TURKCELL ILETISIM HIZMETLERI A S
Form 20-F
March 15, 2019
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As filed with the Securities and Exchange Commission on March 15, 2019

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, 2018

OR

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

For the transition period from __________ to __________

OR

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

Date of event requiring this shell company report __________

Commission File Number: 1-15092

TURKCELL ILETISIM HIZMETLERI A.S.

(Exact Name of Registrant as Specified in Its Charter)

TURKCELL

(Translation of Registrant s Name into English)

Republic of Turkey

(Jurisdiction of Incorporation or Organization)

Turkcell Kucukyali Plaza

Aydinevler Mahallesi Inonu Caddesi No:20 Kucukyali Ofispark

Maltepe

Istanbul, Turkey

(Address of Principal Executive Offices)

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Telephone: +90 212 313 8150

Facsimile: +90 216 504 4058

Turkcell Kucukyali Plaza

Aydinevler Mahallesi Inonu Caddesi No:20 Kucukyali Ofispark

Maltepe

Istanbul, Turkey

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

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

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

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

Securities registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

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

Ordinary Shares, Nominal Value TRY 1.000 2,200,000,000

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large Accelerated Filer	Accelerated Filer	Non-Accelerated Filer
		Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards* provided pursuant to Section 13(a) of the Exchange Act.

* The term new or revised financial accounting standard refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

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 2018 annual report for Turkcell Iletisim Hizmetleri A.S. (Turkcell), a joint stock company organized and existing under the laws of the Republic of Turkey. The Company , we , us , our , Group and similar terms r Turkcell, its predecessors, and its consolidated subsidiaries, except as the context otherwise requires.

Our audited Consolidated Financial Statements as of December 31, 2018 and 2017 and for each of the years in the three-year period ended December 31, 2018 included in this annual report have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

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

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

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

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

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

FORWARD-LOOKING STATEMENTS

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

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

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

our growth strategy being partly dependent on new investment opportunities;

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instability in the political environment and/or downturn in the economy, as well as volatile international markets and events and the threat of terrorism, in Turkey and/or internationally;

foreign exchange rate risks which could affect the Turkish macroeconomic environment and could significantly affect our results of operation and financial position in future periods if hedging tools are not available at commercially reasonable terms;

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

regulatory decisions and changes in the regulatory environment;

failure by us, our local partners with whom we enter into cooperation agreements or similar agreements, or one of our suppliers, to comply with laws and regulations regarding unethical business practices, including bribery and corruption, and international sanctions;

interests in several companies that may expose us to various economic, business, political, social, financial, liquidity, regulatory and legal risks and may not provide the benefits that we expect;

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

various risks with respect to our base transceiver stations performance, including spectrum limitations and frequency costs, certain coverage and local production obligations relating to the 4.5G license and alleged health risks and zoning limitations related to our base transceiver stations;

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

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

legal actions and claims to which we are a party;

inherent limitations of the effectiveness of our internal control over financial reporting and other controls;

our ability to retain key personnel and distributors; and

volatility in the market price of our ADSs.

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not Applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable.

ITEM 3. KEY INFORMATION

3.A Selected Financial Data

Our audited annual Consolidated Financial Statements including our consolidated statements of financial position as of December 31, 2018 and 2017 and our consolidated statements of profit and loss, comprehensive income, changes in equity and cash flows for the three years in the period ended December 31, 2018 (Annual Consolidated Financial Statements) included in this annual report have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

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

The following information should be read in conjunction with Item 5. Operating and Financial Review and Prospects , our audited Consolidated Financial Statements as of December 31, 2018 and 2017, and the related consolidated statements of profit and loss, comprehensive income, changes in equity, and cash flows for the years ended December 31, 2018, 2017 and 2016, and the related notes appearing elsewhere in this annual report.

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The following table presents our selected consolidated statements of income, statement of financial position and cash flows data as of and for each of the years in the five-year period ended December 31, 2018, presented in accordance with IFRS as issued by the IASB which have been derived from our audited Consolidated Financial Statements as of and for the year ended December 31, 2018 and as of the respective years.

	2018	2017	2016	2015	2014
	(TRY millions, except share data and certain other data)				
Selected Financial Data Prepared in Accordance with IFRS as Issued by the IASB					
Consolidated Statement of Income Data					
Total revenues(1)	21,292.5	17,632.1	14,285.6	12,769.4	12,043.6
Cost of revenues(2)	(14,146.0)	(11,350.2)	(9,236.6)	(7,769.5)	(7,383.9)
Gross profit	7,146.5	6,281.9	5,049.0	4,999.9	4,659.7
Other income	241.4	74.4	78.6	44.5	58.9
Administrative expenses	(673.4)	(645.2)	(721.8)	(625.3)	(562.7)
Selling and marketing expenses	(1,626.7)	(2,005.4)	(1,910.9)	(1,901.9)	(1,974.6)
Net impairment losses on financial and contract assets	(346.4)				
Other expenses	(381.5)	(773.3)	(312.8)	(270.4)	(135.2)
Operating profit	4,359.9	2,932.4	2,181.9	2,246.8	2,046.1
Finance income	1,932.1	818.4	961.6	756.1	955.4
Finance costs	(3,619.1)	(1,141.3)	(1,134.4)	(799.5)	(1,247.0)
Net finance/(cost)/income	(1,687.0)	(322.9)	(172.8)	(43.4)	(291.6)
Monetary gain(3)					205.1
Share of loss of equity accounted investees(4)	(0.1)				4.5
Profit before income taxes	2,672.8	2,609.5	2,009.1	2,203.3	1,964.0
Income tax expense	(495.5)	(571.8)	(423.2)	(667.1)	(730.4)
Profit from continuing operations	2,177.3	2,037.8	1,586.0	1,536.2	1,233.6
Profit/(loss) from discontinued operations(4)			(42.2)	367.3	202.8
Profit for the period	2,177.3	2,037.8	1,543.8	1,903.6	1,436.5
Attributable to:					
Owners of the Company	2,021.1	1,979.1	1,492.1	2,067.7	1,864.7
Non-controlling interest	156.3	58.6	51.7	(164.1)	(428.2)
Profit for the period	2,177.3	2,037.8	1,543.8	1,903.6	1,436.5
Basic and diluted earnings per share Total Group(5)	0.93	0.90	0.68	0.94	0.85
Basic and diluted earnings per share from continuing	0.93	0.90	0.70	0.77	0.76

