

TURKCELL ILETISIM HIZMETLERI A S

Form 20-F

April 23, 2008

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As filed with the Securities and Exchange Commission on April 23, 2008

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 20-F**

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

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2007

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

# **TURKCELL ILETISIM HIZMETLERI A.S.**

(Exact Name of Registrant as Specified in Its Charter)

## **TURKCELL**

(Translation of Registrant's Name Into English)

**Republic of Turkey**

(Jurisdiction of Incorporation or Organization)

**Turkcell Plaza**

**Mesrutiyet Caddesi No: 71**

**34430 Tepebasi**

**Istanbul, Turkey**

(Address of Principal Executive Offices)

**Mr. Serkan Okandan**

**Telephone: +90 212 313 1201**

**Facsimile: +90 212 292 5390**

**Turkcell Plaza**

**Mesrutiyet Caddesi No: 71**

**34430 Tepebasi**

**Istanbul, Turkey**

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

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

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

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

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

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

**None**

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

**None**

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

**Ordinary Shares, Nominal Value TRY 1.000**

**2,200,000,000**

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

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

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

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

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

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

U.S. GAAP  International Financial Reporting Standards as issued by the International Accounting Standards Board  Other

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

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



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**INTRODUCTION**

This is the 2007 annual report for Turkcell Iletisim Hizmetleri A.S. ( Turkcell ), a joint stock company organized and existing under the laws of the Republic of Turkey. The terms we , us , our , and similar terms refer to Turkcell, its predecessors, and its consolidated subsidiaries except as the context otherwise requires.

Our audited consolidated financial statements as of December 31, 2007 and 2006 and for each of the years in the three-year period ended December 31, 2007 included in this annual report have been prepared in accordance with International Financial Reporting Standards ( IFRS ) as issued by the International Accounting Standards Board ( IASB ).

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

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

**FORWARD-LOOKING STATEMENTS**

This annual report includes forward-looking statements within the meaning of Section 27A of the U.S. Securities Act of 1933, as amended, Section 21E of the U.S. Securities Exchange Act of 1934, as amended, and the Safe Harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. All statements other than statements of historical facts included in this annual report, including, without limitation, certain statements regarding our operations, financial position, and business strategy, may constitute forward-looking statements. In addition, forward-looking statements generally can be identified by the use of forward-looking terminology such as may , will , expect , intend , estimate , anticipate , believe , continue , or similar statements.

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

While we believe that the expectations reflected in these and other forward-looking statements are reasonable, actual results may differ materially from the expectations reflected in those statements due to a variety of factors, including, among others, the following:

competition in our home market;

regulations imposed by the Telecommunications Authority of Turkey (the Telecommunications Authority ) that may require us to maintain certain minimum prices for our services;

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

economic and political developments in Turkey and internationally;

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failure of the Turkish mobile telecommunications market to continue to develop;

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

technological changes in the telecommunications market;

legal and regulatory restrictions imposed by regulatory authorities in Turkey;

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

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

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

legal actions and claims to which we are a party;

foreign exchange rate risks;

the influence of our controlling shareholders;

disputes between our principal shareholders;

exposure to certain risks through our interests in associated companies;

our negotiations to acquire a majority stake in Syriatel Mobile Telecom ( Syriatel );

our ability to deal with spectrum limitations;

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

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



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

our ability to retain key personnel;

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

the current issuance and cancellation halt of American Depositary Shares ( ADSs ) by depositories in Turkey.

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

### **ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

Not Applicable.

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

Not Applicable.

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**ITEM 3. KEY INFORMATION**

**3.A Selected Financial Data**

Our audited consolidated financial statements as of December 31, 2007 and 2006 and for each of the years in the three-year period ended December 31, 2007 included in this annual report have been prepared in accordance with IFRS as issued by the IASB.

You should read the following information in conjunction with Item 5. Operating and Financial Review and Prospects, our audited consolidated financial statements as of December 31, 2007 and 2006 and for each of the years in the three-year period ended December 31, 2007, and the related notes appearing elsewhere in this annual report.

The following table presents our selected consolidated statement of operations, balance sheet and cash flow data as of and for each of the years in the three-year period ended December 31, 2007, presented in accordance with IFRS as issued by the IASB which has been derived from our audited consolidated financial statements as of and for the years ended December 31, 2007, 2006 and 2005. The information appearing under the captions Other Financial Data is not derived from the audited financial statements.

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	2007	2006	2005
	(Million \$, except share data and other certain data)		
<b>Selected Financial Data Prepared in Accordance with IFRS As Issued by the IASB</b>			
<b>Consolidated Statement of Operations Data</b>			
Revenues			
Communication fees	5,976.9	4,406.7	4,295.9
Commission fees on betting business	181.3	172.4	112.5
Monthly fixed fees	54.8	57.6	54.9
Simcard sales	20.8	21.0	50.3
Call center revenues and other revenues	94.8	42.6	14.4
Total revenues	6,328.6	4,700.3	4,528.0
Direct cost of revenues(1)	(3,103.4)	(2,627.9)	(2,701.6)
Gross profit	3,225.2	2,072.4	1,826.4
Other income	7.8	8.1	15.4
Administrative expenses	(252.8)	(154.9)	(154.0)
Selling and marketing expenses	(1,138.2)	(827.5)	(700.5)
Other expenses	(22.5)	(6.5)	(4.9)
Results from operating activities	1,819.5	1,091.6	982.4
Finance income	308.4	184.0	167.5
Finance expense	(551.1)	(108.0)	(191.2)
Net finance income/(expense)	(242.7)	76.0	(23.7)
Share of profit of equity accounted investees(2)	64.9	78.6	68.2
Profit before gain on net monetary position, net	1,641.7	1,246.2	1,026.9
Gain on net monetary position, net			11.0
Profit before income taxes	1,641.7	1,246.2	1,037.9
Income tax expense	(322.4)	(413.2)	(290.5)
Profit for the period	1,319.3	833.0	747.4
Attributable to:			
Equity holders of the Company	1,350.2	875.5	772.2
Minority interest	(30.9)	(42.5)	(24.8)
Profit for the period	1,319.3	833.0	747.4
Basic and diluted earnings per share(3)	0.613710	0.397951	0.351021
<b>Consolidated Balance Sheet Data (at period end)</b>			
Cash and cash equivalents	3,095.3	1,598.6	808.2
Total assets	8,469.0	6,089.7	5,215.1
Long-term debt(8)	140.4	113.5	79.2
Total debt(9)	760.0	639.6	657.3
Total liabilities	2,537.8	1,971.8	1,524.8
Share capital	1,636.2	1,636.2	1,439.0
Total equity/net assets	5,931.2	4,117.9	3,690.3
Weighted average number of shares(3)	2,200,000,000	2,200,000,000	2,200,000,000
<b>Consolidated Cash Flow Data</b>			
Net cash from operating activities	2,156.2	1,854.9	1,072.6
Net cash used for investing activities	(440.5)	(632.5)	(659.2)
Net cash used for financing activities	(255.0)	(395.8)	(347.6)
<b>Other Financial Data</b>			
Dividends declared or proposed(4)	557.0	411.9	342.2
Dividends per share (declared or proposed)(5)(10)	0.253172	0.187227	0.155545
Gross margin(6)	51%	44%	40%
Adjusted EBITDA(7)	2,627.1	1,820.0	1,722.2
Capital expenditures	783.1	604.8	772.6

- (1) Direct cost of revenues includes ongoing license fee and universal service fund payments, transmission fees, base station rents, billing costs, depreciation and amortization charges, technical, repair and maintenance expenses, roaming charges, interconnection fees, cost of Simcards sold, handset costs offered as part of our loyalty programs and personnel expenses for technical personnel.



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- (2) Share of profit of equity accounted investees includes primarily the income (loss) from Fintur Holdings B.V. ( Fintur ) and A-Tel Pazarlama ve Servis Hizmetleri A.S. ( A-Tel ) of which we own 41.45% and 50.00%, respectively. Results of A-Tel s operations have been included in our consolidated financial statements since August 2006. Fintur currently holds all of our International GSM investments other than our Northern Cyprus and Ukraine operations.
- (3) Net income per share figures and weighted average number of shares reflected in our historical financial statements have been retrospectively restated for the stock splits and stock dividends as explained in note 22 to our audited consolidated financial statements.
- (4) The U.S. Dollar equivalent of the cash dividends declared for the year ending December 31, 2007, which amount to TRY 648.7 million, was computed by using the Central Bank of Turkey s TRY/U.S. Dollar exchange rate on December 31, 2007. The General Assembly meeting to approve the distribution of dividends for 2007 is expected to take place on April 25, 2008.
- (5) In 2006, we declared dividends of \$342.2 million for the year ended December 31, 2005, when 1,854,887,341 of our shares were outstanding. The decision of the Board of Directors was approved by the General Assembly which was held on May 22, 2006. Dividends per share for the year ending December 31, 2005 are computed over 2,200,000,000 shares in order to reflect the effect of certain stock splits and stock dividends as explained in note 22 to our consolidated financial statements. In 2007, we declared dividends of \$411.9 million for the year ended December 31, 2006, when 2,200,000,000 of our shares were outstanding. The decision of the Board of Directors was approved by the General Assembly meeting which was held on March 23, 2007. In 2008, we declared dividends of \$557.0 million for the year ended December 31, 2007, when 2,200,000,000 of our shares were outstanding. The General Assembly meeting to approve the declaration of dividends by the Board of Directors is expected to be held on April 25, 2008.
- (6) Gross margin has been calculated as gross profit divided by total revenues.
- (7) Adjusted EBITDA is a non-GAAP financial measure that equals net income before finance income, finance expense, income tax benefit (expense), other income, other expense, minority interest, share of profit of equity accounted investees, gain on net monetary position, depreciation and amortization.
- (8) Consists of long-term loans and borrowings and long-term lease obligations.
- (9) Consists of long-term and short-term loans and borrowings and lease obligations.
- (10) Dividend per share figures in TRY are TRY 0.2948699 for the year ended December 31, 2007, TRY 0.257745 for the year ended December 31, 2006 and TRY 0.231398 for the year ended December 31, 2005.

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	2004	2003
	(Million \$, except share data and other certain data)	
<b>Selected Financial Data Prepared in Accordance with US GAAP</b>		
<b>Consolidated Statement of Operations Data</b>		
<b>Revenues</b>		
Communication fees	3,088.1	2,143.6
Commission fees on betting business	20.3	
Monthly fixed fees	51.9	41.1
Simcard sales	28.3	24.4
Call center revenues and other revenues	12.2	10.1
Total revenues	3,200.8	2,219.2
Direct cost of revenues(1)	(2,001.2)	(1,613.2)
Gross profit	1,199.6	606.0
Administrative expenses	(137.3)	(137.2)
Selling and marketing expenses	(349.2)	(294.6)
Income from operations	713.1	174.2
Income (loss) from related parties, net	1.9	3.7
Interest income (expense), net	31.3	(366.3)
Other income (expense), net	7.1	6.2
Equity in net income (loss) of unconsolidated investees(2)	43.6	18.9
Minority interest in income (loss) of consolidated subsidiaries	7.5	3.6
Translation loss	(11.3)	(102.4)
Income (loss) before taxes	793.2	(262.1)
Income tax benefit (expense)	(281.4)	477.3
Net income (loss)	511.8	215.2
Basic and diluted earnings per share(5)	0.232636	0.097818
<b>Consolidated Balance Sheet Data (at period end)</b>		
Cash and cash equivalents	763.8	582.7
Total assets	4,361.5	3,867.3
Long-term debt(3)	269.7	522.2
Total debt(4)	832.6	630.2
Total liabilities	2,376.0	2,320.0
Share capital	636.1	636.1
Total equity/net assets	1,985.5	1,547.3
Weighted average number of shares(5)	2,200,000,000	2,200,000,000
<b>Consolidated Cash Flow Data</b>		
Net cash from operating activities	603.9	1,041.3
Net cash used for investing activities	(542.3)	(198.9)
Net cash used for financing activities	119.5	(653.8)
<b>Other Financial Data</b>		
Dividends declared(6)	182.2	78.1
Dividends per share (declared)(7)	0.082818	0.035500
Gross margin(8)	37.5%	27.3%
Capital expenditures	486.7	172.9

- (1) Direct cost of revenues includes ongoing license fee, transmission fees, base station rents, billing costs, depreciation and amortization charges, technical, repair and maintenance expenses, roaming charges, interconnection fees, cost of Simcards sold and personnel expenses for technical personnel.
- (2) Equity in net income (loss) of consolidated investees includes primarily the income (loss) from Fintur Holdings B.V. ( Fintur ) of which we own 41.45%. Fintur currently holds all of our International GSM investments other than our Northern Cyprus and Ukraine operations.
- (3) Consists of long-term loans and borrowings and long-term lease obligations.
- (4) Consists of long-term and short-term loans and borrowings and lease obligations.

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- (5) Net income per share figures and weighted average number of shares reflected in our historical financial statements have been retrospectively restated for the stock splits and stock dividends.
- (6) In 2004, we paid dividends of 78.1 million for the year ended December 31, 2003, when 500,000,000 of our shares are outstanding. In 2005, we paid dividends of 182.2 million for the year ended December 31, 2004, when 1,854,887,341 of our shares are outstanding.
- (7) Dividends per share for the year ended December 31, 2004 and 2003 is computed over 2,200,000,000 shares in order to reflect the effect of certain stock splits.
- (8) Gross margin has been calculated as gross profit divided by total revenues.

Adjusted EBITDA is a non-GAAP financial measure which equals net income before finance income, finance expense, income tax benefit (expense), other income, other expense, minority interest, share of profit of associates, gain on net monetary position, depreciation and amortization. Our management reviews Adjusted EBITDA as a key indicator each month to monitor our cash generation ability and liquidity position. Net income is generally considered by our management as the main indicator for our operating performance. Adjusted EBITDA is not a measurement of liquidity under IFRS as issued by the IASB and should not be construed as a substitute for net income (loss) as a measure of performance or cash flow from operations as a measure of liquidity.

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

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

Some of these limitations are:

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

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

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

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

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

other companies in our industry may calculate this measure differently than we do, limiting its usefulness as a comparative measure. We compensate for these limitations by relying primarily on our results under IFRS as issued by the IASB and using Adjusted EBITDA measures only supplementally. See Item 5 Operating and Financial Review and Prospects and the consolidated financial statements contained elsewhere in this annual report.

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

	Year ended December 31,		
	2007	2006	2005
	(Million \$)		
<b>Adjusted EBITDA</b>	2,627.1	1,820.0	1,722.2
Income tax expense	(322.4)	(413.2)	(290.5)
Other operating income/(expense)	(10.8)	0.3	10.5
Financial income	1.6	(46.4)	(187.6)
Financial expense	(264.4)	19.9	76.8
Net decrease in assets and liabilities	125.1	474.3	(258.8)
<b>Net cash from operating activities</b>	<b>2,156.2</b>	<b>1,854.9</b>	<b>1,072.6</b>

The following table presents selected operational data:

**Operating Results**

	Year ended December 31,		
	2007	2006	2005
<b>Industry Data</b>			
Estimated population of Turkey (in millions)(1)	70.6	74.4	73.4
<b>Turkcell Data</b>			
Number of postpaid subscribers at end of period (in millions)(2)	6.4	5.8	5.4
Number of prepaid subscribers at end of period (in millions)(2)	29.0	26.0	22.5
Total subscribers at end of period (in millions)(2)	35.4	31.8	27.9
Average monthly revenue per user (in \$)(3)	14.3	12.1	14.0
Postpaid	37.6	31.0	33.5
Prepaid	9.2	7.8	9.0
Average monthly minutes of use per subscriber(4)	76.3	70.3	67.7
Churn(5)	19.9%	14.7%	10.1%
Number of Turkcell employees at end of period	2,875	2,751	2,818
Number of employees of consolidated subsidiaries at end of period(6)	6,782	5,257	4,658

- (1) The Turkish population for 2007 is based on data derived from the address-based population registration system announced in January 2008. The Turkish population for 2006 and 2005 has been estimated based upon the 1996 and 2000 censuses prepared by the Turkish Statistical Institute, applying a projected monthly growth rate of 0.13%.
- (2) Subscriber numbers do not include the subscribers in Ukraine and Northern Cyprus.
- (3) We calculate average revenue per user, ARPU, using the weighted average number of our subscribers during the period. ARPU does not include the results of our operations in Ukraine and Northern Cyprus.
- (4) Average monthly minutes of use per subscriber is calculated by dividing the total of incoming and outgoing airtime minutes of use by the average monthly number of postpaid and prepaid subscribers for the year divided by twelve. Our Minutes of Usage ( MoU ) calculation does not include our operations in Ukraine and Northern Cyprus.
- (5) 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 calculations do not include our operations in Ukraine and Northern Cyprus.
- (6) See Item 6.D. Employees for information with respect to our consolidated subsidiaries.





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Effective January 1, 2005, the Turkish parliament redenominated the Turkish Lira and created a new currency, the New Turkish Lira or TRY. One million Turkish Lira is equal to one New Turkish Lira. Turkish Lira remained in circulation along with the New Turkish Lira until the end of 2005. Effective January 1, 2006, only New Turkish Lira are in circulation in Turkey.

The Federal Reserve Bank of New York does not report a noon buying rate for the New Turkish Lira 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 New Turkish Lira amounts into U.S. Dollars at the relevant New Turkish Lira exchange rate for purchases of U.S. Dollars at the TRY/\$ Exchange Rate announced by the Central Bank of Turkey. In addition, this annual report presents translations of certain New Turkish Lira amounts into U.S. Dollars at the relevant New Turkish Lira exchange rate for purchases of U.S. Dollars at the TRY/\$ Exchange Rate announced by the Central Bank of Turkey. Prior to January 1, 2006, unless otherwise stated, any balance sheet data in U.S. Dollars derived from our consolidated financial statements are translated from New Turkish Lira into U.S. Dollars at rates announced by the Central Bank of Turkey on the date of such balance sheet for monetary assets and liabilities and at historical rates for equity and non-monetary assets and liabilities. Starting from January 1, 2006, any balance sheet data (monetary or non-monetary) in U.S. Dollars derived from our consolidated financial statements are translated from New Turkish Lira into U.S. Dollars at exchange rates at the balance sheet date. Income and expenses for each income statement (including comparatives) are translated to U.S. Dollars at monthly average exchange rates. Any data from our consolidated statements of operations in U.S. Dollars derived from our consolidated financial statements are translated from New Turkish Lira into U.S. Dollars at historic rates. Unless otherwise indicated, the TL/\$ exchange rate or TRY/\$ exchange rate used in this annual report is the TL/\$ exchange rate or TRY/\$ exchange rate in respect of the date of the financial information being referred to.

The following table sets forth, for the periods and the dates indicated, the Central Bank of Turkey'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 as of April 1, 2008 was TRY 1.306 = \$1.00.

	Year ended December 31,(1)					
	2008(2)(3)	2007(2)	2006(2)	2005(2)	2004	2003
High	1.306	1.450	1.693	1.400	1,550,710	1,746,390
Low	1.145	1.163	1.297	1.254	1,301,340	1,348,023
Average(1)	1.190	1.303	1.431	1.344	1,422,514	1,492,581
Period End	N/A	1.165	1.406	1.342	1,342,100	1,395,835

Source: Central Bank of Turkey

- (1) Calculated based on the average of the exchange rates on the last day of each month during the relevant period.
- (2) These columns set forth the Central Bank of Turkey's buying rates for U.S. Dollars expressed in New Turkish Lira.
- (3) Through April 1, 2008.

	April	March	February	January	December	November	October
	2008(1)	2008	2008	2008	2007	2007	2007
High	1.306	1.277	1.222	1.222	1.186	1.212	1.231
Low	1.306	1.191	1.159	1.145	1.163	1.168	1.177

Source: Central Bank of Turkey

- (1) Through April 1, 2008.

No representation is made that the New Turkish Lira or the U.S. Dollar amounts in this annual report could have been or could be converted into U.S. Dollars or New Turkish Lira, as the case may be, at any particular rate. Changes in the exchange rate between New 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.



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**3.B Capitalization and Indebtedness**

Not applicable.

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

Not applicable.

**3.D Risk Factors**

**Competition in our home market has increased in recent years and may continue to increase in the future.**

We face intensifying competition in our home market from other GSM providers and other telecommunications companies offering competing services, which could affect our ability to add new customers at current rates and lead to a decrease in the size of our market share. In the Turkish GSM market, we currently face competition from Vodafone Telekomunikasyon A.S. ( Vodafone ) and Avea Iletisim Hizmetleri A.S. ( Avea ). Competition has increased in recent years due, in part, to structural changes in the competitive environment. The Vodafone Group, a large multinational GSM operator, acquired all the shares of Telsim Mobil Telekomunikasyon Hizmetleri A.S. ( Telsim ), one of our Turkish GSM competitors, on May 24, 2006, established Vodafone as the new operating company for Telsim and rebranded Telsim as Vodafone. In addition, Turk Telekomunikasyon A.S. ( Turk Telekom ), the fixed-line telecommunications operator in Turkey, increased its stake in Avea from approximately 40.5% to 81% in September 2006. Turk Telekom is 55% owned by Oger Telecom, a multinational GSM operator in which Saudi Telecom Company, the Arab world's largest telephone company, agreed in January 2008 to buy a 35% stake.

This competition has been increasingly focused on price, as well as other factors such as quality of service, use of bundled offers (including free minutes or free SMS messages) and increasing handset subsidies from GSM operators. Such competition may make it more difficult to attract and retain customers, causing higher churn rates as customers switch carriers to take advantage of lower offers. In addition, it may pressure us to lower prices.

We also face competition from Turk Telekom and other telecommunications service providers. Turk Telekom's fixed line products and those of these other providers may provide an alternative to GSM for customers' communications needs for both voice and data transmission. In light of such circumstances, we expect competition from Turk Telekom's fixed line business and from these other telecommunications service providers to intensify in the future.

In addition, as further discussed below, we expect that third generation ( 3G ) licenses and other types of licenses will be offered in Turkey, which will potentially open the door to new competitors.

**The Telecommunications Authority has and may continue to require us to maintain certain prices for our services, which has and may continue to have a material adverse effect on our business and results of operations.**

In response to complaints by Vodafone and Avea, the Telecommunications Authority has recently required us to maintain certain prices for our services. For the tariffs that we charge our subscribers for calls terminated on our network (on-net tariffs), the Telecommunications Authority mandated that our regular and discounted on-net tariffs could not be less than the lowest interconnection rate applicable. In addition, the Telecommunications Authority set a maximum price of TRY 0.66 (including Value Added Tax ( VAT )) that we may charge our subscribers for calls that are terminated outside of our network on other mobile operators' common subscription packages.

Due to the high-level of complexity involved, we sought clarification of its decisions and we have taken actions to revise some of our tariffs and campaigns to comply with the Telecommunications Authority's new policy to the extent practical and to our best understanding.

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The Telecommunication Authority's actions have negatively affected our ability to design and launch new campaigns and offers and, consequently, have had a negative impact on our business, particularly on our fourth quarter 2007 and first quarter 2008 results.

We have also commenced litigation against the Telecommunications Authority to challenge these decisions, which we believe exceed the scope of its authority and violate the terms of our license agreement. See Item 8.A. Consolidated Statements and Other Financial Information Legal Proceedings.

Following discussions with the Telecommunications Authority seeking clarification of its decisions, we have designed an alternative interconnection scheme with a new pricing model that we believe is compliant with the Telecommunications Authority's decision. We believe that the flexibility that we will regain through this model will be sufficient to allow us to devise pricing and marketing strategies that will be attractive to current and potential subscribers.

However, no assurance can be given that these strategies will be successful, or that our litigation will be decided in a manner that is both favorable to us and timely or that we will not have further disagreements with the Telecommunications Authority regarding this matter.

If the Telecommunications Authority disagrees with our alternative interconnection scheme and we are required to implement the decisions of the Telecommunications Authority in the manner presently required by it, we would in all likelihood be required to modify our tariffs and our marketing strategy in ways that would make us less competitive with regard to price in the Turkish GSM market, which could continue to harm our market share and continue to have a material adverse effect on our business and results of operations.

**Regulatory changes in Turkey with respect to issues such as Mobile Number Portability ( MNP ), licenses for third generation ( 3G ) technology and dealership exclusivity may result in increased competition and/or the entrance of new direct or indirect competitors, which could have a material adverse effect on our business and results of operations.**

The Telecommunications Authority has made or proposed changes to regulations relating to 3G technologies, MNP, long distance licensing and other technologies that could increase the competition we face in the Turkish communications market, in part by making it easier and/or more attractive for new direct and indirect competitors to enter the market. In addition, the Telecommunications Authority is in the process of preparing regulations for Mobile Virtual Network Operators ( MVNO ), Worldwide Interoperability for Microwave Access ( WiMAX ) licensing, Wireless Broadband Access Services operator licenses ( WBA ) and Value Added Services ( VAS ) licenses, which, if and when they are issued, could significantly affect market dynamics.

