesale locations, two retread facilities and two dealer-operated automotive repair centers located in 27 states as of March 31, 2018.

Monro's operations are organized and managed in one operating segment. The internal management financial reporting that is the basis for evaluation in order to assess performance and allocate resources by our chief operating decision maker consists of consolidated data that includes the results of our retail, commercial and wholesale locations. As such, our one operating segment reflects how our operations are managed, how resources are allocated, how operating performance is evaluated by senior management and the structure of our internal financial reporting.

Accounting estimates

The accompanying Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles. The preparation of financial statements in conformity with such principles requires the use of estimates by management during the reporting period. Actual results could differ from those estimates.

Fiscal year

Monro reports its results on a 52/53 week fiscal year ending on the last Saturday of March of each year. The following are the dates represented by each fiscal period:

"Year ended Fiscal March 2018": March 26, 2017 – March 31, 2018 (53 weeks)

“Year ended Fiscal March 2017”: March 27, 2016 – March 25, 2017 (52 weeks)

“Year ended Fiscal March 2016”: March 29, 2015 – March 26, 2016 (52 weeks)

Consolidation

The Consolidated Financial Statements include Monro, Inc. and its wholly owned subsidiaries, Monro Service Corporation and Car-X, LLC, after the elimination of intercompany transactions and balances.

Revenue recognition

Sales are recorded upon completion of automotive undercar repair, tire delivery and tire services provided to customers. The following was Monro’s sales mix for fiscal 2018, 2017 and 2016:

	Year Ended Fiscal March		
	2018	2017	2016
Brakes	13 %	13 %	15 %
Exhaust	2	2	3
Steering	8	9	10
Tires	50	49	45
Maintenance	27	27	27
Total	100 %	100 %	100 %

Revenue from the sale of tire road hazard warranty agreements is recognized on a straight-line basis over the contract period or other method when costs are not incurred ratably.

Under various arrangements, we receive from certain tire vendors a delivery commission and reimbursement for the cost of the tire that we may deliver to customers on behalf of the tire vendor. The commission we earn from these transactions is as an agent and the net amount retained is recorded as sales.

Cash equivalents

We consider all highly liquid instruments with original maturities of three months or less to be cash equivalents.

MONRO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Inventories

Our inventories consist of automotive parts (including oil) and tires. Inventories are valued at the lower of cost and net realizable value using the first-in, first-out (FIFO) method.

Barter credits

We value barter credits at the fair market value of the inventory surrendered, as determined by reference to price lists for buying groups and jobber pricing. We use these credits primarily to pay vendors for purchases (mainly inventory vendors for the purchase of parts, oil and tires) or to purchase other goods or services from the barter company such as advertising.

Property, plant and equipment

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment is provided on a straight-line basis. Buildings and improvements related to owned locations are depreciated over lives varying from 10 to 39 years; machinery, fixtures and equipment over lives varying from 3 to 15 years; and vehicles over lives varying from 5 to 10 years. Computer hardware and software is depreciated over lives varying from 3 to 7 years. Buildings and improvements related to leased locations are depreciated over the shorter of the asset's useful life or the reasonably assured lease term, as defined in the accounting guidance on leases. When property is sold or retired, the cost and accumulated depreciation are eliminated from the accounts and a gain or loss is recorded in the Consolidated Statements of Comprehensive Income. Expenditures for maintenance and repairs are expensed as incurred.

Long-lived assets

We evaluate the ability to recover long-lived assets whenever events or circumstances indicate that the carrying value of the asset may not be recoverable. In the event assets are impaired, losses are recognized to the extent the carrying value exceeds the fair value. In addition, we report assets to be disposed at the lower of the carrying amount and the fair market value less costs to sell.

Store opening and closing costs

New store opening costs are charged to expense in the fiscal year when incurred. When we close a store, the estimated unrecoverable costs, including the remaining lease obligation net of sublease income, if any, are charged to expense.

Leases

Financing Obligations –

We are involved in the construction of leased stores. In some cases, we are responsible for construction cost overruns or non-standard tenant improvements. As a result of this involvement, we are deemed the “owner” for accounting purposes during the construction period, requiring us to capitalize the construction costs on our Consolidated Balance Sheet. Upon completion of the project, we perform a sale-leaseback analysis pursuant to guidance on accounting for leases to determine if we can remove the assets from our Consolidated Balance Sheet. For some of these leases, we are considered to have “continuing involvement”, which precludes us from derecognizing the assets from our Consolidated Balance Sheet when construction is complete. In conjunction with these leases, we capitalize the construction costs on our Consolidated Balance Sheet and also record financing obligations representing payments owed to the landlord. We do not report rent expense for the properties which are owned for accounting purposes. Rather, rental payments under the lease are recognized as a reduction of the financing obligation and as interest expense.

Since we often assume leases in acquisition transactions, the prior accounting by the seller who was involved in the construction of leased stores passes to us.

Additionally, we may incur other financing obligations in connection with the accounting for acquisitions.

Capital Leases –

Some of our property is held under capital leases. These assets are included in property, plant and equipment and depreciated over the term of the lease. We do not report rent expense for capital leases. Rather, rental payments under the lease are recognized as a reduction of the capital lease obligation and interest expense.

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MONRO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Operating Leases –

All other leases are considered operating leases. Rent expense, including rent escalations, is recognized on a straight-line basis over the reasonably assured lease term, as defined in the accounting guidance on leases. Generally, the lease term is the base lease term plus certain renewal option periods for which renewal is reasonably assured.

Goodwill and intangible assets

We have a history of growth through acquisitions. Assets and liabilities of acquired businesses are recorded at their estimated fair values as of the date of acquisition. Goodwill represents costs in excess of fair values assigned to the underlying net assets of acquired businesses. The carrying value of goodwill is subject to annual impairment reviews in accordance with accounting guidance on goodwill, which we perform in the third quarter of the fiscal year. Impairment reviews may also be triggered by any significant events or changes in circumstances affecting our business.

We have one reporting unit which encompasses all operations including new acquisitions. We perform a qualitative assessment to determine if it is more likely than not that the fair value is less than the carrying value of goodwill. The qualitative assessment includes a review of business changes, economic outlook, financial trends and forecasts, growth rates, industry data, market capitalization and other relevant qualitative factors. If the qualitative factors are triggered, we perform a two-step process. The first step is to compare the fair value of our reporting unit to the book value of our reporting unit. If the fair value is less than its carrying value, the second step of the impairment test must be performed in order to determine the amount of impairment loss, if any. The second step compares the implied fair value of goodwill with the carrying amount of that goodwill. If the carrying amount of goodwill exceeds its implied fair value, an impairment charge is recognized in an amount equal to that excess. The loss recognized cannot exceed the carrying amount of goodwill.

Intangible assets primarily represent allocations of purchase price to identifiable intangible assets of acquired businesses and are amortized over their estimated useful lives. All intangibles and other long-lived assets are reviewed when events or changes in circumstances indicate that the asset's carrying value may not be recoverable. If such indicators are present, it is determined whether the sum of the estimated undiscounted future cash flows attributable to such assets is less than their carrying amounts. No such indicators were present in fiscal 2018, 2017 or 2016.

A deterioration of macroeconomic conditions may not only negatively impact the estimated operating cash flows used in our cash flow models, but may also negatively impact other assumptions used in our analyses, including, but not limited to, the estimated cost of capital and/or discount rates. Additionally, as discussed above, in accordance with accounting guidance, we are required to ensure that assumptions used to determine fair value in our analyses are consistent with the assumptions a hypothetical market participant would use. As a result, the cost of capital and/or discount rates used in our analyses may increase or decrease based on market conditions and trends, regardless of whether our actual cost of capital has changed. Therefore, we may recognize an impairment of an intangible asset or assets even though realized actual cash flows are approximately equal to or greater than its previously forecasted amounts.

As a result of our annual qualitative assessment performed in the third quarter of fiscal 2018, there were no impairments. There have been no triggering events during the fourth quarter of fiscal 2018.

Self-insurance reserves

We are largely self-insured with respect to workers' compensation, general liability and employee medical claims. In order to reduce our risk and better manage our overall loss exposure, we purchase stop-loss insurance that covers individual claims in excess of the deductible amounts, and caps total losses in a fiscal year. We maintain an accrual for the estimated cost to settle open claims as well as an estimate of the cost of claims that have been incurred but not reported. These estimates take into consideration the historical average claim volume, the average cost for settled claims, current trends in claim costs, changes in our business and workforce, and general economic factors. These accruals are reviewed on a quarterly basis, or more frequently if factors dictate a more frequent review is warranted. For more complex reserve calculations, such as workers' compensation, we use the services of an actuary on an annual basis to assist in determining the required reserve for open claims.

Warranty

We provide an accrual for estimated future warranty costs for parts that we install based upon the historical relationship of warranty costs to sales. Warranty expense related to all product warranties at and for the fiscal years ended March 2018, 2017 and 2016 was not material to our financial position or results of operations. See additional discussion of tire road hazard warranty agreements under the "Revenue recognition" section of this footnote.

MONRO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Comprehensive income

As it relates to Monro, comprehensive income is defined as net earnings as adjusted for pension liability adjustments and is reported net of related taxes in the Consolidated Statements of Comprehensive Income and in the Consolidated Statements of Changes in Shareholders’ Equity.

Income taxes

Deferred tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using tax rates based on currently enacted rules and legislation and anticipated rates that will be in effect when the differences are expected to reverse. The accounting guidance for uncertainties in income tax prescribes a comprehensive model for the financial statement recognition, measurement, presentation, and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. Monro recognizes a tax benefit from an uncertain tax position in the financial statements only when it is more likely than not that the position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits and a consideration of the relevant taxing authority's administrative practices and precedents.

We recognized the income tax effects of the Tax Cuts and Jobs Act of 2017 (the “Tax Act”) in our fiscal 2018 Consolidated Financial Statements in accordance with Staff Accounting Bulletin No. 118, which provides SEC staff guidance for the application of ASC Topic 740, Income Taxes, and the accounting generally required to be completed in the reporting period in which the Tax Act was enacted. Note 7 of the Consolidated Financial Statements provides additional information.

Treasury stock

Treasury stock is accounted for using the par value method. During the year ended March 26, 2016, Monro’s then Chief Executive Officer surrendered 32,000 shares of Monro’s Common Stock at fair market value to pay the exercise price and the related taxes on the exercise of 89,000 stock options. Additionally, Monro’s then Executive Chairman surrendered 100,000 shares of Common Stock at fair market value to pay the exercise price and to satisfy tax withholding obligations on the exercise of 150,000 stock options. There was no activity for the former or current Chief Executive Officer or former Executive Chairman during the years ended March 31, 2018 and March 25, 2017.

Stock-based compensation

We provide stock-based compensation through non-qualified stock options, restricted stock awards and restricted stock units. We measure compensation cost arising from the grant of share-based payments to an employee at fair value, and recognize such cost in income over the period during which the employee is required to provide service in exchange for the award, usually the vesting period. The fair value of each option award is estimated on the date of grant primarily using the Black-Scholes option valuation model. The assumptions used to estimate fair value require significant judgment and are subject to change in the future due to factors such as employee exercise behavior, stock price trends, and changes to type or provisions of stock-based awards. Any material change in one or more of these assumptions could have an impact on the estimated fair value of a future award.

The fair value of restricted stock awards and restricted stock units (collectively “restricted stock”) is determined based on the stock price at the date of grant.

The Company is required to estimate forfeitures and only record compensation costs for those awards that are expected to vest. The assumptions for forfeitures were determined based on type of award and historical experience. Forfeiture assumptions are adjusted at the point in time a significant change is identified, with any adjustment recorded in the period of change, and the final adjustment at the end of the requisite service period to equal actual forfeitures.

We recognize compensation expense related to stock options and restricted stock using the straight-line approach. Option awards and restricted stock generally vest equally over the service period established in the award, typically four years.