operations[5]					
Consolidated Statement of Financial Position Data (at period end)					
Cash and cash equivalents	7,419.2	4,712.3	6,052.4	2,918.8	9,031.9
Total assets	42,765.3	33,982.5	31,600.2	26,207.3	23,694.2
Long-term debt[6]	13,119.6	8,258.0	6,935.1	3,487.8	1,247.9
Total debt[7]	20,155.5	12,536.1	9,781.2	4,214.2	3,697.7
Total liabilities	26,711.7	18,937.4	15,531.8	11,788.4	6,983.6
Share capital	2,200.0	2,200.0	2,200.0	2,200.0	2,200.0
Total equity	16,053.6	15,045.1	16,068.4	14,418.9	16,710.6
Weighted average number of shares[8]	2,184,750,233	2,193,184,437	2,193,184,437	2,200,000,000	2,200,000,000

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	2018	2017	2016	2015	2014
	(TRY millions, except share data and certain other data)				
Consolidated Cash Flows Data(9)					
Net cash generated by operating activities	5,829.9	3,101.3	607.1	1,901.3	1,990.8
Net cash used in investing activities	(4,535.6)	(3,304.6)	(2,976.7)	(3,563.0)	(1,378.0)
Net cash generated by/ (used in) financing activities	(534.4)	(1,566.7)	4,839.0	(4,887.4)	93.0
Other Financial Data					
Dividends declared or proposed(10)(11)		1,900.0	3,000.0		794.0
Dividends per share (declared or proposed)(11)		0.86	1.36		0.36
Gross margin(12)	34%	36%	35%	39%	39%
Adjusted EBITDA(13)	8,788.0	6,228.3	4,619.5	4,140.5	3,761.8
Capital expenditures (14)	7,643.0	4,087.4	3,494.4	8,536.2	2,144.8

(1) Total revenues includes telecommunication services, equipment revenues, revenue and commission fees on betting business, call center revenues and revenues from financial services (Note 5).

(2) Total cost of revenues includes payments for our treasury share (the amount paid to the government under our license) and universal service fund, transmission fees, radio costs, billing costs, depreciation and amortization charges, technical, roaming charges, interconnection fees, cost of goods sold, and personnel expenses for technical personnel related to our technicians frequency expenses and cost of revenues from financial operations (Note 10).

(3) A hyperinflationary period commenced on January 1, 2011 in Belarus. In the financial statements of subsidiaries operating in Belarus, restatement adjustments have been made to compensate the effect of changes in the general purchasing power of the Belarusian Ruble in accordance with IAS 29. IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. The economy of Belarus was considered to transit out of hyperinflationary status and we determined to cease applying IAS 29 starting from January 1, 2015. Therefore, subsidiaries operating in Belarus have not applied IAS 29 in 2015.

(4) Following inconclusive negotiations for us to purchase Telia s stake in Fintur and KCell, we decided to sell our Fintur stake and consequently, Fintur is classified as held for sale and reported as discontinued operations (Note 16).

(5) 2016 and 2017 EPSs computed over 2,193,184,437 shares and 2018 EPS computed over 2,184,750,233 shares.

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

(7) Total debt consists of long-term and short-term loans and borrowings, debt securities issued as well as lease obligations.

(8)

We have purchased 8,434,204 shares with a price range of TRY 10.01 to 12.33 as part of our share buyback decisions on July 27, 2016 and January 30, 2017. The transactions amount to TRY 94,620 thousand. Treasury shares are deducted from Equity (Notes 25 and 26).

(9) The presentation of statement of cash flows for the year ended December 31, 2015 has been revised in 2016.

(10) The dividend paid in 2017 related to the years 2010 through 2016. With regard to the dividend paid in 2018 relating to the year 2017, the amount proposed by the Board of Directors on February 15, 2018 was TRY 1,239.5 million, however the amount approved at the Annual General Meeting held on March 29, 2018 was TRY 1,900 million. The Annual General Meeting for 2018 has not been called for as at March 7, 2019.

(11) Dividends per share were computed over 2,200,000,000 shares. The dividends per share were TRY 0.36, TRY 1.36 and TRY 0.86 for the years ended 2014, 2016 and 2017 respectively (equivalent to $0.07, $0.26 and $0.16 respectively as of December 31, 2018).

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

(13) Adjusted EBITDA is a non-GAAP financial measure that is defined as the profit of the Company for the period before finance income, finance costs, income tax expense, other income, other expense, monetary gain, profit or loss from discontinued operations, share of profit of equity accounted investees and depreciation and amortization. A reconciliation of Adjusted EBITDA to net income is presented below.

(14) Capital expenditure in 2018 includes the impact of IFRS15 and IFRS16 adjustment amounting to TRY 3,000.5 million.

Non-IFRS measures

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

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

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

Some of these limitations are:

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

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

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

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

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

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

- it is not adjusted for all non-cash income or expense items that are reflected in our consolidated statement of cash flows; and other companies in our industry may calculate this measure differently from how we do, which may limit its usefulness as a comparative measure.