The issuance of 3G licenses and the introduction of 3G services in Turkey could lead to significant changes in the competitive environment. We expect a tender process for the granting of 3G licenses to take place during 2008, although no announcement for such process has yet been made. The Telecommunications Authority had cancelled the 3G tender process in 2007 and, accordingly, there may be further delays. Our failure to obtain a 3G license or to implement 3G could affect our competitive position. Our ability to implement 3G services will be dependent on clearing the 3G regulatory and licensing process. We understand that the Telecommunications Authority may attempt to award at least four 3G licenses, possibly resulting in at least one new entrant into the current market, which could affect market dynamics and lead to further deterioration in our market share.

The Telecommunications Authority has issued regulations on MNP, which allow subscribers to keep their existing telephone numbers when changing telephone operators. These regulations are expected to become operational in the fourth quarter of 2008 based on a public statement of the Telecommunications Authority. The introduction of MNP into the Turkish market may lead to increased churn rates and subscriber retention and

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acquisition costs and may have a significant impact on both Turkcell and the market. Turkcell must ensure it implements MNP on a timely basis, otherwise a delayed implementation may result in the imposition of fines by the Telecommunications Authority. However, we believe that the MNP regulations conflict with our rights under our license agreement. As such, we initiated a lawsuit on March 29, 2007 for the annulment of the MNP regulations. While we do not protest the substance of mobile number portability, we do, however, believe that our rights under our license agreement should remain protected. We believe that the best way for us to protect our rights is to seek to annul the MNP regulations. The lawsuit is pending and we can give no assurance regarding its outcome. See Item 8.A. Consolidated Statements and Other Financial Information Legal Proceedings.

We expect to face increased competition from, among others, long distance carriers and fixed line telephony providers. In May 2004, the Telecommunications Authority granted long distance licenses, allowing licensees to provide both domestic and international Long Distance Telephony Services ( LDTS ). Over 45 companies hold such licenses but only some are operational. Although these long distance telephony 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 long distance calls in Turkey.

The Competition Board has modified its regulations in 2007 in a manner that effectively provides that companies with a market share in excess of 40% shall not be within the scope of the Board's block exemption for vertical exclusivity arrangements with other companies and that previously granted individual exemptions may cease to be valid from July 2008. We have previously obtained an individual exemption from the Competition Board for the exclusivity provisions with respect to our dealer agreements, and have submitted a request to the Competition Board for an individual exemption with respect to our exclusive dealer arrangements. We are awaiting a response. If we are not granted such exception, we may be required to terminate the exclusivity provisions in our arrangements with our dealers, effective as of July 1, 2008.

Each of these regulatory changes could result in increased competition and/or the entrance 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, any of which could have a material adverse effect on our business, consolidated financial condition and results of operations.

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

Although the Turkish economy has benefited from a prolonged period of relative stability, it has experienced significant turmoil in the recent past and remains vulnerable to such turmoil in the future for reasons related to both domestic and international conditions. With a substantial portion of our revenues, assets and business derived from and located in Turkey and denominated in New Turkish Lira, adverse developments in the Turkish market may have a material adverse effect on our business, consolidated financial condition and results of operations, as well as on the price of our shares and ADSs.

Turkey remains vulnerable to global shocks and global liquidity problems as a result of its continuing current account deficit (which is one of the widest current account deficits on a nominal basis) and continuing elevated energy prices which are expected to have adverse effects on both inflation and the current account deficit. Inflation figures depend on various factors such as oil prices, domestic pricing behavior and the currency exchange rate trends. The latter is viewed as presenting a serious risk this year. However, the monetary policy of the Central Bank of Turkey as well as the government's commitment on fiscal policies and the continuation of the structural reforms are expected to continue to be key factors in maintaining Turkey's financial strength. The government's approach towards the new IMF program will also be important as it is still an anchor for foreign investors, particularly in an increasingly uncertain global environment.

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The Turkish economy has also been and will continue to be vulnerable to political instability. Political uncertainty within Turkey, including actions by terrorist and ethnic separatist groups, along with armed conflict and the threat of armed conflict in neighboring countries, such as Iran, Syria, Georgia and Armenia, historically have been among the potential risks associated with investment in Turkish companies. The instability surrounding the situation in Iraq, as well as tension in and involving the Kurdish regions of northern Iraq, could also have negative economic consequences for us. Although relations with the United States have always played a major role in the stability of the Turkish economy, the relationship has become even more important due to the United States' presence in Iraq.

For 2008, we are particularly concerned about the case currently pending before Turkey's highest court challenging Turkey's Ruling Party the Justice and Development Party (AKP), which may result in the dissolution of the party, bringing down the current governing majority. If successful, the dissolution of the AKP could lead to political turmoil and could slow or halt government reforms and policies sought by the European Union (EU) and the business community. Other challenging issues that are presently expected for Turkey in 2008 are a continuing headscarf debate, constitutional disputes and terrorism arising from the Southeast region. Internationally, ongoing disputes over Cyprus, negotiations for EU accession and military action along the border with Iraq may also be major issues.

For these and other reasons, 2008 is expected to be another challenging year.

**The development and growth of the Turkish mobile telecommunications markets could affect our business and results of operations.**

The growth of our business is dependent to a large extent on the development of the Turkish mobile telecommunications market. If the Turkish mobile telecommunications market slows in growth or develops in unexpected ways, this could harm our business and results of operations.

The subscriber mobile line penetration rate in Turkey is relatively low in comparison to the average EU penetration rate. As of the end of December 2007, the subscriber mobile line penetration rate in Turkey was approximately 88% according to the Telecommunications Authority. This figure is higher than the actual individual customer penetration rate because it includes multiple Simcard usage. The development of our business will depend, in large part, on the level of demand for mobile telecommunications in Turkey. Although we expect continued growth in the number of mobile telecommunications subscribers in Turkey, we expect the growth rate to be less than that of recent years.

We are focused on increasing average monthly revenue per user in TRY and average monthly minutes of use per subscriber rather than purely growing our subscriber base. These parameters will, however, be negatively affected by an increasing prepaid subscriber base. In addition, the size and usage patterns of our future subscriber base will be affected by a number of factors outside of our control. Such factors include general economic conditions, consumption tax on mobile phone usage, changes in the regulatory environment, the development of and changes to the GSM market, the availability, quality and cost to the subscriber of competing mobile services and improvements in the quality and availability of fixed line telephone services in Turkey. Recently, pricing regulations implemented by the Telecommunications Authority have also been a significant factor. 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 increase revenues or profitability. In recent months, we have experienced an increase in churn and it is possible that in the future we may not grow our subscriber base in line with the market. Any adverse change in the growth and usage patterns of our subscribers could harm our business and results of operations.

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

Our strategy for growth is to selectively seek and evaluate new investment opportunities. We have identified four focus areas in which we intend to pursue opportunities to grow our business: core GSM business in Turkey;

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new business models through our value added services; new technologies that will create synergies with our current business; and international markets, with our main focus being mobile solutions. Such opportunities may include, both in Turkey and overseas, the acquisition of other companies, the purchase of telecommunication licenses, entrance into new lines of business and the use of new technologies. We may not, however, be able to successfully integrate and manage the opportunities we pursue. In pursuit of our growth strategy, our management may divert undue attention and/or cash resources away from other ongoing business concerns, which could harm our business and result of operations. In addition, investments may not provide expected returns or returns that are in line with those of our core business. See the discussion below regarding our proposed acquisition of Syriatel.

### **We may be unable to adapt to technological changes in the communications market.**

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

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

The effects of technological changes on our business cannot be predicted. In addition, it is impossible to predict with any certainty whether the technology selected by us will be the most economical, efficient or capable of attracting customer usage. There can be no assurance that we will be able to develop new products and services that will enable us to compete effectively.

### **A large amount of our business is or may be subject to certain legal and regulatory arrangements.**

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

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

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

granting additional mobile telephone licenses or other telephony licenses to new entrants and existing operators;

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

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

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



the introduction of additional fees or charges by governmental authorities; and

introduction of new regulations regarding protection of personal data of subscribers and/or users.

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

**The Telecommunications Authority has designated Turkcell as an operator holding significant market power in access to GSM mobile networks and the call origination market, which could affect our competitiveness and have a material adverse effect on our results of operations.**

Pursuant to the Access and Interconnection Regulation (the Regulation), which became effective on May 23, 2003 and sets forth the rights and obligations of the operators in the telecommunications sector in Turkey, the Telecommunications Authority has designated us an operator holding significant market power in the GSM Mobile Telecommunication Services Market and GSM Mobile Call Termination Services Market and Vodafone an operator holding significant market power in the GSM Mobile Call Termination Services Market. On January 4, 2005, the Telecommunications Authority designated Turkcell individually as an operator holding significant market power in the GSM Mobile Call Termination Services Market. Finally, on December 15, 2005, the Telecommunications Authority 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.

As a result of this designation, our company as an operator holding significant market power is required to provide interconnection services on a cost-based basis while operators not designated as operator holding significant market power can set their prices differently than the operators designated as such. In addition, due to our designation as an operator holding significant market power in the GSM mobile call termination services market, the Telecommunications Authority annually reviews our prices for interconnection services and has the authority to publish Standard Reference Interconnection Tariffs, which recommend call termination fees for us. These Standard Reference Interconnection Tariffs are not necessarily directly applicable to our current or future interconnection agreements. However, if we are unable to reach an agreement with other parties on prices for interconnection services, the Telecommunications Authority may use the Standard Reference Interconnection Tariffs, as it has done in connection with our previous disputes with Turk Telekom and Avea. This mechanism may have the effect of reducing the rates we are able to charge for interconnection services, which could have a material adverse effect on our business and results of operations.

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

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

Our license contains a number of requirements, including requirements regarding operation, quality and coverage of the GSM network; national security issues; maintenance of confidentiality; prohibitions on anti-competitive behavior; and compliance with international and national GSM standards. If we fail to meet any requirement in our license or to comply with applicable regulations, we could be subject to sanction, including the limitation or revocation of our license.

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

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In addition, Turkey's accession talks with the EU may require further modifications in the regulatory framework governing the Turkish telecommunications industry, any or all of which may be detrimental to our competitive position or our operations.

For a description of our license and the regulatory regime under which we operate in Turkey, see Item 4.B. Business Overview Regulation of the Turkish Telecommunications Industry. In addition to the foregoing, our indirectly owned subsidiary, Limited Liability Company Astelit (Astelit), holds GSM licenses in Ukraine. If Astelit fails to comply with the terms and conditions of its license agreement it may incur significant penalties, which could have a material adverse effect on our international expansion strategy and our business and results of operations.

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

Alexey Khudyakov was appointed to the audit committee on July 21, 2006. Alexey Khudyakov's status on the audit committee is as an observer member because under the US Sarbanes-Oxley Act of 2002 he is not considered an independent audit committee member due to his position with one of our affiliated shareholders. On January 26, 2007, the Turkish CMB informed Turkcell that Alexey Khudyakov's current status, as an observer member on the audit committee, does not satisfy the requirements under Article 25, Committees Responsible for Auditing of the CMB. The CMB has stated that steps must be taken urgently so that our Company can comply with Article 25. We believe that Mr. Khudyakov does fully meet the requirements of Article 25 as he is a non-executive board member. In March 2007, we commenced a lawsuit before an administrative court seeking to suspend the execution and to annul the decision of the CMB with respect to Mr. Khudyakov.

The administrative court ultimately dismissed our suit in January 2008. In March 2008, we appealed before the Council of State.

If our position in this matter does not ultimately prevail over that of the CMB, our compliance with the listing requirements of the New York Stock Exchange (NYSE) could be called into question, to the extent that the relevant rules of NYSE are based on home country compliance. In this case, remedial action could be required.

**We are involved in various claims and legal actions arising in the ordinary course of our business.**

We are involved in various claims and legal actions with governmental authorities in Turkey, including the Competition Board, the Telecommunications Authority and certain other parties. In addition, we may be involved in additional claims and legal actions with various governmental and other parties in the future. For a more detailed discussion of all of our significant disputes, see Item 8.A. 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.

**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 risk because certain amounts of purchases, operating costs and expenses, receivables and payments are denominated in multiple currencies, primarily U.S. Dollars, Euros and Swedish Krona. In addition, a substantial majority of our debt obligations are currently, and are expected to continue to be, denominated in U.S. Dollars and Euros. Although we have successfully operated in a hyperinflationary environment with continuous devaluation of the Turkish currency since our inception, sudden increases in inflation or the devaluation rate have had, and may continue to have, an adverse effect on our consolidated financial condition, results of operations or liquidity.

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We use analytical techniques such as market valuation and sensitivity and volatility analysis to manage and monitor foreign exchange risk. We keep a portion of our monetary assets in U.S. Dollars, Euros and Swedish Krona, and a portion in New Turkish Lira to reduce our foreign currency exposure. However, fluctuations between New Turkish Lira, on the one hand, and U.S. Dollars, Euros and Swedish Krona, on the other, may have an unfavorable impact on us, as they did in 2007.

In order to manage market volatility in the foreign exchange and fixed income markets, we enter into option and forward contracts in line with our treasury policies. Any options exercised that are either above or below market levels might result in unfavorable results to us.

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

**TeliaSonera, the Cukurova Group, Alfa Telecom Turkey as well as other Alfa Group entities ( Alfa Group ) and Nadash International Holdings, Inc. ( Nadash ) together currently hold a majority of our outstanding share capital which allows them together to exercise a controlling influence over us. This ownership may also have the effect of delaying, deferring or preventing a change of control of Turkcell.**

As of the date of this annual report on Form 20-F, TeliaSonera and the Cukurova Group currently own, directly or indirectly, approximately 37.1% and 18.0%, respectively, of our share capital. On the basis of publicly available information (Form 13D filings), Alfa Group, which previously held, indirectly, 13.2% of our shares, has as of January 2008 transferred control of over 50% of these shares to Nadash. On the same basis, we understand that Alfa Group owns 49% of Nadash.

Our Board of Directors currently consists of seven members, and five members are required for a quorum. Two members of the board are affiliated with each of TeliaSonera, the Cukurova Group and the Alfa Group, with the seventh member being independent. On the basis of publicly available information (Form 13D filings), we understand Alfa Group is required to use reasonable endeavors to cause the appointment of one nominee of each of the Alfa Group and Nadash to our Board of Directors.

TeliaSonera and Cukurova Group hold a portion of their interests and the Alfa Group and Nadash hold all of their interests in us through Turkcell Holding, a holding company that owns 51% of our shares. If TeliaSonera, the Cukurova Group, the Alfa Group and Nadash act together they have the ability to control the Board of Directors and exercise a controlling influence over matters requiring a simple majority vote of the shareholders at a general assembly. To the extent that the interests of TeliaSonera, the Cukurova Group, the Alfa Group and Nadash differ from our interests, or those of our other shareholders could be disadvantaged by any actions that TeliaSonera, the Cukurova Group, the Alfa Group and Nadash might individually or collectively, as two shareholders or three shareholders, seek to pursue.

The ownership of a substantial percentage of our outstanding ordinary shares by TeliaSonera, the Cukurova Group, the Alfa Group and Nadash and the affiliation of these shareholders with members of the Board of Directors may have the effect of delaying, deferring or preventing a change in control of Turkcell, may discourage bids for our ordinary shares or ADSs and may adversely affect the market price of our ordinary shares or ADSs.

**Certain of our principal shareholders are currently involved in a dispute which could adversely impact their ability to achieve the consensus necessary to approve important matters relating to our business and operations.**

The Cukurova Group and TeliaSonera are currently involved in a dispute regarding the previously proposed sale by the Cukurova Group to TeliaSonera of certain holdings in Turkcell Holding A.S. Class B shares. The

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Cukurova Group and TeliaSonera are also currently involved in a dispute regarding the sale by the Cukurova Group to Cukurova Telecom Holdings Limited, a joint venture between the Cukurova Group and the Alfa Group, of certain holdings in Turkcell Holding A.S. Class B shares. In addition, as part of this dispute on August 21, 2006, TeliaSonera filed a lawsuit for the purpose of invalidating our General Assembly Meeting held on May 22, 2006, as well as all resolutions taken at that meeting, including with respect to dividends and the election of board members. The court decided that the General Assembly meeting of May 22, 2006 was validly held.

Based on publicly available information, we understand that the arbitration tribunal of the International Chamber of Commerce ( ICC ) recently held that a binding share purchase agreement for the proposed sale was concluded between TeliaSonera and the Cukurova Group and that the Cukurova Group is obligated to fulfill the agreement, despite already having sold some of the disputed shares to the Alfa Group. In addition, the Alfa Group recently indicated publicly that it is seeking early repayment of an approximately \$1.35 billion loan which it made to the Cukurova Group due to an alleged default under the relevant loan agreement. The Cukurova Group has denied such alleged default, has indicated that Alfa Group has no grounds to force early repayment of such loan and that the Cukurova Group intends to initiate legal proceedings to oppose the claims of Alfa Group. Based on publicly available information, another arbitration tribunal of the ICC in Vienna has issued an award finding that Cukurova has violated certain share transfer restrictions in the shareholders' agreement between Cukurova and TeliaSonera relating to Turkcell Holding. The arbitration tribunal in Vienna has ordered Cukurova Holding to take all measures available to it, including good faith negotiations with Alfa Group, to repurchase the transferred shares. The arbitration tribunal has reserved its rights to decide about other claims brought by TeliaSonera, including damages.

According to publicly available information, in 2005 an independent group petitioned a court regarding the exemption provided by the CMB for the sale of shares between the Cukurova Group and the Alfa Group. It is claimed that under Turkish law the CMB exemption for this sale by the Cukurova Group should not have been granted and this transfer should have triggered a tender offer for minority shareholders. The court annulled the exemption by the CMB. In March 2007, the Cukurova Group and the Alfa Group appealed the decision. At present there has been no outcome to the case.

These disputes could result in the failure of our major shareholders to have a cooperative relationship, which could adversely impact the ability of our principal shareholders to achieve the consensus necessary to approve important matters relating to our business and operations.

**We hold interests in several companies that may expose us to various economic, political, social, financial and liquidity risks and may not provide the benefits that we expect.**

Our investments in subsidiaries and associated companies within Turkey and internationally could expose us to economic, political, social, financial and liquidity risks. We have investments in Azerbaijan, Georgia, Kazakhstan, Moldova and the Ukraine, and we are negotiating to make an investment in Syria through the acquisition of a controlling interest in Syriatel. In addition, we are exploring investment opportunities in Belarus. Specifically, on April 10, 2008, our Board of Directors decided to conduct the necessary studies to submit a proposal directly, or through one of our subsidiaries, to the shareholders of Belarusian Telecommunication Network ( BeST ), based in the Republic of Belarus, to purchase the majority of the company's shares. Along with Turkey, these countries are generally considered by international investors to be emerging markets. Their legal systems, including telecommunications regulations, are relatively underdeveloped, their economies have only recently begun to open to market principles and their respective institutions and commercial practices are relatively weaker and less developed. There can be no assurance that political, legal, economic, social or other developments in these nations will not have an adverse impact on our investments and businesses in these countries.

Our international and domestic operations 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.

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*Ukraine*

We have been operating in Ukraine since the second half of 2004 through our subsidiary Astelit. The country is undergoing a great deal of change and any political instability in Ukraine may have a negative impact on our operations. Although the Ukrainian currency has been relatively stable against the U.S. Dollar for almost five years, this situation may change in the future as a result of the country's balance of payments issues and recent statements made by the Chairman of the Board of Governors of the National Bank of Ukraine that the Bank might consider its monetary policy with regard to maintaining the current exchange rate of the Hryvna against the U.S. Dollar if the rate would continue hurting Ukrainian exporters. Furthermore, the granting of a 3G license to Ukrtelecom and issuing the National Roaming law in 2006 created an additional mobile player in the market. The privatization of Ukrtelecom is on the agenda of the government. Moreover, should we have a conflict of interest in the future with Eurocorp, the other shareholder of our local partner Euroasia Telecommunications Holdings B.V. ( Euroasia ), our consolidated subsidiary that controls and consolidates our Ukrainian operations, it may affect the ability of Astelit's management to move forward with its business plan.

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

*Northern Cyprus*

We have operated a GSM network in Northern Cyprus since July 1999, which may expose us to a number of risks. Any hostilities and/or political instability in Cyprus may have a material adverse effect on the Northern Cypriot economy as well as on the Turkish economy, the progress of Turkey's accession talks with the EU and our investments and business in Northern Cyprus.

*Turkey*

Our wholly owned indirect subsidiary, Tellcom Iletisim Hizmetleri A.S. ( Tellcom ), has begun a program to establish a fiber-optic network capable of wholesale voice carrying services and data transmission. Tellcom plans to spend up to \$200 million in capital expenditures in 2008, and Tellcom may require several years to generate the expected returns from such capital expenditure, if at all. If Tellcom is not able to successfully carry out its plans to establish a fiber optic network, if such plans require materially more financing than currently expected or if Tellcom is not able to successfully develop its business, this could have a material adverse effect on our business and results of operations.

Tellcom's broadband investment can be expected to yield positive returns only in the long-term due to high investment cost as the planned infrastructure covers a wide area (incity, intercity and fiber local loop) and uses fiber-based technologies. The risks of this investment are multi-faceted as there are regulatory and procedural unknowns as well as an increasingly dynamic competitive environment.

Inteltek Internet Teknoloji Yatirim ve Danismanlik Ticaret A.S. ( Inteltek ), our 55%-owned subsidiary, tendered for and signed a contract with the General Directorate of Youth and Sports in 2003 which authorized Inteltek to establish and operate a risk management center and become head agent for fixed odds betting. This activity became fully operational during 2004. Since then, the validity of this contract has been challenged by various lawsuits and by new laws reducing the commissions payable to Inteltek and requiring the fixed odds betting business to be subject to new tenders. A new law passed on February 27, 2008 by the Turkish Parliament appears to have stabilized this situation. This new law requires a new contract to be signed with Inteltek for a period of up to one year, and provides for a new tender to be conducted for the operation of the fixed odds betting

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business. In application of this new law, a new contract to be valid up to one year took effect on March 1, 2008. No assurance can be given that Inteltek will be able to win the expected tender for this business on terms that will be commercially acceptable.

### *Syria*

Specific risks related to our proposed investment in Syria are discussed below.

#### **We are negotiating to make a significant acquisition in Syria, a country subject to international sanctions.**

We are engaged in negotiations with Al Mashreq Investment Fund to acquire a majority stake in Syriatel, the leading GSM operator in Syria. No assurance can be given that these negotiations will be successful and that we will acquire a majority stake in Syriatel. However, if we do, doing business in Syria will entail certain risks. Syria has been identified by the U.S. State Department as a state sponsor of terrorism. Furthermore, Al Mashreq Investment Fund is represented by Rami Makhoul, a Syrian businessman who has been designated by the U.S. Department of Treasury as a person improperly benefiting from the Syrian regime. Current and future U.S. laws and regulations, as well as legal and regulatory actions, targeting Syria and Syrian individuals such as Mr. Makhoul, may curtail our ability to do business in that country and may impede our exercise of control over Syriatel. Turkcell itself, as well as certain of its key employees (notably those who are U.S. citizens), could be subject to sanctions under such laws and regulations as a result of our activities in Syria. In addition, although our purchase of shares in Syriatel should not be subject to prior Syrian governmental or regulatory approval, the Syrian government has effective control over all aspects of the economy and may impose requirements. All the preceding factors could have a material adverse effect on our financial position and results of operations.

Furthermore, investors may be reticent to invest in a company doing business in Syria, and future laws, regulations and policies could also discourage or prohibit investors from investing in a company doing business in Syria. These factors could have an adverse effect on the demand for our shares.

Our eventual acquisition of Syriatel and the success of our business activities there may also be affected by a number of other factors, including:

our ability to manage differences between Syriatel's management and accounting systems and standards and our own (both those differences that are known and those that we may yet discover) and to successfully integrate these systems and standards;

our ability to manage technical differences between Syriatel's network and operating systems and our own (both those differences that are known and those that we may yet discover) and to successfully integrate these systems;

the reaction of Syrian subscribers and potential subscribers to our acquisition of a controlling interest in Syriatel and to the new commercial strategies that we intend to introduce;

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

currency exchange rate fluctuations, notably between the Turkish Lira, Syrian pound and other relevant currencies; and

the competitive and regulatory environment in the Syrian telecommunications market, including the actions of current and future competitors, and any actions taken by the regulators that may affect costs, pricing and competition levels.