Earnings per common share

Basic earnings per common share are calculated by dividing income available to common shareholders, after deducting preferred stock dividends, by the weighted average number of shares of common stock outstanding. Diluted earnings per common share are calculated by dividing net income by the weighted average number of shares of common stock and equivalents outstanding. Common stock equivalents represent shares issuable upon the assumed exercise of stock options.

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MONRO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Advertising

We expense the production costs of advertising the first time the advertising takes place, except for direct response advertising which is capitalized and amortized over its expected period of future benefits.

Direct response advertising consists primarily of coupons for Monro's services. The capitalized costs of this advertising are amortized over the period of the coupon's validity, which is typically two months.

Prepaid advertising at March 31, 2018 and March 25, 2017, and advertising expense for the fiscal years ended March 2018, 2017 and 2016, were not material to these financial statements.

Vendor rebates and cooperative advertising credits

We account for vendor rebates and cooperative advertising credits as a reduction of the cost of products purchased, except where the rebate or credit is a reimbursement of costs incurred to sell the vendor's product, in which case it is offset against the costs incurred.

Guarantees

At the time we issue a guarantee, we recognize an initial liability for the fair value, or market value, of the obligation we assume under that guarantee. Monro has guaranteed certain lease payments, primarily related to franchisees, amounting to $4.4 million. This amount represents the maximum potential amount of future payments under the guarantees as of March 31, 2018. The leases are guaranteed through April 2020. In the event of default by the franchise owner, Monro generally retains the right to assume the lease of the related store, enabling Monro to re-franchise the location or to operate that location as a Company-operated store. We have recorded a liability related to anticipated defaults under the foregoing leases of $.2 million and $.6 million as of March 31, 2018 and March 25, 2017, respectively.

Recent accounting pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued new accounting guidance for the reporting of revenue from contracts with customers. This guidance provides guidelines a company will apply to determine the measurement of revenue and timing of when it is recognized. Additional guidance has subsequently been issued to amend or clarify the reporting of revenue from contracts with customers. The guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2017. Early adoption was permitted, but we did not early adopt this guidance. We will adopt this guidance in the first quarter of fiscal 2019 using the modified retrospective method. We expect adoption to impact the deferral of revenue generated by the sale of an extended warranty and to increase footnote disclosures. The guidance will not materially affect our consolidated net earnings, financial position or cash flows.

In February 2016, the FASB issued new accounting guidance related to leases. This guidance establishes a right of use (“ROU”) model that requires a lessee to record a ROU asset and lease liability on the balance sheet for all leases with terms longer than twelve months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition. The guidance is effective for financial statements issued for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Currently the new lease standard to be adopted requires using a modified retrospective transition approach for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. However, the FASB has proposed an additional transition method, in addition to the existing requirements, to transition to the new lease standard by recognizing a cumulative-effect adjustment to retained earnings in the period of adoption. Prior periods would not be restated. We are awaiting finalization of the alternatives for transition to the new standard before deciding upon a method of adoption. Early adoption is permitted, but we have not early adopted this guidance. We expect that the new lease standard will have a material impact on our Consolidated Financial Statements. While we are continuing to assess the effects of adoption, we currently believe the most significant changes relate to the recognition of new ROU assets and lease liabilities on the Consolidated Balance Sheet for real property operating leases as approximately 50% of our store leases and all of our land leases are currently not recorded on our balance sheet. We expect that substantially all of our operating lease commitments disclosed in Note 11, "Operating Lease and Other Commitments", to the Consolidated Financial Statements will be subject to the new guidance and will be recognized as operating lease liabilities and ROU assets upon adoption. We do not anticipate any significant changes in the volume of our leasing activity up until the period of adoption.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

In March 2016, the FASB issued new accounting guidance intended to simplify various aspects related to accounting for share-based payments and their presentation in the financial statements. This guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2016. We adopted this guidance during the first quarter of fiscal 2018. Amendments to this guidance related to accounting for excess tax benefits and tax deficiencies have been adopted prospectively and had an immaterial impact on the Consolidated Statement of Comprehensive Income for fiscal year ended March 31, 2018. Excess tax benefits related to share-based payments are now included in operating cash flows rather than financing cash flows. This change has been applied prospectively in accordance with the guidance and prior periods have not been adjusted. We have previously classified cash paid for tax withholding purposes as a financing activity in the statement of cash flows. Therefore, there is no change related to this requirement. The amendments allow for a one-time accounting policy election to either account for forfeitures as they occur or continue to estimate forfeitures as required by current guidance. We have elected to continue estimating forfeitures through applying a forfeiture rate.

In August 2016, the FASB issued new accounting guidance related to cash flow classification. This guidance clarifies and provides specific guidance on eight cash flow classification issues that are not addressed by current generally accepted accounting principles ("GAAP") and thereby reduce the current diversity in practice. This guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2017. Early adoption was permitted, but we did not early adopt this guidance. This guidance is not expected to have a material impact on our Consolidated Financial Statements.

In January 2017, the FASB issued new accounting guidance which clarifies the definition of a business, particularly when evaluating whether transactions should be accounted for as acquisitions or dispositions of assets or businesses. This guidance provides a screen to determine when a set of assets and activities (collectively referred to as a "set") is not a business. This screen requires that when substantially all of the fair value of the assets is concentrated in a single identifiable asset or group of similar identifiable assets, the set is not a business. If the screen is not met, the guidance provides a framework to evaluate whether both an input and a substantive process are present to be considered a business. This guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2017. Early adoption was permitted for certain transactions, but we did not early adopt this guidance. This guidance is not expected to have a material impact on our Consolidated Financial Statements.

In January 2017, the FASB issued new accounting guidance simplifying the accounting for goodwill impairment by removing Step 2 of the goodwill impairment test, which required the determination of an implied fair value of goodwill. Under this guidance, an entity should perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. This guidance is effective for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019, and should be applied on a prospective basis. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. We have not early adopted this guidance. This guidance is not expected to have a material impact on our Consolidated Financial Statements.

In March 2017, the FASB issued accounting guidance related to the presentation of net periodic pension cost and net periodic postretirement benefit cost. This guidance requires employers to present the service cost component of the net periodic benefit cost in the same income statement line item as other employee compensation costs arising from services rendered during the period. The other components of net benefit cost are to be presented separately from the service cost component and outside of any subtotal of income from operations. Employers will have to disclose the line(s) used to present the other components of net periodic benefit cost, if the components are not presented separately in the income statement. This guidance is effective for fiscal years and interim periods beginning after December 15, 2017, and should be applied retrospectively. Early adoption was permitted, but we did not early adopt this guidance. This guidance is not expected to have a material impact on our Consolidated Financial Statements.

In May 2017, the FASB issued new accounting guidance which clarifies when to account for a change to the terms or conditions of a share based payment award as a modification. Under this guidance, modification is required only if the fair value, the vesting conditions, or the classification of an award as equity or liability changes as a result of the change in terms or conditions. This guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2017. Early adoption was permitted, but we did not early adopt this guidance. This guidance is not expected to have a material impact on our Consolidated Financial Statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

In February 2018, the FASB issued new accounting guidance related to the reclassification of certain tax effects from accumulated other comprehensive income (AOCI). This guidance allows for the reclassification of the disproportionate tax effects caused by the Tax Act to retained earnings. Under U.S. GAAP, the effects of tax law changes on deferred tax balances, including adjustments to deferred taxes originally recorded to AOCI, are recorded as a component of income tax expense. Adjusting deferred tax balances related to items originally recorded in AOCI through income tax expense resulted in a remaining AOCI balance that was disproportionate to the amounts that would have been recorded through net income in future periods. This guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2018. Early adoption is permitted. We have adopted this guidance in fiscal 2018 and the new guidance allowed us to reclassify $.7 million of disproportionate (or stranded) amounts related to the Tax Act to Retained Earnings.

Other recent authoritative guidance issued by the FASB (including technical corrections to the Accounting Standards Codification) and the Securities and Exchange Commission did not, or are not expected to have a material effect on Monro’s Consolidated Financial Statements.

NOTE 2 – ACQUISITIONS

Monro’s acquisitions are strategic moves in our plan to fill in and expand our presence in our existing and contiguous markets, and leverage fixed operating costs such as distribution, advertising and administration. Acquisitions in this footnote include acquisitions of five or more locations as well as acquisitions of one to four locations that are part of the Company’s greenfield store growth strategy.

Subsequent Events

On May 13, 2018, we acquired twelve retail tire and automotive repair stores and one retread facility located in Tennessee, as well as four wholesale locations in North Carolina, Tennessee and Virginia from Free Service Tire Company, Inc. These locations operate under the Free Service Tire name. The acquisition was financed through our existing credit facility.

On April 1, 2018, we acquired four retail tire and automotive repair stores located in Minnesota from Liberty Auto Group, Inc. These stores operate under the Car-X name. The acquisition was financed through our existing credit facility.

Fiscal 2018

During fiscal 2018, we acquired the following businesses for an aggregate purchase price of $22.6 million. The acquisitions were financed through our existing credit facility. The results of operations for these acquisitions are included in our financial results from the respective acquisition dates.

· On March 4, 2018, we acquired seven retail tire and automotive repair stores located in Kentucky, Ohio, Virginia and West Virginia from Appalachian Tire Products, Inc. These stores operate under the Mr. Tire name.

· On March 4, 2018, we acquired two retail tire and automotive repair stores located in Illinois from Mattoon Muffler, Inc. and Charleston Muffler, Inc. These stores operate under the Car-X name.

· On March 4, 2018, we acquired one retail tire and automotive repair store located in Vermont from City Tire Co., Inc. This store operates under the TWC name.

· On March 1, 2018, we acquired one retail tire and automotive repair store located in Illinois from Devenir Enterprises, Inc. This store operates under the Car-X name.

· On January 14, 2018, we acquired three retail tire and automotive repair stores located in Pennsylvania from Valley Tire Co., Inc. These stores operate under the Mr. Tire name.

· On December 17, 2017, we acquired one retail tire and automotive repair store located in Indiana from MLR, Incorporated. This store operates under the Car-X name.

· On December 10, 2017, we acquired two retail tire and automotive repair stores located in Pennsylvania from TriGar Tire & Auto Service Center, LLC. One store operates under the Monro name and one store operates under the Mr. Tire name.

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MONRO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

- On August 13, 2017, we acquired eight retail tire and automotive repair stores located in Indiana and Illinois from Auto MD, LLC. These stores operate under the Car-X name.

- On July 30, 2017, we acquired 13 retail tire and automotive repair stores in Michigan, 12 of which were operating as Speedy Auto Service and Tire dealer locations, from UVR, Inc. One of the acquired stores was not opened by Monro. These stores operate under the Monro name.

- On July 9, 2017, we acquired one retail tire and automotive repair store located in North Carolina from Norman Young Tires, Inc. This store operates under the Treadquarters name.

- On June 25, 2017, we acquired one retail tire and automotive repair store located in Illinois from D&S Pulaski, LLC. This store operates under the Car-X name.

- On June 11, 2017, we acquired two retail tire and automotive repair stores located in Minnesota and Wisconsin from J & R Diversified, Inc. These stores operate under the Car-X name.

- On June 11, 2017, we acquired one retail tire and automotive repair store located in Ohio from Michael N. McGroarty, Inc. This store operates under the Mr. Tire name.

- On June 2, 2017, we acquired one retail tire and automotive repair store located in Connecticut from Tires Plus LLC. This store operates under the Monro name.

- On May 21, 2017, we acquired one retail tire and automotive repair store located in Ohio from Bob Sumerel Tire Co., Inc. This store operates under the Mr. Tire name.

- On April 23, 2017, we acquired one retail tire and automotive repair store located in Florida from Collier Automotive Group, Inc. This store operates under The Tire Choice name.