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

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

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	Year ended December 31,				
	2018	2017	2016	2015	2014
			(Million TRY)		
Profit for the period	2,177.3	2,037.8	1,543.8	1,903.6	1,436.5
Profit or (loss) from discontinued operations			(42.2)	367.3	202.8
Income tax expense	(495.5)	(571.8)	(423.2)	(667.1)	(730.4)
Consolidated profit before income tax	2,672.8	2,609.5	2,009.1	2,203.3	1,964.0
Share of loss of equity accounted investees	(0.1)				4.5
Depreciation and amortization	(4,288.0)	(2,597.0)	(2,203.3)	(1,667.8)	(1,639.4)
Other operating income/(expense)	(140.1)	(698.9)	(234.2)	(225.9)	(76.3)
Monetary gain					205.1
Finance income/(costs)	(1,687.0)	(322.9)	(172.8)	(43.4)	(291.6)
Adjusted EBITDA	8,788.0	6,228.3	4,619.5	4,140.5	3,761.8

The following table presents selected operational data:

I. Operating Results

	As of and for the year ended December 31,		
	2018	2017	2016
Industry Data			
Population of Turkey (in millions)(1)	82.0	80.8	79.8
Turkcell Data(2)			
Number of mobile postpaid subscribers at end of period (in millions)(3)	18.8	18.5	17.4
Number of mobile M2M subscribers at end of period (in millions)	2.4	2.3	2.1
Number of mobile prepaid subscribers at end of period (in millions)(3)	14.9	15.6	15.7
Number of fiber subscribers at end of period (in thousands)	1,385.6	1,204.3	1,043.9
Number of ADSL subscribers at end of period (in thousands)	905.6	921.4	818.0
Number of IPTV subscribers at end of period (in thousands)	613.4	505.9	359.7
Total Turkcell Turkey subscribers at end of period (in millions)	36.7	36.7	35.3
Total Turkcell Group subscribers at the end of period (in millions)(4)	48.9	50.2	50.1
Mobile average monthly revenue per user (in TRY)(5)	33.9	29.8	26.8
Postpaid	48.2	43.0	39.2
Postpaid (excluding M2M)	54.9	48.5	44.0
Prepaid	16.9	14.9	13.9
Fixed Residential average monthly revenue per user (in TRY)(5)	55.7	53.6	51.1
	359.5	347.1	323.9

Mobile average monthly minutes of use per subscriber[(6)]			
Mobile Churn[(7)]	2.1%	1.9%	2.3%
Fixed Churn[(8)]	1.8%	1.8%	1.8%
Number of Turkcell employees at end of period	4,065	3,967	3,870
Number of employees of consolidated subsidiaries at end of period[(9)]	20,120	19,768	18,995

(1) The population of Turkey for 2018, 2017, and 2016 is based on TUIK s announcements.

(2) For a discussion of how these metrics affect our revenues, please see Item 5A. Operating Results, VI. Year Ended December 31, 2018 Compared to the Year Ended December 31, 2017 a. Revenues .

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

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

(5) We calculate average revenue per user using the weighted average number of our mobile or fixed subscribers, as relevant, in Turkey during the period.

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

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(7) Average monthly mobile churn rate represents the rate of mobile subscriber disconnections during a certain period and is the percentage calculated by dividing the total number of subscriber disconnections during a certain period by the average number of subscribers for the same period. For these purposes, we define average number of subscribers as the number of subscribers at the beginning of the period plus one half of the total number of gross subscribers acquired during the period. See Item 4.B. Business Overview V. Churn for information concerning subscriber disconnection policy, changes in the policy and change in presentation as of the third quarter of 2018.

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

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

3.B Capitalization and Indebtedness

Not applicable.

3.C Reasons for the Offer and Use of Proceeds

Not applicable.

3.D Risk Factors

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

Competition in the Turkish telecommunications market may adversely affect the growth of our business and our financial condition and the competition that we face may evolve with our business strategy.

The majority of our revenue comes from our operations in Turkey. Competition in this market and regulatory actions, in particular those that limit our ability to respond effectively to competitive pressures, may adversely affect the growth of our business and our financial condition. If the competition intensifies or the market slows or develops in unexpected ways, this could harm our business and financial condition.

In our conventional Turkish telecommunications market, we currently face price competition on telecommunication services from two other operators, Vodafone and Turk Telekom Group. Turk Telekom s majority shareholder, Oger Telecom, has defaulted on the bank loans it used to finance its stake in Turk Telekom. Accordingly, the ownership of Oger Telecom s 55% stake was transferred to a special purpose company established by the creditor banks in late 2018. We cannot predict how this situation will be resolved or whether there will be changes in its strategy or ownership in the meantime. The outcome of this situation could have a significant impact on the competitive environment in which we operate.

A key element of our strategy is to offer digital services and become the digital operator . As a result, we expect to find ourselves increasingly in competition with companies that specialize in the development of internet applications and services (namely over-the-top , or OTT services). The leading companies in these businesses have the advantage of operating in more lightly regulated environments and are generally global (WhatsApp, Spotify, etc.), while our company today is primarily a Turkey-based telecom company in a heavily regulated market and with a smaller global footprint. Most of these global players have entered the Turkish market, which is likely to significantly increase the competition we face in these businesses and may have a negative impact on our growth capabilities as a digital operator. In addition, newer applications from less well-known developers are constantly being introduced and may disrupt areas of the digital services industry in which we seek to compete. These established and newer applications and services make use of the internet as a substitute for some of our more traditional services, such as messaging and voice. Reduced demand for these telecommunications services has had an adverse impact on our revenues. Furthermore, other traditional operators in Turkey also offer such services that they have developed independently or in partnership with global OTTs as part of their offerings, thereby increasing competition in the local market.

Another obstacle to our growth as a digital operator is that certain apps offered by our competitors are already embedded in the phones of our customers, which increases their accessibility in comparison with our apps. For example, the Apple Music app, which is a competitor of our fizy app, is embedded into iPhones and is thus significantly more accessible.

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

In some businesses, we are dependent on our competitors for certain services that we provide. For example, we are reselling xDSL from the incumbent operator Turk Telekom and we are dependent on their sales service in this business. Therefore, any delay or negligence of Turk Telekom could result in dissatisfaction of our customers and lead to churn of our xDSL subscribers. Competition in the market may also be adversely affected by changes in a number of other areas that are not specific to telecommunications, such as taxes (in particular taxes on our services and on mobile devices), increases in interest rates, depreciation of the Turkish Lira against the U.S. Dollar or Euro, adverse macroeconomic developments and changes in consumer behavior. Any one of these could in turn adversely affect the development of our business and consequently, our financial results.

