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TURKCELL ILETISIM HIZMETLERI A S
Form 6-K
October 27, 2005

REPORT OF FOREIGN PRIVATE ISSUER

PURSUANT TO RULE 13a-16 or 15d-16 OF
THE SECURITIES EXCHANGE ACT OF 1934

Report on Form 6-K dated October 27, 2005

TURKCELL ILETISIM HIZMETLERI A.S.

Turkcell Plaza
Mesrutiyet Caddesi No.153
34430 Tepebasi
Istanbul, Turkey

(Address of Principal Executive Offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F:

Form 20-F: Form 40-F:

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Yes: No:

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Yes: No:

Indicate by check mark whether the registrant by furnishing the information contained in this form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes: No:

Enclosures: Operating and financial review for the six month and three month periods ended June 30, 2005

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OPERATING AND FINANCIAL REVIEW FOR THE SIX MONTH AND THREE MONTH PERIODS ENDED
JUNE 30, 2005

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Overview

The financial information contained in the following discussion and analysis has been prepared and is presented on a consolidated basis in accordance with US GAAP in US dollars. The following discussion and analysis should be read in conjunction with the consolidated balance sheets as of December 31, 2003 and 2004 and the related consolidated statements of operations, changes in shareholders' equity and comprehensive income, and cash flows for each of the years in the three year period ended December 31, 2004 and the related notes there to included in our annual report on Form 20-F for the year ended December 31, 2004 (the "20-F") and the consolidated balance sheets as of December 31, 2004 and June 30, 2005, and the related consolidated statements of operations, changes in shareholders' equity and comprehensive income, and cash flows for each of the three month and six month periods ended June 30, 2004 and 2005 included herein. The information as of June 30, 2005 and for the three month and six month periods ended June 30, 2004 and 2005 is not audited.

Certain statements contained below, including information with respect to our plans and strategy for our business, are forward-looking statements. The statements contained in this discussion of operating results, which are not historical facts, are forward-looking statements with respect to our plans, projections or future performance, the occurrence of which involves certain risks and uncertainties. For a discussion of important factors that could cause actual results to differ materially from such forward-looking statements see "Item 3D. Risk Factors" in our 20-F.

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 operated under a 25-year GSM 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 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 pay ongoing license fees to the Turkish Treasury equal to 15% of our gross revenue, which includes 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 monthly 10% portion of their existing ongoing license fee to the Ministry of Transportation as universal service fund. As a result, starting from June 30, 2005, we pay 90% of accrued ongoing license fee to the Turkish Treasury as the treasury share and 10% of the accrued ongoing license fee to Ministry of Transportation for the universal service fund. Since June 2004, SIM card 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. Under our interconnection agreement with Turk Telekom, we pay Turk Telekom an interconnection fee per call based on the type and length of 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 Telsim Mobil Telekomunikasyon Hizmetleri A.S. ("Telsim"), TT&TIM Iletisim Hizmetleri A.S. ("AVEA"), Milleni.com GMBH ("Milleni.com") and Globalstar Avrasya Uydu Ses ve Data Iletisim A.S. ("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.

From the time of our start-up through June 30, 2005, we have made capital expenditures amounting to approximately \$4.9 billion including the cost of our licenses. The build-out of our network in Turkey is now substantially complete, with coverage at June 30, 2005 of 100% of the Turkish population living in cities of 10,000 or more people. As of June 30, 2005, our network covers 99.94% of the Turkish population living in cities of 5,000 or more and 99.78% of the Turkish population living in cities of 3,000 or more. Coverage also includes substantially the entire Mediterranean and Aegean coastline. We meet the coverage requirements of our license.

Our subscriber base has expanded from 63,500 at year-end 1994 to approximately 15.7 million at year-end 2002, 19.0 million at year-end 2003, 23.4 million at year-end 2004 and 25.6 million as of June 30, 2005. Based on the announcements of the Telecommunications Authority, there are approximately 39.6 million subscribers in the Turkish GSM market as of June 30, 2005. The penetration rate in the Turkish GSM market was approximately 55% as of June 30, 2005 and the market is expected to continue to grow. We expect some deceleration in the growth of the Turkish GSM market during the second half of 2005 due to a slow down in consumer demand already seen. In 2007, we expect that a 70% penetration rate in the Turkish GSM market is likely to be achieved compared to our previous estimate of 65%. We expect to achieve continued growth in our subscriber base in 2005 overall but at a slower pace compared to that of 2004.