These acquisitions resulted in goodwill related to, among other things, growth opportunities, synergies and economies of scale expected from combining these businesses with ours, as well as unidentifiable intangible assets. All of the goodwill is expected to be deductible for tax purposes. We have recorded finite-lived intangible assets at their estimated fair value related to favorable leases and customer lists.

We expensed all costs related to acquisitions during fiscal 2018. The total costs related to completed acquisitions were $.5 million for the year ended March 31, 2018. These costs are included in the Consolidated Statements of Comprehensive Income primarily under operating, selling, general and administrative expenses.

Sales and net income for the fiscal 2018 acquired locations totaled $14.8 million and $.1 million, respectively, for the period from acquisition date through March 31, 2018. The net income of $.1 million includes an allocation of certain traditional corporate related items, including vendor rebates, interest expense and the provision for income taxes.

Supplemental pro forma information for the current or prior reporting periods has not been presented due to the impracticability of obtaining detailed, accurate or reliable data for the periods the acquired entities were not owned by Monro.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The preliminary fair values of identifiable assets acquired and liabilities assumed were based on preliminary valuation data and estimates. The excess of the net purchase price over the net tangible and intangible assets acquired was recorded as goodwill. The preliminary allocation of the aggregate purchase price as of March 31, 2018 was as follows:

	As of Acquisition Date (Dollars in thousands)
Inventories	$ 1,154
Other current assets	219
Property, plant and equipment	9,555
Intangible assets	4,359
Other non-current assets	7
Long-term deferred income tax assets	3,028
Total assets acquired	18,322
Other current liabilities	1,617
Long-term capital leases and financing obligations	13,707
Other long-term liabilities	209
Total liabilities assumed	15,533
Total net identifiable assets acquired	$ 2,789
Total consideration transferred	$ 22,614
Less: total net identifiable assets acquired	2,789
Goodwill	$ 19,825

The following are the intangible assets acquired and their respective fair values and weighted average useful lives.

As of Acquisition Date
Weighted

	Dollars in thousands	Average Useful Life
Favorable leases	$ 2,934	10 years
Customer lists	1,425	7 years
Total	$ 4,359	9 years

We continue to refine the valuation data and estimates related to inventory, intangible assets, real estate, real property leases and certain liabilities for the fiscal 2018 acquisitions and expect to complete the valuations no later than the first anniversary date of the respective acquisition. We anticipate that adjustments will continue to be made to the fair values of identifiable assets acquired and liabilities assumed and those adjustments may or may not be material.

Fiscal 2017

During fiscal 2017, we acquired the following businesses for an aggregate purchase price of $141.8 million. The acquisitions were financed through our existing credit facility. The results of operations for these acquisitions are included in Monro's financial results from the respective acquisition dates.

- On February 26, 2017, we acquired 16 retail tire and automotive repair stores located in Illinois and Iowa from Nona, Inc., a Car-X franchisee. These stores operate under the Car-X name.

- On February 5, 2017, we acquired two retail tire and automotive repair stores located in North Carolina and Virginia from Thrifty Tire of Roxboro, LLC. These stores operate under the Mr. Tire name.

- On October 16, 2016, we acquired one retail tire and automotive repair store located in Rhode Island from Hamel Tire Center, Inc. This store operates under the Monro name.

- On October 2, 2016, we acquired three retail tire and automotive repair stores located in Ohio from Parkway D/C Enterprises, Inc. These stores operate under the Mr. Tire name.

- On September 19, 2016, we acquired one retail tire and automotive repair store located in Florida from Florida Tire Service, LLC. This store operates under The Tire Choice name.

MONRO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

- On September 18, 2016, we acquired two retail tire and automotive repair stores located in Michigan from Davco Development Company and Ricketts, Inc. These stores operate under the Monro name.

- On September 11, 2016, we acquired 26 retail tire and automotive repair stores and one retread facility located in North Carolina, as well as four wholesale locations in North Carolina, South Carolina and Tennessee, from Clark Tire & Auto, Inc. These stores operate under the Mr. Tire name. The wholesale locations and retread facility operate under the Tires Now name.

- On July 18, 2016, we acquired one retail tire and automotive repair store located in Indiana from NTI, LLC. This store operates under the Car-X name.

- On July 17, 2016, we acquired one retail tire and automotive repair store located in Georgia from Kwik-Fit Tire & Service. This store operates under the Mr. Tire name.

- On July 10, 2016, we acquired four retail tire and automotive repair stores located in Minnesota from Task Holdings, Inc. and Autopar, Inc. These stores operate under the Car-X name.

- On June 26, 2016, we acquired one retail tire and automotive repair store located in Michigan from Harlow Tire Company. This store operates under the Monro name.

- On June 19, 2016, we acquired two retail tire and automotive repair stores located in New Hampshire from Express Tire Centers, LLC. These stores operate under the Tire Warehouse name.

- On May 8, 2016, we acquired one retail tire and automotive repair store located in Florida from Pioneer Tire Pros. This store operates under The Tire Choice name.

- On May 1, 2016, we acquired 29 retail tire and automotive repair stores and one retread facility located in Florida from McGee Tire Stores, Inc. These stores operate primarily under The Tire Choice name. The retread facility operates under the McGee Tire name.

These acquisitions resulted in goodwill related to, among other things, growth opportunities, synergies and economies of scale expected from combining these businesses with ours, and unidentifiable intangible assets. All of the goodwill is expected to be deductible for tax purposes. We have recorded finite-lived intangible assets at their estimated fair value related to customer lists, favorable leases and trade names.

We expensed all costs related to acquisitions during fiscal 2017. The total costs related to completed acquisitions were $1.0 million for the year ended March 25, 2017. These costs are included in the Consolidated Statements of Comprehensive Income primarily under operating, selling, general and administrative expenses.

Sales and net loss for the fiscal 2017 acquired locations totaled $104.9 million and approximately ($1.0) million, respectively, for the period from acquisition date through March 25, 2017. The net loss includes an allocation of certain traditional corporate related items, including vendor rebates, interest expense and the provision for income taxes.

Supplemental pro forma information for the current or prior reporting periods has not been presented due to the impracticability of obtaining detailed, accurate or reliable data for the periods the acquired entities were not owned by Monro.

We finalized the purchase accounting relative to the fiscal 2017 acquisitions during fiscal 2018. As a result of the final purchase price allocations, certain of the fair value amounts previously estimated were adjusted during the measurement period. These measurement period adjustments related to updated valuation reports and appraisals received from our external valuation specialists, as well as revisions to internal estimates. The changes in estimates recorded in fiscal 2018 include an increase in property, plant and equipment of $1.4 million; a decrease in intangible assets of $2.2 million; a decrease in long-term deferred income tax assets of $.3 million; a decrease in other current liabilities of $.1 million; an increase in long-term capital leases and financing obligations of $.2 million; and an increase in total other liabilities of $.1 million. The measurement period adjustments resulted in an increase to goodwill of $1.3 million.

These adjustments were not material to the Consolidated Statements of Comprehensive Income for the fiscal years ended March 31, 2018 and March 25, 2017.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

We have recorded the identifiable assets acquired and liabilities assumed at their values as of their respective acquisition dates (including any measurement prior adjustments), with the remainder recorded as goodwill as follows:

	As of Acquisition Date (Dollars in thousands)
Trade receivables	$ 7,005
Inventories	18,350
Other current assets	431
Property, plant and equipment	33,392
Intangible assets	19,233
Other non-current assets	174
Long-term deferred income tax assets	9,054
Total assets acquired	87,639
Warranty reserves	561
Other current liabilities	3,772
Long-term capital leases and financing obligations	41,215
Other long-term liabilities	1,228
Total liabilities assumed	46,776
Total net identifiable assets acquired	$ 40,863
Total consideration transferred	$ 141,832
Plus: gain on bargain purchase	13
Less: total net identifiable assets acquired	40,863
Goodwill	$ 100,982

The total consideration of $141.8 million is comprised of $141.7 million in cash, and a $.1 million payable to the sellers of certain acquired businesses. The payable is being liquidated via equal monthly payments through September 2019.

The following are the intangible assets acquired and their respective fair values and weighted average useful lives.

	As of Acquisition Date	
	Dollars in thousands	Weighted Average Useful Life
Customer lists	$ 9,917	13 years
Favorable leases	6,361	14 years
Trade names	2,955	17 years
Total	$ 19,233	14 years

NOTE 3 – OTHER CURRENT ASSETS

The composition of other current assets is as follows:

	Year Ended Fiscal March	
	2018	2017
	(Dollars in thousands)	
Vendor rebates and cooperative advertising credits receivable	$ 16,107	$ 14,327
Other	21,106	18,312
	$ 37,213	$ 32,639

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MONRO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

NOTE 4 – PROPERTY, PLANT AND EQUIPMENT

The major classifications of property, plant and equipment are as follows:

	March 31, 2018			March 25, 2017		
	Assets Owned	Assets Under Capital Lease/ Financing Obligations	Total	Assets Owned	Assets Under Capital Lease/ Financing Obligations	Total
	(Dollars in thousands)					
Land	$ 85,843		$ 85,843	$ 83,675		$ 83,675
Buildings and improvements	232,109	$ 171,288	403,397	223,566	$ 147,786	371,352
Equipment, signage and fixtures	242,510		242,510	225,977		225,977
Vehicles	32,380		32,380	28,831		28,831
Construction-in-progress	3,734		3,734	3,164		3,164
	596,576	171,288	767,864	565,213	147,786	712,999
Less - Accumulated depreciation and amortization	304,762	46,433	351,195	282,196	36,169	318,365
	$ 291,814	$ 124,855	$ 416,669	$ 283,017	$ 111,617	$ 394,634

Depreciation expense totaled $44.3 million, $39.5 million and $36.0 million for the fiscal years ended March 2018, 2017 and 2016, respectively.

Amortization expense recorded under capital leases and financing obligations and included in depreciation expense above totaled $12.3 million, $9.5 million and $7.5 million for the fiscal years ended March 2018, 2017 and 2016, respectively.

NOTE 5 – GOODWILL AND INTANGIBLE ASSETS

The changes in goodwill during fiscal 2018 and 2017 were as follows:

	Dollars in thousands
Balance at March 26, 2016	$ 400,132
Fiscal 2017 acquisitions	99,651
Adjustments to fiscal 2016 purchase accounting	1,953
Balance at March 25, 2017	501,736
Fiscal 2018 acquisitions	19,825
Adjustments to fiscal 2017 purchase accounting	1,331
Balance at March 31, 2018	$ 522,892

The composition of other intangible assets is as follows:

	Year Ended Fiscal March			
	2018		2017	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	(Dollars in thousands)			
Customer lists	$ 33,832	$ 19,637	$ 34,489	$ 16,372
Favorable leases	27,656	9,470	25,378	7,764
Trade names	20,852	9,644	20,852	8,358
Franchise agreements	7,220	1,713	7,220	1,167
Other intangible assets	590	543	540	530
Total intangible assets	$ 90,150	$ 41,007	$ 88,479	$ 34,191

Monro’s intangible assets are being amortized over their estimated useful lives. The weighted average useful lives of Monro’s intangible assets are approximately 10 years for customer lists, 14 years for favorable leases, 14 years for trade names, 13 years for franchise agreements and five years for other intangible assets.

Amortization of intangible assets, excluding amortization of favorable leases included in rent expense, during fiscal 2018, 2017 and 2016 totaled $5.0 million, $5.1 million and $3.8 million, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Estimated future amortization of intangible assets is as follows:

Year Ending Fiscal March	Customer lists/ Trade names/ Franchise agreements/ Other	Favorable Leases
	(Dollars in thousands)	
2019	$ 4,858	$ 2,207
2020	3,899	2,178
2021	3,184	2,145
2022	2,886	1,995
2023	2,631	1,870

NOTE 6 – LONG-TERM DEBT, CAPITAL LEASES AND FINANCING OBLIGATIONS

Long-term debt, capital leases and financing obligations consist of the following:

	March 31, 2018	March 25, 2017
	(Dollars in thousands)	
Revolving Credit Facility, LIBOR-based (a)	$ 148,028	$ 182,297
Note payable, non-interest bearing, due in equal installments through September 2019	80	60
Less – Current portion of long-term debt	(40)	(20)
Long-term debt	$ 148,068	$ 182,337

Obligations under capital leases and financing obligations at various interest rates, due in installments through May 2045	$ 246,169	$ 228,444
Less – Current portion of capital leases and financing obligations	(18,949)	(15,278)
Long-term capital leases and financing obligations	$ 227,220	$ 213,166

(a) The London Interbank Offered Rate (LIBOR) at March 31, 2018 was 1.88%.