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

In addition to growing our existing business, our strategy for growth involves selectively seeking and evaluating new investment opportunities and participating in those meeting our criteria. We may pursue inorganic growth opportunities, principally in Turkey and in countries or ventures in which we are already present, in order to leverage our experience and technological base in mobile or fixed telecommunications and/or services. We may also pursue opportunities which include alliances, such as MVNOs, management service agreements, branding and know-how support services, digital services cooperation and marketing partnerships. In accordance with our convergence strategy, the opportunities that we pursue in some markets, including Turkey, may include services that would be adjacent or complementary to services that we already offer in such markets.

Further, we may provide services in related areas and also consider investing or increasing our investments in business areas outside of the scope of our core business. Examples of opportunities that we are currently considering or investing in outside of our traditional telecommunications activities include the following:

As part of our digital operator strategy, we offer our digital services outside of Turkey to other operators through our Dutch subsidiary Lifecell Ventures Cooperatief U.A. (Lifecell Ventures), which offers Turkcell s digital communications, entertainment and transactional applications. Lifecell Ventures business model is based on charging consultancy, brand and license fees in return for provision of digital service infrastructure and know-how to other operators. We cannot ensure the commercial success or profitability of this business. The success of this strategy to export our digital applications to countries outside of Turkey will depend on our and our partners ability to compete against global and local players in these markets, as well as the local competitive environment, consumer trends and preferences and market conditions, all of which may be significantly different from the Turkish market. Furthermore, as this business grows and expands into new markets, namely through digital services cooperation agreements and similar agreements, we will face increasing reputational, regulative and commercial risks in those new markets, both directly and through our local partners.

We have participated in a consortium that has committed to manufacture electric passenger cars in Turkey in the coming years. Turkcell aims to act as the technology partner in the consortium which has established a company in June 2018, named Turkiye nin Otomobili Girisim Grubu Sanayi ve Ticaret A.S. (TOGG). We are a founding partner of TOGG with a 19% stake. The initial capital of the consortium is agreed upon as EUR 500 million, subject to the confirmation of a stimulus package by the Government, to which all parties have committed to contribute as per the level of their individual stakes. As of March 7, 2019, we invested TRY 50 million as our share of initial capital. This is a new business for us, in which we will face new risks. While still in the planning stage, the consortium aims to manufacture the prototype electric car by December 2019 and targets full production in 2022. Associated risks are envisaged to be financial, development and manufacturing process risks, as well as risks related to the shared control of TOGG and other risks.

In 2017, we entered the energy business, through Turkcell Enerji Cozumleri ve Elektrik Satis Ticaret Anonim Sirketi (Turkcell Enerji), which is engaged in electricity trading, wholesale sales and retail sales through its electricity supply license from the Turkish Energy Market Regulatory Authority (EMRA). Through this business we face various risks that are new to us, including an exposure to a new regulatory regime and the risk of not being able to buy and sell electricity on commercially viable terms. The cost of electricity is significantly affected by exchange rates (imported resources such as natural gas and coal account for more than 50% of electricity production in Turkey), the available supply of natural gas and regulatory actions. Further, the profit margins in this business are currently lower than that of our telecommunications businesses. Turkcell Enerji is also evaluating new opportunities in solar energy production (primarily for our own use and for sale) which, if successful, might bring in additional operational, financial, regulatory and other risks.

A new company called Sofra Kurumsal ve Odullendirme Hizmetleri A.S. (Sofra Kurumsal) has been incorporated by our Company s subsidiary Turkcell Odeme ve Elektronik Para Hizmetleri A.S. (Turkcell Odeme) together with Belbim Elektronik Para ve Odeme Hizmetleri A.S., a subsidiary of the Municipality of Istanbul, and Posta ve Telgraf Teskilati A.S., the Turkish Post. The company is mainly involved in the provision of services via various means such as service coupons, meal coupons, meal cards, electronic coupons and/or smart cards, as well as vehicle payments and smart keys. All three stakeholders share equal rights namely in terms of board nominations and the unanimous consent of the shareholders is required in the context of general assemblies, thereby possibly slowing down the decision-making process and affecting our ability to execute business decisions and take other actions that we consider to be in the best interest of the company. Additionally, the financial success of this company cannot be assured, as its growth is largely dependent on its capacity to penetrate a highly competitive market which is largely controlled by a few key players. Turkcell Odeme may also participate as a founding shareholder in the incorporation of a Joint Payment Company together with private and public companies in order to carry out system operating activities as well as other activities authorized under the Law numbered 6493 on Payment and Security Settlement Systems, Payment Services and Electronic Money Institutions, within the scope of the operating permit to be obtained from the Central Bank of Republic of Turkey (CBRT).

We have established Turkcell Sigorta Aracılık Hizmetleri A.S. (Guvencell) as a fully owned subsidiary involved in the insurance agency business in 2018. In partnership with multiple insurance companies, Guvencell is entitled to offer insurance policies not only to Turkcell customers in Turkey but also to the other operators customers in the form of device protection insurance, life insurance and critical illnesses insurance. Guvencell has also acted as an agency in Turkcell Group employees health insurance. Guvencell is operational with the approval of the Undersecretariat of Treasury - General Directorate of Insurance and must operate in conformity with the relevant rules and regulations.

We are in the test phase of entering the smart device leasing business as an alternative to providing consumer finance loans for smart devices through one of our existing subsidiaries. If we decide to go ahead, the commercial success of this business would be largely dependent on our ability to succesfully collect the leasing payments, as well as on our capacity to both lease the devices, service the devices through third party partners during the term of the loan, and then sell the devices that have been previously leased and refurbished, on commercially viable terms. In particular, we will face the risk that the Banking Regulation and Supervision Agency s (BRSA) current regulation imposing a cap on the number of instalments with regard to consumer loans for mobile phones and smart devices might be applied or be deemed to apply to, the device leasing business, which could negatively affect demand and consequently the development of this business. This business will also lead to an increase in our inventory balance coupled with a higher capital expenditure requirement, as we will have to purchase the devices to be leased. If the competition in this business intensifies and we fail to respond rapidly and adequately, this could adversely affect the development of our device leasing business and, consequently, our financial results.