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 or to better control their mobile communication expenses. As of June 30, 2005, we had 20.4 million prepaid subscribers. Average selling and marketing expenses per prepaid subscriber are generally less than those per postpaid subscriber and average minutes of use per prepaid subscriber and average revenue per prepaid subscriber tend to be lower than for postpaid subscribers. Our average monthly minutes of use per subscriber has increased 4% to 63.7 minutes for the six month period ended June 30, 2005 from 61.1 minutes for the same period in 2004, mainly due to the favorable effect of the improving Turkish macroeconomic environment on consumer sentiment along with volume and customer focused campaigns and mass loyalty programs. Our average revenue per user increased 13% to \$12.7 for the six month period ended June 30, 2005 from \$11.2 for the same period in 2004. The increase was mainly due to the impact of additional legal provisions recorded for the three month period ended June 30, 2004, increasing minutes of usage and tariff raises in November 2004 and May 2005, despite the price discount initiatives which started especially in the second half of 2004 (e.g. PSTN=Onnet) and the dilutive impact of our prepaid subscriber base. We expect aggressive price discounts and campaigns from competitors to continue. However with our strong customer focused and balanced marketing activities, we expect that the blended minutes of usage will improve slightly in 2005 compared to 2004. We expect average revenue per subscriber to increase in 2005 compared to 2004. Improvement in minutes of usage, increasing Value Added Services and increasing data revenue are factors expected to impact average revenue per subscriber positively in 2005 while expected decreases in incoming interconnection revenue, due to lower interconnection rates, price discount initiatives started in the second half of 2004 and the dilutive impact of prepaid subscribers are factors expected to impact average revenue per subscriber negatively in 2005. See "Item 5D. Trend Information" in our 20-F.

Churn is the percentage calculated by dividing the total number of subscriber disconnections, both voluntary and involuntary during a period by the average number of subscribers for the period. In addition to voluntary

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disconnections, under our disconnection process, subscribers who do not pay their bills are disconnected from our network and included in churn upon the commencement of the legal process to disconnect them, which occurs 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. During the year ended December 31, 2004, in addition to voluntary disconnections, we involuntarily disconnected 123,038 additional subscribers for nonpayment of bills and our annual churn rate was 9.1%. For the six month period ended June 30, 2005, in addition to voluntary disconnections, we disconnected 67,583 subscribers for nonpayment of bills. Our churn rate

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was 5.0% for the six month period ended June 30, 2005. We have a bad debt provision in our financial statements for such non-payments and disconnections which amounted to \$133.9 million and \$143.0 million as of December 31, 2004 and June 30, 2005, respectively, which we believe is adequate. Prior to 2003, the majority of subscriber disconnections were due to non payment of bills. However, starting from 2003, the majority of involuntary subscriber disconnections were prepaid subscribers' disconnections as a result of the increased number of prepaid subscribers in our subscriber base. We expect our churn rate in 2005 overall to increase as a result of the increase in competition in the GSM mobile market in 2005, but it is expected to be kept below 2003 levels.

International and Other Domestic Operations

In 2004, we invested in Digital Cellular Communications ("DCC"), which is located in Ukraine and we continue to pursue investment opportunities in Iran. Our operations in Ukraine commenced during the second quarter of 2004 and on February 1, 2005, LLC Astelit ("Astelit"), which is a 99% owned subsidiary of DCC commenced its operations with GSM 1800 technology by introducing its new brand.