In January 2016, we entered into a new five-year $600 million revolving credit facility agreement currently with eight banks (the "Credit Facility"). The Credit Facility replaced our previous revolving credit facility, as amended, which would have expired in December 2017. Interest only is payable monthly throughout the Credit Facility's term. The borrowing capacity for the Credit Facility is up to $600 million, and includes an accordion feature permitting us to request an increase in availability of up to an additional $100 million. The Credit Facility bears interest at 75 to 175 basis points over LIBOR. The Credit Facility requires fees payable quarterly throughout the term between .15% and .35% of the amount of the average net availability under the Credit Facility during the preceding quarter. There was $148.0 million outstanding under the Credit Facility at March 31, 2018. We were in compliance with all debt covenants as of March 31, 2018.

At March 31, 2018 and March 25, 2017, the interest rate spread paid by the Company was 125 and 100 basis points over LIBOR, respectively.

Within the Credit Facility, we have a sub-facility of $80 million for the purpose of issuing standby letters of credit. The line requires fees aggregating 87.5 to 187.5 basis points over LIBOR annually of the face amount of each standby letter of credit, payable quarterly in arrears. There was $29.4 million in an outstanding letter of credit at March 31, 2018.

The net availability under the Credit Facility at March 31, 2018 was $422.6 million.

Specific terms of the Credit Facility permit the payment of cash dividends not to exceed 50% of the prior year's net income, and permit mortgages and specific lease financing arrangements with other parties with certain limitations. Additionally, the Credit Facility is not secured by our real property, although we have agreed not to encumber our real property, with certain permissible exceptions.

Long-term debt had a carrying amount and a fair value of $148.1 million as of March 31, 2018, as compared to a carrying amount and a fair value of $182.4 million as of March 25, 2017. The fair value of long-term debt was estimated based on discounted cash flow analyses using either quoted market prices for the same or similar issues, or the current interest rates offered to Monro for debt with similar maturities.

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MONRO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

In addition, we have financed certain store properties with capital leases/financing obligations, which amount to $246.2 million at March 31, 2018 and are due in installments through May 2045. We also have a $.1 million payable due in equal installments through September 2019 to the sellers of certain acquired businesses at March 31, 2018.

Aggregate debt maturities over the next five years are as follows:

Year Ending Fiscal March	Capital Leases/ Financing Obligations Aggregate Amount	Imputed Interest	All Other Debt	Total
	(Dollars in thousands)			
2019	$ 37,696	$ (18,747)	$ 40	$ 18,989
2020	37,890	(17,492)	40	20,438
2021	38,654	(16,005)	148,028	170,677
2022	38,305	(14,285)		24,020
2023	37,795	(12,273)		25,522

NOTE 7 – INCOME TAXES

The components of the provision for income taxes are as follows:

	Year Ended Fiscal March		
	2018	2017	2016

	(Dollars in thousands)		
Current -			
Federal	$ 20,854	$ 22,040	$ 29,202
State	3,180	2,422	2,825
	24,034	24,462	32,027
Deferred -			
Federal	15,153	10,120	6,216
State	332	1,136	373
	15,485 (a)	11,256	6,589
Total	$ 39,519	$ 35,718	$ 38,616

(a) For fiscal 2018, includes $4.7 million related to the Tax Act.

On December 22, 2017, U.S. President Trump signed the Tax Act into legislation. The new U.S. tax legislation is subject to a number of provisions, including a reduction of the U.S. federal corporate income tax rate from 35% to 21% (effective January 1, 2018). Other enacted provisions which may impact Monro include limitations on the deductibility of executive compensation beginning January 1, 2018 and the immediate deduction of the cost of certain capital expenditures from taxable income instead of deducting the costs over time.

Certain aspects of the new legislation would generally require the accounting to be completed in the period of enactment. However, in response to the complexities of the new legislation, the Securities and Exchange Commission (SEC) staff issued Staff Accounting Bulletin No. 118 (SAB 118) to address the application of U.S. GAAP in situations where a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Act. To the extent that a company’s accounting for certain income tax effects of the Tax Act is incomplete but it is able to determine a reasonable estimate, it must record a provisional estimate in the financial statements. If a company cannot determine a provisional estimate to be included in the financial statements, it should continue to apply ASC 740 on the basis of the provisions of the tax laws that were in effect immediately before the enactment of the Tax Act. The ultimate impact may differ from provisional amounts recorded, possibly materially, due to, among other things, additional analysis, changes in interpretations and assumptions we have made, and additional regulatory guidance that may be issued.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

For fiscal 2018, we recorded a net discrete adjustment to income tax expense of approximately $4.7 million primarily from revaluing our net deferred tax assets to reflect the new U.S. federal corporate income tax rate. We believe this calculation is complete except for deferred taxes related to certain equity compensation arrangements and changes in estimates that can result from finalizing the filing of our 2017 U.S. income tax return, which are not anticipated to be material. We will complete the accounting for the impacts of the Tax Act during the measurement period, which will not exceed beyond one year from the enactment date.

Deferred tax (liabilities) assets consist of the following:

	March 31, 2018	March 25, 2017
	(Dollars in thousands)	
Goodwill	$ (32,290)	$ (39,715)
Other	(645)	(968)
Total deferred tax liabilities	(32,935)	(40,683)
Property and equipment	25,056	36,980
Insurance reserves	6,769	11,075
Warranty and other reserves	2,978	4,810
Other	9,607	11,863
Total deferred tax assets	44,410	64,728
Net deferred tax assets	$ 11,475	$ 24,045

We have $5.4 million of state net operating loss carryforwards available as of March 31, 2018. The carryforwards expire in varying amounts through 2038. Based on all available evidence, we have determined that it is more likely than not that sufficient taxable income of the appropriate character within the carryforward period will exist for the realization of the tax benefits on existing state net operating loss carryforwards.

We believe it is more likely than not that all other future tax benefits will be realized as a result of current and future income.

A reconciliation between the U.S. federal statutory tax rate and the effective tax rate reflected in the accompanying financial statements is as follows:

	Year Ended Fiscal March					
	2018		2017		2016	
	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)					
Federal income tax based on statutory tax rate applied to income before taxes (a)	$ 32,692	31.6	$ 34,035	35.0	$ 36,897	35.0
State income tax, net of federal income tax benefit	2,218	2.1	2,700	2.8	2,306	2.2
Tax Act (b)	4,707	4.5	—	—	—	—
Other	(98)	—	(1,017)	(1.1)	(587)	(0.6)
	$ 39,519	38.2	$ 35,718	36.7	$ 38,616	36.6

(a) For fiscal 2018, represents the blended rate of 35% for 9/12 of the year and 21% for 3/12 of the year.
(b) Represents the net discrete adjustment to income tax expense from the remeasurement of our net deferred tax assets at the lower U.S. corporate income tax rate.

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MONRO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following is a rollforward of Monro's liability for income taxes associated with unrecognized tax benefits:

	Dollars in thousands
Balance at March 28, 2015	$ 7,495
Tax positions related to current year:	
Additions	1,116
Reductions	—
Tax positions related to prior years:	
Additions	—
Reductions	(922)
Settlements	—
Lapses in statutes of limitations	(760)
Balance at March 26, 2016	6,929
Tax positions related to current year:	
Additions	981
Reductions	—
Tax positions related to prior years:	
Additions	66
Reductions	(352)
Settlements	—
Lapses in statutes of limitations	(732)
Balance at March 25, 2017	6,892
Tax positions related to current year:	
Additions	447
Reductions	—
Tax positions related to prior years:	
Additions	—
Reductions	(342)
Settlements	—
Lapses in statutes of limitations	(788)
Balance at March 31, 2018	$ 6,209

The total amount of unrecognized tax benefits was $6.2 million and $6.9 million at March 31, 2018 and March 25, 2017, respectively, the majority of which, if recognized, would affect the effective tax rate.

In the normal course of business, Monro provides for uncertain tax positions and the related interest and penalties, and adjusts its unrecognized tax benefits and accrued interest and penalties and, accordingly, we had approximately $.4 million of interest and penalties associated with uncertain tax benefits accrued as of March 31, 2018 and March 25, 2017.

The Company is currently under audit by the Internal Revenue Service for the fiscal 2016 tax year. It is reasonably possible that the examination phase of the audit may conclude in the next 12 months, and that the related unrecognized tax benefits for tax positions taken regarding previously filed tax returns may change from those recorded as liabilities for uncertain tax positions in the Company's Consolidated Financial Statements as of March 31, 2018. However, based on the status of the examination, it is not possible to estimate the effect of any such change to previously recorded uncertain tax positions.

We file U.S. federal income tax returns and income tax returns in various state jurisdictions. Monro's fiscal 2015 and fiscal 2017 U.S. federal tax years and various state tax years remain subject to income tax examinations by tax authorities.

NOTE 8 – STOCK OWNERSHIP

Holders of at least 60% of the Class C preferred stock must approve any action authorized by the holders of Common Stock. In addition, there are certain restrictions on the transferability of shares of Class C preferred stock. In the event of a liquidation, dissolution or winding-up of Monro, the holders of the Class C preferred stock would be entitled to receive $1.50 per share out of the assets of Monro before any amount would be paid to holders of Common Stock. The conversion value of the Class C convertible preferred stock was $.064 per share at March 31, 2018 and March 25, 2017.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

NOTE 9 – SHARE BASED COMPENSATION

We have a long-term incentive plan whereby eligible employees and non-employee directors may be granted non-qualified service condition stock options, non-qualified market condition stock options, restricted stock awards and restricted stock units. We grant stock-based awards to continue to attract and retain employees and to better align employees' interests with those of our shareholders. Monro issues new shares of Common Stock upon the exercise of stock options. Total stock-based compensation expense included in cost of sales and selling, general and administrative expenses in Monro's Consolidated Statements of Comprehensive Income for the fiscal years ended March 31, 2018, March 25, 2017 and March 26, 2016 was $2.9 million, $2.5 million and $2.8 million, respectively, and the related income tax benefit for each fiscal year was $1.0 million. As of March 31, 2018, the total unrecognized compensation expense related to all unvested stock-based awards was $7.5 million and is expected to be recognized over a weighted average period of approximately two years.

Monro currently grants stock option awards and restricted stock under the 2007 Incentive Stock Option Plan (the "2007 Plan"). The 2007 Plan was authorized by the Board of Directors in June 2007, initially reserving 873,000 shares (as retroactively adjusted for stock splits) of Common Stock for issuance to eligible employees and all non-employee directors. The 2007 Plan was approved by shareholders in August 2007 and was later amended and restated in August 2017. At March 31, 2018, there were a total of 5,001,620 shares authorized for grant under the 2007 Plan (as retroactively adjusted for stock splits), including the shares transferred from previous plans. There were 1,005,670 shares available for grant at March 31, 2018.

Non-Qualified Stock Options

Generally, employee options vest over a four year period, and have a duration of six to ten years. Outstanding options are exercisable for various periods through March 2024. Assumptions used to estimate compensation expense are determined as follows:

- Expected life of an award is based on historical experience and on the terms and conditions of the stock awards granted to employees;

- Expected volatility is measured using historical changes in the market price of Monro's Common Stock;

· Risk-free interest rate is equivalent to the implied yield on zero-coupon U.S. Treasury bonds with a remaining maturity equal to the expected term of the awards;

· Forfeitures are based substantially on the history of cancellations of similar awards granted by Monro in prior years; and

· Dividend yield is based on historical experience and expected future changes.