New investments may not achieve expected returns or returns that are in line with those of our core business in Turkey, which may cause high value erosion. In many of the markets and businesses in which we have invested, may invest or may increase our investment, it may take several years and significant expenditures to achieve desired profitability, if at all. As part of our strategy as a converged player offering multiple telecommunications services, we may consider acquiring fixed operators in certain of the markets in which we operate. Any such acquisition would increase our exposure to the risks associated with these countries and these types of businesses. If we become a minority shareholder in an investment, we might encounter difficulties in protecting our shareholder rights. In addition, if an asset in which we have invested does not provide the expected returns, we may need to make further investment or we may consider disposal at a sale price that may be below carrying value or liquidation.

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Any instability in the political environment and/or downturn in the economy, as well as volatile international markets and events and the threat of terrorism, in Turkey and/or internationally may have an adverse effect on our business and financial condition.

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

Since 2002, the AKP (the Justice and Development Party) won governing majorities four times during a period in which Turkey s economy generally enjoyed growth and stability. Turkey held its inaugural presidential election on August 10, 2014 based on the constitutional changes implemented following the constitutional referendum held on October 21, 2007. Recep Tayyip Erdogan, leader of the ruling AKP, won the election in the first round. On April 16, 2017, a majority of Turkish voters approved a referendum amending certain articles of the Turkish Constitution to expand the powers of the president to create an executive presidency. Turkey s political stability has been affected by the coup attempt against the government in power on July 15, 2016. Following the coup attempt, the Turkish government declared a state of emergency in the country, entitling it to exercise additional powers aimed at restoring stability across the country. In June 2018, Turkey held its first dual parliamentary and presidential elections, and then-President Recep Tayyip Erdogan won in the first round and became the Executive President for the next five years. Following the election, the Turkish Government halted the state of emergency in July 2018.

Turkey has experienced solid economic growth through 2017 and the first half of 2018, following a series of government-initiated measures to ensure financial stability. In August 2018, the Turkish economy experienced currency volatility where the Turkish Lira depreciated sharply due to growing tensions between the US and Turkey over the detained the US pastor Andrew Brunson in addition to the tighter monetary policy expectations of the financial markets needed to decrease currency volatility. The detention of Andrew Brunson also triggered bilateral imposition of sanctions. On August 1, 2018, the United States imposed sanctions against two Turkish Government officials for their roles in the arrest and detention of the Mr. Brunson under the Global Magnitsky Act. As retaliation, Turkey imposed sanctions against the U.S. officials on the basis of reciprocity. Additionally, on August 10, 2018, U.S. tariffs on steel and aluminum imports from Turkey have been increased to 50% and 20%, respectively. Increasing tension in the U.S. Turkey diplomatic relationship caused fluctuations in the local market, resulting in a depreciation of the TRY against the USD. Turkish regulatory bodies implemented several measures to prevent further deterioration of the TRY and the financial markets. The pastor was released after the trial on October 12, 2018, resulting in a gradual decrease of the tension between the U.S. and Turkey. With the aim of ensuring financial stability and supporting the Turkish Lira, the CBRT increased its policy rate by 625 bps in September 2018 and provided TRY and foreign exchange (FX) liquidity to the banking system. In addition, collateral FX deposit limits for TRY transactions of banks have been raised. To prevent a sudden decrease in economic activity, taxes were cut in several sectors, including automotive, white goods and furniture. The strong monetary policy tightening has led to a very sharp macro rebalancing in the form of a rapidly improving current account balance and slowing inflation. Improving price competitiveness contributing to exports and diminishing domestic demand, with substantial financial tightening, has resulted a sharp improvement in external balances. After all these measurements, Turkish Lira appreciated 20.4% against the U.S. Dollar between August and December 2018. Overall, the monetary policy has been effective with overshooting interest rates, contracting credit and collapsing imports, eventually reversing the upward trend of inflation.

After the financial turmoil in August 2018, the Turkish authorites took a series of measures to ensure financial stability and support the Turkish Lira. The Ministry of Treasury and Finance announced the New Economic Plan (NEP) and the year 2019 was announced as a rebalancing period. Although the NEP envisages growth of 2.3% in

2019, such outlook may be affected by a global economic slowdown, increased geo-political uncertainties and a weakening in domestic consumption. Exceptional food inflation and TRY depreciation have led to a yearly rise in headline inflation to 20.3% in December 2018, recording the highest level since December 2003. Inflation is expected to decline in 2019. Due to the fact that we enter into fixed term contracts with a large portion of our mobile and fixed voice and data customers, we face difficulties in adjusting our prices to adequately reflect any inflationary pressures, which has and may have an adverse effect on our business, financial condition and results of operations. The budget deficit rose to 2.0% of the GDP in December 2018, and is expected to widen as a result of increased government spending to sustain strong economic activity. Moreover, the announced restructuring campaign regarding consumer credit card debts and small & medium company loans, aimed at lowering interest rates via public banks, could expose the banking sector to further risks. Loan growth, which contracted in the fourth quarter of 2018, has been running above zero in the first quarter of 2019, however the non-performing loan (NPL) ratio has continued to rise and it is expected to increase further as a result of the weak economic outlook. The Turkish Government has also announced it will reduce investments in those projects that are not deemed as directly serving the essential needs of the public or adding value to the economy between 2019-2021. This decision may significantly reduce our business potential on the corporate side to do business with the government and negatively affect our business and financial condition. Additionally, even though we are not currently experiencing any repercussions, further deterioration in loans or in general economic outlook may negatively affect our mobile and consumer finance businesses along with other industries. Geopolitical and domestic political factors, such as the military intervention in Syria and the run-up to the March 2019 municipal elections, are other sources of uncertainty and impose further risks on the country s economy. Also, the international credit rating agencies including Fitch, Standard & Poor s (S&P) and Moody s may cut Turkey s grade further, and this also could further increase the pressure on the Turkish Lira and interest rates.