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

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





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infrastructure. The spectrum is a continuous range of frequencies within which the waves have certain specific characteristics and we only have 10 MHz of spectrum in the 900 MHz band. As our subscriber base and service offerings increase, there will be a need for more capacity for mobile voice and data; however, with the currently available spectrum, we may face a bottleneck, especially in the metropolitan areas. To overcome this bottle neck, we have applied for the allocation of additional frequencies in the GSM 900 MHz band. There can be no assurance that we can obtain additional frequencies in the 900 MHz band or additional spectrum in the 1800 MHz band or 3G or Universal Mobile Telecommunications System ( UMTS ) with High Speed Packet Access ( HSPA ) technology which works in a completely differeny frequency band (2.1 GHz) at reasonable cost or at all, or that such additional frequencies will not be awarded to our competitors.

### **There are alleged health risks related to BTS and the use of handsets which could expose us to liability and lead to reduced usage of mobile phones.**

We are aware of allegations that there may be health risks associated with the effects of electromagnetic signals from BTS and from mobile telephone handsets. While there is currently no substantiated link between exposure to electromagnetic signals at the level transmitted by our BTS and mobile telephone handsets and long-term damage to health, the actual or perceived health risks of mobile communications devices could adversely affect us through a reduction in subscribers, reduced usage per subscriber, increased difficulty in obtaining sites for base stations and exposure to potential liability. Furthermore, we may not be able to obtain insurance with respect to such liability on commercially reasonable terms. In recent years, legal proceedings have been brought against GSM mobile operators seeking the removal of base station sites for health reasons. Such legal proceedings may make it more difficult for us to establish and maintain such sites.

### **We are dependent on certain suppliers for network equipment and for the provision of data services.**

Like all operators, we purchase our GSM network equipment including our switching system, base station controllers ( BSCs ), BTS, transmission equipment and the software required to operate all these from a limited number of major equipment suppliers. Although we are not bound to purchase our equipment solely from any given supplier and we are making efforts to diversify, 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 is for any reason unable or unwilling to satisfy equipment requirements. This could occur if, for example, the growth in demand for network equipment exceeds the ability of suppliers of this equipment as a whole to meet such demands. Like all operators, the failure of any of our suppliers to supply equipment to us could have a material adverse effect on our business, consolidated financial condition, results of operations or liquidity.

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

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

We are heavily dependent on IT systems, suppliers for IT services and our IT employees for the continuity of our business. We also regularly upgrade or convert our IT systems. Currently, we have a Business Continuity Management ( BCM ) scheme that is designed to protect and minimize the potential damage to Turkcell s operations should we experience a crisis situation due a potential natural disaster, such as an earthquake. The implementation of the BCM was completed by the end of 2007. In addition, should we experience regular or severe IT failures, whether due to system outages, human error or deliberate transferring, fraud or hacking, not successfully migrate to alternative or improved IT systems or experience a crisis situation, we may not fully recover our IT systems. If such event(s) occurred, it would result in interruptions in the continuity of our business which could have a material adverse effect on our business, consolidated financial position and results of operations.

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**If we are unable to retain key personnel, or maintain the loyalty of our distributors and their key personnel, our business, consolidated financial condition or results of operations could be materially and adversely affected.**

Our performance depends, to a significant extent, on the abilities and continued service of our key personnel. Competition for qualified telecommunications and information technology personnel in Turkey is intense. In addition, we are dependent on our distributors and their personnel in the growth and maintenance of our customer base. The loss of the services or loyalty of key personnel could adversely affect our financial condition or results of operations as well as breaches of confidentiality regarding our customer, operation and business plan details, particularly if a number of such persons were to join a competitor. Retention of high-caliber individuals in these positions is also key to our being able to deliver on our strategy.

**The borrowings of our majority owned subsidiaries may expose us to interest rate risk and possibly increased interest expense, obligate us to meet certain covenants and expose us to financial risks if such subsidiaries fail to meet some of their obligations set forth in the agreements related to their financing arrangements or they require additional financing, each of which could have a material adverse effect on our consolidated financial condition and results of operations.**

As of December 31, 2007, the major portion of our outstanding debt consists of the \$540 million long-term financing facility for Astelit, which consists of a \$390 million senior facility and a \$150 million junior facility. Financell B.V. ( Financell ), our wholly owned financing subsidiary, undertook the \$390 million long-term senior syndicated facility for Astelit on June 27, 2007. This facility has a variable interest rate. We fixed the Euribor rate for some portion of our debt until maturity instead of the market practice of setting the rate for three or six months in order to partially hedge our interest rate risk against possible short-term interest rate increases. In order to hedge the interest rate risk, we continue to look for hedging alternatives such as interest rate swaps. There are no outstanding swap arrangements due to the cost of such arrangements in the market and the general market view of forward interest rates. Consequently, an increase in the Libor or Euribor rates would cause an increase in the amount of our interest payments and could have a material adverse effect on our results of operations.

In the future we might be obliged to accept certain covenants in connection with obtaining financing on a consolidated basis or for our majority owned subsidiaries.

**Cancellation of our ADSs has been halted on a limited basis and this may adversely affect liquidity and trading of our ADSs.**

Due to uncertainties arising after January 1, 2006 surrounding the application of the Turkish capital gains tax and withholding related thereto on the deemed capital gains which arise on the cancellation of ADSs, our ADR depository, JPMorgan Chase Bank, N.A., consistent with the practice of all depository banks for Turkish issuers, halted the issuance and cancellation of ADRs. Trading of our ADSs on the New York Stock Exchange has continued and has not been impacted by the closure of the issuance and cancellation books of our ADR depository.

On March 8, 2007, the Turkish Ministry of Finance issued a new communiqué that facilitated the reopening of the ADS issuance and cancellation books based on certain conditions. On May 17, 2007, our ADR depository reopened our ADS issuance books and, on a limited basis, our ADS cancellation books. Cancellations are currently limited to non-resident beneficiaries (i.e. beneficiaries not resident or incorporated in the Republic of Turkey) who have purchased ADSs on or after January 1, 2006.

Due to the continued halt of cancellation of our ADSs, except for non-resident beneficiaries who purchased ADSs on or after January 1, 2006, if there were a sudden or significant increase in persons wishing to sell ADSs, there may be adverse effects on liquidity and market disruption in the trading of our ADSs.

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**ITEM 4. INFORMATION ON THE COMPANY**

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

Turkcell Iletisim Hizmetleri A.S., or 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, formerly known as Telecom Finland Ltd., and currently owned by TeliaSonera, the Cukurova Group, the Alfa Group and Nadash. The address of our principal office is Turkcell Iletisim Hizmetleri A.S., Turkcell Plaza, Mesrutiyet Caddesi, No. 71, 34430 Tepebasi, Istanbul, Turkey. Our telephone number is +90 (212) 313 10 00. Our website address is www.turkcell.com.tr. Our agent for service of process in the United States is CT Corporation, 111 8th Avenue 13th floor, New York, New York 10011.

We operate under a 25-year GSM license, which we were granted in April 1998 upon payment of an upfront license fee of \$500 million. At that time, we also entered into an interconnection agreement with Turk Telekom providing for the interconnection of our network with Turk Telekom's fixed-line network which was amended on September 20, 2003. Under our license, we pay the Undersecretariat of Treasury (the Turkish Treasury) a monthly ongoing license fee equal to 15% of gross revenue. Of that monthly ongoing license fee, 10% goes to the Ministry of Transportation and Communications of Turkey (Turkish Ministry) as Universal Services Fund. Under the interconnection agreement between us and Turk Telekom, our network is interconnected to the Turk Telekom fixed-line network.

From 1993 until April 1998, we operated under a revenue-sharing agreement with Turk Telekom. Under the revenue sharing agreement, Turk Telekom contracted with subscribers, set tariffs, performed subscriber billing and collection, assumed collection risks and gave us access to Turk Telekom's communication network. We were entitled to receive 100% of the fees received from subscriber identity module card, or Simcard, sales, but only 32.9% of fees billed for connection, monthly fixed fees and outgoing calls, and 10% of fees billed for incoming calls, an arrangement that resulted in payment to us of approximately 25% to 30% of the net system revenues generated by subscribers of our GSM network.

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

Our subscriber base has grown from 63,500 at the year-end 1994 to approximately 35.4 million at the year-end 2007. In 2007, we had total revenues of \$6,328.6 million, our EBITDA totaled \$2,627.1 million and we reported net income of \$1,350.2 million.

For the year ended December 31, 2007, we spent approximately \$783.1 million for capital expenditures compared with \$604.8 million in 2006.

In addition to our operations in Turkey, we have various international operations and, since 2004, we have become an established regional GSM operator. For further information please see Item 4.B Business Overview International Operations .

**4.B Business Overview**

Based on our estimates and announcements made by the Telecommunications Authority, we are the leading provider of mobile services in Turkey in terms of number of subscribers, with an estimated 57% share of the Turkish subscriber market as of December 2007. We provide high-quality mobile voice and data services over our GSM network. We have developed one of the premier mobile brands in Turkey by differentiating ourselves from our competitors in areas such as quality of service, customer service and product variety. As part of our focus on subscriber service and subscriber growth, we have introduced a wide range of mobile services for various subscriber needs in order to attract new customers and retain existing ones.

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Through a state-of-the-art GSM network, we provide comprehensive coverage of an area that as of March 31, 2008 included 100% of the population living in cities of 2,000 or more people and 81 of the largest cities and the majority of the country's tourist areas and principal inter-city highways. As of April 1, 2008, we provided service to our subscribers in 197 countries through commercial roaming agreements with 576 operators.

### **Industry**

#### ***Overview***

GSM, one of the digital standards for mobile communications, was developed in 1987 in order 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 headset and function as its digital brain. Simcards' digital memory allows for the storage of the subscribers' personal information such as the rate plan, phone number and service features. Both postpaid and prepaid subscribers are required to purchase a Simcard, in order to use the telecommunications service offered by Turkcell.

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

Today most GSM operators, in addition to the standard data service of 9.6 kilobits per second, also offer new technology standards such as High Speed Circuit Switched Data (HSCSD) and General Packet Radio Service (GPRS), which provide for network speeds of up to 57.6 Kbs and 160 Kbs, respectively, depending on radio network and mobile phone conditions. Enhanced Data rates for GSM Evolution (EDGE) and UMTS provide the means for making networks suitable for high-speed wireless data services. EDGE and UMTS platforms allow network speeds of up to 240 Kbps and 384 Kbps, respectively. By utilizing the new radio access technology, High Speed Downlink Packet Access in UMTS networks operators gain increased capacity and improved downlink speeds up to 14.4 Mbps. Most of the countries in Western Europe have already granted UMTS frequency band licenses to operators. Those operators have started to offer advanced multimedia services to their customers.

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

Turkey's population was estimated to be approximately 70.6 million as of December 31, 2007. The Turkish population is young, with an estimated median age of 28, which is lower than elsewhere in Western Europe, and the majority of the population lives in urban areas. In our opinion, these factors indicate the growth potential for the mobile communications market in Turkey.

There are currently three mobile communications operators in Turkey: Turkcell, Vodafone and Avea, with a total of 62.0 million GSM lines as of December 31, 2007, according to announcements of the Telecommunications Authority.

Vodafone, our principal competitor, entered the Turkish GSM market by acquiring Telsim on May 24, 2006. Telsim, which had received a 25-year license at the same time we did on what we believe to be identical terms, including the \$500 million upfront license fee, had been put up for sale by the Savings Deposit Insurance Fund (SDIF) in August 2005. The auction for Telsim was held on December 13, 2005 with Vodafone submitting the winning bid of \$4.55 billion.

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In September 2006, Turk Telekom's stake in Avea increased to 81% when it purchased Telecom Italia SpA's 40.5% interest in Avea for \$500 million. Turk Telekom is 55% owned by Oger Telecom, a multinational GSM operator in which Saudi Telecom Company, the Arab world's largest telephone company, agreed in January 2008 to buy a 35% stake.

### **Strategy**

Our vision is to ease and enrich the lives of our customers with communication and technology solutions.

In line with our vision, our aim is to deploy innovative solutions for our customers in mobility, internet and convergence areas in a fast and effective manner. We believe that Turkcell has significant strength in: the provision of differentiated services to meet customer needs; the prioritization of shareholders' expectations in the corporate decision making process; the encouragement of entrepreneurship; trust and loyalty of our customers through our value propositions and corporate responsibilities; effective, cost sensitive and timely operations; and a high performance team with our current employees.

Building upon these strengths we have identified four focus areas in which we intend to grow our business:

Core GSM Business in Turkey;

Exploring new business models through our VAS;

Expanding into new technologies that will create synergies with our current business; and

Expanding into international markets, with our main focus being mobile solutions.

To achieve these we have set the following priorities:

#### ***Increase customer satisfaction and loyalty***

We intend to continue to strengthen our well developed brand values and build a stronger relationship with our customers through providing differentiated products and services in line with their needs and expectations. We aim to focus on ensuring loyalty and satisfaction, maintaining our superior value propositions, continuing our segmented approach and improving customer experience and strong Customer Relationship Management ( CRM ) program.

#### ***Continue market and technology leadership***

Through our tailored marketing and innovative approach, we intend to maintain our market and technology leadership in the long term.

We aim to continue our leadership in:

the coverage and quality of our communications network;

the ability to provide communication services with the most advantageous cost to the largest number of people in Turkey;

the broadest range of products and the most user-friendly services;

the most widespread and the highest quality customer service; and

the maximum benefits for mobile phone subscribers in Turkey through co-branding activities.

***Focus on growing earnings***

Our aim is to grow earnings while maintaining the profitability of our business. We define the scope of our business as communications and technology and intend to monitor new business opportunities that have a high return potential and/or are critical for sustaining our competitive advantages.

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To achieve profitable growth, we intend to expand into new business models through which we will seek to provide value added services in the areas of healthcare, finance, advertising, education and security.

We also intend to develop new technologies through which we will propose new services such as broadband. We believe that the Turkish market provides significant potential demand for such services.

Our efforts to selectively seek and evaluate new international investment opportunities will also continue. We intend to seek feasible investment opportunities and are open to launching greenfield operations as well as forming potential alliances and conducting merger and/or acquisition activities that will contribute to our economies of scale and create synergies. We may also pursue investment opportunities in communications and technology related investments in Turkey.

In addition, we aim to increase the positive contribution of our subsidiaries to our growth.

## **Services**

We currently provide high-quality wireless and value-added mobile communications services to subscribers throughout Turkey. Subscribers can choose between our postpaid and prepaid services. Currently, postpaid subscribers sign a subscription contract and receive monthly bills for services. Prepaid subscribers must purchase a starter pack which consists of a Simcard and inclusive airtime from 20 up to 250 counters. Scratch cards can be purchased in increments from 25 up to 1000 counters.

As of December 31, 2007, we had approximately 29.0 million prepaid subscribers and 6.4 million postpaid subscribers, compared to approximately 26.0 million prepaid and 5.8 million postpaid on December 31, 2006.

### ***Voice Services***

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

### **VAS**

The VAS management is focused on developing and managing services to address both consumers and corporate customers different needs and enriching their daily lives. We provide an integrated service approach with a common vision to offer tailored solutions based on our markets specific needs and preferences.

One of our main aims is to increase mobile data and value-added services revenues among our existing customers and to foster the growth of new customers through offering new value-added services and new ways to access our existing wide range of content and services. Having a rich portfolio of various services helps us maintain our competitiveness.

We focus on growth of value-added services revenues through increasing penetration and usage of value-added services. We believe that increased customer satisfaction through our large portfolio of services will play an important role in our future retention efforts. Assuring customer loyalty is one of our priorities.

Through the launch of new value-added services we aim to obtain our goals of increasing revenues, customer satisfaction, customer loyalty and customer retention. We will continue to position new products and services based on the needs and expectations of our customers in order to promote mobile usage, increase awareness of our value-added services and increase penetration of our services.

We continuously seek to extend our product range through the introduction of new services to better meet the needs and expectations of our customers. We continue to build on our technical competencies and deep market know-how to expand our existing rich services portfolio. We closely follow and analyze global trends and develop services to fit local market needs.

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We believe that one of the main pillars of future growth of Turkcell is developing new services and business areas. We develop services in partnership with leading companies in various adjacent industries such as Internet, media, finance, healthcare and education to enhance user experience with mobile solutions. Turkcell seeks to differentiate itself with innovative and pioneering solutions with its strong ecosystem of solution providers and various partnerships.

Our value-added services are categorized into the following groups: Consumer Services, Content Services and Corporate Services.

### *Consumer Services*

Value-added services provides a number of consumer oriented services including turkcell-im, mobile Internet, turkcell-im benim, KimAramis and Economic Internet packages.

*turkcell-im.* turkcell-im is a common communication and access channel for Turkcell's VAS. Launched in September 2006, turkcell-im facilitates mobile internet usage and download of content including news, entertainment, sports, music and chat. As of December 31, 2007, turkcell-im had 11.8 million users. In 2007, 15.6 million individuals connected to the Internet via turkcell-im. Apart from existing users, during 2007, each month an average of 663,000 new users used turkcell-im. In 2007, 11.6 million items of content were downloaded from turkcell-im and it had 654 million page views.

*Mobile Internet.* Through partnerships with Google, Microsoft and Mynet Email Services among others, Turkcell has increased usage of mobile Internet among its subscribers. Turkcell subscribers are able to reach the Google search engine through turkcell-im and search without paying any extra charges. Turkcell was also the first GSM operator in Turkey that launched Windows Live Messenger from Microsoft the most used instant messaging service in Turkey. Turkcell also partnered with the biggest local email provider, Mynet, to allow Turkcell subscribers to access their Mynet emails through their mobile phones.

*turkcell-im benim.* turkcell-im benim was launched in June 2007 as Turkey's first mobile-web integrated social platform. Using turkcell-im benim, Turkcell subscribers can store and share their videos and photos via their mobile phones. Subscribers can browse the website or wap site, view, comment on and send content through the turkcell-im benim service. As of December 31, 2007, turkcell-im benim had 141,958 subscribers and almost 1 million items of content (videos and photos).

*Economic Internet Packages.* Economic Internet packages were launched in February 2007 to offer subscribers a less costly Internet connection than standard mobile Internet tariffs. Economic internet packages can be used both for mobile phones and a computer connection. The service offers various packages based on the amount of data downloaded in 2007, 170,000 economic Internet packages were sold.

### *Content Services*

We aim to provide high quality and user-friendly content solutions to our customers. We use offers, such as Free Try then Buy, to educate our customers about our services to enrich and ease their lives. One new content based service we offered in 2007 was Goller Cepte, a service which sends subscribers real time goal videos from football matches of Turkcell Super League. In 2007, we also strengthened our content services through establishing new partnerships with Digiturk, Fox International, Warner Bros, Sony Pictures and Walt Disney Pictures.

### *Corporate Services*

With our value-added corporate services, we aim to increase competitive advantage and efficiency for Turkcell corporate customers. We have extended our EDGE technology coverage (a technology that offers a



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three times higher connectivity speed than GPRS) to more than 85% of total BTS in our network as of December 31, 2007. Instead of per megabyte pricing, we have also launched flat rate Internet Packages for different customer needs. In 2007, we launched Connect Card-Internet Package and Turkcell PDA-Internet Package bundle offers with 12, 18 and 24 months contracts for corporate customers. In 2007, our Solutions Catalogue included 48 products with 43 partners. Corporate Messaging Solutions were the leading solutions in 2007. We also offer sales force automations, vehicle tracking and telemetry solutions for different sectors and segments in our Solutions Catalogue.

### ***New Services and Business Areas***

Turkcell continuously seeks to extend its product range through the introduction of new services to meet the needs and expectations of our customers. Turkcell continues to build on its technical competencies and market know-how to expand its existing rich services portfolio. We closely follow and analyze global trends and develop services best fitting local market needs. Turkcell is currently focusing on improving content services through a number of different areas including mobile signature, mobile traffic monitoring, mobile healthcare, mobile learning and mobile advertising.

#### ***Turkcell Mobile Signature (Turkcell Mobil Imza)***

Turkcell Mobile Signature is a digital signature created through a secure application on a Simcard. This service can be used for electronic transactions over a mobile phone or PC. The system is run with a password and all mobile phones with SMS capability can use this service. The service launched in February 2007 with the participation of five leading banks of Turkey with applications in Internet banking and now includes at least 23 providers including 12 banks and several governmental applications for website login, money transfer approval, money withdrawal from ATM with Simcard, e-purchasing and mobile signed e-mails. We are the first to provide it within Turkey and it is one of the first examples of a service of its type worldwide.

#### ***Turkish Mobile Wallet***

In January 2008, Turkcell and Garanti Bank have launched Turkcell Mobile Wallet , a project to integrate credit cards into cell phones. This Near Field Communication ( NFC ) Project will be in a pilot phase for six months. With this new service, it will be possible to use cell phones equipped with the MasterCard PayPass application in all locations that accept Garanti Bank s Bonus Trink credit card. This application reduces payment time to less than half a second and all payments under a certain limit can be made by entering a PIN number.

#### ***IBB Cep Trafik (Mobile Traffic Monitoring Solution)***

Turkcell has cooperated with the Metropolitan Municipality to provide the mobile solution to traffic, a major municipal issue in Istanbul. The agreement signed between these two establishments allows Turkcell subscribers to download the IBB Cep Traffic program to their cell phones in order to be guided to their destination. Subscribers can now save time by selecting the best possible route through instant access to the Traffic Density Map as well as traffic camera images to check road conditions. IBB Cep Trafik is currently in its Test Period where it is available to all Turkcell subscribers without payment other than the present data fee. The service is expected to relaunch as a subscription service in April 2008.

#### ***Mobile Healthcare***

Turkcell is committed to providing innovative e-health solutions and formulating strong sector partnerships to further support programs addressing the issue of limited access to quality health care. Mobile health care applications ranging from telemedicine, central appointment center solutions and sms reminders to connectivity seek to improve efficiency and access through continuous information exchange between patients and health care providers.

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### *Mobile Learning*

Turkcell Academy Mobile Learning Platform is a service developed by Turkcell which aims to make life easier by bringing training and technology together. Turkcell Academy Mobile Learning will enable use over all types of mobile networks (employing EDGE, WiFi, Wi-Max, 3G and similar technologies) and other devices (IPTV and PC) starting with the mobile. The mobile learning platform ensures the repetition of training when required, eliminating geographical and temporal constraints.

### *Mobile Marketing and Advertisement*

Turkcell creates and manages mobile marketing and advertisement channels that, on one side, are a unique value for corporate customers in terms of marketing, and on the other side, bring value to subscribers through targeted offers and incentives from brands that meet their interests and needs. In 2007, Mobile Marketing and Advertisement revenues had increased to 4.5 times that of 2005.

Turkcell has the largest opt-in (customer permission) database in Europe both in terms of number (5.2 million opt-in subscribers) and scope of data richness used for mobile marketing and advertisement activities for other brands and advertisers. With this opt-in database, advertisers can segment their potential customers according to their target market and send a highly targeted campaign or advertisement message.

During 2007, Turkcell was active in the field of mobile advertising, launching wap banner advertisement and mobile search, creating advertisement space for its corporate customers and creating more areas of inventory in terms of sponsorship and advertisement. In 2008 it is expected that different advertisement channels and applications will be launched.

### *Partnership Development*

We seek to provide a rich service and content portfolio, not only on our own, but also through our partners, who specialize in application, content and marketing. Since 2004, we have developed partners through the Turkcell Partner Program. In 2007, we provided 350 different services and 373 mobile marketing campaigns in different categories by working with 250 partners to meet information, entertainment and corporate needs of our customers with powerful content, brand and media partnerships.

### *Future Services*

#### *3G Mobile*

3G technology offers full interactive multimedia and is expected to bring mobile networks significantly closer to the capabilities of fixed-line networks and allow for the introduction of high volume-based data services like video telephony. Multimedia services will likely feature prominently in 3G networks, and may include, in addition to conventional mobile voice and data services: high speed Internet and intranet access, video telephony and conferencing, mobile TV, entertainment, information services and direct instant access to home or office IT systems.

Turkcell's ability to implement 3G services will be dependent on clearing the 3G regulatory and licensing process. The Telecommunications Authority conducted a tender process for the granting of 3G licenses on September 7, 2007. Based on the tender process conducted on September 7, 2007, Turkcell was awarded a 3G license. However, on September 19, 2007, the Telecommunications Authority canceled the 3G license tender due to the fact that Turkcell's competitors did not participate in the 3G tender process. We expect a 3G tender process to take place during 2008, but no announcement has been made by the Telecommunications Authority regarding rescheduling the 3G tender process and, accordingly, there may be further delays in the 3G tender process. If the 3G tender process is rescheduled, the minimum price for a 3G license may be reset and could increase from the 252 million minimum for the largest bandwidth in the previous 3G tender process. However, the tender process

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could result in a significantly higher price, especially if multiple new licenses are granted to new entrants. We understand that the Telecommunications Authority may attempt to award at least four 3G licenses, possibly resulting in at least one new entrant into the current market. We believe that 3G services will be important for our business and we intend to participate in any future 3G licensing process in Turkey.