The fair values of the service condition options granted were estimated on the date of their grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	Year Ended Fiscal March		
	2018	2017	2016
Risk-free interest rate	1.78 %	1.20 %	1.25 %
Expected life, in years	4	4	4
Expected volatility	26.1 %	25.9 %	27.2 %
Expected dividend yield	1.49 %	1.10 %	0.96 %

In fiscal 2018, the Company granted 100,000 options with a market condition vesting and such market condition options granted were estimated on the date of their grant using the Monte Carlo option-pricing model with the following weighted-average assumptions:

	Year Ended Fiscal March 2018
Risk-free interest rate	1.65 %
Expected life, in years	4
Expected volatility	29.4 %
Expected dividend yield	1.53 %

The weighted average fair value of options granted during fiscal 2018, 2017 and 2016 was $8.84, $12.17 and $13.10, respectively.

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MONRO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

A summary of changes in outstanding stock options is as follows:

	Weighted Average Exercise Price	Options Outstanding
At March 28, 2015	$ 34.21	1,518,330
Granted	$ 62.28	243,410
Exercised	$ 29.59	(549,141)
Canceled	$ 50.69	(23,808)
At March 26, 2016	$ 41.75	1,188,791
Granted	$ 62.01	232,560
Exercised	$ 31.61	(485,660)
Canceled	$ 61.20	(39,347)
At March 25, 2017	$ 51.67	896,344
Granted	$ 48.12	546,080
Exercised	$ 35.00	(170,354)
Canceled	$ 60.87	(64,092)
At March 31, 2018	$ 51.95	1,207,978

The total shares exercisable at March 31, 2018, March 25, 2017 and March 26, 2016 were 495,573, 563,109 and 789,422, respectively. The weighted average exercise price of all shares exercisable at March 31, 2018 was $52.80.

The weighted average contractual term of all options outstanding at March 31, 2018 and March 25, 2017 was 3.8 years and 3.1 years, respectively. The aggregate intrinsic value of all options (the amount by which the market price of the stock on the date of exercise exceeded the exercise price of the option) outstanding at March 31, 2018 and March 25, 2017 was $5.2 million and $4.9 million, respectively.

The weighted average contractual term of all options exercisable at March 31, 2018 and March 25, 2017 was 2.0 years and 2.4 years, respectively. The aggregate intrinsic value of all options exercisable at March 31, 2018 and March 25, 2017 was $2.2 million and $4.8 million, respectively.

A summary of the status of and changes in nonvested stock options granted is as follows:

	Options	Weighted Average Grant-Date Fair Value (per Option)
Non-vested at March 28, 2015	419,729	$ 9.70
Granted	243,410	$ 13.10
Vested	(242,841)	$ 10.38
Canceled	(20,929)	$ 10.18
Non-vested at March 26, 2016	399,369	$ 11.26
Granted	232,560	$ 12.17
Vested	(266,112)	$ 10.48
Canceled	(32,582)	$ 12.79
Non-vested at March 25, 2017	333,235	$ 12.37
Granted	546,080	$ 8.84
Vested	(119,445)	$ 12.04
Canceled	(47,465)	$ 12.53
Non-vested at March 31, 2018	712,405	$ 9.72

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table summarizes information about stock options outstanding at March 31, 2018:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Shares Under Option	Weighted Average Remaining Life	Weighted Average Exercise Price	Shares Under Option	Weighted Average Exercise Price
\$11.76 - \$46.99	118,465	1.03	\$ 35.97	110,965	\$ 35.36
\$47.00 - \$48.28	442,300	5.36	\$ 47.26	500	\$ 47.30
\$48.29 - \$57.25	305,718	3.17	\$ 53.19	154,825	\$ 52.67
\$57.26 - \$75.76	341,495	3.16	\$ 62.48	229,283	\$ 61.34

During the fiscal years ended March 31, 2018, March 25, 2017 and March 26, 2016, the fair value of awards vested under Monro's stock plans was \$1.4 million, \$2.8 million and \$2.5 million, respectively.

The aggregate intrinsic value is based on Monro's closing stock price of \$53.60, \$52.15 and \$69.68 as of the last trading day of the periods ended March 31, 2018, March 25, 2017 and March 26, 2016, respectively. The aggregate intrinsic value of options exercised during the fiscal years ended March 31, 2018, March 25, 2017 and March 26, 2016 was \$2.8 million, \$13.3 million and \$22.3 million, respectively.

Cash received from option exercises under all stock option plans was \$4.8 million, \$3.5 million and \$8.6 million for the fiscal years ended March 31, 2018, March 25, 2017 and March 26, 2016, respectively. The actual tax benefit realized for the tax deductions from option exercises was \$.5 million, \$3.5 million and \$6.7 million for the fiscal years ended March 31, 2018, March 25, 2017 and March 26, 2016, respectively.

Restricted Stock

Monro issues restricted stock to certain members of senior management as well as non-employee directors of the Company. Restricted stock units represent shares issued upon vesting in the future whereas restricted stock awards represent shares issued upon grant that are restricted. The fair value for restricted stock units and restricted stock awards is calculated based on the stock price on the date of grant. Restricted stock units do not have voting rights but earn dividends during the vesting period. The recipients of the restricted stock awards have voting rights and earn dividends during the vesting period. The dividends are paid to the recipient at the time the restricted stock becomes vested. If the recipient leaves Monro prior to the vesting date for any reason, the shares of restricted stock and the dividends accrued on those shares will be forfeited and returned to Monro. The restricted stock units and awards vest equally over three or four years. None of the restricted stock was vested as of March 31, 2018.

The following table summarizes restricted stock activity for the year ended March 31, 2018:

	Shares	Weighted-Average Grant-Date Fair Value per Share	Weighted Average Remaining Vesting Period (in years)
Nonvested as of March 25, 2017	—		
Granted	61,875	$ 47.59	
Vested	—		
Forfeited	—		
Nonvested as of March 31, 2018	61,875	$ 47.59	2.48

The aggregate intrinsic value is based on Monro’s closing stock price of $53.60 as of the last trading day of the period ended March 31, 2018. The aggregate intrinsic value of restricted stock during the fiscal year ended March 31, 2018 was $3.3 million.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

NOTE 10 – EARNINGS PER COMMON SHARE

The following is a reconciliation of basic and diluted earnings per common share for the respective years:

	Year Ended Fiscal March 2018	2017	2016
	(Amounts in thousands, except per share data)		
Numerator for earnings per common share calculation:			
Net Income	$ 63,935	$ 61,526	$ 66,805
Less: Preferred stock dividends	(368)	(447)	(456)
Income available to common stockholders	$ 63,567	$ 61,079	$ 66,349
Denominator for earnings per common share calculation:			
Weighted average common shares, basic	32,767	32,413	32,026
Effect of dilutive securities:			
Preferred stock	510	675	760
Stock options	56	213	567
Restricted stock	8	—	—
Weighted average common shares, diluted	33,341	33,301	33,353
Basic earnings per common share:	$ 1.94	$ 1.88	$ 2.07
Diluted earnings per common share:	$ 1.92	$ 1.85	$ 2.00

The computation of diluted earnings per common share for fiscal 2018, 2017 and 2016 excludes the effect of assumed exercise of approximately 1,091,000, 304,000 and 171,000 of stock options, respectively, as the exercise price of these options was greater than the average market value of our common stock for those periods, resulting in an anti-dilutive effect on diluted earnings per common share.

NOTE 11 – OPERATING LEASES

We lease various facilities under non-cancellable lease agreements which expire at various dates through fiscal 2041. In addition to stated minimum payments, certain real estate leases have provisions for contingent rentals when retail sales exceed specified levels. Generally, the leases provide for renewal for various periods at stipulated rates. Most of the facilities' leases require payment of property taxes, insurance and maintenance costs in addition to rental payments, and several provide an option to purchase the property at the end of the lease term.

In recent years, we have entered into agreements for the sale-leaseback of certain stores. Realized gains are deferred and are credited to income as rent expense adjustments over the lease terms. We have lease renewal options under the real estate agreements at projected future fair market values.

Future minimum payments required under non-cancellable leases (including closed stores) are as follows:

Year Ending Fiscal March	Leases	Less - Sublease Income	Net
	(Dollars in thousands)		
2019	$ 34,363	$ (78)	$ 34,285
2020	30,150	(86)	30,064
2021	25,258	(87)	25,171
2022	20,113	(77)	20,036
2023	14,562	(65)	14,497
Thereafter	35,046	(7)	35,039
Total	$ 159,492	$ (400)	$ 159,092

Rent expense under operating leases, net of sublease income, totaled $38.9 million, $38.6 million and $36.7 million in fiscal 2018, 2017 and 2016, respectively, including contingent rentals. Sublease income totaled $.1 million in each of fiscal 2018, 2017 and 2016.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

NOTE 12 – EMPLOYEE RETIREMENT AND PROFIT SHARING PLANS

We sponsor a noncontributory defined benefit pension plan for Monro employees and the former Kimmel Automotive, Inc. employees. In fiscal 2005, the previously separate Monro and Kimmel pension plans were merged. The merged plan provides benefits to certain full-time employees who were employed with Monro and with Kimmel prior to April 2, 1998 and May 15, 2001, respectively.

Effective as of those dates, each company's Board of Directors approved plan amendments whereby the benefits of each of the defined benefit plans would be frozen and the plans would be closed to new participants. Prior to these amendments, coverage under the plans began after employees completed one year of service and attained age 21. Benefits under both plans, and now the merged plan, are based primarily on years of service and employees' pay near retirement. The funding policy for Monro's merged plan is consistent with the funding requirements of U.S. federal law and regulations. The measurement date used to determine the pension plan measurements disclosed herein is March 31 for both 2018 and 2017.

The funded status of Monro's defined benefit plan is recognized as an other non-current asset in the Consolidated Balance Sheets as of March 31, 2018 and March 25, 2017, respectively.

The funded status of the plan is set forth below:

	Fiscal March	
	2018	2017
	(Dollars in thousands)	
Change in Plan Assets:		
Fair value of plan assets at beginning of year	$ 20,702	$ 19,465
Actual return on plan assets	631	2,309
Benefits paid	(704)	(1,072)
Fair value of plan assets at end of year	20,629	20,702

Change in Projected Benefit Obligation:		
Benefit obligation at beginning of year	20,405	21,373
Interest cost	796	806
Actuarial loss/(gain)	109	(702)
Benefits paid	(704)	(1,072)
Benefit obligation at end of year	20,606	20,405
Funded status of plan	$ 23	$ 297

The projected and accumulated benefit obligations were equivalent at March 31 for both 2018 and 2017.

Amounts recognized in accumulated other comprehensive loss consist of:

	Year Ended Fiscal March	
	2018	2017
	(Dollars in thousands)	
Unamortized transition obligation	$ 0	$ 0
Unamortized prior service cost	0	0
Unamortized net loss	5,675	5,117
Total	$ 5,675	$ 5,117

Changes in plan assets and benefit obligations recognized in other comprehensive (loss) income consist of:

	Year Ended Fiscal March	
	2018	2017
	(Dollars in thousands)	
Net transition obligation	$ 0	$ 0
Prior service cost	0	0
Net actuarial (loss)/income	(558)	2,203
Total	$ (558)	$ 2,203

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Pension (income) expense included the following components:

	Year Ended Fiscal March		
	2018	2017	2016
	(Dollars in thousands)		
Interest cost on projected benefit obligation	$ 796	$ 806	$ 803
Expected return on plan assets	(1,416)	(1,332)	(1,389)
Amortization of unrecognized actuarial loss	336	524	648
Net pension (income) expense	$ (284)	$ (2)	$ 62

The weighted-average assumptions used to determine benefit obligations are as follows:

	Year Ended Fiscal March	
	2018	2017
Discount rate	3.89 %	3.98 %

The weighted-average assumptions used to determine net periodic pension costs are as follows:

	Year Ended Fiscal March		
	2018	2017	2016
Discount rate	3.98 %	3.83 %	3.69 %
Expected long-term return on assets	7.00 %	7.00 %	7.00 %

The expected long-term rate of return on plan assets is established based upon assumptions related to historical returns and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio.