More generally, in our view, among the biggest threats to the global economy, including the Turkey economy, in 2019 are weakening global growth, trade tensions between U.S. and China, global financial tightening, the potential for a significant slowdown in the Chinese economy and European political uncertainty. In January 2019, the International Monetary Fund (IMF) revised its global growth forecast for 2019 from 3.7% to 3.5%, and for 2020 from 3.7% to 3.6%, mainly because of the negative effects of tariff increases enacted in the United States and China, the weakening financial market sentiment, and the tightened financial conditions. A number of institutions such as the European Central Bank (ECB) and the IMF have published several trade war scenarios, showing that the effects of such measures have a negative impact on global growth. Taking into account global trade tensions, weakening investment expenditure and high levels of debt, a hard landing scenario for China is possible and would have serious implications not only for China, but also for Turkey and the global economy. According to the recent indicators and surveys, the Eurozone economy has been slowing from previously high levels, due to weakening domestic demand and higher borrowing costs, elevated sovereign yields in Italy, street protests in France, softening of private consumption, weakened industrial production following the introduction of revised auto emission standards, subdued foreign demand in Germany as well as the uncertainty surrounding Brexit. The 2019 elections in Eastern Europe may further exacerbate the political tensions in the region. As the largest exporting partner, a slowdown in Germany and the Eurozone presents an important risk to the Turkish economy. The effect of prolonged low energy prices on commodity-exporting countries in the region such as Russia, Saudi Arabia and Iran may negatively affect the terms of trade between these countries and Turkey. After the global sell-off in equities at the end of 2018, the US Federal Reserve (Fed) cut its rate hike projections for 2019. Nevertheless, ongoing normalization of Fed and ECB monetary policy, fragile growth outlook in Turkey s key export destinations and geopolitical risks stemming from instability in Iraq, Syria, Iran, Georgia, Cyprus, Egypt, Tunisia, Israel, Armenia and Russia, the impact of this on Turkish foreign relations, including with the United States, as well as increasing uncertainty regarding the political outlook in Ukraine and in the Commonwealth of Independent States (CIS) regions are additional sources of risks for Turkey.

Furthermore, the Turkish Army is dedicated to fight against terrorist groups inside Turkey, Syria and Northern Iraq, notably the People s Congress of Kurdistan (known as the PKK), and also extremist terrorist groups like ISIS in neighboring countries. Turkey s probable Membic operation against ISIS,YPG/PYD/PKK, can impose higher risks on the budget deficit if the operation lasts longer than anticipated. Also, the departure of U.S. troops from Syria is likely to result in an increased uncertainty in the region.

Slower growth and inflationary pressures as a result of the factors described above may have a negative impact on consumer sentiment, resulting in a decrease in sales which could have an adverse effect on our business, financial condition and results of operations. Furthermore, geopolitical risks are currently prevailing, primarily on the basis that relations with the US continue to be fragile on various fronts, and this could potentially lead to volatility in the future. There can be no assurance that the political and more importantly geopolitical situation within Turkey or its neighboring countries will not deteriorate. The rise of protectionism and the threat to globalization is likely to impact political and economic affairs. These, coupled with rising geopolitical risks, might deter politicians from implementing economic programs, may individually or in the aggregate adversely affect the Turkish economy and, in turn, our business, financial condition and results of operations.

Foreign exchange rate risks could affect the Turkish macroeconomic environment and could significantly affect our results of operation and financial position in future periods if hedging tools are not available at commercially reasonable terms.

We are exposed to foreign exchange rate risks because our income, expenses, assets and liabilities are denominated in a number of different currencies, primarily Turkish Lira, U.S. Dollars, Euros, Chinese Renminbi, Ukrainian Hryvnia (UAH), and Belarusian Ruble (BYN). Fluctuations of Turkish Lira, Ukrainian Hryvnia, Belarusian Rubles, and Chinese Renminbi versus U.S. Dollars and Euros, have had and may have an unfavorable impact on us. In particular, a substantial majority of our equipment expenditures is currently, and expected to continue to be, denominated in U.S. Dollars and Euros, while the revenues generated by our activities are denominated largely in local currencies, in particular the Turkish Lira, Ukrainian Hryvnia, Belarusian Ruble and Euro. As of December 31, 2018, our total debt was TRY 20,155.5 million. As of December 31, 2018, the debt balance of our companies operating in Turkey was TRY 18,748.6 million, of which TRY 9,761.5 million ($1,855.5 million as of December 31, 2018) was denominated in U.S. Dollars and TRY 7,127.5 million (EUR 1,182.4 million) in Euro. As of December 31, 2018, the debt balance of lifecell was TRY 925 million, denominated in UAH. Meanwhile, Belarusian Telecom had a debt balance of TRY 4.2 million, denominated in BYN.

In addition, we are exposed to currency mismatches with respect to certain capital expenditures and off-balance sheet obligations, in particular with our universal service obligations for the installation of infrastructure in uncovered areas of Turkey, a service that we have contracted to provide for an amount in TRY, but which requires expenditures in foreign currencies (primarily in USD, but also Euro and Chinese Renminbi). Also, the financing of infrastructure investments, potential license fee payments and any other potential investment opportunities could lead to an increase in our U.S. dollar and/or Euro debt, further increasing our currency exposure. The effect of the depreciation in TRY is typically reflected in inflation rates in 3-6 months on average. According to the research of the CBRT, the exchange rate pass through realization in Turkey is around 10-15% and this figure might be well over 20% in an overheated economy. As of the third quarter of 2018 overall exchange rate pass through has increased to approximately 17% and is expected to decrease to 10-15% level with the appreciation of the TRY. High exchange rate pass through creates increasing production prices which is eventually reflected in consumer prices. Between 2011 and 2015 additional point impact on inflation was 1.8 when average inflation was 8.2%. See Item 8. Financial Information and Note 35 to our audited Consolidated Financial Statements included in Item 18. Financial Statements of this annual report on Form 20-F. Devaluations that are not matched by adjustments in our tariffs have had, and may continue to have, an adverse effect on our results of operations and our liquidity. See Item 4B. Business Overview II Tariffs . We are also exposed to currency exchange rates on the prices of the smartphones that we rely on for the promotion of our digital and data services. After the 2008 financial crisis, with the flow of cheap funding, the Turkish economy experienced import driven growth. Therefore consumption patterns have shifted towards foreign currency denominated goods along with raw materials and intermediary goods used in production. Production has been negatively impacted by the price inflation of raw materials and intermediary goods. Depreciation in TRY triggered inflationary pressures which resulted in a deterioration in the purchasing power of consumers. Coupled with slow growth and low purchasing power, consumers demand has fallen. Turkish Lira depreciation has made smartphones that are procured in hard currencies more expensive for our customers, thus potentially reducing new sales of such devices and curbing the market for the services, which may have a negative impact on our profitability and financial position.