### ***Other Services***

#### ***International Roaming***

Today, our coverage extends to many countries in Europe, Asia, Africa and North and South America. As of December 31, 2007, we offered our subscribers international roaming in 197 destinations around the world, pursuant to commercial roaming agreements with 569 operators. As of April 1, 2008, we offered our subscribers international roaming in 197 destinations around the world, pursuant to commercial roaming agreements with 576 operators.

Since July 2002, we have been providing roaming services for the prepaid subscribers of foreign mobile operators visiting Turkey. We were the first operator to provide such a service in Turkey. This service, called *passive CAMEL*, can only be enabled if both operators have installed the CAMEL system on their networks. As of December 31, 2007, we offered prepaid roaming to the prepaid subscribers of 167 operators in 95 destinations. As of April 1, 2008, we offered prepaid roaming to the prepaid subscribers of 170 operators in 95 destinations. Since October 2004, we have offered roaming services for Turkcell prepaid subscribers going abroad. This service, called *active CAMEL* (Active Customized Applications for Mobile Network Enhanced Logic), can only be enabled if both operators have installed the CAMEL system on their networks. As of December 31, 2007, we offered prepaid roaming to Turkcell prepaid subscribers through 187 operators in 107 destinations. As of April 1, 2008, we offered prepaid roaming to Turkcell prepaid subscribers through 193 operators in 111 destinations.

Since October 2002, we have offered GPRS roaming. As of December 31, 2007, we had 305 GPRS roaming partners in 126 destinations. As of April 1, 2008, we offered our subscribers GPRS roaming through 313 operators in 128 destinations.

In order to balance international SMS traffic, we started to sign international SMS Interworking Agreements with other mobile operators in April 2002. As of December 31, 2007, we had signed 137 International SMS Interworking Agreements. As of April 1, 2008, our subscribers can send SMS to more than 570 mobile operators located in 197 destinations including 131 CDMA/TDMA operators in North America.

Since December 2005, our subscribers have been able to send and receive MMS to and from foreign operator subscribers. As of December 31, 2007, our subscribers were able to send MMS to 61 mobile operators in 45 destinations. As of April 1, 2008, our subscribers were able to send MMS to 69 mobile operators in 51 destinations.

### **Tariffs**

Our charges for voice, messaging and data consist of monthly fees, usage prices, bundles and volume discount schemes and options under various tariff schemes. Our license agreement provides that the Telecommunications Authority sets the initial maximum tariffs, after consultation with us and the consideration of tariffs applied abroad for similar services. Thereafter, the maximum price levels are adjusted based on increases in the Turkish Consumer Price Index. The increase applied to the price cap is 97% of the increase in the index. For more information on how our maximum price levels are established see also *Item 4.B. Business Overview Regulation of the Turkish Telecommunications Industry*.

Each customer subscribes to a voice tariff. Voice tariff packages vary based on type of subscriber (postpaid or prepaid, corporate or individual), time and destination of call, and call volume.

**Table of Contents****Main Tariffs**

We have basic tariffs, offering on-net (Turkcell subscriber to Turkcell subscriber) usage advantages and a range of targeted tariff plans. Our basic tariffs are widely preferred by our subscribers. Our main tariff is BizbizeCell, which provides on-net usage advantages. We have segmented tariffs plans that are targeted at specific subscriber groups.

The main tariffs listed below for postpaid and prepaid subscribers are as of April 1, 2008 (U.S. Dollar amounts are based on the April 1, 2008 exchange rate of TRY 1.306 = \$1.00). Prices are given in U.S. Dollars and include 18% VAT but exclude the 25% Special Communication Tax.

	BizbizeCell	BizBize Hepimiz	Postpaid(\$)* BizBize Canimin 3u	Buyuk Sirketcell
Monthly Fee	1.15	6.89-160.03	9.57	1.53
Calls Out (per minute):				
Turkcell to Turkcell	0.25	60-2500 included free mins. Exceeding minutes charged at 0.25 per minute	300 included free mins with selected 3 Turkcell numbers. Excess at 0.25 per minute	Intra-company 0.13 per minute  Turkcell On-net 0.23 per minute
Turkcell to PSTN(1)	0.25	60-2500 included free mins. Exceeding minutes charged at 0.25 per minute	0.29	0.272
Turkcell to OMO(2)	0.46	0.46	0.46	0.46
SMS (per message)	0.14	0.14	0.14	0.14

\* Prices are calculated according to counter unit prices based on the 100 counter card price level.

- (1) PSTN: Public Switched Telephone Network (landline).
- (2) OMO: Other Mobile Operators.

	BizBize	BizBize Hepimiz	Prepaid(\$)* BizBize Canimin 3u	BizBize Kampus
Calls Out (per minute):				
Turkcell to Turkcell		0.081(3)	0.041(4)	0.010(5) / 0.101(6)
Turkcell to Turkcell	0.404	0.404	0.404	0.303
Turkcell to PSTN	0.404	0.404	0.404	0.303
Turkcell to OMO	0.505	0.505	0.505	0.505
SMS (per message)	0.202	0.202	0.202	0.202 / 0.101(7)

\* Prices are calculated according to counter unit prices based on the 100 counter card price level.

- (3) Prices above apply if subscribers drop 50 counters in exchange for on-net calls for an hour.
- (4) Prices above apply if subscribers drop 25 counters in exchange for on-net calls for an hour with three preferred subscribers.
- (5) The price reflects per minute charge for the first ten minutes of a call to other KampusCell subscribers.
- (6) The price reflects per minute charge for a call exceeding 10 minutes and made to other KampusCell subscribers.
- (7) SMS prices to other KampusCell subscribers are discounted.

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Based on December 2007 averages, the majority of our subscribers use the Bizbize tariff.

BizBize is a standard Turkcell tariff; Bizbize Hepimiz and Canimin 3u, which include special packages at discounted prices, are derived tariffs from BizBize tariff;

BuyukSirketcell is a corporate tariff; and

KampusCell is a community tariff for students in high school and universities.

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In addition to the above we have segmented tariff plans that are targeted at specific subscriber groups.

We have loyalty programs, based on our main tariff plans, that support our retention efforts while incentivizing usage. The following programs represent some of our retention plans that reward long-term loyalty and continuous usage.

Counters From Us (KontorBizden Konbara). A renewed loyalty program for our prepaid subscribers that enables prepaid subscribers to earn increasing bonus counters based on top up amounts for every refill to use accumulated counters;

Minutes From Us (Dakika Bizden). This program began for our consumer segment in May 2005. Subscribers, once registered, can earn free minutes according to the amount of their monthly bill, while minutes earned are given in installments over a five month period;

Earn As You Go (Kullandikca Kazan). Earn As You Go was introduced in June 2005 as the corporate segment counterpart of Minutes From Us. The criterion for earning free minutes is the size of the monthly bill. These free minutes can only be used for Turkcell to Turkcell calls.

In addition, we also have two lifestyle subscriber programs:

Young Turkcell (gnctrkcell), a program that targets the youth segment; and

Turkcell at Work (IsTcell), a program that targets corporate customers and professionals.

In addition to the continuous basic loyalty programs, we have periodic volume-based campaigns that are designed for a specific time period for prepaid and postpaid subscribers. We also offer tailored advantages and privileges to our premium customers to ensure their satisfaction and loyalty.

### ***Roaming Tariffs***

When one of our subscribers makes a call outside Turkey, we charge the subscriber the local or international rate charged by the local operator where the call is placed, as applicable, plus a surcharge. Since September 2006, by dividing the world into five zones, we have started to offer a flat fee for roaming usage, which is known as the Turkcell World Tariff . Whenever our subscribers go abroad, regardless of their tariff, they are subject to the Turkcell World Tariff for their roaming usage.

Based on Turkcell's roaming agreements, Turkcell hosts foreign operators' subscribers in its network. When a subscriber of a foreign operator makes a call within the Turkcell coverage area, 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.

### **Churn**

Churn rate is the percentage calculated by dividing the total number of subscriber disconnections during a period by the average number of subscribers for the same period. For these purposes, we define average number of subscribers as the number of subscribers at the beginning of the period plus one half of the total number of gross subscribers acquired during the period. Churn refers to subscribers that are both voluntarily and involuntarily disconnected from our network. Under our disconnection process, postpaid subscribers who do not pay their bills are disconnected and included in churn upon the commencement of a legal process to disconnect them, which commences approximately 180 days from the due date of the unpaid bill. Pending disconnection, non-paying subscribers are suspended from service (but are still considered subscribers) and receive a suspension warning, which in some cases results in payment and reinstatement of service. Prepaid subscribers who do not reload units for a period of 210 days are disconnected and cannot reuse their numbers.

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For the year ended December 31, 2007, our annual churn rate was 19.9%. We have what we believe to be an adequate bad debt provision in our consolidated financial statements for non-payments and disconnections

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amounting to \$181.7 million and \$133.6 million as of December 31, 2007 and December 31, 2006, respectively. While our on-going emphasis on retention remains a high priority in 2008, we expect churn rate to be higher than 2007 due to an increase in competition.

### **Seasonality**

The Turkish GSM market is affected by seasonal peaks and troughs, the effects of which are reflected in our quarterly results and key performance indicators. In general, the effects of seasonality on GSM usage positively influence our results in the second and third quarter of the fiscal year and negatively influence our results in the first and fourth quarters of the fiscal year. Local and religious holidays in Turkey also generally affect our operational results.

### **Network**

#### ***Coverage***

Our GSM network is designed to provide high-quality coverage to the majority of the population of Turkey throughout the areas in which they live, work and travel. As of March 31, 2008, Turkcell covered 81.10% of the entire geography of Turkey and 98.12% of Turkey's population, including 100% of cities with a population of 2,000 or more. Coverage also includes a substantial part of the Mediterranean and Aegean coastline and during 2007, we enhanced coverage in low populated areas as well. We have significantly exceeded the coverage requirements of our license.

We have also expanded our GSM network to add capacity to existing service areas and to offer service to new areas, including improvement of the existing urban, suburban and intercity road coverage. During 2008 we plan to further expand our coverage in cities with a population of 1,000 or more, Turkish coastal lines and roads and railways in addition to further enhancing coverage and capacity in populated areas.

#### ***Network Infrastructure***

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

Our network consists of standalone Home Location Registers (HLR), BSC, combined Mobile Switch Centers/Visitor Location Registers (MSC/VLR), Service Control Points (SCP) and BTS. BTSs are the fixed transmitter and receiver equipment in each cell, or coverage area of a single antenna, of a mobile communications network that communicates by radio signal with mobile telephones in the cell. Each BTS is connected to a BSC via leased lines and/or radio relay links called minilinks. The BSC monitor and control the BTS. It is possible to cascade the BTSs to each other, thereby realizing considerable cost savings in transmission.

### **Capacity**

In 2007, we continued to develop and improve the quality and capacity of our network. In urban areas, we increased coverage and capacity through placing network infrastructure in commercial sites such as shopping malls, business complexes and entertainment centers. We have achieved the highest coverage density in major urban areas, especially Istanbul, Ankara and Izmir.

We believe that we have sufficient bandwidth to serve our current and projected short-term subscriber base and that we currently meet the capacity requirements of our license. To enhance the 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 2007, a number of techniques



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were employed to increase the effective carrying capacity of a given allocation of spectrum as well. The techniques used involved enhancing core network capacity by adding new nodes, processor upgrades and expansions to existing equipment in order to accommodate further increases in our subscriber base and the accompanying call handling and traffic capacity demands. In 2007, we made further capital expenditures to improve existing capacity, replaced some of the phased out hardware with ones offering higher capacity, provided increased network functionality and improved network efficiency in order to better serve our customers. Nevertheless, it may become impractical to continue to apply these techniques in densely populated metropolitan areas due to excessive cost or technological limitations and the amount of spectrum currently allocated to Turkcell's network, despite these techniques, may not be sufficient to accommodate the future long-term growth of our subscriber base. As a result, we have requested the allocation of additional frequencies in the GSM 900 MHz band from the Telecommunications Authority to further enhance our network capacity. There can be no assurance that we can obtain additional frequencies in the 900 MHz band or additional spectrum in the 1800 MHz band or 3G or UMTS with HSPA technology which works in a completely different frequency band (2.1 GHz) at reasonable cost or at all.

We have continued implementing EDGE technology in our network and enlarging our EDGE coverage area. EDGE is an evolution of the GSM technology which allows consumers to use cellular handsets, PC cards and other wireless devices at faster data rates up to 200 kbps or approximately four times faster than GSM/GPRS data rates. Actual data rates vary depending on the access network load at the connection time and the terminal device features used by customer. We started implementing EDGE in September 2004 by upgrading existing BTS sites primarily in large hotels, airports, shopping centers and other areas experiencing high data traffic. As of December 31, 2007, the Turkcell EDGE network reached over 85% of total Base Stations in our network.

### ***Network Maintenance***

We have entered into several System Service Agreements. Under these agreements, our GSM network, including hardware repair and replacement, software and system support services, consultation services and emergency services are serviced by a Turkish provider. Our subcontractors perform corrective and preventative maintenance of our radio network in the field, although a Turkish provider repairs all the network equipment.

We have six regional operation units with qualified Turkcell staff that operate and maintain our network in six main geographical regions. In addition, the Turkcell Network Control Center located in Istanbul monitors our entire network 24 hours a day, 365 days a year, and ensures that necessary maintenance is performed in response to any problems.

### **Transmission Lines**

Radio access network transmission is either provided as leased lines from Turk Telekom or microwave radio links that we own and operate. As of December 31, 2007, approximately 87% of our BTS transmission is provided by microwave radio-leased line combinations and 13% is provided by the leased lines.

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

All of our switching equipment that forms part of our core network, including MSCs, Gateway MSCs, Tandem switches and HLRs are located within our own buildings. Transmission between these sites (backbone) is always achieved through Synchronous Digital Hierarchy ( SDH ) leased lines.

Interconnections with other Public Land Mobile Network ( PLMN ), Public Switched Telephone Network ( PSTN ) and UMTS (Long Distance Telephony Services, small operator) companies are realized with leased

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lines. Until December 31, 2003, Turk Telekom was the only transmission service provider. However, Turk Telekom still has significant market power as the only operator that owns a nationwide fiber transmission network in Turkey. There are a few new entrants but they still have very limited fiber infrastructure in some cities or between cities. Having alternative transmission service providers should lead to lower prices and higher service quality.

### ***Site Leasing***

Once a new coverage area has been identified, our technical staff determines the optimal base station location and the required coverage characteristics. The area is then surveyed to identify BTS sites. In urban areas, typical sites are building faces and rooftops. In rural areas, masts and towers are usually constructed. Our technical staff also identifies the best means of connecting the base station to the network. Once a preferred site has been identified and the exact equipment configuration for that site determined, we begin the process of site leasing and obtaining necessary regulatory permits. Construction of masts or towers that we require in rural areas are performed by Kule Hizmet ve Isletmecilik A.S. ( Kule ), a company 100% indirectly owned by us. We lease antenna space and provide maintenance and management services from Kule at such towers.

### **Dropped Calls**

Dropped calls are calls that are terminated involuntarily and are measured by using the ratio of total dropped calls during the most congested hour of network traffic during the relevant time period to the traffic intensity in that congested hour. Using this industry standard for dropped calls, our monthly dropped call rate has further decreased to under 1 per Erlang.

### ***Services and Platforms***

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

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

In 2000, Turkcell launched its Business Continuity Plan ( BCP ) that encompassed Technical Operations and sited Ankara Plaza as the Business Recovery Center. In 2004, the BCP was widened to cover all of Turkcell 's business functions and renamed BCM. Its implementation was completed in July 2005 and BCM was adopted as a full-time function. In the second half of 2005, the BCM plan was tested with 14 different scenarios.

In 2006, the BCM plan was tested with 20 different scenarios, including potential natural disasters, that covered various systems, mission critical processes and building evacuations. One test included a joint operation with the Governorship of Istanbul to test a major earthquake scenario.

In 2007, core network and service network equipment, and their management systems, were acquired for our Business Recovery Center in Ankara. The BCM plan was tested with 23 different scenarios, including mission critical processes and building evacuation.

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

To this end, we established a Crisis Management Team, a Business Recovery Team and several Emergency Response Teams. The Crisis Management Team is made up of senior management who are charged with

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

The project was finalized in the fourth quarter of 2007. Thus, we believe that the BCM will be able cover the majority of Turkcell's operations through potential environmental events and natural disasters.

## **Sales and Marketing**

We design our sales and marketing strategy around subscriber needs and expectations. We try to ensure the loyalty of our subscribers through providing offers, campaigns and our advanced Service Delivery Platforms. Our CRM approach along with our brand image and corporate values has helped us to increase customer satisfaction. Throughout 2006, our aim was to focus on customer satisfaction through a segmented approach in our service and product offerings while sustaining a balance with revenue goals. For 2007, in an increasingly competitive environment, we intended to maintain our leading position and emphasized customer satisfaction through our value propositions. Our customer information management capabilities allowed us to design offers in a customized and timely fashion while remaining sensitive to usage patterns and customer preferences. Our ability to proactively tailor offers to the needs and expectations of our customers will continue to drive our business in 2008.

Our nationwide distribution channels are an important asset that help to differentiate us from our competitors and help us achieve our sales targets. Our strong and extensive distribution network consists of dealers, Turkcell Extras, TIMs (Turkcell Communication Centers) and Turkcell Stores as well as points of sale for counters (airtime) including ATMs, POS, web, call centers, supermarkets and consumer electronic chains and kiosks.

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

16K, 32K, 64K and 128K (128K cards are only used for spare Simcards) Simcards are in circulation in the market; 64K Simcard starter packs are sold with inclusive 20-100 and 250 counters whereas 16K and 32K starter packs are no longer sold by the Company.

## **Turkcell Sales Efforts**

We sell postpaid and prepaid services to subscribers through our distribution network, which is composed of distributors, Turkcell Stores and exclusive and non-exclusive dealers. TurkcellExtra shops totaled in excess of 12,500 sales points as of December 31, 2007. We also sell scratch cards through newspaper kiosks, supermarkets, gas stations, digital channels and ATMs.

In 2007, two new flagship Turkcell Stores fully operated by Turkcell were added to our sales network in order to enhance Turkcell's brand image in the retail world by providing the best customer experience and introducing top of the line new products and services to our customers.

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Our exclusive dealers also operate TurkcellExtra shops that are located in popular shopping malls and on main streets throughout Turkey. TurkcellExtra shops create a relaxed, user-friendly environment where both existing and potential subscribers have access to new products and services. Each TurkcellExtra shop has at least one Turkcell service consultant trained in services and products.

In total, we have approximately 39,000 sales points for prepaid counters including digital channels, ATMs, POSs, kiosks, Call Centers, Internet, WAP, retail chains, SMS, Digital TV and USSD.

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

Sales Management develops strong relationships with and promote brand loyalty among dealers through a variety of support and incentive programs. Training programs aim to educate dealers about the technical aspects of our products and services, as well as sales techniques to increase sales and enhance customer relations. The Champions Club incentive program enhances dealer-employee loyalty and sales efforts. The technological development projects commenced in 2007, and coupled with merchandising services, POP materials and channel specific campaigns, help to support the sales efforts in all of our sales channels.

We address large enterprises through key account managers and small and medium enterprises ( SMEs ) with indirect sales channels through a corporate focused dealer organization. The main focus is to provide large enterprises and SMEs with mobile services to meet their communication requirements and support these solutions with retention and acquisition programs and tariffs. We work closely with solution partners and application providers to integrate mobility into enterprises operations through tailor-made total solutions packages.

## ***Advertising***

We promote the quality and the reliability of our network, a range of different value offers, the variety and the convenience of our services and the additional benefits of being a Turkcell customer. Our vision is to ease and enrich the lives of our customers with communication and technology solutions.

Our Turkcell brand is supported by sub-brands that are designed to communicate separately to different segmented customers. gnctrkcell, communicates to our youth community, IsTcell advertises to professional and corporate customers and turkcell-im advertises our portal. We sustain one-to-one basis communication with our customers via field activities such as the Turkcell RoadShow. In addition, we strengthen our communication with each customer group represented by a relative sub-brand through customized direct marketing events. In order to ensure that each message reaches its targeted customer segment effectively, we advertise through television, cinema, radio, digital media, web, print and billboards.

## **Customer Services**

A key part of our strategy is to provide premium services by working, thinking and acting in a customer-focused manner. Our goal is to develop and sustain a continuous relationship with the customer through tailored service and excellent value. Our customer s needs and expectations are obtained through our customer contact points and reflected in our marketing strategies.

In order to achieve this, we mainly work with two companies, namely Global Bilgi Pazarlama Danisma ve Cagri Servisi Hizmetleri A.S. ( Global ) and Hobim Bilgi Islem Hizmetleri A.S ( Hobim ). Global offers 24 hours-a-day, 7 days-a-week contact center services at six sites. We align Global s strategies with Turkcell s customer service strategies and make sure that customer services and customer satisfaction programs, which are provided by Global, are executed in line with Turkcell s strategies. Hobim handles the printing of invoices and archives subscription documents for us. In order to provide segmented customer service, we design and make improvements for all of the customer processes throughout all channels for different customer segments as well as monitor the quality of service provided.

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### **International Operations**

A component of our strategy has been to become a regional GSM operator. International expansion and particularly continued strong operations in 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 the leading GSM operator in the region.

While continued improvement of our current operations is a key priority, we may further expand and increase our presence in key markets in the region, such as the Commonwealth of Independent States ( C.I.S. ), the Russian Federation, Eastern Europe, the Middle East and North Africa. In accordance with this intent, we made an investment in Ukraine in 2004. We intend not only to transfer our technological know-how and marketing expertise, but also to maximize economies of scale and group synergy. As global competition increases in the telecommunications industry, companies need to evaluate opportunities for intelligent expansion within their geographic region to ensure development of new business lines and create synergies with existing ones.

Our international endeavors will continue in 2008. In addition, we will continue to work on building a fundamentally sound business in Ukraine and continue to selectively seek and evaluate new international investment opportunities. These investment opportunities could include the purchase of a license and or an acquisition in markets outside Turkey where we currently do not operate.

#### **Ukraine Life:)**

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

Astelit began its operations in the Ukrainian market in February 2005 with its new brand life:). As of December 31, 2007, Astelit reached 8.8 million subscribers, a 57% annual increase from 5.6 million subscribers as of December 31, 2006. Almost 100% of subscribers are prepaid subscribers as of December 31, 2007.

Astelit introduced a number of innovations in 2007 that solidified its position in Ukraine. The life:) brand had reached 97% recognition in the market and is differentiated from the existing mobile brands as being young, innovative, fair and western. By the end of 2007, Astelit reached 35,040 sales points throughout Ukraine. As of February 2008, Astelit provided outbound roaming opportunities in 207 countries through 542 roaming partners and inbound roaming opportunities in 143 countries through 315 roaming partners.

As of December 31, 2007, Astelit operated in all cities of Ukraine with a population of more than 50,000 inhabitants and more than 26,785 settlements, and all principal inter-city highways, which corresponds to coverage of approximately 91% of the whole population of Ukraine or 78% geographical coverage with more than 4,426 base stations. Cumulative capital expenditure for the development of Astelit s coverage amounted to \$853.5 million as of December 31, 2007. In 2008, Astelit will continue to invest more to increase its coverage level. The acquisition of the GSM 900 license and frequencies in late 2005 permitted Astelit to expand the coverage much faster, and in 2008 Astelit plans to invest around \$250 million, not including 3G capital expenditures, into the network in order to increase the coverage and capacity requirements and offer new services.

Astelit is currently building a highly innovative network in which all base stations will support EDGE. When completed, this network will enable Astelit to introduce many innovative services and products. Astelit is

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

On December 30, 2005, Astelit signed a 6-year, \$390 million long-term senior syndicated facility; the mandated lead managers were ING Bank N.V. and Standard Bank London Ltd. Of the total facility, \$270 million is guaranteed by Export Credit Agency ( ECA ) and \$120 million is not guaranteed. Based on Astelit's financial statements, for the periods ended March 2006, June 2006, September 2006, December 2006 and March 2007, Astelit was in breach of certain financial covenants. Astelit received the necessary waivers from the senior lenders related to the covenant breaches in part due to additional shareholder contributions to Astelit required by the lenders. On April 19, 2007, Astelit sent a letter accompanied by a term sheet to ING Bank, the Facility Agent. With this term sheet, Astelit proposed restructuring of the senior syndicated facility and notified that in the case of some or all of the creditors did not consent to the proposed amendments, Turkcell would purchase the loans and commitments held by such non-consenting creditors. Since the creditors did not consent to the proposed amendments, Astelit repaid to the lenders under the long term project financing on June 27, 2007 through borrowings from Financell.