The investment strategy of the plan is to conservatively manage the assets in order to meet the plan's long-term obligations while maintaining sufficient liquidity to pay current benefits. This is achieved by holding equity investments while investing a portion of assets in long duration bonds to match the long-term nature of the liabilities. Monro's general target allocation for the plan is 40% fixed income and 60% equity securities.

Monro's asset allocations, by asset category, are as follows at the end of each year:

	March 31, 2018		March 25, 2017	
Cash and cash equivalents	1.3	%	1.7	%
Fixed income	39.3	%	39.7	%
Equity securities	59.4	%	58.6	%
Total	100.0	%	100.0	%

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MONRO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following table provides fair value measurement information for Monro's major categories of defined benefit plan assets at March 31, 2018 and March 25, 2017, respectively:

	Fair Value Measurements at March 31, 2018 Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(Dollars in thousands)			
Equity securities:				
U.S. companies	$ 8,062	$ 7,785	$ 277	
International companies	4,186	4,186		
Fixed income:				
U.S. corporate bonds	7,505		7,505	
International bonds	614		614	
Cash equivalents	262		262	
Total	$ 20,629	$ 11,971	$ 8,658	

	Fair Value Measurements at March 25, 2017 Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)

	(Dollars in thousands)		
Equity securities:			
U.S. companies	$ 8,296	$ 7,984	$ 312
International companies	3,839	3,839	
Fixed income:			
U.S. corporate bonds	7,902		7,902
International bonds	317		317
Cash equivalents	348		348
Total	$ 20,702	$ 11,823	$ 8,879

There are no required or expected contributions in fiscal 2019 to the plan.

The following pension benefit payments are expected to be paid:

	Year Ended Fiscal March (Dollars in thousands)
2019	$ 972
2020	1,006
2021	1,059
2022	1,115
2023	1,149
2024 - 2028	6,068

We have a 401(k)/Profit Sharing Plan that covers full-time employees who meet the age and service requirements of the plan. The 401(k) salary deferral option was added to the plan during fiscal 2000. The first employee deferral occurred in March 2000. We make matching contributions consistent with the provisions of the plan. Charges to expense for our matching contributions for fiscal 2018, 2017 and 2016 amounted to approximately $1.0 million, $.8 million and $.7 million, respectively. We may also make annual profit sharing contributions to the plan at the discretion of Monro’s Compensation Committee.

MONRO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

We have a deferred compensation plan (the “Deferred Compensation Plan”) to provide an opportunity for additional tax-deferred savings to a select group of management or highly compensated employees. The Deferred Compensation Plan permits participants to defer all or any portion of the compensation that would otherwise be payable to them for the calendar year. In addition, Monro will credit to the participants’ accounts such amounts as would have been contributed to Monro’s 401(k)/Profit Sharing Plan but for the limitations that are imposed under the Internal Revenue Code based upon the participants’ status as highly compensated employees. We may also make such additional discretionary allocations as are determined by the Compensation Committee. The Deferred Compensation Plan is an unfunded arrangement and the participants or their beneficiaries have an unsecured claim against the general assets of Monro to the extent of their Deferred Compensation Plan benefits. We maintain accounts to reflect the amounts owed to each participant. At least annually, the accounts are credited with earnings or losses calculated on the basis of an interest rate or other formula as determined by Monro’s Compensation Committee. The total liability recorded in our financial statements at March 31, 2018 and March 25, 2017 related to the Deferred Compensation Plan was approximately $2.1 million.

NOTE 13 – RELATED PARTY TRANSACTIONS

We are currently a party to six leases for certain facilities where the lessor is a former officer of Monro or a family member of such former officer, or such former officer or family member has an interest in entities that are lessors. The payments under such operating and capital leases amounted to $.8 million, $.8 million and $.7 million for the fiscal years ended March 2018, 2017 and 2016, respectively. These payments are comparable to rents paid to unrelated parties. No amounts were payable at March 31, 2018 or March 25, 2017. No related party leases exist, other than these six leases, and no new leases are contemplated.

For many years, we had a consulting agreement with an investment banking firm associated with a principal shareholder/director of Monro to provide financial advice. The agreement provided for an annual fee of $.3 million, plus reimbursement of out-of-pocket expenses and we incurred, under this agreement, fees of $.2 million during the year ended March 26, 2016. Approximately half of all payments made to the investment banking firm under the consulting agreement were paid to another principal shareholder/director of Monro. In addition, this investment banking firm, from time to time, has provided other investment banking services to us for additional fees. During fiscal 2016, with approval by the independent members of the Board of Directors (excluding the Director associated with this firm), we paid additional fees of $1.0 million to this firm in connection with financial and strategic advisory services that were provided related to three unsuccessful acquisitions. In connection with making this payment, the aforementioned consulting agreement was canceled.

NOTE 14 – SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Significant Non-cash Investing and Financing Activities

In connection with the accounting for capital leases and financing obligations, we increased both property, plant and equipment and capital leases and financing obligations by approximately $19.2 million, $14.2 million and $13.3 million for the years ended March 31, 2018, March 25, 2017 and March 26, 2016, respectively.

Interest and Taxes Paid

The following table sets forth the cash paid for interest and income taxes for the years ended March 31, 2018, March 25, 2017 and March 26, 2016:

	Year Ended Fiscal March		
	2018	2017	2016
	(Dollars in thousands)		
Cash paid during the year:			
Interest, net	$ 25,795	$ 20,970	$ 15,687
Income taxes, net	$ 25,214	$ 24,778	$ 25,322

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MONRO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

NOTE 15 – COMMITMENTS AND CONTINGENCIES

Commitments

Payments due by period under long-term debt, other financing instruments and commitments are as follows:

	Total	Within 1 Year	1 to 3 Years	3 to 5 Years	After 5 Years
	(Dollars in thousands)				
Principal payments on long-term debt	$ 148,108	$ 40	$ 148,068		
Capital lease commitments/financing obligations	246,169	18,949	43,047	$ 49,542	$ 134,631
Operating lease commitments	159,092	34,285	55,235	34,533	35,039
Other liabilities	3,533	800	1,600	1,133	—
Total	$ 556,902	$ 54,074	$ 247,950	$ 85,208	$ 169,670

We believe that we can fulfill our contractual commitments utilizing our cash flow from operations and, if necessary, bank financing.

Contingencies

On December 13, 2017, the Company settled a litigation matter entitled Ellersick, et.al. v. Monro Muffler Brake, Inc. and Monro Service Corporation (U.S. District Court, Western District of New York), together with related matters, which were first instituted in September 2010, regarding current and former Company technicians and assistant managers who alleged violations of the Fair Labor Standards Act and various state laws relating to, among other things, overtime and unpaid wages. The settlement amount of $1,950,000 is included within operating, selling, general and administrative expenses in the Company's Consolidated Financial Statements for fiscal 2018. Such settlement amount was estimated by the Company to be less than the legal fees and expenses that the Company believed it would have likely incurred in connection with defending such matter during the twelve month period following settlement.

We are currently a party to various claims and legal proceedings incidental to the conduct of our business. If management believes that a loss arising from any of these matters is probable and can reasonably be estimated, we will record the amount of the loss, or the minimum estimated liability when the loss is estimated using a range, and no point within the range is more probable than another. As additional information becomes available, any potential liability related to these matters is assessed and the estimates are revised, if necessary. Litigation is subject to inherent uncertainties, and unfavorable rulings could occur and may include monetary damages. If an unfavorable ruling were to occur, there exists the possibility of a material adverse impact on the financial position and results of operations of the period in which any such ruling occurs, or in future periods. However, based on currently available information, management believes that the ultimate outcome of any of these matters, individually and in the aggregate, will not have a material adverse effect on our financial position, results of operations or cash flows.

NOTE 16 – SUBSEQUENT EVENTS

In May 2018, Monro's Board of Directors declared a regular quarterly cash dividend of $.20 per common share or common share equivalent to be paid to shareholders of record as of June 4, 2018. The dividend will be paid on June 14, 2018.

See Note 2 for a discussion of acquisitions subsequent to March 31, 2018.

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MONRO, INC. AND SUBSIDIARIES

SELECTED QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

The following table sets forth consolidated statement of income data by quarter for the years ended March 2018 and 2017. Individual line items summed by quarters may not agree to the annual amounts reported due to rounding.

	Fiscal Quarter Ended			
	June 2017	Sept. 2017	Dec. 2017	March 2018
	(Amounts in thousands, except per share data)			
Sales	$ 278,491	$ 278,017	$ 285,730	$ 285,578
Cost of sales	165,607	170,076	178,743	177,815
Gross profit	112,884	107,941	106,987	107,763
Operating, selling, general and administrative expenses	79,135	74,120	77,688	77,334
Operating income	33,749	33,821	29,299	30,429
Interest expense, net	5,742	6,117	6,138	6,299
Other income, net	(11)	(226)	(99)	(117)
Income before provision for income taxes	28,018	27,930	23,260	24,247
Provision for income taxes	10,433	10,663	11,659	6,765
Net income	$ 17,585	$ 17,267	$ 11,601	$ 17,482
Basic earnings per share	$ 0.53	$ 0.52	$ 0.35	$ 0.53
Diluted earnings per share	$ 0.53	$ 0.52	$ 0.35	$ 0.52
Weighted average number of common shares used in computing earnings per share				
Basic	32,704	32,754	32,779	32,822
Diluted	33,292	33,309	33,352	33,417

	Fiscal Quarter Ended			
	June 2016	Sept. 2016	Dec. 2016	March 2017
	(Amounts in thousands, except per share data)			
Sales	$ 235,290	$ 245,927	$ 288,283	$ 252,011
Cost of sales	137,222	145,930	182,683	158,787

Gross profit (a)	98,068	99,997	105,600	93,224
Operating, selling, general and administrative expenses	66,773	68,072	72,526	73,133
Operating income	31,295	31,925	33,074	20,091
Interest expense, net	4,485	4,488	5,261	5,535
Other (income) expense, net	(154)	(126)	(165)	(183)
Income before provision for income taxes	26,964	27,563	27,978	14,739
Provision for income taxes	10,209	10,019	10,412	5,078
Net income	$ 16,755	$ 17,544	$ 17,566	$ 9,661
Basic earnings per share	$ 0.52	$ 0.54	$ 0.54	$ 0.29
Diluted earnings per share	$ 0.50	$ 0.53	$ 0.53	$ 0.29
Weighted average number of common shares used in computing earnings per share				
Basic	32,258	32,291	32,466	32,637
Diluted	33,327	33,317	33,292	33,289

(a) We have evaluated the principal versus agent accounting guidance in assessing the appropriate presentation for certain transactions primarily related to our fiscal 2017 acquisitions. We determined agent accounting is appropriate for such transactions and therefore concluded the amounts previously presented on a gross basis should have been recorded on a net basis. Accordingly, we revised amounts previously recorded in connection with these transactions during the first and second quarters of fiscal 2017. The revisions resulted in a reduction of sales and cost of sales by equal amounts of $1.6 million and $2.7 million for the first and second quarters of fiscal 2017, respectively. These revisions did not impact gross profit as previously reported.

Significant fourth quarter adjustments

There were no material, extraordinary, unusual or infrequently occurring items recognized in the fourth quarter of fiscal 2018 or 2017.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in reports that we file or submit pursuant to the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's (SEC) rules and forms, and that such information is accumulated and communicated to Monro's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

In conjunction with the close of each fiscal quarter and under the supervision of our Chief Executive Officer and Chief Financial Officer, we conduct an evaluation of the effectiveness of our disclosure controls and procedures. It is the conclusion of Monro's Chief Executive Officer and Chief Financial Officer, based upon an evaluation completed as of March 31, 2018, that our disclosure controls and procedures were effective in ensuring that any material information relating to Monro was recorded, processed, summarized and reported to its principal officers to allow timely decisions regarding required disclosures.