According to the CBRT, the TRY depreciated by 39% against the U.S. Dollar and 49% against the Euro in 2018, driven mainly by exacerbated macroeconomic conditions and geopolitical uncertainty as well as international developments such as increased U.S. interest rates, policy normalization signals from the ECB and rate hikes from the Fed and tensions between US and China. As of March 7, 2019 the TRY has depreciated a further 2.25% against the U.S. Dollar and 0.86% against the Euro according to the CBRT. Our currency hedging strategy includes derivative transactions and accumulating hard currency by using Turkish Lira cash from our operations. In addition, we have been further diversifying our currency exposure by entering into agreements with our vendors in local currencies, particularly in Chinese Renminbi.

Turkey has recently introduced a series of measures in relation to foreign exchange matters. A Presidential Decree amending the Decree No. 32 on the Protection of the Value of Turkish Currency, enacted on September 13, 2018 (Presidential Decree), provides that, except for certain exemptions determined by the Ministry of Treasury and Finance (Ministry of Finance), the contract price and all other payment obligations under (i) sale, purchase, and lease agreements (including financial leases) regarding immovable properties and vehicles, (ii) employment, (iii) services, and (iv) construction agreements entered into between Turkish and non-Turkish natural and legal persons resident in Turkey must be in Turkish Lira. In other words, the Presidential Decree precludes Turkish and non-Turkish natural and legal persons resident in Turkey from determining, or indexing to, the contract price or other payment obligations with regards to the aforementioned transactions in foreign currencies. Further, a 30-day transition period was envisaged by the Presidential Decree for the Turkish and non-Turkish natural and legal persons resident in Turkey to amend their existing agreements which fall within the scope of the restrictions, such that the contract price and all other payment obligations thereunder must be re-determined in Turkish Lira. The Ministry of Treasury and Finance determined on October 6, 2018 the scope of the restrictions above introduced by the Presidential Decree, by way of setting out the restrictions and exemptions on a contract type basis. On 16 November 2018, the scope of the exemptions was amended with another Communiqué numbered 2018-32/52 published in the Official Gazette dated 16 November 2018 and numbered 30597. The main highlights to the exemptions include issuance of capital markets instruments, employment agreements related to work performed abroad, service agreements of which the parties are not Turkish citizens, sales agreements including software produced abroad within the scope of information technologies and license and service agreements including hardware and software produced abroad and financial leasing agreements within the scope of Article 17 and 17/A of Decree No. 32. While none of one of our material agreements has been amended under this legislative change, there can be no assurance that similar measures will not impact our ability to enter into foreign currency agreements.

While we are currently able to hedge our principal TRY exposure to the U.S. Dollar and the Euro on commercially reasonable terms, no assurance can be given that we will continue to be able to do so under all circumstances in the future. In several of the other countries in which we have businesses, in particular Ukraine and Belarus, there are no or few tools to hedge foreign exchange rate risks effectively due to restricted and undeveloped financial markets in these countries. Any significant fluctuations in the value of the TRY relative to other currencies could have an adverse effect on our business, financial condition and results of operations.

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

We continue to experience challenging macroeconomic, regulatory and competitive conditions in our markets that may reduce cash generated from operations, and we may continue to face increased funding needs, in particular to finance our technological expansion and investments. In the previous three years, this included the payment of the Turkish 4.5G license fee, Ukrainian 4.5G license fee and related capital expenditures in Turkey and Ukraine as well as the establishment of a consumer finance company in Turkey. Furthermore, in 2017 and 2018, we paid TRY 3 billion and TRY 1.9 billion dividend, respectively, and made capital expenditures and loan repayments, which significantly reduced our available cash. Looking ahead, we expect to continue to experience moderate cash outflows in relation to new licenses and network roll-out, continuing fiber development and potential dividend payments. The ongoing disputes among our shareholders may also have an impact on our liquidity position, to the extent that they may affect dividend payments. In the past, as a result of such disputes, dividends were not paid for several years and then the resulting backlog was eventually paid in a short period of time. Our liquidity position may also be negatively impacted if our shareholders request dividend payments which are higher than our dividend policy. Our working capital requirements have increased in the last three years in particular after our consumer finance company began its operations. The BRSA s current regulation imposing a cap on the number of instalments with regard to consumer loans for mobile phones significantly decreased the demand for new loans and thus has reduced our related working capital requirement accordingly. However, working capital requirements could once again increase should the BRSA increase the maximum number of instalments on mobile phone related loans or our entry to the leasing business, both of which could drive the demand up considerably. These cash outflows have in the past reduced, and may continue to reduce, our liquidity. Reduced liquidity may lead to an increase in our borrowing requirements and thus our borrowing costs.

Our borrowings may expose us to foreign exchange rate risk, interest rate risk and possibly, to increases in our total interest expense, each of which could have a material adverse effect on our consolidated financial condition and results of operations. We enter into derivative transactions and hold hard currency to manage the risk with respect to the Turkish Lira. However, derivative transactions might have costs and may not fully cover all of our risks. Furthermore, no assurance can be given that we will continue to have access to financing on terms or be able to conduct derivative transactions with terms that are satisfactory to us or at all. In addition, no assurance can be given that unexpected cash outflows will not be required, which could further erode liquidity and increase borrowing requirements.