In connection with this restructuring, we guaranteed the principal amount, any accrued and unpaid interest on the principal amount of the loan and any unpaid default interest in relation thereto and any other costs, expenses and fees that may accrue in connection with the loan lent by Financell to Astelit. Depending on the market conditions and its financial performance, Astelit will redeem loans to Financell within the next 18 months following June 27, 2007 through a new financing package. We can give no assurance, however, that Astelit will be able to obtain such financing.

In addition to the senior syndicated facility, a long-term junior facility agreement up to \$150 million (including interest amounting to \$24 million) was also signed by Astelit during December 2005 with Garanti Bankasi, Luxemburg Branch and Akbank T.A.S., Malta Branch. This facility has been fully utilized as at December 31, 2007. According to the conditions of the facility agreement, interest costs will be added to the principal amount until total principal amount will reach \$150 million. This junior facility is fully guaranteed by Turkcell.

In January 2005, we loaned \$25.5 million to Euroasia through Turktell Uluslararasi, which was used to fund Astelit. By June 2, 2005, our effective interest in Euroasia had increased to 54.2% as the \$25.5 million loan was converted to equity and we purchased certain holdings of other shareholders in Astelit. During October 2005, we further loaned \$30.6 million to Euroasia through Turktell Uluslararasi. In January 2006, this loan was also converted to equity and our effective interest in Euroasia increased to 54.4%.

In April 2006, a decision was made to further increase the capital stock of Astelit by \$40 million through further additional funding from Euroasia. Turktell Uluslararasi and SCM participated in this capital increase in proportion to their respective shareholding. Eurocorp, the other shareholder in Euroasia, did not contribute. Accordingly, in June 2006, Turktell Uluslararasi contributed \$22 million, which increased our effective interest in Euroasia to 54.5%.

During June 2006, Turkcell, through its subsidiary Turktell Uluslararasi, and SCM decided to contribute on a prorata basis an additional aggregate amount of \$150 million, in three installments of \$50 million, into the capital stock of Euroasia. Minority shareholder Eurocorp did not participate to this capital increase, Turktell Uluslararasi contributed \$82.6 million in proportion to its shareholding percentage. This contribution brought our effective interest in Euroasia to 54.8%. The three installments of \$27.5 million were paid on July 2006, October 2006 and January 2007.

In March 2007, Turkcell through its subsidiary Turktell Uluslararasi, and SCM decided to contribute on a prorata basis an additional aggregate amount of \$200 million to the capital stock of Euroasia in four equal

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installments of \$50 million during 2007. Eurocorp did not participate in this capital increase. The four installments were paid in March 2007, May 2007, July 2007 and September 2007. This contribution brought our effective interest in Euroasia to 55.04%.

In December 2007, Turkcell through its subsidiary Turkcell Uluslararası, and SCM decided to contribute to the share capital of Euroasia an aggregate amount of \$200 million during the first half of 2008 in three installments. In January and March 2008, Turkcell Uluslararası and SCM paid the 1st and 2nd installments of \$50 million each in proportion to their shareholdings and the remaining 3rd installment of \$100 million will be paid in May 2008.

Since the acquisition of Astelit in the second quarter of 2004, operations in Ukraine have been consolidated in Turkcell's financial information.

### **Fintur**

We hold a 41.45% stake in Fintur, which currently holds our entire interest in our international GSM investments other than our Northern Cyprus and Ukraine operations.

Below is a description of the businesses currently held by Fintur.

#### ***Azercell***

Fintur indirectly owns 51% of Azercell Telekom B.M. ( Azercell ), which offers GSM services on both a prepaid and a postpaid basis in Azerbaijan. As of December 31, 2007, Azercell had approximately 3.0 million subscribers, of which approximately 105,000 thousand were postpaid and approximately 2.9 million were prepaid subscribers.

The agreement for the privatization process 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 entire stake of the Republic of Azerbaijan. Azertel's ownership in Azercell increased to 100%, however, Fintur's effective ownership in Azercell remained at 51%.

#### ***Geocell***

Fintur indirectly owns 83% of Geocell Ltd., ( Geocell ), which operates a GSM network and offers mobile telephony services in Georgia. As of December 31, 2007, Geocell had approximately 1.3 million subscribers, of which approximately 20,000 were postpaid, approximately 107,000 were paid-in-advance subscribers that had postpaid services but paid in advance and approximately 1.2 million were prepaid. As of January 4, 2008, Fintur's stake increased to 97.5%.

#### ***Kcell***

Fintur owns 51% of GSM Kazakhstan, ( Kcell ), along with Kazakhtelekom, the Kazakhstan monopoly fixed-line operator, which owns 49%. Kcell offers mobile telephony services in Kazakhstan and had approximately 6.0 million subscribers as of December 31, 2007, of which approximately 54,000 were postpaid, approximately 1.3 million were paid-in-advance subscribers and approximately 4.7 million were prepaid. Prior to 2006, Kcell was exempt from corporate income tax for revenue relating to its primary activity. For the year 2006, Kcell was subject to Corporate Income Tax on revenue relating to its primary activity.

#### ***Moldcell***

At December 31, 2007, Fintur directly and indirectly owned 100% of Moldcell S.A., ( Moldcell ), which offers GSM services in Moldova. As of December 31, 2007, Moldcell had 0.5 million subscribers, of which

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approximately 30,000 were postpaid, approximately 103,000 were paid-in-advance subscribers and approximately 372,000 were prepaid. Moldcell has been granted full payment tax exemption from January 1, 2006 until December 31, 2008.

### **Kibris Telekom**

Kibris Mobile Telekomunikasyon Limited Sirketi, or Kuzey Kibris Turkcell ( Kibris Telekom ), a 100% owned subsidiary of Turkcell, was established in 1999. As of December 31, 2007, Kibris Telekom had 0.3 million subscribers.

On April 27, 2007, Kibris Telekom signed a license agreement for installation and operation of a digital, cellular and mobile telecommunication system with the Ministry of Communications and Works of the Turkish Republic of Northern Cyprus. The license agreement became effective on August 1, 2007 and replaced the existing GSM-Mobile Telephony System Agreement which was dated March 25, 1999 and based on revenue-sharing terms. The new license agreement granted GSM 900, GSM 1800 and IMT 2000/UMTS license, for GSM 900 and GSM 1800 frequencies, while the usage of IMT 2000/UMTS frequency bands is subject to the fulfillment of certain conditions. The license agreement will be valid for 18 years from the date of signing.

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

On March 14, 2008, Kibris Telekom was awarded a 3G infrastructure license at a cost of \$10 million, which was paid at the end of March 2008. Under the terms of the license, the system must be operational by mid-October 2008. We do not expect any material capital expenditures or financing consequences.

### **Financell**

Financell was incorporated under the laws of the Netherlands in February 2007 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 Turkcell guarantee to fund other Turkcell s subsidiaries.

### **Syriatel**

We are engaged in negotiations with Al Mashreq Investment Fund to acquire a majority stake in Syriatel, the leading GSM operator in Syria. No assurance can be given that these negotiations will be successful and that we will acquire a majority stake in Syriatel.

We believe that this acquisition would represent an important opportunity for us to gain control of a leading mobile operator in one of the most populous country in the Middle East, which has attractive growth potential. Assuming our negotiations are successfully concluded, this acquisition would be in line with our strategy to invest in a new international market with growth potential that meet our financial criteria.

We believe that the Syrian market is attractive and growing. Syria s population was estimated at 21 million as of the end of 2007, making it one of the most populated countries in the Middle East. At the same time, Syria s telecommunications market has substantial room for growth, with a GSM market penetration estimated at approximately 30% as of 2007 year end and fixed line penetration of approximately 18% as of 2006 year end.

There are presently two GSM operators in Syria, and Syriatel s market share (based on number of subscribers at the end of 2007) is estimated at 52%. Syriatel s network is operated under a Build-Operate-Transfer ( BOT ) contract.



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Pursuant to the agreement that we are negotiating, we would acquire a majority stake in Syriatel from Al Mashreq Investment Fund represented by Rami Makhlof, a Syrian businessman who has been designated by the U.S. Department of Treasury as a person improperly benefiting from the Syrian regime. He may continue to hold directly and/or indirectly a minority stake in Syriatel.

### **Other Domestic Operations**

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

#### ***Global***

On October 1, 1999, we established Global in order to provide telemarketing, telesales, directory assistance and call center services especially for us. In 2005, Global completed its transition from call center to contact center as Global started to manage customer contacts at every channel except face-to-face interaction. In November 2006, the face-to-face interaction channel was also transferred to Global. As of December 31, 2007, Global employed 4,766 employees, of which around 63% provide us with customer care and retention services, around 32% serve customers of other clients while the remainder work as administrative personnel. We own 100% of Global as of December 31, 2007.

#### ***Inteltek***

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

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

Following a successful tender, Inteltek signed a contract on July 30, 2002 which provides for the installation, support and operation of an on-line central betting system as well as maintenance and support for the provision of football betting games with a commission rate of 4.3%. The Central Betting System Contract was scheduled to expire on March 30, 2008.

Following a further successful tender, Inteltek signed a contract with the General Directorate of Youth and Sports on October 2, 2003 which authorized Inteltek to establish and operate a risk management center and become head agent for fixed odds betting with a commission rate of 12%. The company became fully operational during 2004. The Fixed Odds Betting contract was scheduled to expire in October 2011. Subsequently, there were three lawsuits filed, two of them were initiated requesting the annulment of the Fixed Odds Betting tender and the other one was initiated requesting an annulment of the Fixed Odds Betting Tender contract. In January 2007, the Danistay, the highest administrative court, decided for a preliminary injunction of the tender and the tender transaction. As a result in March 2007, the General Directorate of Youth and Sports ceased the implementation of the Fixed Odds Betting contract. Immediately after this occurred a lawsuit was initiated by Inteltek against the said transaction. On February 28, 2007, the Turkish parliament passed a law that allowed Spor Toto Teskilati A.S. ( Spor Toto ) to hold a new tender before March 1, 2008 with new terms. Under the new conditions, the commission rate of Inteltek decreased from 12% to 7% while the commission rate for central betting system was maintained. Following this law, in March 2007, the General Directorate of Youth and Sports terminated the agreement. In addition, Inteltek initiated a lawsuit against the General Directorate of Youth and Sports on the ground that the said termination was unjustified. For further information please see Item 8.A. Consolidated Statements and Other Financial Information Legal Proceedings.

On February 27, 2008, the Turkish parliament passed a new law (No. 5738) that allowed Spor Toto to sign a new Fixed Odds Betting contract with Inteltek, having the same terms and conditions with the latest contracts signed with Spor Toto (contract signed as per Provisional Article 1 of Law 5583) and to be valid for up to one

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year, until operations start under the new tender which Spor Toto is allowed to hold in accordance with the same law. As per Provisional Article 1 of law No. 5738, Inteltek signed a new Fixed Odds Betting contract with Spor Toto, which took effect on March 1, 2008. At the same time, Inteltek signed a new Central Betting System contract with Spor Toto, which took effect on March 31, 2008. Inteltek intends to participate in the new tender; however, it will operate under the new Fixed Odds Betting and Central Betting Systems contract until the completion of the new tender. If the process of the new tender is completed before the end of the one year term of the new contract, and the winner of the tender operates under a new contract, the previous contract signed between Spor Toto and Inteltek shall be terminated even if the one year term will not yet have expired. No assurance can be given that Inteltek will be able to win the expected tender for this business on terms that will be commercially acceptable.

***Bilyoner Interaktif Hizmetler A.S. ( Bilyoner )***

Bilyoner was established on September 2, 2003 as Libero Interaktif Hizmetler A.S. to provide remote betting services to the general public over the age of 18 through fixed Internet, mobile phones, interactive TV, kiosks and IVR. On October 8, 2006, the Company's name was changed from Libero Interaktif Hizmetler A.S. to Bilyoner. Turkcell has a 55% interest in Bilyoner, Intralot has a 25% interest and Tek Elektronik holds the remaining 20% interest. On March 26, 2004, Bilyoner signed an agreement with the General Directorate of Youth and Sports to offer football related remote betting services and started its operations in August 2004. On October 13, 2005, Bilyoner signed an agreement with the Turkish Jockey Club ( TJK ) to offer horse-race related remote betting services and started its operations in May 2006. On December 6, 2006, Bilyoner signed an agreement with the Milli Piyango Idaresi Genel Mudurlugu (the National Lottery Administration) to offer national lottery tickets over its platform and started its operations in December 2006.

***Tellcom***

Tellcom was established on June 9, 2004 under the name Bilisim Telekomunikasyon Hizmetleri A.S. ( Bilisim ) to provide telecommunication services other than GSM. In February 2006, the Company's name was changed from Bilisim first to Tellcom Telekomunikasyon Hizmetleri A.S. and subsequently to Tellcom. After its incorporation, Tellcom obtained a Long Distance Telephony Services ( LDTS ) right, which allows the company to provide long distance call origination and termination for consumers and corporation, as well as wholesale voice carrying services. Currently, the company carries some of Turkcell's international traffic, previously carried by Turk Telekom. Tellcom has also been awarded an ISP license. In March 2006 and April 2007, Tellcom was awarded a 25-year license that allows the company to roll out and operate a transmission infrastructure nationwide. We own 100% of this company.

On November 22, 2006, Tellcom participated in a tender for a ten-year license to operate a fiber-optic cable between Istanbul and Ankara. On January 25, 2007, Tellcom was awarded the license after submitting a winning bid of \$23 million. This fiber-optic cable allows for direct competition between Turk Telekom and Tellcom. Tellcom continues to consider participating in additional infrastructure tenders to complement its roll-out plans.

By 2007, Tellcom had become one of the main long distance service providers among alternative operators and the first alternative operator to carry domestic traffic in Turkey. Tellcom also entered the retail broadband market by bringing fiber optics to the homes of residential campuses as well as reselling Turk Telekom's ADSL services

In 2008, Tellcom will continue to invest in its transmission network by expanding its inter-city and in-city fiber-optic backbone and by establishing new fiber-based access points at selected residential and industrial areas for end-users and commercial account prospects. Telecom plans to spend up to \$200 million in capital expenditure in 2008, and Tellcom may require several years to generate the expected returns from such capital expenditure, if at all.

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### **A-Tel**

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

### ***Kule***

Kule is a wholly owned subsidiary founded in 2006. Kule commenced its operations in 2007 and became the first and only tower service provider to the wireless broadcast and communications industry in Turkey. Its scope of activities includes the construction and purchase of new towers, the maintenance and renewal of existing ones, security services and other related activities.

### ***Turkcell Teknoloji***

Turkcell Teknoloji Araştırma ve Geliştirme A.S. ( Turkcell Teknoloji ) commenced operations in the TUBITAK Marmara Research Center Technological Free Zone in Gebze in 2007. Turkcell Teknoloji offers a wide variety of products and services within the categories of network platform, service platform, SIM and terminal solutions, as well as next generation technologies. Turkcell Teknoloji looks forward to transforming new ideas into value added products with the cooperation of other entities in its ecosystem such as R&D companies, universities and research centers.

### **Potential Investments**

Our efforts to selectively seek and evaluate new investment opportunities continue. These opportunities may include the purchase of licenses and acquisitions of interests in other operators in markets outside Turkey in which we currently do not operate. We may also pursue investment opportunities in communications and technology related investments in Turkey. We intend to continue to review rational and sensible investment opportunities.

As part of evaluating investment opportunities in the Eastern European region, we are conducting studies in Belarus. Specifically, on April 10, 2008, our Board of Directors decided to conduct the necessary studies to submit a proposal directly, or through one of our subsidiaries, to the shareholders of BeST, based in the Republic of Belarus, to purchase the majority of the company's shares.

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

#### ***Overview***

All telecommunications activity in Turkey is regulated by the Turkish Ministry and the Telecommunications Authority. The Telegram and Telephone Law No. 406 (the Telecommunications Law ), as amended, is the principal law governing telecommunications activity in Turkey. The Wireless Law No. 2813, as amended, and Turkish Ministry Law No. 3348, as amended, also includes provisions relating to telecommunications in Turkey.

The Telecommunications Law was reformed in 2000 and 2001. The reforms were aimed at modernizing and reforming the legal and institutional framework for the provision of telecommunications infrastructure and service in Turkey.

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The principal changes introduced in 2000 were:

The privatization of Turk Telekom, resulting in government influence reduced to the capacity of shareholder and policy maker;

The establishment of an independent regulator, the Telecommunications Authority, with separate legal status and administrative and financial autonomy; and

The establishment of a transparent telecommunications framework.

### ***Privatization of Turk Telekom***

These changes radically altered Turk Telekom's legal relationship with the government with the result that the government's influence over Turk Telekom's operations and investments has been effectively removed.

Until December 31, 2003, Turk Telekom held a monopoly over the provision and infrastructure of national and international voice telephone services (excluding the telecommunications infrastructure established by business enterprises through license agreements, telecommunications licenses, general permits or personal telecommunications premises). However, from January 1, 2004, other companies can provide telecommunications services and operate infrastructure upon approval by the Telecommunications Authority. Despite the expiration of Turk Telekom's monopoly, Turk Telekom, until recently, retained a de facto monopoly, as no licenses were granted by the Telecommunications Authority and no operators were authorized to provide services within Turk Telekom's monopoly area (other than the authorization of long distance call services). However, in March 2006, the Authority granted three companies, one of which is Telcom, Infrastructure in Operating Service Licenses. As of January 2008, the number of operators holding such licenses had increased to 15.

On June 5, 2004, the Telecommunications Authority designated Turk Telekom an operator holding a de facto monopoly over national and international voice carrying services in the telecommunication network market (excluding networks which shall be constructed by licensed telecommunications operators and individual telecommunications networks), in accordance with The Telegram and Telephone Law No. 406 article 29(b), until the constitution of the fair competition in relevant markets. Consequently, in accordance with The Telegram and Telephone Law No. 406 article 29(b), the Telecommunications Authority has calculated the maximum prices, including rental charges of leased lines and transmissions, on a non-discriminative and cost basis by any administrative acts and regulations that Turk Telekom can charge.

On April 13, 2004, the Telecommunications Authority amended the Regulation on the authorization of Long Distance Call Services. By March 31, 2006, the resulting amendment has allowed 45 new operators to obtain licenses to provide long distance call services. According to the terms of the regulation and license application procedure, Turk Telekom must provide carrier selection and access to the new networks. Turk Telekom has signed interconnection agreements, which became operational in 2005, with some of those long distance call services operators. On April 17, 2007, the Telecommunications Authority issued a telecommunication certificate entitled Fixed Telecommunications Services. Operators will be able to apply for such telecommunication certificate following the determination by the Council of Ministers of the license fee. License holders will be allowed to provide various data and telephony services (including local calls) and internet access services.

### ***The Telecommunications Authority***

The Telecommunications Authority has the authority to grant licenses and set fees in the telecommunications sector. However, the Council of Ministers, upon petition by the Turkish Ministry, can veto any plans for the authorization of telecommunications services that are subject to license agreements or infrastructure for the same type of services by third parties. Such agreements include value added telecommunications services, which are carried out by a limited number of operators. These value added services include the allocation of scarce resources such as frequency, orbit position and numbering services necessitating particular rights and obligations specific to

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each operator. Other value added telecommunications services may be carried out by private sector companies through obtaining a telecommunications license or general permission from the Telecommunications Authority without executing any license agreement. Under the current legal regime, mobile telecommunications services are provided on the basis of license agreements granting a license for the construction and operation of a GSM system. The Telecommunications Authority is authorized to enact regulations to set out the necessary qualifications required from operators, including terms and detailed conditions relating to the issuance of licenses, or general permissions and the conditions for execution of license agreements.

The Telecommunications Authority is an independent telecommunications regulator with financial and administrative independence. Its duties and activities are regulated by the Regulation on Structure, Duties and Working Procedures and Principles of the Telecommunications Authority, as amended (the Regulation ), February 17, 2001. Pursuant to the Regulation, the Telecommunications Authority's executive board is composed of five people, each with a five year tenure, and are appointed by the Council of Ministers from among nominees provided by the Turkish Ministry, the telecommunications industry, the Ministry of Industry and Trade, and the Association of Exchanges and Business Chambers. The responsibilities of the Telecommunications Authority include, among others:

to prepare and submit to the Turkish Ministry telecommunication plans under the framework of the Telecommunications Law;

to monitor the activities of operators, public entities, establishments and private persons in the field of telecommunications;

to impose fines and terminate license agreements, concessions or permissions in case of failure to follow regulation or gross negligence;

to determine criteria relating to tariffs and other contractual conditions applicable to users of telecommunications services and the interconnection charges between telecommunications networks;

to review, evaluate and approve tariffs and inspect their implementation;

to scrutinize activities in contradiction of fair competition and provide the Competition Board opinions regarding activities of telecommunication companies that could be competing unfairly; and

to take measures to prevent unauthorized transmissions and interferences and to take precautions to protect consumer rights.

The 2002 amendments to the Regulation modified the principles and procedures of the Telecommunications Authority. The Telecommunications Authority can now solicit opinions of market participants through its website when it drafts legislation. It can require operators and other parties to submit their comments and opinions on draft legislation within a specified time.

The Telecommunications Law establishes legal principles and broad policy lines that the Telecommunications Authority must follow. They include:

ensuring equal treatment of consumers by telecommunications service providers and equal accessibility of services;

promoting affordable access for all to telecommunications services;

ensuring compliance with service quality standards; and

ensuring all tariffs are fair and that they reflect the costs of investments, operations and reasonable operator profit.

The Telecommunications Law also specifies general rules and principles relating to interconnection between operators. Turk Telekom and other operators are required to satisfy requests of other operators concerning interconnections between their networks. Interconnection, including the tariffs for interconnection, is required to

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be provided on an equal, transparent and non-discriminatory basis with conditions agreed upon between the parties and on the basis of cost and reasonable profit. Agreements for interconnection are publicly available, but precautions are taken by the Telecommunications Authority to protect commercial secrets of the parties.

Legislation Amending The Wireless Law No. 2813 was published on July 13, 2005. The legislation establishes a central database ( CEIR ) containing information on serial numbers ( IMEI ) in order to determine approved handsets, called the White List. There is also a CEIR Black List, which contains handsets that should be rejected service on a GSM network because the handsets have been reported as lost, stolen or otherwise unsuitable for use.

Universal Services and Amending Some Laws, Law No. 5369, determines the procedures and principles governing the provision and execution of universal service and to determine procedures and the rules relating to fulfillment of universal services in the electronic communication sector, a universal public service that is financially difficult for operators to provide (and performance of universal service obligation in electronic communication sector).

The legislation designates the following as Universal Services:

fixed-line telephony services;

public pay telephones;

directory enquiry services and directories;

emergency calls services;

Internet services; and

Communication services provided by the Coast Secure and Ship Rescue Services General Directorate.

This law mandates that all authorized operators must provide Universal Services and the General Directorate of Communication can demand that operators provide Universal Services on a national and/or geographical area basis.

The legislation does not impose any new financial obligations for GSM operators. However, under the legislation a fund to finance the net cost of Universal Services will be established and the Turkish Ministry and Ministry of Finance will determine how fund contributions will be shared between the operators.

Turkcell may be designated as an operator obliged to provide Universal Services and therefore Turkcell may benefit from the fund.

The Telecommunications Authority issued a Service Quality Directive on November 10, 2005. The Directive has set out procedures and principles to control the conformity of the services of operators.

According to the directive, mobile telephone operators are obligated to meet service quality requirements and submit a report based on these requirements every three months to the Telecommunications Authority.

On March 8, 2002, the Telecommunications Authority published a Regulation on Principles and Procedures of National Roaming Agreements. Mobile telecommunications and data operators or operators of other services and infrastructure are entitled to enter into national roaming agreements, general authorizations, telecommunications licenses and the regulations issued by the Telecommunications Authority. However, such operators are obliged to satisfy reasonable, economically proportionate and technically possible national roaming requests of other operators. Should an operator fail to fulfill its national roaming obligations or should it unjustifiably interrupt such service, the

Telecommunications Authority can impose a fine of between 1% and 3% of the operator's turnover for the preceding year.



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The Regulation establishes the following principles governing national roaming agreements:

the promotion of practices enabling access to telecommunications services at affordable prices;

non-discrimination among subscribers, users and operators;

the establishment and maintenance of competition between telecommunication providers and operators of infrastructure;

the compatibility of telecommunications systems in accordance with international norms, and maintenance of the integrity of the public telecommunications network; and

the establishment of a transparent, clear and non-discriminatory balance among the legitimate interests of the parties.