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Monro's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States of America.

Monro's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of Monro; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of Monro are being made only in accordance with authorizations of management and directors of Monro; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of Monro's assets that could have a material effect on the financial statements.

Management conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that Monro's internal control over financial reporting was effective as of March 31, 2018, the end of our fiscal year. Management has reviewed the results of its assessment with the Audit Committee of the Board of Directors. The effectiveness of Monro's internal control over financial reporting as of March 31, 2018 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

Inherent Limitations on Effectiveness of Controls

Monro's management, including its Chief Executive Officer and Chief Financial Officer, does not expect that its disclosure controls and procedures or its internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within Monro have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls' effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

Changes in Internal Controls over Financial Reporting

There were no changes in Monro's internal control over financial reporting during the quarter ended March 31, 2018 that materially affected, or are reasonably likely to materially affect, Monro's internal control over financial reporting.

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PART III

Item 10. Directors, Executive Officers and Corporate Governance

Information concerning the directors and executive officers of Monro is incorporated herein by reference to the section captioned “Proposal No. 1 – Election of Directors” and “Our Executive Officers”, respectively, in the Proxy Statement.

Information concerning required Section 16(a) disclosure is incorporated herein by reference to the section captioned “Section 16(a) Beneficial Ownership Reporting Compliance” in the Proxy Statement.

Information concerning Monro’s corporate governance policies and procedures is incorporated herein by reference to the section captioned “Corporate Governance Practices and Policies” in the Proxy Statement.

Monro’s directors and executive officers are subject to the provisions of Monro’s Code of Ethics for All Board Members, Executive Officers and Management Employees, (the “Code”), which is available in the Investor Information section of Monro’s website, www.monro.com. Changes to the Code and any waivers are also posted on Monro’s website in the Investor Information section.

Item 11. Executive Compensation

Information concerning executive compensation is incorporated herein by reference to the sections captioned “Compensation Discussion and Analysis” and “Executive Compensation” in the Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information concerning Monro’s shares authorized for issuance under its equity compensation plans at March 31, 2018 and security ownership of certain beneficial owners and management is incorporated herein by reference to the section captioned “Security Ownership of Certified Beneficial Owners and Management” in the Proxy Statement.

Information concerning Monro's common stock that may be issued under equity-based compensation plans is incorporated herein by reference to the section captioned "Equity Compensation Plan Information" in the Proxy Statement.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Information concerning certain relationships and related transactions is incorporated herein by reference to the sections captioned "Board and Committee Independence" and "Certain Relationships and Related Party Transactions" in the Proxy Statement.

Item 14. Principal Accountant Fees and Services

Information concerning Monro's principal accounting fees and services is incorporated herein by reference to the section captioned "Matters Relating to the Independent Registered Public Accounting Firm" in the Proxy Statement.

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PART IV

Item 15. Exhibits and Financial Statement Schedules

Financial Statements

Reference is made to Item 8 of Part II hereof.

Financial Statement Schedules

Schedules have been omitted because they are inapplicable, not required, the information is included elsewhere in the Financial Statements or the notes thereto or is immaterial. Specific to warranty reserves and related activity, as stated in the Financial Statements, these amounts are immaterial.

Exhibits

Agreements accompanying this Form 10-K or incorporated herein by reference as listed below may contain representations, warranties and other provisions that were made, among other things, to provide the parties thereto with specified rights and obligations and to allocate risk among them, and such agreements should not be relied upon by buyers, sellers or holders of Monro’s securities.

INDEX TO EXHIBITS

The following is a list of all exhibits filed herewith or incorporated by reference herein:

Exhibit No.	Document
3.01*	Restated Certificate of Incorporation of the Company, dated July 23, 1991, with Certificate of Amendment, dated November 1, 1991. (Filed in paper form as SEC File No:0-19357, 1992 Form 10-K, Exhibit No. 3.01)
3.01a*	Certificate of Change of the Certificate of Incorporation of the Company, dated January 26, 1996. (August 2004 Form S-3, Exhibit 4.1(b))
3.01b*	Certificate of Amendment to Restated Certificate of Incorporation, dated April 15, 2004. (August 2004 Form S-3, Exhibit No. 4.1(c))
3.01c*	Certificate of Amendment to Restated Certificate of Incorporation, dated October 10, 2007. (2008 Form 10-K, Exhibit 3.01c)
3.01d*	Certificate of Amendment to Restated Certificate of Incorporation, dated August 1, 2012. (2013 Form 10-K, Exhibit 3.01d)
3.01e*	Certificate of Amendment to Restated Certificate of Incorporation, dated August 15, 2017. (August 2017 Form 8-K, Exhibit 3.01e)
3.02*	Amended and Restated By-Laws of the Company, dated August 7, 2012. (December 2012 Form 8-K, Exhibit No. 3.02)
10.01*	2007 Stock Incentive Plan, effective as of June 29, 2007. (May 2008 Form S-8, Exhibit No. 4)**
10.01a*	Amendment No. 1 to the 2007 Stock Incentive Plan, dated August 9, 2007. (May 2008 Form S-8, Exhibit No. 4.1)**
10.01b*	Amendment No. 2 to the 2007 Stock Incentive Plan, dated September 27, 2007. (May 2008 Form S-8, Exhibit No. 4.2)**
10.01c*	Amendment No. 3 to the 2007 Stock Incentive Plan, dated August 10, 2010. (August 2010 Form 8-K, Exhibit No. 10.1)**
10.01d*	Amendment No. 4 to the 2007 Stock Incentive Plan, dated May 16, 2012. (2012 Form 10-K, Exhibit No. 10.01d)**
10.01e*	Amendment No. 5 to the 2007 Stock Incentive Plan, dated June 28, 2013. (2013 Proxy, Exhibit A)**

Exhibit No.	Document
10.01f*	Amendment No. 6 to the 2007 Stock Incentive Plan, dated June 28, 2013. (2014 Form 10-K, Exhibit No. 10.01f)**
10.02*	Amended and Restated 2007 Stock Incentive Plan, dated effective August 15, 2017. (2017 Proxy, Exhibit A)**
10.03*	Monro Muffler Brake, Inc. Deferred Compensation Plan, dated January 1, 2005, and last amended and restated as of January 1, 2015. (2015 Form 10-K, Exhibit No. 10.03) **
10.04*	Monro Muffler Brake, Inc. Retirement Plan, adopted February 1, 1972, and last amended and restated as of April 1, 2013. (2014 Form 10-K, Exhibit No. 10.04) **
10.04a*	Amendment No. 1 to April 1, 2013 Restatement to Monro Muffler Brake, Inc. Retirement Plan, dated as of October 27, 2014 and effective as of June 26, 2013. (December 2015 Form 10-Q, Exhibit No. 10.04a)**
10.04b*	Amendment No. 2 to April 1, 2013 Restatement to Monro Muffler Brake, Inc. Retirement Plan, dated as of December 10, 2015 and effective as of April 1, 2015. (December 2015 Form 10-Q, Exhibit No. 10.04b)**
10.04c*	Amendment No. 3 to April 1, 2013 Restatement to Monro Muffler Brake, Inc. Retirement Plan, dated as of January 30, 2017 and effective as of April 1, 2016. (2017 Form 10-K, Exhibit No. 10.04c)**
10.05*	Monro Muffler Brake, Inc. Profit Sharing Plan, adopted May 1, 1960, and last amended and restated as of December 8, 2014. (2015 Form 10-K, Exhibit No. 10.05)**
10.05a*	First Amendment to December 8, 2014 Restatement to the Monro Muffler Brake, Inc. Profit Sharing Plan, dated December 10, 2015 and effective as of April 1, 2015. (December 2015 Form 10-Q, Exhibit No. 10.05a)**
10.07*	Employment Agreement, dated as of May 21, 2015 and effective as of October 1, 2015, between the Company and Robert G. Gross. (May 2015 Form 8-K, Exhibit No. 10.07)**
10.14*	Employment Agreement, dated August 27, 2014 and effective September 1, 2014, between the Company and Catherine D’Amico. (August 2014 Form 8-K, Exhibit No. 99.1)**
10.18*	Credit Agreement, dated as of January 25, 2016, by and among the Company and Citizens Bank, N.A., as Administrative Agent for the lenders party to the Credit Agreement. (January 2016 Form 8-K, Exhibit No. 10.18)
10.18a*	Amendment No. 1 to Credit Agreement, dated as of August 26, 2016. (September 2016 Form 10-Q, Exhibit No. 10.18a)
10.18b*	Amendment No. 2 to Credit Agreement, dated as of October 3, 2017. (September 2017 Form 10-Q, Exhibit No. 10.18b)
10.19*	Security Agreement, dated as of January 25, 2016, by and among the Company, Monro Service Corporation, Car-X, LLC and Citizens Bank, N.A., as Administrative Agent for the lenders party to the Credit Agreement. (December 2015 Form 10-Q, Exhibit No. 10.19)
10.20*	Guaranty, dated as of January 25, 2016, of Car-X, LLC and Monro Service Corporation. (December 2015 Form 10-Q, Exhibit No. 10.20)
10.21*	Negative Pledge Agreement, dated as of January 25, 2016, by and among the Company, Monro Service Corporation, Car-X, LLC and Citizens Bank, N.A., as Administrative Agent for the lenders party to the Credit Agreement. (December 2015 Form 10-Q, Exhibit No. 10.21)
10.60*	Lease Agreement, dated as of November 1, 2011, between Monro Service Corporation and the County of Monroe Industrial Development Agency. (2012 Form 10-K, Exhibit No. 10.60)
10.61*	Leaseback Agreement, dated November 1, 2011, between the County of Monroe Industrial Development Agency and Monro Service Corporation. (2012 Form 10-K, Exhibit No. 10.61)
10.67*	

	Employment Agreement, dated as of August 7, 2012 and effective as of October 1, 2012, between the Company and John W. Van Heel. (August 2012 Form 8-K, Exhibit No. 99.1)**
10.68*	Employment Agreement, dated December 30, 2016 and effective as of January 1, 2017, between the Company and Brian J. D'Ambrosia. (January 2017 Form 8-K, Exhibit No. 10.68)**
10.69*	Employment Agreement, dated February 11, 2014 and effective April 1, 2014, between the Company and Joseph Tomarchio, Jr. (February 2014 Form 8-K, Exhibit No. 99.1)**