As of December 31, 2018, our total debt was TRY 20,155.5 million. TRY 8,590.5 million of our debt portfolio consisted of financing obligations paying interest at fixed rates. The remainder of our debt portfolio pays interest at floating rates, which has been increasing within the last year and could expose us to increased costs if rates increase further. In 2015, we arranged a number of financing facilities in a principal amount of approximately $2.9 billion (partly in U.S. Dollars and in Euro) for the refinancing needs of the Company and our subsidiaries and to fund infrastructure investments and any other potential investment opportunities, which has significantly increased our indebtedness. Of this financing amount, we issued a 10-year Eurobond with an aggregate principal amount of $500 million and utilized $500 million in October 2015 which was followed by a EUR 1.25 billion, 10 year loan facility from the China Development Bank. EUR 500 million of this facility was immediately utilized. Furthermore, in 2016 we utilized USD 500 million and EUR 445 million under a 5-year club loan agreement from five international banks. EUR 60 million in 2017 and USD 140 million, EUR 100 million and RMB 251 million were utilized in 2018 from the China Development Bank facility. In the last three years, we also borrowed to finance the growing business of our consumer finance company and to finance the working capital requirements of our operations in Ukraine. In April 2018, we issued another 10-year Eurobond bond with an aggregate principal amount of $500 million with fixed coupon rate of 5.80% per annum. We may continue borrowing to finance our infrastructure investments, consumer finance company (depending on how the market evolves), loan repayments and any other potential investment opportunities. Additionally, on June 19, 2018, we entered into a framework shareholder loan agreement pursuant to which excess TRY cash in Turkcell is made available to other group companies in Turkey as a short term TRY loan at arm s length basis in line with current market conditions.

In 2015, we received investment grade ratings from Moody s, S&P and Fitch Ratings and sustained these in 2016 and 2017, although in 2017 Moody s and S&P changed the outlook on our ratings to negative from stable. In 2018, Moody s, S&P and Fitch Ratings downgraded our credit rating to non investment grade in accordance with their respective internal practices to reflect their individual decisions in the beginning of the third quarter of 2018 to reflect the downgrade Turkey s sovereign rating. Fitch and Moody s both put our company on negative outlook, while S&P changed the outlook to stable from negative by mid-2018. A decrease in our free cash flow, an increase in our net debt position or more generally a change in financial policies and projections, a material increase in investment and acquisition plans or shareholder returns and an increase in corporate governance issues could also result in a further credit rating downgrade. In November 2018, our contract with Moody s ended. We continue to receive credit rating services from S&P and Fitch Ratings.

Some of our borrowing agreements contain cross default clauses, which could trigger an event of default under such agreements in the event of a default by a Group company under its own borrowing agreements (such default by that Group company being subject to certain thresholds).

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

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

Pricing is one of the areas in which we are subject to regulation. In the recent past, the ICTA and Ministry of Transport and Infrastructure (formerly the Ministry of Transport, Maritime Affairs and Communications of Turkey) (the Turkish Ministry) regulations and actions relating to our voice, SMS, data and value added services have negatively affected our pricing and our ability to design and launch campaigns and offers. One of these regulations regarding the retail pricing per voice minute has been lifted and the regulatory burden has consequently been significantly reduced. However, the retail price cap in mobile has been reintroduced by the ICTA in October 2018. In addition, interconnection rates are still set by the ICTA, and, there is a possibility that further regulatory actions may adversely affect our company s wholesale revenues. In addition, the ICTA has determined and may in the future determine that we are an operator with significant market power and as a result impose certain constraints on us, while imposing less stringent ones on other mobile telecommunications operators in the market, both of which may adversely affect our business and financial condition. For more information, see Item 4.B. Business Overview Regulation of the Turkish Telecommunications Industry.

Expectations and standards with regard to privacy and data protection have been increasing both globally and in Turkey. Stricter privacy laws and regulations are being adopted or existing legislation is being more strictly interpreted and enforced by the authorities, which require companies to invest more diligence and effort towards ensuring compliance. While we are primarily subject to Turkish data protection legislation, the European General Data Protection Regulation and other foreign privacy legislation also have the potential to affect our business through some of our subsidiaries established in the EU and other countries, as well as some of our products and services provided to persons in the EU. Breach of such regulation may potentially result in penalties up to a maximum of 4% of global annual turnover or EUR 20,000,000. Ensuring compliance with these various privacy legislations is a longlasting commitment, which requires substantial costs, and it is possible that despite our efforts, governmental authorities or third parties will assert that our business practices fail to comply. Changes in privacy legislation or in interpretation of the existing legislation could have an adverse effect on our business and data processing operations and/or subject us to significant civil and criminal penalties, business disruption or reputational harm.

Furthermore, given that we process personal data, namely of our customers we are subject to the Law No. 6698 on The Protection of Personal Data and the regulations of the Turkish Personal Data Protection Authority, as well as data protection legislation under the Electronic Communications Law and the ICTA s data protection regulations. For more information, see Item 4.B. Business Overview-Regulation of the Turkish Telecommunications Industry. Should we fail to properly implement and comply with these data protection laws and regulations, we might face administrative fines of up to approximately TRY 1,470,000 per breach, depending on the nature of the failure(s), as well as criminal sanctions or other regulatory actions by the Personal Data Protection Authority, and face administrative fines up to 3% of yearly net sales of the ICTA-regulated companies in breach. Changes to such data protection laws may impose more stringent requirements for compliance and impose significant penalties for non-compliance. In particular, we are facing increased risks with regard to these laws and regulations as the number of our Paycell customers -in relation to whom we hold sensitive data such as credit card information- increases rapidly. If we or those with whom we share information fail to comply with these laws and regulations, our reputation could be damaged, possibly resulting in lost future business. In addition, the cost and operational consequences of responding to breaches and implementing remediation measures could be significant.

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

Customer reimbursements are now more highly regulated, which will increase our liability and place a higher administrative burden on our company. For example, reimbursements must now take place in under a month (unless another period is set forth by a decision of the ICTA), and we may face penalties should we fail to meet this requirement. Additionally, we will be subject to the obligation to transfer unpaid reimbursements to a universal service fund.

The ICTA has taken decisions in the fiber market that have favored the incumbent Turk Telekom, in particular exempting the fiber market from market analysis (so called fiber holiday). The ICTA has not announced its final market analysis for fixed wholesale local and central accesses. The fiber holiday may continue to be in place depending on the ICTA s final decision.

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