The Telecommunications Law provides basic guidelines as to price and thus leaves the detailed rules and enforcement to the Telecommunications Authority. Operators are entitled to determine tariffs in accordance with the regulations of the Telecommunications Authority. The Telecommunications Authority is authorized to determine the caps of tariffs, including line rentals. In making that determination, the Telecommunications Authority will take into account the terms and conditions of the license agreements, licenses and general permissions in compliance with the guidelines set out in the Telecommunications Law. These guidelines require, among other things, that tariffs should be fair and should not involve any undue discrimination without justified reasons against persons under the same circumstances. They also require that international agreements to which Turkey is a party and the recommendations of international institutions should be taken into consideration in the determination of tariffs.

The Telecommunications Authority passed the Tariff Regulation on August 28, 2001, which sets out the principles and procedures to be applied for the approval and the audit of the tariff to be applied to the telecommunications services if it is determined that a business enterprise: (i) is a legal or a de facto monopoly; (ii) is in a dominant position in the relevant service or geographic market; or (iii) has significant market power. In case it is determined by the Telecommunications Authority that the business activities are within the scope of such Regulation, the tariffs should be submitted to the Telecommunications Authority for approval. In determining which operators possess dominant position, the Telecommunications Authority will take into consideration the following criteria: market share, vertical integrity, the power to influence market conditions, entrance to relevant market, difficulty to control and replace the network, technologic superiority, lack of competition in the relevant market, the quantity of unused capacity and the power to access financial resources. On June 9, 2004, the Telecommunications Authority designated Turkcell an operator holding dominant position in the GSM Mobile Telecommunications Services Market.

The Telecommunications Authority published a Regulation on processing personal information and protecting confidentiality in the telecommunications industry on February 6, 2004. This Regulation establishes general principles to secure personal information and protect confidentiality. The Regulation established the following principles: an operator's technical or administrative precautions to secure its services and its network must be approved by the Telecommunications Authority; operators must warn their consumers about risks and give them information to prevent such risks; except pursuant to a legal obligation or court decision, an operator may not listen to, observe, record, preserve or disconnect voice telecommunications without the permission of those communicating; and operators may not observe, record or preserve data traffic concerning telecommunications except for their services.

The Telecommunications Authority published a regulation concerning Co-Location and Facility Sharing on December 31, 2003. According to the Regulation, operators holding significant market power and Turk Telekom will be Co-Location incumbents and operators having the right to establish their facilities upon or under the public's or third party's land or having the rights to compulsory such lands, will be of Facility Sharing incumbents.

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General Principles of Application of The Regulation concerning Co-Location and Facility Sharing : Co-Layout and Facility Sharing prices will be determined on cost basis. Any land, facility and the facilities under the usage of Co-Location responsible is in the scope of Co-Location and Facility Sharing to increase competition, to use restricted sources efficiently and to support public good. The costs should be certificated by the Co-Location responsible. Efficient competition should be incited between the operators. To not corrupt parties operational and investment plans, an efficient communication between parties shall be provided.

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

In July 2006, the Telecommunications Authority published an annex to the Authorization Regulation specifying provision relating to the Authorization of Directory Services Operators.

In accordance with the Authorization Regulation, the Telecommunication Authority will now grant licenses allowing operators to provide Directory Services. Under the terms of the license, Directory Service Operators must provide their services without infringing the provisions of the relevant law or regulation related to the protection of confidentiality by accessing to the database on the subscriber s information s of the other authorized Telecom operators (including GSM operators and Turk Telekom). Before a Directory Service Operator can provide authorized services they must sign interconnection agreements with the authorized operators.

The Telecommunications Authority published a Regulation titled The Right of Way in Execution of the Telecommunication Services on May 2, 2006. This Regulation established general principles for the right of way for the establishment and usage of infrastructure facilities is required for the execution of telecommunication services.

### *Authorization of MNP*

On February 1, 2007, the Telecommunications Authority issued regulations on MNP. MNP allows subscribers to keep their existing telephone number when changing telephone operator, their physical location or their current service plan. These regulations are expected to become operational in the fourth quarter of 2008 based on a public statement of the Telecommunications Authority. Since we believe the MNP regulations conflict with our rights under our license agreement, without due compensation, we initiated a lawsuit on March 29, 2007 for the annulment of the MNP regulations. While we do not protest 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 lawsuit is still pending as our request for a stay of these regulations was rejected, and we have now appealed that decision. See Item 8.A. Consolidated Statements and Other Financial Information Legal Proceedings.

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

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

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

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

Furthermore, any real or legal entity may file a complaint with the Competition Board. Upon determination of any violation, the Competition Board can take necessary measures to prevent the violation and may impose fines on those who are liable for such prohibited practices.

In September 2002, the Telecommunications Authority and the Competition Board entered into a Protocol on Cooperation. The Protocol establishes a framework whereby the Telecommunications Authority and Competition Board can cooperate on legal actions and attitudes regarding measures, detections, regulations and inspections that affect competition conditions and the extension of competition in the telecommunications sector. The Protocol on Cooperation allows issues to be resolved more effectively and maintains a free and sound competition environment in the telecommunications sector. Furthermore, it prevents controversial and/or misleading statements by handling the complaints of the operators, and it harmonizes the interpretation of related legislation thus enabling mutual cooperation and information transfer.

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

We have signed a renewed license agreement for our GSM license on February 13, 2002. The major provisions of the renewed agreement are identical to those in the license agreement we had signed with the Turkish Ministry in 1998. However, the renewed agreement provides that a monthly payment of 15% over our gross revenue paid to the Turkish Treasury shall be subject to the legal interest rate. Also, 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. We are also obliged to pay annual contributions to the Telecommunications Authority's expenses in an amount equal to 0.35% of our net revenues. Finally, an article concerning the protection of users ( subscribers ) rights and an article concerning arbitration for the settlement of disputes are included in the renewed license agreement.

The Law numbered 5398, dated July 3, 2005, changed the definition of gross revenue. Article 16 of the Law No. 5398 provides that the license agreements shall be adapted to the mentioned change upon the request of the operators. Accordingly Turkcell applied to the Telecommunications Authority on June 25, 2005. On March 10, 2006 the adapted license agreement was signed between Turkcell and the Telecommunications Authority.

Under the Telecommunications Law, a license for value added telecommunications services may be granted for up to 49 years. A GSM license is subject to the Telecommunications Authority's right to suspend or terminate operations of the license on the grounds of security, public benefit, national defense or to comply with international treaties. However, suspension or takeover of facilities under these circumstances is subject to the payment of compensation to the operator. The Telecommunications Authority can also inspect such licensee and nullify its license if the licensee has materially failed to comply with the terms of its license.

The terms of license agreements are governed by the Authorization Regulation, and it provides that the Telecommunications Authority can supervise licensed operators of value added services, 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.

The Telecommunications Authority can require an operator to modify its tariffs to promote fair competition or the public interest, and the Telecommunications Authority may also terminate licenses in cases of gross negligence.

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Under the Authorization Regulation, the licensee is responsible for installing telecommunications equipment in conformance with international signalization systems and numbering plans. Furthermore, the licensee is obligated to make those investments which are necessary to offer the licensed service. These obligations include 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 Telecommunications Authority. Copies of the tariffs are required to be made available to the public and to customers. Upon the expiry of a license, including termination, the facilities and immovables of the licensee relating to the value added services will be transferred by the licensee in accordance with the license agreement.

Under the Regulation on Authorization Regarding Telecommunications Services and Infrastructures there are four types of authorization to provide telecommunications services and establish and operate infrastructure, all of which carry a maximum term of 25 years except general authorization: i) Duty Agreement, number of which is currently only two: concluded between Turksat Uydu Haberlesme Kablo TV ve Isletme A.S. ( Turksat ) and the Telecommunication Authority; and Directorate General of Coastal Safety and Telecommunication Authority; ii) license agreement; iii) Telecommunications Certificate; and iv) General Authorization.

Operators sign a License agreement with the Telecommunications Authority to provide telecommunications services and/or to establish or operate networks carried out by a limited number of operators on a national basis. On the other hand, operators providing telecommunications services and/or to establish or operate networks that are provided by a limited number of operators on a regional or local basis could be provided by acquiring a first type Telecommunications License by Telecommunications Authority. Operators who are authorized via a License agreement or first type Telecommunications License cannot be authorized by any other authorization type. Turkcell has signed a License agreement and thus cannot be authorized by any other authorization type.

### ***The License Agreement***

#### ***General***

From 1993 until April 27, 1998, we were subject to a revenue-sharing agreement with Turk Telekom. Under our revenue sharing agreement with Turk Telekom (successor of PTT), Turk Telekom allocated frequency bands necessary for the operation of a GSM network, executed subscriber contracts, performed subscriber billing and fee collection and allowed us access to Turk Telekom 's existing communications networks. In addition, Turk Telekom allowed us to construct base station control stations at Turk Telekom 's facilities and leased transmission connections between base stations, mobile telephone exchanges and control stations to us.

In exchange, we provided mobile telephone services within Turkey through a multi-phase build-out of a GSM system. The first phase of the build-out covered Istanbul, Ankara and other large population centers along with airports and the airport roads. The second and third phases provided for the build-out of the GSM network to less densely populated areas. In addition, through our contractual relationships with service providers, we provided the necessary equipment and expertise for the operation of the GSM network. We received 100% of the fees generated by Simcard sales, 32.9% of the fees billed for connection, monthly fixed fees and outgoing calls and 10% of the fees billed for incoming calls, an arrangement that resulted in payment to us of approximately 25% to 30% of the net system revenue generated by subscribers of our GSM network. We currently operate under a 25-year GSM license which we were granted in April 1998 upon payment of an upfront license fee of \$500 million. Initially, we signed the license agreement with the Turkish Ministry and as per the requirements under the Amending Law, we have renewed the agreement to which the Telecommunications Authority is the party. The new agreement has introduced two extra articles. The first one involves an administrative fee, amounting to 0.35% of the previous year 's gross revenue less tax, treasury share, and VAT, payable to the Telecommunications Authority until the last working day of April in the following year. The other article underlines consumer rights of subscribers during their subscription to the network.

Law 5398 of July 3, 2005 changed the definition of gross revenue. Article 16 of the Law No. 5398 provides that The License agreements shall be adapted to the mentioned change upon the request of the operators.

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Accordingly Turkcell applied to the Telecommunications Authority on June 25, 2005. On March 10, 2006 the adapted license agreement was signed between Turkcell and the Telecommunications Authority. With this adaptation the definition of gross revenue determined in the license agreement changed.

### *Terms*

Under the license agreement, we hold a licensed concession to provide telecommunications services in accordance with GSM-PAN European Mobile Telephone System standards in the 900 MHz frequency band. Our license covers 50 channels in the 892.2-959 MHz band 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 must renew our license subject to the approval of the Telecommunications Authority, but under current Turkish law, our term cannot exceed 49 years. We shall apply to the Telecommunications Authority between 24 months and 6 months before the end of our license. Our license is not exclusive and is not transferable without approval of the Telecommunications Authority.

We paid a license fee of \$500 million to the Turkish Treasury upon effectiveness of our license. As security for the performance of our obligations, we were also required to deliver cash or a bank guarantee equal to 1% of our license fee. On an ongoing basis, we must pay 15% of our monthly gross revenue, which has been redefined as of March 2006 to include subscription fees, monthly fixed fees and communication fees and to exclude interest charges for late collections from subscribers and indirect taxes, such as 18% VAT and other expenses as well as the accrued amounts that are recorded for reporting purposes to the Turkish Treasury. We have settled with the Turkish Ministry concerning the calculation of ongoing license fee payments. We have settled with the Turkish Ministry concerning the calculation of ongoing license fee payments. See Item 8.A. Consolidated Statements and Other Financial Information Legal Proceedings.

On June 25, 2005, the Turkish Government declared that GSM operators are required to pay 10% of their existing monthly ongoing license fee to the Turkish Ministry as a universal service fund contribution in accordance with Law 5369. As a result, starting from June 30, 2005, we pay 90% of the ongoing license fee to the Turkish Treasury and 10% to the Turkish Ministry as universal service fund.

Furthermore, under the Regulation on Authorization Regarding Telecommunications Services and Infrastructures, all kinds of share transfers must be communicated to the Telecommunications Authority, whereas result in the change of control component of the company (under the said regulation the control component is defined as the rights that allow for applying a decisive effect on an enterprise, either separately or jointly, de facto or legally.

### *License Conditions*

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

### *Coverage*

Our license requires that we meet coverage and technical criteria. We must attain geographical coverage of 50% of the population of Turkey (living in cities or towns of 10,000 or more inhabitants) within three years of our license's effective date and at least 90% of the population of Turkey (living in cities or towns of 10,000 or more inhabitants) within five years of the effective date of our license. This coverage requirement excludes coverage met through national roaming and installation sharing arrangements with other GSM systems and

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

### *Service Offerings*

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

### *Service Quality*

Generally, we must meet all the technical standards of the GSM Association as determined and updated by the European Telecommunications Standards Institute and Secretariat of the GSM Association. Service quality requirements require that call blockage not exceed 5% and call drops not exceed 2 dropped calls per erlang, which is the industry standard measuring the ratio of total dropped calls during the most congested hour of network traffic during the relevant time period to the traffic intensity for that congested hour. The Telecommunications Authority has the right to monitor our service standards, compile information, and take action to guarantee customer rights. Additionally, as a guarantee of our service and coverage commitments, we must obtain all-risk insurance coverage at an adequate amount to provide for uninterrupted operation.

### *Tariffs*

The license agreement regulates our ability to determine our tariff for GSM services. The license agreement provides that, after consultation with us and consideration of tariffs applied abroad for similar services, the Telecommunications Authority 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 based on, in the case of maximum tariffs established in New Turkish Lira, the Turkish Consumer Price Index announced by the Ministry of Industry and Trade of Turkey. The increase applied is 97% of the increase in the index. In the case of maximum tariffs established in U.S. Dollars, the increase is based on the US Consumer Price All Item Index minus 3%. Although action is required for an adjustment of maximum tariffs, our license agreement provides that we are free to establish rates for services up to the then existing maximum tariff (subject only to a seven-day prior notification to the Telecommunications Authority).

On July 10, 1998, the Turkish Ministry established under our license a set of initial maximum rates and a set of initial maximum standard tariffs that govern both the Vodafone affiliate in Turkey (formerly known as Telsim) and us. The initial standard tariffs constitute the highest rates that we may charge for particular services to customers that have not purchased any of the customized service packages that we offer. The maximum rates constitute the highest rates we may charge for the services included in these customized service packages. Generally, the maximum rates for particular services are set higher than the standard tariffs for those services. Therefore, in customizing our service packages to meet the needs of different customer segments, we may combine higher activation or monthly charges (or both) with lower airtime rates.

Under the standard tariff, we may from time to time notify the Telecommunications Authority of a per-minute airtime fee, which is treated as its Basic Unit Rate.

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The standard tariffs and the maximum rates have been established in New Turkish Lira and the Telecommunications Authority'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 Telecommunications Authority. Although we believe the tariff structure in our license will, in most instances, permit adjustments designed to offset devaluations of the New 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-New Turkish Lira foreign currency obligations. Additionally, in the event that the Telecommunications Authority were to establish maximum tariffs at levels below those that would enable us to adjust our rates to offset devaluations, this could have a material adverse effect on our business, consolidated financial condition, results of operations or liquidity.

As a result of certain applications made to the Telecommunications Authority, the Telecommunications Authority decided to implement a new requirement that our on-net tariffs be no less than the lowest interconnection rate applicable to other GSM operators. However, in the relevant legislation, no authority is given to the Telecommunications Authority to set minimum barriers for the tariffs granted. For this reason, we believe that such intervention is contrary to the applicable legislation. The Telecommunications Authority also decided to set a maximum price of TRY 0.66 (including VAT) for off-net calls under common subscription packages. However, we believe that this intervention by the Telecommunications Authority, which decreases the previous maximum tariffs, conflicts with the relevant provisions of the license agreement. The Telecommunications Authority is only empowered to apply the formula set forth in the license agreement, as explained above. By setting minimum tariffs for our Company only, we believe that the Authority creates unfair competition and violates provisions of the Law which stipulate that prices for telecommunications services be cost-based. On the grounds explained above, we have filed a lawsuit with the Higher Administrative Court in relation to the annulment and suspension of the execution of the aforementioned decision. (Please refer to Item 8.A Consolidated Statements and Other Financial Information Legal Proceedings ).

Due to the high-level of complexity involved, we have sought clarification of its decisions and we have taken actions to revise some of our tariffs and campaigns to comply with the Telecommunications Authority's new policy to the extent practical and to our best understanding. Following discussions with the Telecommunications Authority seeking clarification of its decisions, we have designed an alternative interconnection scheme with a new pricing model that we believe is compliant with the Telecommunications Authority's decision. We believe that the flexibility that we will regain through this model will be sufficient to allow us to devise pricing and marketing strategies that will be attractive to current and potential subscribers. However, no assurance can be given that these strategies will be successful, or that our litigation will be decided in a manner that is both favorable to us and timely or that we will not have further disagreements with the Telecommunications Authority regarding this matter. If the Telecommunications Authority disagrees with our alternative interconnection scheme and we are required to implement the decisions of the Telecommunications Authority in the manner presently required by it, we would in all likelihood be required to modify our tariffs and our marketing strategy in ways that would make us less competitive with regard to price in the Turkish GSM market, which could continue to harm our market share and continue to have a material adverse effect on our business and results of operations.

### *Relationship with the Telecommunications Authority*

The license agreement creates a mechanism for an ongoing relationship between us and the Telecommunications Authority. The Telecommunications Authority and Turkcell coordinate their activities through a License Coordination Committee ( the Committee ). The Committee is comprised of five members, two appointed by the Telecommunications Authority, two by us and one by agreement of the Telecommunications Authority and our members, or, if no agreement is reached, by the Chairman of the Telecommunications Board. The Committee is charged with the task of ensuring the proper and coordinated operation of the GSM network, assisting in the resolution of disputes under the license agreement and facilitating the exchange of information between the parties.

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

### *License Suspension and Termination*

The Telecommunications Authority 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 Telecommunications Authority may operate our business, but we are entitled to any revenues collected during such suspension, and our license term will be extended by the period of any suspension.

Our license may be terminated under our license agreement:

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

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

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

if we fail to pay our ongoing license fee.

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

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 Telecommunications Authority, or an institution designated by the Telecommunications Authority, without consideration, the network management center, the gateway exchanges, and the central subscription system, which are the central management units of the GSM network. These units include related technical equipment, immovables, and all other installations and assets used in the operation of the system. We may apply to the Telecommunications Authority between 24 and 6 months before the end of the 25-year license term for the renewal of the license. The Telecommunications Authority 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.

### *Access and Interconnection Regulation*

The Access and Interconnection Regulation (the Regulation ) became effective when it was issued by the Telecommunications Authority on May 23, 2003. The Regulation sets forth the rights and obligations of the operators in the telecommunications sector in Turkey and establishes



rules and procedures pertaining to their

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performance of such obligations. The Regulation primarily sets forth applicable principles, details of access and interconnection obligations, financial provisions, and policies and procedures regarding negotiations and contracts for access and interconnection.

The Regulation is driven largely by a goal to improve the competitive environment and ensure that users benefit from telecommunications services and infrastructure at a reasonable cost. Under the Regulation, the Telecommunications Authority may compel a telecommunications operator to accept another operator's request for use of and access to 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 are obliged to provide service and information on the same terms and qualifications provided to their shareholders, subsidiaries, and affiliates.

In accordance with the Regulation, the telecommunications providers in Turkey (including Turk Telekom) are obliged to renew their interconnection agreements within two months following the issuance of the Regulation. The renewed agreements must comply with the provisions of the Regulation, including cost-based pricing. Accordingly, we entered into a supplementary protocol with Vodafone, on October 9, 2003, and with Turk Telekom the following day. On September 9, 2003, we entered into a new interconnection agreement with Globalstar. As a result of intervention by the Telecommunications Authority, we entered into new supplemented protocols with Turk Telekom on November 10, Vodafone on November 21, and Globalstar on December 11, with amended tariffs and tariff adoption procedures.

The Telecommunications Authority published a communiqué on June 3, 2003, defining significant market power as the power to influence economic parameters such as the purchase or sale price of services provided to other operators and users; supply and demand of said services; market conditions; components of fundamental telecommunications network utilized for telecommunications services; and access to users in the relevant telecommunications market. In determining which operators possess significant market power, the Telecommunications Authority will take into consideration the following criteria: market share; the power to influence market conditions; the relationship between quantity of sales and size of the relevant market; the power to control access to the end user; power to access financial resources; and experience regarding production and introduction of services in the market. On August 21, 2003, the Telecommunications Authority designated us as an operator holding significant market power in the GSM Mobile Telecommunication Services Market and GSM Mobile Call Termination Services Market and Vodafone an operator holding significant market power in the GSM Mobile Call Termination Services Market. On January 4, 2005, the Telecommunications Authority designated Turkcell individually as an operator holding significant market power in the GSM Mobile Call Termination Services Market. Finally, on December 15, 2005, the Telecommunications Authority 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.

While all operators will be obliged to enter into negotiations for interconnection agreements with any requesting operator, Turkcell, Vodafone, and Avea as operators holding significant market power in the GSM Mobile Call Termination Services Market, as well as Turk Telekom, are obliged to provide interconnection. These operators may limit access or interconnection to other operators only if it is objectively proven that network operation security or network integrity or data protection cannot be maintained or that interconnection or access is technologically unfeasible; in any case, the approval of the Telecommunications Authority is also required. The Telecommunications Authority may also limit the interconnection obligation of an operator upon the operator's request, provided that there are technical and commercial alternatives to the interconnection or that required resources for such interconnection are unavailable. While operators not deemed to hold significant market power are free to set their access and interconnection tariffs, operators holding significant market power are required to determine their access and interconnection tariffs on a cost basis. Specifically, the Regulation provides that the tariffs will be the marginal cost of procuring efficient services, including an appropriate return on capital employed for procurement of services, plus a portion of overall costs attributable to such service.

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In addition, the Telecommunications Authority has required operators holding significant market power, as well as Turk Telekom, to share certain facilities with other operators under certain conditions and to provide co-location on their premises for the equipment of other operators at a reasonable price by the regulation concerning Co-Location and Facility Sharing . See Regulation of the Turkish Telecommunications Industry above.

The Telecommunications Authority may also require telecommunications operators to provide number portability, which means allowing users to keep the same phone numbers even after they switch from one network to another.

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 Telecommunications Authority may establish rules applicable to the division of the costs of facilities among parties.

All access and interconnection contracts must be submitted to the Telecommunications Authority within fifteen days of execution. The Telecommunications Authority may request modifications to the contracts should they contain any provisions contrary to the legislation. The access and interconnection contracts will be publicly available, excluding trade secrets. All operators holding significant market power will also be required to prepare reference interconnection proposals and submit them to the Telecommunications Authority. Turk Telekom will submit such reference interconnection proposals within three months of the date of the Regulation; other operators will be required to submit such proposals within three months following the date of the Telecommunications Authority's determination that they hold significant market power. Except where otherwise specified by the Telecommunications Authority, reference interconnection proposals will be renewed every year. We have submitted our reference interconnection proposal to the Telecommunications Authority, which has the right to vary its terms. Furthermore, on May 3, 2005 the Telecommunications Authority has published our interconnection proposal on its website.

If two operators are unable to reach an interconnection agreement within three months of the date of the initial access request, either party may refer the dispute to the Telecommunications Authority for resolution. Should the parties continue to be unable to reach an agreement within six weeks (which the Telecommunications Authority may extend for an additional four weeks) after the Telecommunications Authority initiates a settlement procedure, the Telecommunications Authority will establish terms, conditions, and fees applicable to the agreement and binding on both parties.

Should a telecommunications operator violate any provisions of the Regulation, the Telecommunications Authority may impose an administrative fine ranging from 0.5% to 3% of the operator's turnover for the preceding calendar year.

On October 8, 2004, the Telecommunications Authority published Standard Reference Interconnection Tariffs for Turk Telekom and GSM Operators Holding Significant Market Power to recommend call termination fees of the operators. The reference rate for Turkcell was 0.156 TRY (approximately \$0.119 as of April 1, 2008) as of October 1, 2004; 0.148 TRY (approximately \$0.113 as of April 1, 2008) as of January 1, 2005; and 0.140 TRY (approximately \$0.107 as of April 1, 2008) as of October 1, 2005. These Standard Reference Interconnection Tariffs are not necessarily directly applicable to our current or future interconnection agreements unless explicitly stated by the Telecommunications Authority at the end of the reconciliation procedure.

On June 2, 2006, the Telecommunications Authority issued Standard Reference Interconnection Tariffs for Turk Telekom and GSM Operators Holding Significant Market Power . As of June 6, 2006, the rate determined for Turkcell was 0.140 TRY (approximately \$0.107 as of April 1, 2008).