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Exhibit No.	Document
10.69a*	Amendment to Employment Agreement of Joseph Tomarchio, Jr., dated May 14, 2014 and effective April 1, 2014, between the Company and Joseph Tomarchio, Jr. (May 2014 Form 8-K, Exhibit No. 99.1)**
10.69b*	Letter Agreement, effective April 1, 2017, between the Company and Joseph Tomarchio, Jr., terminating the Employment Agreement, as amended. (2017 Form 10-K, Exhibit No. 10.69b)**
10.70*	Employment Agreement, dated June 28, 2017 and effective August 1, 2017, between the Company and Brett T. Ponton. (June 2017 Form 10-Q, Exhibit No. 10.70)**
10.71*	Agreement, dated June 23, 2017 and effective October 1, 2017, by and between the Company and John W. Van Heel. (June 2017 Form 10-Q, Exhibit No. 10.71)**
10.72*†	Supply Agreement, dated as of August 1, 2012, by and between Ashland Consumer Markets (a commercial business unit of Ashland, Inc.) and Monro Service Corporation (December 2012 Form 10-Q, Exhibit No. 10.72)
10.73*	Supply Agreement, dated June 28, 2017 and effective as of June 1, 2017, by and between Monro Service Corporation and Valvoline LLC. (June 2017 Form 10-Q, Exhibit No. 10.72)
10.74	Employment Agreement, dated March 29, 2018 and effective March 26, 2018, between the Company and Matthew E. Naylor.**
10.77*	Monro Muffler Brake, Inc. Management Incentive Compensation Plan, effective as of June 1, 2002. (2002 Form 10-K, Exhibit No. 10.77)**
10.80*	Agreement, dated January 1, 1997, between The Three Marquees and Mr. Tire, Inc., as predecessor-in-interest to the Company, with respect to Store No. 753. (2004 Form 10-K, Exhibit No. 10.80)
10.80a*	Assignment and Assumption of Lease, dated March 1, 2004, between Mr. Tire, Inc. and the Company, with respect to Store No. 753. (2004 Form 10-K, Exhibit No. 10.80a)
10.80b*	Landlord's Consent and Estoppel Certificate, dated as of February 27, 2004, by 1746 E. Joppa Road, LLC (formerly known as The Three Marquees), with respect to Store No. 753. (2004 Form 10-K, Exhibit No. 10.80b)
10.80c*	Renewal Letter, dated March 6, 2006, from the Company to 1746 E. Joppa Road, LLC (formerly known as The Three Marquees), with respect to Store No. 753. (2006 Form 10-K, Exhibit No. 10.80c)
10.80d*	Lease Amendment, dated September 17, 2014, from the Company to 1746 E. Joppa Road, LLC (formerly known as The Three Marquees), with respect to Store No. 753. (2017 Form 10-K, Exhibit No. 10.80d)
10.81*	Agreement, dated April 1, 1998, between 425 Manchester Road, LLC and Mr. Tire, Inc., as predecessor-in-interest to the Company, with respect to Store No. 754. (2004 Form 10-K, Exhibit No. 10.81)
10.81a*	Assignment and Assumption of Lease, dated March 1, 2004, between Mr. Tire, Inc. and the Company, with respect to Store No. 754. (2004 Form 10-K, Exhibit No. 10.81a)
10.81b*	Landlord's Consent and Estoppel Certificate, dated as of February 27, 2004, by 425 Manchester Road, LLC, with respect to Store No. 754. (2004 Form 10-K, Exhibit No. 10.81b)
10.81c*	Renewal Letter, dated June 8, 2007, from the Company to 425 Manchester Road, LLC, with respect to Store No. 754. (2008 Form 10-K, Exhibit No. 10.81c)
10.81d	Renewal Letter, dated May 30, 2017, from the Company to 425 Manchester Road, LLC, with respect to Store No. 754.
10.82*	Agreement, dated January 1, 1997, between The Three Marquees and Mr. Tire, Inc., as predecessor-in-interest to the Company, with respect to Store No. 756. (2004 Form 10-K, Exhibit No. 10.82)

10.82a*	Assignment and Assumption of Lease, dated March 1, 2004, between Mr. Tire, Inc. and the Company, with respect to Store No. 756. (2004 Form 10-K, Exhibit No. 10.82a)

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Exhibit No.	Document
10.82b*	Landlord's Consent and Estoppel Certificate, dated as of February 27, 2004, by The Three Marquees, with respect to Store No. 756. (2004 Form 10-K, Exhibit No. 10.82b)
10.82c*	Renewal Letter, dated March 6, 2006, from the Company to The Three Marquees, with respect to Store No. 756. (2006 Form 10-K, Exhibit No. 10.82c)
10.82d*	Renewal Letter, dated November 30, 2015, from the Company to The Three Marquees, with respect to Store No. 756. (2016 Form 10-K, Exhibit No. 10.82d)
10.83*	Agreement, dated January 1, 1997, between The Three Marquees and Mr. Tire, Inc., as predecessor-in-interest to the Company, with respect to Store No. 758. (2004 Form 10-K, Exhibit No. 10.83)
10.83a*	Assignment and Assumption of Lease, dated March 1, 2004, between Mr. Tire, Inc. and the Company, with respect to Store No. 758. (2004 Form 10-K, Exhibit No. 10.83a)
10.83b*	Landlord's Consent and Estoppel Certificate, dated as of February 27, 2004, by The Three Marquees, with respect to Store No. 758. (2004 Form 10-K, Exhibit No. 10.83b)
10.83c*	Renewal Letter, dated March 6, 2006, from the Company to The Three Marquees, with respect to Store No. 758. (2006 Form 10-K, Exhibit No. 10.83c)
10.83d*	Renewal Letter, dated November 30, 2015, from the Company to The Three Marquees, with respect to Store No. 758. (2016 Form 10-K, Exhibit No. 10.83d)
10.84*	Agreement, dated September 2, 1999, between LPR Associates and Mr. Tire, Inc., as predecessor-in-interest to the Company, with respect to Store No. 765. (2004 Form 10-K, Exhibit No. 10.84)
10.84a*	Assignment and Assumption of Lease, dated March 1, 2004, between Mr. Tire, Inc. and the Company, with respect to Store No. 765. (2004 Form 10-K, Exhibit No. 10.84a)
10.84b*	Landlord's Consent and Estoppel Certificate, dated as of February 27, 2004, by Mt. Airy South Main Street, LLC (formerly known as LPR Associates), with respect to Store No. 765. (2004 Form 10-K, Exhibit No. 10.84b)
10.84c*	Renewal Letter, dated October 29, 2008, from the Company to Mt. Airy South Main Street, LLC (formerly known as LPR Associates) with respect to Store No. 765. (2009 Form 10-K, Exhibit No. 10.84c)
10.84d*	Renewal Letter, dated December 4, 2013, from the Company to Mt. Airy South Main Street, LLC (formerly known as LPR Associates) with respect to Store No. 765. (2014 Form 10-K, Exhibit No. 10.84d)
21.01	Subsidiaries of the Company.
23.01	Consent of PricewaterhouseCoopers LLP.
24.01	Powers of Attorney.
31.1	Certification of Brett T. Ponton, President and Chief Executive Officer.
31.2	Certification of Brian J. D'Ambrosia, Senior Vice President – Finance and Chief Financial Officer.
32.1	Certification Pursuant to 18 U.S.C. Section 1350 (Section 906 of the Sarbanes-Oxley Act of 2002).
	101.INS‡—XBRL Instance Document
	101.LAB‡—XBRL Taxonomy Extension Label Linkbase
	101.PRE‡—XBRL Taxonomy Extension Presentation Linkbase
	101.SCH‡—XBRL Taxonomy Extension Schema Linkbase
	101.DEF‡—XBRL Taxonomy Extension Definition Linkbase

* An asterisk "*" following an exhibit number indicates that the exhibit is incorporated herein by reference to an exhibit to one of the following documents: (1) the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 1992 ("1992 Form 10-K"); (2) the Company's Annual Report on Form 10-K for the fiscal year ended March 30, 2002 ("2002 Form 10-K"); (3) the Company's Annual Report on Form 10-K for the fiscal year ended March 27, 2004 ("2004 Form 10-K"); (4) the Company's Registration Statement on Form S-3 (Registration No. 333-118176), filed with the Securities and Exchange Commission on August 12, 2004 ("August 2004 Form S-3"); (5) the Company's Registration Statement on Form S-8 (Registration No. 333-133044) filed with the Securities and Exchange Commission on April 6, 2006 ("April 2006 Form S-8 for 2003 Plan"); (6) the Company's Annual Report on Form 10-K for the fiscal year ended March 25, 2006 ("2006 Form 10-K"); (7) the Company's Annual Report on Form 10-K for fiscal year ended March 29, 2008 ("2008 Form 10-K"); (8) the Company's Registration Statement on Form S-8 (Registration No. 333-151196) filed with the Securities and Exchange Commission on May 27, 2008 ("May 2008 Form S-8"); (9) the Company's Annual Report on Form 10-K for the fiscal year ended March 28, 2009 ("2009 Form 10-K"); (10) the Company's Current Report on Form 8-K, filed on August 12, 2010 ("August 2010 Form 8-K"); (11) the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2012 ("2012 Form 10-K"); (12) the Company's Current Report on Form 8-K, filed August 9, 2012 ("August 2012 Form 8-K"); (13) the Company's Current Report on Form 8-K, filed on December 20, 2012 ("December 2012 Form 8-K"); (14) the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended December 29, 2012 ("December 2012 Form 10-Q"); (15) the Company's Current Report on Form 8-K, filed February 11, 2014 ("February 2014 Form 8-K"); (16) the Company's Annual Report on Form 10-K for the fiscal year ended March 30, 2013 ("2013 Form 10-K"); (17) the Company's Definitive Proxy Statement on Form DEF14A, filed June 10, 2013 ("2013 Proxy"); (18) the Company's Current Report on Form 8-K, filed May 20, 2014 ("May 2014 Form 8-K"); (19) the Company's Annual Report on Form 10-K for the fiscal year ended March 29, 2014 ("2014 Form 10-K"); (20) the Company's Current Report on Form 8-K, filed August 29, 2014 ("August 2014 Form 8-K"); (21) the Company's Current Report on Form 8-K, filed May 27, 2015 ("May 2015 Form 8-K"); (22) the Company's Annual Report on Form 10-K, for the fiscal year ended March 28, 2015 ("2015 Form 10-K"); (23) the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended December 26, 2015 ("December 2015 Form 10-Q"); (24) the Company's Current Report on Form 8-K, filed January 28, 2016 ("January 2016 Form 8-K"); (25) the Company's Annual Report on Form 10-K for the fiscal year ended March 26, 2016 (the "2016 Form 10-K); (26) the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended September 24, 2016 ("September 2016 Form 10-Q"); (27) the Company's Current Report on Form 8-K, filed January 4, 2017 ("January 2017 Form 8-K"); (28) the Company's Annual report on Form 10-K for the fiscal year ended March 25, 2017 ("2017 Form 10-K"); (29) the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended June 24, 2017 ("June 2017 Form 10-Q"); (30) the Company's Definitive Proxy Statement on Form DEF14A, filed July 17, 2017 ("2017 Proxy"); (31) the Company's Current Report on Form 8-K, filed August 21, 2017 ("August 2017 Form 8-K"); and (32) the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended September 23, 2017 ("September 2017 Form 10-Q"). The appropriate document and exhibit number are indicated in parentheses.

** Management contract or compensatory plan or arrangement required to be filed as an exhibit to this Form 10-K pursuant to Item 14(c) hereof.

† Portions of this exhibit have been omitted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment in accordance with Rule 24b-2 of the Securities Exchange Act of 1934.

‡ Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement of prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or deemed filed for purpose of Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability under those sections.

Item 16. Form 10-K Summary

None.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MONRO, INC.
(Registrant)

By: /s/ Brett T. Ponton
Brett T. Ponton
Chief Executive Officer and President

Date: May 30, 2018

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Signature	Title	Date
/s/ Brett T. Ponton Brett T. Ponton	Chief Executive Officer, President and Director (Principal Executive Officer)	May 30, 2018
/s/ Brian J. D'Ambrosia Brian J. D'Ambrosia	Senior Vice President-Finance, Chief Financial Officer and Treasurer (Principal Financial Officer and Principal Accounting Officer)	May 30, 2018
/s/ Robert E. Mellor* Robert E. Mellor	Chairman of the Board, Director	May 30, 2018
/s/ John L. Auerbach* John L. Auerbach	Director	May 30, 2018
/s/ Frederick M. Danziger* Frederick M. Danziger	Director	May 30, 2018
/s/ Donald Glickman*	Director	May 30, 2018

Donald Glickman

/s/ Lindsay N. Hyde* Lindsay N. Hyde	Director	May 30, 2018
/s/ Stephen C. McCluski* Stephen C. McCluski	Director	May 30, 2018
/s/ Peter J. Solomon* Peter J. Solomon	Director	May 30, 2018

* By: /s/ Brett T. Ponton
Brett T. Ponton, as Attorney-in-Fact

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