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On January 16, 2007, the Telecommunications Authority revised Standard Reference Interconnection Tariffs for Turk Telekom and GSM operators . As of March 1, 2007 the revised rate for Turkcell was 0.136 TRY (approximately \$0.104 as of April 1, 2008).

On June 14 , 2007, the Telecommunications Authority issued a new Access and Interconnection Regulation (the New Regulation ) and abolished the Regulation as of the same date. No major changes were adopted by the New Regulation.

On March 31, 2008, the Telecommunications Authority revised Standard Reference Interconnection Tariffs for Turk Telekom and GSM operators . As of April 1, 2008 the revised rate for Turkcell was 0.091 TRY (approximately \$0.070 as of April 1, 2008).

## **The Ukraine License Agreement**

Astelit owns two GSM activity licenses, one is for GSM 900, one is for DCS 1800. As of 31 December 2007, Astelit owns nineteen GSM 900 and DCS 1800 frequency licenses which are regional or throughout Ukraine. In addition to the above GSM licenses, Astelit owns four licenses for local phone fixed connection with wireless access using D-AMPS standard.

According to licenses, Astelit should adhere to state sanitary regulations to ensure that equipment used does not injure the population by means of harmful electro-magnetic emissions. Licenses require Astelit to inform authorities about start/end of operations in one month; about changes in incorporation address in 10 days. Also, Astelit must present all the required documents for inspection by Ukrainian Telecommunications Authority at their request. The Ukrainian Telecommunications Authority may suspend the operations of Astelit for a limited or an unlimited period if necessary because of the expiration of licenses, upon mutual consent, or in case of violation of terms of radio frequencies use. If such a violation is determined, Ukrainian Telecommunications Authority notifies Astelit of provisions violated and sets deadline for recovery. If the deadline is not met, licenses may be terminated.

## ***Turk Telekom, Vodafone, Avea, Milleni.com, and Globalstar Interconnection Agreements***

### *General*

We have entered into interconnection agreements with Turk Telekom, Vodafone, Avea, Milleni.com, and Globalstar.

Under these interconnection agreements, Turk Telekom, Vodafone, Avea, Milleni.com, and Globalstar agree to permit interconnection of their networks with our network to enable calls to be transmitted to, and received from, the GSM system operated by us through its existing digital fixed telephone switches.

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

The interconnection agreements specify that the parties shall comply with relevant international standards, including standards adopted by the GSM Memorandum of Understanding, the Telecommunications Standards Bureau of the International Telecommunications Union, and the European Telecommunications Standards Institute. In the absence of applicable international standards, the interconnection agreements provide that the parties will establish written standards to govern between them.

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

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

create obligations regarding network alterations;

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

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

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

provide for periodic technical review meetings between the parties;

permit each party to engage in testing of interconnection exchanges;

address the consequences of transmission failures;

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

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

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

establish procedures to deal with network faults; and

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

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

### *Turk Telekom*

In the Turk Telekom interconnection agreement, Turk Telekom also agrees to permit us to utilize Turk Telekom's buildings, premises, and other infrastructure and to lease the means of communications transmission between our GSM exchanges, base stations, and base station control

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stations. We retain the right, however, to establish our own transmission network at our own expense in the event that such transmission network is not made available to us by Turk Telekom, subject to the consent of the Telecommunications Authority.

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

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

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### *Payments*

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

The Turk Telekom interconnection agreement provides that Turk Telekom will pay the 1% Turkish communications tax, which is payable on the basis of communications fees collected by Turk Telekom from customers in connection with telephone, facsimile, telex and data excluding subscription fees. Turk Telekom is liable to pay this tax to the relevant municipality pursuant to the Municipality Revenues Act. We would be liable in respect of any increase in the applicable rate of the communication tax. If a party fails to make payment when due, the amount past due is deemed converted into U.S. Dollars and bears interest at a rate of 2% per month.

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

### *Call Tariffs*

In accordance with the agreement concluded between Turkcell and Turk Telekom on September 20, 2003, the call tariffs are set in Turkish Lira and will be revised by the parties every three months based on the consumer price index. During periods of sharp devaluation of the Turkish Lira, the devaluation rate will also be taken into consideration in such revisions. These price terms were applicable until the end of 2004 when both parties will revise them based on conditions reached at that time. All the rates are net of all applicable taxes.

The parties could not agree on call termination tariffs which would be applicable from December 12, 2004; Turk Telekom referred this dispute to the Telecommunications Authority for resolution. The Telecommunications Authority determined final call termination tariffs. In accordance with the decision of Telecommunications Authority; as of March 1, 2006, Turk Telekom had to pay Turkcell 0.140 TRY (approximately \$0.107 as of April 1, 2008) per minute. Turkcell had to pay to Turk Telekom a net amount of 0.02 TRY (approximately \$0.015 as of April 1, 2008) per minute for local traffic and a net amount of 0.037 TRY (approximately \$0.028 as of April 1, 2008) per minute for metropolitan and long-distance traffic routed from Turkcell to Turk Telekom. On January 15, 2007, the Telecommunications Authority revised the Standard Reference Interconnection Tariffs for GSM and fixed network operators.

Turk Telekom applied once more to the Telecommunications Authority for determination of call termination tariffs and, in response, the Telecommunications Authority determined final call termination tariffs. In accordance with the decision of Telecommunications Authority, as of March 1, 2007, Turk Telekom pays Turkcell 0.136 TRY (approximately \$0.104 as of April 1, 2008) per minute and Turkcell pays to Turk Telekom a net amount of 0.0189 TRY per minute for local traffic and a net amount of 0.03 TRY per minute for metropolitan and long-distance traffic routed from Turkcell to Turk Telekom.

For SMS services from Turk Telekom's network to our network, as of, and since, December 2006, Turk Telekom has paid us a net amount of TRY 0.033307 (approximately \$0.025 as of April 1, 2008) per SMS after deducting VAT and other taxes. For SMS services from our network to Turk Telekom's network, we have paid Turk Telekom a net amount of TRY 0.017227 (approximately \$0.013 as of April 1, 2008) per SMS after deducting VAT and other taxes. SMS termination rates are subject to revaluation quarterly.

Currently, for SMS services from Turk Telekom's network to our network, Turk Telekom will pay us a net amount of 0.031891 TRY (approximately \$0.024 as of April 1, 2008) per SMS, excluding VAT and SCT. For

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SMS services from our network to Turk Telekom's network, we will pay Turk Telekom a net amount of 0.016495 TRY (approximately \$0.013 as of April 1, 2008) per SMS, excluding VAT and SCT.

In accordance with the interconnection agreement between Turkcell and Turk Telekom, for international calls originating from Turkcell network and carried by Turk Telekom, Turkcell pays Turk Telekom 70% of the net amount of Turk Telekom's retail international call charges. Pursuant to this agreement, Turk Telekom was obliged to pay us 45% of the international settlement charge (terminal rate) that is transferred by the international carrier operator to Turk Telekom for incoming international calls that are terminated on our network. For the termination service price of calls from international destinations to Turkcell network carried by Turk Telekom, Turkcell applied to the Telecommunications Authority for reconciliation. As a result of that process, The Authority decided Turk Telekom to pay Turkcell 0.136 TRY for termination of international calls. We and Turk Telekom have an ongoing dispute over this agreement. Please see Item 8.A. Consolidated Statements and Other Financial Information - Legal Proceedings .

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

For voice traffic termination service on our network, a new interconnection offer including 8,000 TRY (approximately \$6,125 as of April 1, 2008) as monthly fixed fee, 0.003 TRY (approximately \$0.0023 as of April 1, 2008) as the discounted rate for the first 100,000 minutes of interconnection traffic, and a peak/off price discrimination ranging from 0.136 TRY (approximately \$0.104 as of April 1, 2008) to 0.120 TRY (approximately \$0.09 as of April 1, 2008) is made to Turk Telekom. According to the offer, we pay Turk Telekom the current termination rates of 0.0189 TRY (approximately \$0.014 as of April 1, 2008) and 0.03 TRY (approximately \$0.023 as of April 1, 2008).

*Rental Rates*

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

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

*Charges for Energy at Switching Centers*

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



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### *Miscellaneous*

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

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

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

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

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

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

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

### *Vodafone Interconnection Agreement*

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

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

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

### *Call Tariffs*

Turkcell and Vodafone could not agree on call termination tariffs and Vodafone referred this dispute to the Telecommunications Authority for resolution. The Telecommunications Authority applied provisional call and SMS termination tariffs as of March 1, 2006 to both parties. In accordance with this decision; Vodafone was to pay Turkcell 0.140 TRY (approximately \$0.11 as of April 1, 2008) per minute and Turkcell was to pay to Vodafone a net amount of 0.152 TRY (approximately \$0.12 as of April 1, 2008) per minute. Likewise, the Telecommunications Authority determined that Vodafone was to pay Turkcell 0.0297 TRY per SMS as of March 1, 2006 and Turkcell was to pay Vodafone a net amount of 0.0322 TRY per SMS (approximately \$0.02 as of April 1, 2008).



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In accordance with the agreement concluded between Turkcell and Vodafone in July 2006, both parties agreed on call and SMS termination tariffs to be applied and this agreement became binding despite the earlier decision by the Telecommunications Authority. According to the agreement, Turkcell and Vodafone will charge to each other 0.1737 TRY (approximately \$0.13 as of April 1, 2008) per minute for call traffic accessing each other's network and a net amount of 0.0322 TRY (approximately \$0.025 as of April 1, 2008) per SMS accessing each other's network. In case call traffic switched from Vodafone to Turkcell exceeds 50,000,000 minutes in a month, Vodafone will pay a net amount of 0.16 TRY (approximately \$0.123 as of April 1, 2008) per minute for call traffic. This charging method is valid from May 24, 2006, until March 31, 2008. Turkcell will pay Vodafone a net amount of 0.165 TRY (approximately \$0.126 as of April 1, 2008) per minute for call traffic from April 1, 2007, until March 31, 2008. Both parties will pay each other net amount of 0.160 TRY (approximately \$0.123 as of April 1, 2008) per call between April 1, 2008, and March 31, 2009.

In case SMS traffic switched from Vodafone to Turkcell exceeds 50,000,000 in a month, Vodafone will pay a net amount of 0.0297 TRY (approximately \$0.023 as of April 1, 2008) per SMS. This charging method was valid from May 24, 2006, until March 31, 2007. Both parties will pay each other 0.0322 TRY (approximately \$0.025 as of April 1, 2008) per SMS between April 1, 2007, and March 31, 2009.

All the call tariffs are set in Turkish Lira and will be revised by the parties on March 31, 2008, and March 31, 2009, based on the consumer price index. During periods of sharp devaluation of the Turkish Lira, the devaluation rate will also be taken into consideration in such revisions. Based on this revaluation methodology, between April 1, 2007 and March 31, 2008 termination rates, excluding VAT and SCT, are as follows: for calls from Turkcell to Vodafone, Turkcell pays Vodafone 0.182919 TRY per minute (approximately \$0.14 as of April 1, 2008); for calls from Vodafone to Turkcell 0.177376 TRY per minute (approximately \$0.136 as of April 1, 2008); for SMS, each party pays the other 0.035697 TRY per SMS (approximately \$0.027 as of April 1, 2008).

The pricing terms of the Vodafone interconnection agreement will be applicable until March 31, 2009, when both parties will revise the pricing terms based on conditions reached at that time. All the rates are net of all applicable taxes. If the parties cannot agree on new call termination tariffs until July 2009, both parties shall refer to the Telecommunications Authority for resolution. During the resolution period both parties will charge each other a net amount of 0.16 TRY (approximately \$0.123 as of April 1, 2008) per minutes for the call termination and a net amount of 0.0322 (approximately \$0.025 as of April 1, 2008) for SMS termination.

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

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

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

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

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

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

there is a general review pursuant to the interconnection agreement.

Upon service of a review notice, the parties must negotiate in good faith toward a resolution of the subject matter of the review. If the parties fail to reach agreement within three months from the date of service of the review notice, either party may request that the Telecommunications Authority determine the manner, if any, in which the Vodafone interconnection agreement should be modified. The Vodafone interconnection agreement



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will be modified in accordance with that determination, unless the determination is subject to a legal challenge. The Vodafone interconnection agreement cannot be assigned or transferred by the parties without the other party's prior written consent.

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

The Vodafone interconnection agreement will terminate:

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

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

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

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

For voice traffic termination service on our network, a new interconnection offer including 8,000 TRY (approximately \$6,125 as of April 1, 2008) as monthly fixed fee, 0.003 TRY (approximately \$0.0023 as of April 1, 2008) as the discounted rate for the first 100,000 minutes of interconnection traffic, and a peak/off price discrimination ranging from 0.136 TRY (approximately \$0.104 as of April 1, 2008) to 0.120 TRY (approximately \$0.09 as of April 1, 2008) is made to Vodafone. According to the offer, we pay Vodafone 0.136 TRY (approximately \$0.104 as of April 1, 2008). We still negotiate with Vodafone over the terms of this offer.

*Avea Iletisim Hizmetleri A.S. Interconnection Agreement*

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

*Payments*

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

*Call Tariffs*

In the decision dated June 29, 2006, the Telecommunications Authority applied its provisional call termination tariffs and in accordance with this decision, Turkcell was to pay Avea a net amount of 0.175 TRY (approximately \$0.134 as of April 1, 2008) per minute and Avea to Turkcell a net amount of 0.140 TRY (approximately \$0.107 as of April 1, 2008) per minute. On August 2, 2007, the Telecommunications Authority

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concluded the reconciliation process between Turkcell and Avea, by applying its provisional termination tariffs. Currently, in accordance with this decision, Turkcell pays Avea 0.167 TRY per minute (approximately \$0.128 as of April 1, 2008) and Avea pays Turkcell 0.136 TRY per minute (approximately \$0.104 as of April 1, 2008) .

In the decision dated July 31, 2007, the Telecommunications Authority set call termination tariffs between us and Avea and in accordance with this decision we pay Avea a net amount of 0.167 TRY (approximately \$0.128 as of April 1, 2008) per minute and Avea pays to Turkcell a net amount of 0.136 TRY (approximately \$0.104 as of April 1, 2008) per minute. Both parties charge each other an amount 10% higher than effective call termination tariffs per minute for accessing each other s directory inquiry services.

On March 7, 2007, the Telecommunications Authority determined the SMS termination fees between Turkcell and Avea. According to this decision, we pay Avea a net amount of 0.0365 TRY per SMS (approximately \$0.028 as of April 1, 2008) and Avea pays Turkcell a net amount of 0.0297 TRY per SMS (approximately \$0.023 as of April 1, 2008).

All call and SMS tariffs are subject to revision quarterly, based on the Consumer Price Index. However, since current charges are determined by the Telecommunications Authority, as a result of its decision, only SMS termination charges are subject to inflation revision. Based on this quarterly revaluation methodology, current rates for SMS, excluding VAT and SCT, are as follow: Turkcell pays Avea 0.038648 TRY per SMS (approximately \$0.029 as of April 1, 2008) and Avea pays Turkcell 0.031447 per SMS (approximately \$0.024 as of April 1, 2008).

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

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

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

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

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

there is a general review pursuant to the interconnection agreement.

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

We and Avea have an on-going dispute over SMS and call termination fees, please see Item 8A Consolidated Statements and Other Financial Information Legal Proceedings of this annual report on 20-F.

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

The Avea interconnection agreement will terminate:

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



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

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

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

For voice traffic termination service on our network, a new interconnection offer including 8,000 TRY (approximately \$6,125 as of April 1, 2008) as monthly fixed fee, 0.003 TRY (approximately \$0.0023 as of April 1, 2008) as the discounted rate for the first 100,000 minutes of interconnection traffic, and a peak/off price discrimination ranging from 0.136 TRY (approximately \$0.104 as of April 1, 2008) to 0.120 TRY (approximately \$0.092 as of April 1, 2008) is made to Avea. According to the offer, we pay Avea the current termination rate of 0.0167 TRY (approximately \$0.128 as of April 1, 2008).

### *Milleni.com Interconnection Agreement*

We entered into a telecommunications services agreement with Milleni.com GmbH ( Milleni.com ) in April 2001. The Milleni.com telecommunications services agreement is intended to supply telecommunications services to each other within Germany and Turkey for an initial period of twelve months, after which the agreement will remain in force unless terminated by either party upon a minimum 60 days advanced written notice by either party.

Under the Milleni.com telecommunications services agreement, each of the parties agree to provide telecommunications services, as defined under the agreement, to each other whereby Milleni.com may convey calls to our switch and we may convey calls to Milleni.com's switch for onward transmission to their destinations. Scope to the services may be extended subject to the parties' further agreement. We and Milleni.com undertook to use the service in accordance with directions, consents, specifications, designations or determinations of the local regulatory authorities within the respective jurisdiction. Moreover, each of the parties guaranteed certain principles for use of services by its customers to the other.

The Milleni.com telecommunications services agreement establishes understandings between the parties relating to a number of operational areas, including applicable interconnection principles and other technical, operational, financial, and procedural aspects of interconnection.

Although the Milleni.com interconnection agreement is effective, in practice Turkcell does not carry calls to Milleni.com's switch for onward transmission to their destinations provided that the termination of these calls on the relevant network and Milleni.com do not convey calls to our switch.

The Milleni.com telecommunications services agreement specifies that the parties shall establish and maintain initial points of connection required for the provisioning of services to and from their respective systems. Initially, the parties shall connect their telecommunications systems via a 2 Mbit/s circuit(s) to be provided by a supplier as agreed by the parties mutually. Ordering and provision of capacity by the supplier shall also be agreed between the parties. Any modifications or extensions to the initial arrangement require agreement between the parties in consideration of the traffic forecasts supplied by each of the parties to the other.



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Each party shall bear its own equipment and installation charges for utilization of services and ongoing charges for the circuits to other party's telecommunications system shall be shared equally.

### *Call Tariffs*

Milleni.com charges us various prices identified within the agreement for calls destined to networks around the globe. Either party may modify its rates upon one-month advanced written notice.

### *Payments*

The Milleni.com telecommunications services agreement provides for payment by both parties of fees for interconnection services. In that respect, we are obliged to pay charges due to Milleni.com in monthly arrears within 30 days from the receipt of invoice. Milleni.com pays charges due to us in monthly arrears within 30 days from the receipt of invoice.

The Milleni.com telecommunications services agreement indicated that the charges specified in the agreement are exclusive of Value Added Tax or any other applicable tax. If such taxes were due and owing, that amount should have been added to the invoice and charged to the other party at the then prevailing rate.

The Milleni.com telecommunications services agreement states that if a party fails to make charges when due, the amount past due bears daily interest at an annual rate of 3% points greater than Euribor from the date on which such amount became due until the date on which it is paid, unless the invoice was correctly disputed. The applicable interest will be accrued day by day and not be compounded.

### *Miscellaneous*

The Milleni.com telecommunications services agreement provides that either party might immediately suspend services or terminate the agreement by serving the other party with written notice if:

the other party commits a material breach (including failure to pay any charges) and has not remedied that breach within 30 days after receipt of written notice;

a party's license to operate or to use either party's system is revoked or terminated for any reason;

the other party makes an arrangement or composition with its creditors or makes an application to a competent court for protection from its creditors or a bankruptcy order is made or a resolution is passed for its winding up or a court of competent jurisdiction makes an order for its winding up or dissolution or an administration order is made or a receiver is appointed over any of its assets;

the other party does not provide services to a minimum standard agreed by the operation manual and fails to remedy such failure within 30 days of receipt of written notice; or

the other party fails to pass switched telecommunications traffic to the first for a period of 3 consecutive months.

Either of the parties can terminate the agreement if force majeure events arise or upon 60 days written notice. Termination or expiry of the agreement should not affect accrued rights and obligations of the parties and indemnification and confidentiality provisions shall remain in force.

The Milleni.com telecommunications services agreement cannot be assigned without written consent of the other party, provided that rights and obligations thereunder may be assigned to an associated company of that party or to a third party who has acquired its system if such associated company or third party holds all necessary licenses, consents and permissions as may be necessary to fulfill its obligations under the agreement. Any permitted transfer is only effective upon signature by both parties and the assignee of a formal notation agreement under which the assigned shall agree to observe and perform all of the provisions of such telecommunications services agreement.



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The Milleni.com telecommunications services agreement is governed under Turkish law and disputes arising thereunder shall be resolved in the Istanbul courts. The Milleni.com telecommunications services agreement also has provisions for settlement of billing disputes, including cooperation, executive management level consideration and referral to experts, if necessary.

*Globalstar Interconnection Agreement*

*Call Tariffs*

In accordance with the agreement concluded between Turkcell and Globalstar on December 11, 2003, for traffic switched from us to Globalstar we pay Globalstar the charges determined below after deducting VAT, communications tax and other taxes:

for traffic between 0 and 500,000 minutes, \$0.40 per minute;

for traffic between 500,000 and 1,000,000 minutes, \$0.31 per minute;

for traffic between 1,000,000 and 2,000,000 minutes, \$0.25 per minute; and

for traffic greater than 2,000,000 minutes, \$0.20 per minute.

For traffic switched from Globalstar to us, Globalstar pays us \$0.175 per minute after deducting VAT, communications tax and other taxes.

*Miscellaneous*

The Globalstar interconnection agreement will remain in force for the duration of the license period.

The Globalstar interconnection agreement will terminate:

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

in case of breach of the agreement;

by one of the parties serving a thirty-day termination notice to the other party;

by a court decision providing cancellation of the agreement; or

by the approval of the Telecommunications Authority to cancel the agreement.

Any disputes between the parties shall be first subject to the efforts of the parties to resolve the dispute amicably. If the dispute remains unresolved, the parties will be free to refer the matter to the Istanbul courts.

*Agreements Concluded with the Operators Licensed To Provide Long-Distance Call Services*

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

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

A new interconnection offer for voice termination services, including 8,000 TRY (approximately \$6,125 as of April 1, 2008) as monthly fixed fee, 0.003 TRY (approximately \$0.0023 as of April 1, 2008) as the discounted rate for the first 100,000 minutes of interconnection traffic, and a peak/off price discrimination ranging from 0.136 TRY (approximately \$0.104 as of April 1, 2008) to 0.120 TRY (approximately \$0.092 as of April 1, 2008) is made to Long Distance Call Services operators that entered into Call Termination Agreements with us. Five among thirteen operators accepted the new offer and signed an addendum to the main service agreement.

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### *Agreements Concluded with the Operators Licensed to Provide International Transit Traffic Services*

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

### *Prospective Legislation and Regulations*

Below, is a brief overview of some of the major proposed legislative and regulatory initiatives in Turkey that, if implemented, could have a significant impact on our operations. For additional information, please see the discussion of new pricing regulations under "The License Agreement Tariffs" section above.

### *Regulations*

#### *Defining the Relevant Markets*

Currently, only three markets have been nominated by the Telecommunications Authority as relevant markets pursuant to which it is authorized to determine the operators within such market holding significant market power or a dominant market position. These markets are the mobile telecommunications market, the mobile call termination market and access to GSM mobile networks and the call-originating market.

#### *Authorization of Value Added Telecommunication Services Operators*

The Telecommunications Authority is preparing to authorize the operators to provide Value Added Telecommunication Services by appending an annex to the Authorization Regulation, specifying provisions relating to such services. The Telecommunications Authority will specify the authorizations types and procedures to be applied and the minimum value of an authorization fee for Value Added Telecommunication Services within the annex.

In order to assess operator concerns regarding this regulation, the Telecommunications Authority has sent a questionnaire to the operators regarding technical, marketing and regulatory issues of the Value Added Telecommunication Services within the EU Regulations and international applications.

In accordance with the Telecommunications Authority Regulation, we may be required to provide access and/or interconnection services to requesting VAS operators.

#### *Authorization of 3G Licenses*

The Council of Ministers decision regarding the "Determination of the Minimum Values of License Agreement Regarding the IMT-200/UMTS Services and infrastructure" and The Council of Ministers' decision regarding "the Enforcement of the Authorization Plan Regarding the IMT-2000/UMTS Services and Infrastructure" was published in the official gazette in February 16, 2007. These decisions authorized the Telecommunications Authority to begin the process of preparing regulations for 3G Licenses.

The Telecommunications Authority conducted a tender process for the granting of 3G licenses on September 7, 2007. Based on the tender process conducted on September 7, 2007, Turkcell was awarded a 3G license. However, on September 19, 2007, the Telecommunications Authority canceled the 3G license tender due to the fact that Turkcell's competitors did not participate in the 3G tender process. We expect a 3G tender process to take place during 2008, but no announcement has been made by the Telecommunications Authority regarding the rescheduling of the 3G tender process and, accordingly, there may be further delays in the 3G tender process. If

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the 3G tender process is rescheduled, the minimum price for a 3G license may be reset and could increase from the 252 million minimum for the largest bandwidth in the previous 3G tender process. However, the tender process could result in a significantly higher price, especially if multiple new licenses are granted to new entrants. We understand that the Telecommunications Authority may attempt to award at least four 3G licenses, possibly resulting in at least one new entrant into the current market. We believe that 3G services will be important for our business and we intend to participate in any future 3G licensing process in Turkey.

### ***Authorization of Mobile Virtual Network Operators ( MVNOs )***

According to a proposed regulation, MVNOs shall provide their services by using the infrastructure of GSM operators. The Telecommunications Authority has published a draft annex to the Authorization Regulation specifying provisions relating to MVNOs. We have objected to the draft Regulation on the grounds that obligating us to share our infrastructure with the MVNOs would infringe on our rights in accordance with our license agreement.

### ***Legislation***

#### ***Electronic Communications Law***

The draft of the Electronic Communications Law prepared by the Turkish Ministry aims to establish a similar legislative system to the EU regulatory framework and existing Telecommunications Authority regulations. The draft has the following key terms:

The termination of the access has been firstly used in a text of the law and the scope of the access has been enlarged by authorizing the Telecommunications Authority to specify the statements not designated clearly in the draft legislation which should be deemed as access. In accordance with the mentioned provision and expected telecom services authorizations, the Telecommunications Authority may designate us and other Telecom operators as operators holding obligation to provide access.

The Telecommunications Authority is authorized to impose any obligations to the operators holding significant market power within the scope of the legislation included but not limited to the following: restrict and interrupt the subscription, oblige the operators to display their activity in separate legal entities, recommend and/or designate the upper limits of tariffs, obligate operators to imply carrier selection to the other telecom operators from their network.

As per article 60 of draft law, the Telecommunications Authority's power to impose fine on the operators is expanded. By the mentioned article, the Authority has a power to impose an administrative fine on the operators in the maximum amount of 5% net sales of the operators belonging to the previous year of the infringement of the relevant legislation by the operators.

The Authority has a power to obtain administrative fee in the maximum amount of 5% (per thousand) of net sales of the operators belonging to the previous year in order to cover Authority's various expenses.

In addition to these, the said draft introduced an increase in wireless license end-usage fee.

#### ***New Environment Tax***

The Law No: 5491, the Law Amending the Environmental Law, was published on May 13, 2006. This law includes a draft system to levy a tax on subscribers of mobile operators. The law that is currently in effect does not determine a system for this proposed tax.

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### **4.C Organizational Structure**

The following chart lists each of our key subsidiaries (including our ownership interest in Fintur) and our proportionate direct and indirect ownership interest as of April 1, 2008:

Notes:

- (1) KCell is 51% owned by Fintur and 49% owned by Kazakhtelecom JSC, the Kazakh incumbent fixed-line telecom provider.
- (2) Azertel is 80% owned by Fintur and 20% owned by Cenay Insaat Sanayi ve Ticaret Ltd., a privately held Turkish group of companies. Azercell is 64% owned by Azertel and 36% owned by the Ministry of Communications of Azerbaijan.
- (3) Gurtel is 99.99% owned by Fintur. Geocell was 83.2% owned by Gurtel, but as of January 4, 2008, Gurtel's stake in Geocell is now 97.5%.
- (4) Moldcell is 99% owned by Fintur and 1% owned by Molfintur SRL a wholly-owned subsidiary of Fintur.
- (5) All of the shares of the East Asian Consortium B.V. ( Eastasia ) were transferred to Turkcell for \$111 million in February 2006. For information on the country of incorporation of our key subsidiaries please see Item 4.B Business Overview .

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

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

#### ***Property***

We own seven properties, two properties in Kocaeli, two properties in Bursa, one property in Tekirdag, one property in Gaziantep, and one property in Adapazari. In addition, we rent a property in Davutpasa and a property in Maltepe.

We have buildings in Istanbul Beyoglu (headquarters), Istanbul Maltepe, Istanbul Gunesli, Ankara I, Ankara II, Adana, Diyarbakir, Samsun, Davutpasa, and Izmir. A new building was acquired in Istanbul Kartal in 2006.

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In addition to the foregoing properties, we maintain three rented office buildings and a warehouse in Istanbul. In 2006, we added another warehouse in Istanbul Tuzla.

### ***Switches***

We have switches in Ankara, Istanbul, Izmir, Bursa, Adana, Konya, Antalya, Aydin, Erzurum, Balikesir, Bodrum, Denizli, Mugla, Diyarbakir, Samsun, Izmit, and Trabzon.

### ***Base stations***

As of December 2007, we owned over 13,290 base stations and leased the land underlying such base stations.

In December 2006, we sold 2,862 towers that our base stations mounted on to Kule, an entity established on November 24, 2006, in order to provide antenna space to all telecommunication operators, TV and radio broadcasters, civilian and military communication system operators in Turkey. However, the Telecommunication Authority decided that the sales of the towers from Turkcell to Kule had to be cancelled by October 10, 2007. The towers were therefore repurchased by Turkcell from Kule on September 30, 2007. Currently, Kule constructs its own masts and towers in order to provide service for the wireless broadcast and communications industry in Turkey. It also owns the right to use and sublease Turkcell's towers against an annual rental fee and rendering maintenance services regarding those towers and facilities.

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

None.

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

The following discussion and analysis by our management of the financial condition and the results of our operations should be read together with the consolidated financial statements included in this annual report. In addition to historical information, the following discussion contains forward-looking statements based on current expectations that involve risks and uncertainties. Actual results and the timing of certain events may differ significantly from those projected in such forward looking statements due to a number of factors, including those set forth in Risk factors and else where in this annual report. Our consolidated financial statements have been prepared in accordance with IFRS as issued by the IASB.

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

Positive macroeconomic developments in Turkey, coupled with strong consumer sentiment, helped improve our operational results. Revenues increased to \$6,328.6 million in 2007 from \$4,700.3 million in 2006 and our net income increased to \$1,350.2 million in 2007 from \$875.5 million in 2006.

In the first half of 2007, a high global risk appetite and attractively high domestic interest rates overshadowed concerns and potential threats in the international and domestic markets. However, in the second half of the year, the global credit crunch led to a relatively risk averse climate due to a general lack of liquidity.

Following the financial turmoil of 2001, the Turkish economy has experienced a period of political and economic stabilization. This period of stabilization began in 2002 with the International Monetary Fund (IMF) stand-by program and continued with a new IMF program implemented in 2005. The 2005 IMF program has a three year maturity. The 2002 and 2005 IMF programs are aimed at decreasing the likelihood of the Turkish economy suffering a future economic crisis by encouraging sustained non-inflationary growth through a floating exchange rate regime, using inflation targeting to combat chronic inflation, strengthening the financial structure of Turkey, implementing reforms in taxation, social security and the banking sector, and ensuring debt



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sustainability and accelerating current privatization efforts. The implementation of banking reform and the enactment of other reforms should improve the liquidity position of the private sector and stimulate economic growth.

Currently, the Turkish economy is among the fastest growing economies in the world. In 2007, the Turkish economy was driven by robust private consumption and increased investment and exports. This was bolstered by a strong banking system and balanced public finances. There was, however, some concern over a general short foreign currency position in the non-financial corporate sector.

At the beginning of 2007, the Turkish financial markets benefitted from high global levels of liquidity, along with increased appetite for risk among investors. The global environment started to change in the second half of 2007, with a reduction in liquidity resulting in a pronounced credit crunch. The Turkish market, however, remained resilient in the face of this shock, mainly on the strength of its high real rates of return. The Turkish market was also benefitted by the monetary policy dictated by the Central Bank of Turkey, which strives to limit inflation, maintain a high level of local foreign currency reserves and with the help of strong fiscal balance. The Turkish Treasury also supported these efforts and goals. However, Turkey's current account deficit has remained as a structural problem for the Turkish economy and appreciation of the TRY has widened this deficit which was mainly caused by the fact that imports grew faster than exports.

On the political front, having presidential and general elections in 2007 was a source of concern at the beginning of the year. However, the election results ultimately confirmed a climate of ongoing political stability. Although there was a deceleration in the pace of discussions with the EU regarding Turkey's admission, this was not viewed as a major factor, as the global environment remained supportive and political stability was affirmed after the elections.

The TRY is one of the most vulnerable emerging market currencies, due to the country's increasingly wide current account deficit and high energy dependency, and is generally viewed as being overvalued. However, high real interest rates have generally cushioned this vulnerability. The high real interest rate in Turkey strongly contributed to TRY appreciation of around 20% over 2007 as measured against the U.S. Dollar. Inflation increased to 8.4% (consumer price index) for the year ended December 31, 2007, which is significantly higher than the 2007 target rate of 4%. Turkey's current account deficit totaled \$37.4 billion in 2007 compared to \$31.9 billion in 2006. This deficit amounted to 5.7% and 6.1% of Gross Domestic Product (GDP) according to new national account system in 2007 and 2006, respectively. This relatively high level of deficit increases the probability of an exchange rate adjustment in the face of sudden changes in risk perceptions. This change reflected an improvement in public sector finances, while the private sector saved much less than its investments in 2007. The improvement in the current account deficit as a percentage of GDP was also partly due to an increase in service revenues.

In 2007, net foreign direct investment inflows financed 53.0% of the current account deficit as compared to approximately 60% in 2006. Turkey's Net Public Debt Stock to GDP ratio decreased to 29.1% according to new national account system in 2007 from 34.2% in 2006.

## **Taxation Issues in Telecommunications Sector**

Under current Turkish tax legislation, there are several taxes on the telecommunications services of GSM operators in Turkey. These are charged to subscribers by GSM operators and remitted to the relevant taxing authorities by these operators. These taxes may be charged upon subscription, on an annual basis or on an *ad valorem* basis on the service fees charged to subscribers.

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

### ***Special Communications Tax***

The Turkish government imposed a special 25% communications tax on mobile telephone services as part of a series of new taxes levied to finance public works required to respond to earthquakes that struck the Marmara region of Turkey in 1999. This tax is paid by mobile users and collected by GSM operators. With Law No. 5035, the special communications tax was made indefinite from January 1, 2004. A fixed amount of the special communications tax of TRY 20 on each new subscription was imposed with Law No. 5035. From January 1, 2007, the special communications tax on new subscriptions has been increased to TRY 26 from TRY 24.15 per subscriber and, from January 1, 2008, it was further increased to TRY 27.8 per subscriber. The tax has had a correlative negative impact on mobile usage.

On August 1, 2004, certain provisions of the special communications tax law were amended by Law No. 5228. In particular, the special communications tax imposed on new subscribers who transferred from one GSM operator to another has been abolished. For other telecommunication services, which cannot be defined within the context of telecommunication operations of mobile operators (communication, establishment, circulation, transmission) and radio-television broadcasting services, a 15% special communications tax was introduced. The special communications tax is charged at 25% on the usage fees payable by subscribers. The tax collected from subscribers in a calendar month is remitted to the taxing authorities within the first 15 days of the following month.

### ***Value Added Tax ( VAT )***

Like all services in Turkey, services provided by GSM operators are subject to VAT, which is 18% of the service fees charged to subscribers. We declare VAT to the Ministry of Finance within 24 days and remit VAT paid by our subscribers within the first 26 days of the month following the month in which the tax was incurred, after the offset of input VAT incurred by us. On April 24, 2003, VAT on roaming revenues invoiced to foreign operators, which were 18%, were cancelled.

We have calculated our VAT responsibility on ongoing license fees since June 2003 and it has not been recalculated, in accordance with a decision of Istanbul Tax Court, since February 2004. For more detailed information related to this dispute, see Item 8.A. Consolidated Statements and Other Financial Information Legal Proceedings.

Reverse charge VAT has been calculated on the invoices issued by foreign GSM operators. On the other hand, VAT responsibility has been calculated on the mark-up amount on subscribers' invoices for roaming services.

### ***Wireless Equipment Fees***

According to the Wireless Equipment Usage Law, all receiver equipment must be licensed. As a consequence, mobile wireless telephone owners are subject to both a license fee and an annual usage fee.

The license fee is paid once on subscription for the equipment purchased. The license fee was TRY 10.0 (equivalent to \$8.59 as of December 31, 2007) during the period of January 1, 2006 – December 31, 2007. Effective from January 1, 2008, it has been increased to TRY 10.72 (equivalent to \$9.20 as of December 31, 2007). For the postpaid subscribers, the license fee is divided into the number of months remaining in the year in which it is payable and charged to the subscriber in equal installments.

The yearly usage fee is the same amount as the license fee and charged to the subscriber in 12 equal monthly installments. Monthly collected charges for the prepaid subscribers are paid by us to the government in the following month.

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### ***Stamp Duty***

Under the Turkish Stamp Duty Law, certain documents such as contracts and other agreements are subject to stamp duty either at a fixed amount (if the document does not include a certain amount) or at a certain percentage of the amount involved in the document.

Effective from January 1, 2005, lump-sum stamp duty liability on the subscription contracts, which does not state any amount on the contract was abolished. The subscription agreements signed between GSM operators and subscribers have not include any amount on it as of January 1, 2005, so there has been no stamp duty payable on such agreements.

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

The Turkish Government introduced a single tax, the special consumption tax, to consolidate several taxes and fees currently applied on certain goods, which became effective on August 1, 2002. GSM services were not directly affected when the new tax was introduced. However, mobile phones are included in the goods that are subject to the special consumption tax. The special consumption tax is charged on mobile phones either at importation or at the level of sale by the Turkish manufacturers. The special consumption tax over mobile phones (mobile phones are defined as low power mobile wireless equipment in the law) was 6.7% as of December 31, 2004, and it was increased to 20% as of April 26, 2005.

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

### ***Critical Accounting Policies***

The 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 our consolidated financial statements in accordance with IFRS as issued by the IASB require us to make judgments, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income, and expenses. On an ongoing basis, we evaluate our estimates, including those related to revenue recognition, fixed assets and intangibles, bad debts, income taxes, contingencies, and litigation. Our estimates are based on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

A summary of our significant accounting policies is set forth in note 3 to our consolidated financial statements. We have identified the following critical accounting policies and estimates utilized by us in preparation of our consolidated financial statements.

### ***Revenue Recognition***

We recognize revenue in accordance with International Accounting Standard No:18 Revenue . In arrangements which include multiple elements, we consider the elements to be separate units of accounting in the arrangement. Deliverables are accounted separately where a market for each deliverable exists and if the recognition criterion is met individually. The arrangement consideration is allocated to each deliverable in proportion to the fair value of the individual deliverables. Commission fees on betting business is recognized at the time all the services related with the games are fully rendered.

### ***Useful Life of Property, Plant and Equipment, Intangible assets***

Almost all of our operational tangible and intangible fixed assets are depreciated over an eight-year term which represents our best estimate of their useful life. If the technology had rapidly changed and caused the

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estimated useful life to decrease by one year to an average life of seven years, annual depreciation expense for 2007 on our operational fixed assets would have decreased by \$160.2 million. However, if the estimated useful life of our fixed assets had increased to nine years, annual depreciation expense for 2007 on our operational fixed assets would have increased by \$0.4 million.

### ***Impairment of long-lived assets***

When events or circumstances arise that require us to test our long-lived assets for impairment then the assets' recoverable amount is estimated. The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or group of assets. On an ongoing basis we review indicators of potential impairment which include: significant adverse changes in the legal or business climate that could affect the value of long-lived assets, plans to dispose of a long-lived asset before the end of its previously estimated useful life, and a significant decrease in the market price of a long-lived asset. We are also alert to technological change or a decrease in the number of subscribers, which could cause impairment of our long-lived assets.

In assessing the recoverability of our fixed and intangible assets, we make judgments and assumptions regarding estimated future cash flows and other factors. Our estimates of future cash flows are subject to a significant number of variables, including the number of subscribers, average revenue per subscriber, inflation, devaluation, competition, and other economic factors. In addition, our discount rate is also based on a number of factors such as the risk free rate of interest, which may change over time.

During the years ended December 31, 2007, 2006 and 2005, we have not identified any impairment indicators and accordingly our financial statements for the years ended December 31, 2007, 2006 and 2005 do not include any adjustment in relation to impairment of long-lived assets.

### ***Estimation of allowance for doubtful accounts***

The preparation of financial statements requires us to make estimates and assumptions that affect the reported amount of allowance for doubtful accounts. To make these estimates and assumptions, we analyze our accounts receivable and historical bad debts, subscriber credit worthiness and current social and economic trends. If our estimates or assumptions are proven to be incorrect for any reason, we may not have a sufficient allowance to cover our bad debts. Historically, our provision from doubtful accounting has been sufficient to account for our bad debts.

We believe that the accounting estimate related to establishment of an allowance for doubtful accounts is a critical accounting estimate because, the evaluation is inherently judgmental, it requires the use of significant assumptions about expected subscriber default amounts that may be susceptible to significant changes, and changes in the estimates regarding the allowance for bad debts could have a significant impact on our consolidated financial statements.

Our bad debt expense as a percentage of revenues decreased by approximately 14% to 0.56% of revenues in 2007 from 0.65% of revenues in 2006. If our bad debt expense as a percentage of revenues increased to 1.5% of revenues, an additional provision for bad debts of approximately \$59.8 million would be required.

### ***Liabilities arising from litigation***

We are involved in various claims and legal actions arising in the ordinary course of business. A provision is recognized in our balance sheet if we have a present legal or constructive obligation as a result of a past event

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that can be reliably estimated and it is probable that an outflow of economic benefits would be required to settle the obligation. Our current estimated liability related to some of our pending litigation is based on claims for which our management can estimate the amount and range of loss. We continuously evaluate our pending litigation to determine if any developments in the status of litigation require a provision to be made. Due to the complexity of the Turkish legal system, it is often difficult to accurately estimate the ultimate outcome of the litigation. This variable and other variables can affect the timing and amount we provide for certain litigation. Our accruals for legal claims are therefore subject to estimates made by us and our legal counsel, which are subject to change as the status of our legal cases develops over time. Such revision in our estimates of the potential liability could materially impact and previously materially impacted our consolidated financial condition, results of operations, and liquidity.

### ***Income taxes***

The calculation of our total tax charge involves a degree of estimation and judgment in respect of certain items whose tax treatment cannot be finally determined until resolution has been reached with the relevant tax authority or, as appropriate, through formal legal process.

As part of the process of preparing our consolidated financial statements, we are required to estimate the income taxes in each of the jurisdictions and countries in which we operate. This process involves estimating the actual current tax exposure together with assessing temporary differences resulting from differing treatment of items, such as deferred revenue and reserves for tax and accounting purposes. We assess the likelihood that our deferred tax assets will be recovered from future taxable income, and to the extent the recovery is not considered probable the deferred asset is adjusted accordingly.

Income tax expense comprises current and deferred tax.

The recognition of deferred tax assets is based upon whether it is probable that future taxable profits will be available, against which the temporary differences can be utilized. Recognition, therefore, involves judgment regarding the future financial performance of the particular legal entity in which the deferred tax asset has been recognized.

### ***Hyperinflation in Turkey***

Until January 1, 2006, hyperinflationary conditions existed in Turkey and our consolidated financial statements were restated for the changes in the general purchasing power of our functional currency based on International Accounting Standard No. 29 ( IAS 29 ) Financial Reporting in Hyperinflationary Economies . IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date and that corresponding figures for previous periods be restated in the same terms. One characteristic that necessitates the application of IAS 29 is a cumulative three-year inflation rate approaching or exceeding 100%. The three year inflation rate in Turkey was 36% as of December 31, 2005, based on the Turkish nation-wide wholesale price indices announced by the State Statistics Association ( SSA ). However, IAS 29 does not establish the rate of 100% as an absolute rate at which hyperinflation is deemed to arise. It is a matter of judgment when restatement of financial statements in accordance with IAS 29 becomes necessary. Moreover, hyperinflation is also indicated by characteristics of the economic environment of a country. As hyperinflationary conditions in Turkey no longer existed starting from January 1, 2006, our functional currency has since been treated as a more stable currency and our consolidated financial statements are not required to be adjusted for hyperinflationary accounting.

## **5.A Operating Results**

Our audited consolidated financial statements as of December 31, 2007 and 2006 and for each of the years in the three- year period ended December 31, 2007 included in this annual report have been prepared in accordance with IFRS as issued by the IASB.

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### **Overview of Business**

We were formed in 1993 and we commenced operations in 1994 pursuant to a revenue-sharing agreement with Turk Telekom. Since April 1998, we have been operating under a 25-year GSM license (the License ), which was granted upon payment of an upfront license fee of \$500 million. At the same time, we entered into an interconnection agreement with Turk Telekom for the interconnection of our network with Turk Telekom's fixed-line network. On September 20, 2003, we signed an amended agreement (the Amended Agreement ) with Turk Telekom amending certain sections of the Interconnection Agreement dated April 24, 1998. As a result of intervention by the Telecommunications Authority, we entered into a new supplemental protocol with Turk Telekom in 2003.

Under the License, we had been paying ongoing license fees to the Turkish Treasury equal to 15% of our gross revenue from our GSM operations in Turkey, which included monthly fixed fees and communication fees including taxes, charges, and duties paid to the Turkish Treasury. On June 25, 2005, the Turkish government declared that GSM operators are required to pay 10% of their existing monthly ongoing license fee to the Turkish Ministry as a universal service fund contribution in accordance with Law No. 5369. As a result, starting from June 30, 2005, we pay 90% of the ongoing license fee to the Turkish Treasury and 10% to the Turkish Ministry as universal service fund. Since June 2004, Simcard sales, outgoing roaming revenues, and late payment interest charges have been included in the definition of gross revenue and included in the monthly ongoing license fees computations. Based on the law enacted on July 3, 2005 with respect to the regulation of privatization, the gross revenue description used for the calculation of treasury share has been changed. According to this new regulation, accrued interest charged for late payments, taxes such as VAT, and other expenses are excluded from the description of gross revenue. We submitted to the Telecommunications Board for the revision of the related articles of the Amended Agreement and completed certain necessary procedures. Danistay, the highest administrative court, approved the agreement on March 10, 2006 and the calculation of gross revenue for ongoing license fee in accordance with the new agreement is valid after March 10, 2006. Therefore, the basis for calculating the universal service fund has also changed.

Under our Amended Agreement with Turk Telekom, 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 our network. We also have interconnection agreements with Vodafone, Avea, Milleni.com, and Globalstar pursuant to which we have agreed, among other things, to pay interconnection fees to the other parties 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 ours.

The build-out of our network in Turkey is now substantially completed. As of March 31, 2008, our network covered 100% of the Turkish cities with a population of 2,000 or more. Coverage also includes substantially all of the Mediterranean and Aegean coastline of Turkey. We currently meet the coverage requirements of our license.

Our Turkish GSM subscriber base has expanded from 63,500 at year-end 1994 to 35.4 million as of December 31, 2007. Based on the announcements of the Telecommunications Authority, there were approximately 62.0 million subscribers in the Turkish GSM market as of December 31, 2007. The penetration rate in the Turkish GSM market reached 88% as of December 31, 2007. We expect market growth will continue but at a reduced rate with the penetration rate expected to reach about 100% at the end of 2008. In 2007, despite an increasingly competitive environment, we achieved 11% growth in our subscriber base, which resulted in a market share of 57% for the year ended December 31, 2007, according to information announced by the Telecommunications Authority. The 11% increase in our subscriber base was supported by our focus on the sales channel network and our well perceived offers and campaigns. For 2008, in an increasingly competitive environment, we aim to keep our leading position by emphasizing our customer focused approach for delivering high quality products and services on a segmented basis and by continuing to highlight our well designed value propositions.

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Our prepaid mobile service increases our market penetration and limits our credit risk. This service permits access to our GSM services to subscribers who prefer to avoid monthly billing for our services. As of December 31, 2007, we had 29.0 million prepaid and 6.4 million postpaid subscribers in our GSM network in Turkey.

In line with the improvement of macroeconomic indicators in Turkey, our average MoU in Turkey has increased 8.5% to 76.3 minutes in 2007 from 70.3 minutes in 2006, as a result of our initiatives that were aimed at creating a win-win situation by incentivizing usage through bundled free minute offers while maintaining a value generation focus. Despite the dilutive impact of a growing prepaid subscriber base, our average revenue per user in Turkey increased to \$14.3 in 2007 from \$12.1 in 2006 as a result of our actions to incentivize usage, along with a 9% appreciation of the TRY against U.S. Dollars and an average price increase of 12.7% on an annual basis during this year.

Churn rate is the percentage calculated by dividing the total number of subscriber disconnections during a period by the average number of subscribers for the same period. For these purposes, we define average number of subscribers as the number of subscribers at the beginning of the period plus one half of the total number of gross subscribers acquired during the period. Churn refers to subscribers that are both voluntarily and involuntarily disconnected from our network. Under our disconnection process, postpaid subscribers who do not pay their bills are disconnected and included in churn upon the commencement of a legal process to disconnect them, which commences approximately 180 days from the due date of the unpaid bill. Pending