Our operations in Iran have not yet commenced. We expect that any operations we conduct in Iran will be conducted through our 85% majority-owned subsidiary, East Asian Consortium B.V. ("Eastasia") as a participant in the Irancell Consortium ("Irancell" or the "Consortium"). On April 25, 2005, the Iranian Parliament approved a revised proposal, which suggests a reduction of Eastasia's stake in Irancell to 49% and includes several other amendments to the terms of the license agreement originally agreed, and submitted these amendments to the Guardian Council for their consent. In May 2005, the Guardian Council gave their consent. The consent was approved by the Iranian President.

On September 2, 2005, our Board of Directors decided to continue with the Irancell project and approved the ownership structure of Irancell with a stake of 49% in Irancell for Eastasia. However, it has been stated that 21% of the shares of Irancell should be transferred to the National Bank of Iran, Bank Melli, and the parties should agree that these shares shall be publicly offered in the third year following the initiation of the Irancell operations and these agreed terms should be reflected into all agreements between the parties in Irancell. Iranian Telecommunications Ministry has set November 21, 2005 as the deadline with respect to the finalization of the shareholder structure of the Consortium.

In the meantime, Eastasia has deposited EUR 172.7 million in Bank Saderat Plc. located in London as its potential contribution to the GSM network license fee and a portion of the initial capital, to show its willingness to invest in Irancell. We have provided a deposit pledge with Garanti Bankasy in

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the amount of EUR 91.6 million, and Garanti Bankasy provided a bank loan to Eastasia for the same amount. The maturity of this loan is set as November 21, 2005 which is also the proposed deadline for the completion of the negotiations over the shareholder structure of the Consortium.

We are continuing to negotiate the terms of our shareholding in Irancell with the other members of the Consortium. The level of our shareholding in the revised Consortium shareholder structure, including whether we will participate at all in Irancell, is uncertain and subject to continuing negotiation.

Although Irancell has plans for commencing operations in Iran, it has not commenced operations in Iran and will not do so, if at all, prior to finalizing the terms of the revised Consortium shareholder structure. Although we do not currently conduct any operations in Iran, to the extent the members of the Consortium finalize the shareholder structure of Irancell with one another and Irancell commences operations in Iran, such operations may in the future be material to us. As with any other investment, our potential investment in Iran through Eastasia and the Consortium involves risk.

Notwithstanding the foregoing, we believe the Iranian Ministry of Communication and Information Technology has not properly implemented the laws and regulations passed by the Iranian Parliament in connection with the GSM tender process, which was won by the Consortium. As a

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result, we have brought a claim in Iranian courts seeking to compel the Ministry to implement the laws and regulations passed by the Iranian Parliament in connection with the GSM tender process.

For a description of, and additional information regarding our international and other domestic operations see "Item 4B. Business Overview--International Operations" and "--Other Domestic Operations" in our 20-F.

Critical Accounting Policies

For a discussion of our critical accounting policies, please see "Item 5. Operating and Financial Review and Prospects--Critical Accounting Policies" in the 20-F. There have been no material changes in our critical accounting policies since the date of the 20-F.

Revenues

Our revenues are mainly derived from communication fees, monthly fixed fees, sales of SIM cards, commission fees and call center revenues. Communication fees consist of charges for calls that originate or terminate on our GSM network, including international roaming, and are based on minutes of actual usage of service. Per-minute communication fees vary according to the subscriber's service package. Monthly fixed fees are charged to each postpaid subscriber in a specified monthly amount that varies according to the subscriber's service package, regardless of actual use of our GSM network services. SIM card revenues are receipts from the sale of SIM cards, which we sell to handset importers and which are needed to operate a handset used by a subscriber. Commission fees on betting business relate to operating a central betting system and head agency fees. Such fees are recognized at the time the

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services related to the betting games are rendered. Call center revenues consist of revenues for call center services provided by our call center subsidiary to affiliated and third party companies. In March 2001, we launched General Packet Radio Services ("GPRS") in Turkey, which allows users to remain connected to the network at all times for the receipt of data transmissions, enabling bearer capability for WAP, SMS and internet applications. GPRS charges are based on the amount of data downloaded by subscribers.

In June 2003, we commercially launched our new multifunctional mobile service platform under the commercial name "Shubuo". Shubuo provides our subscribers with access to quality content while creating a new medium for subscriber brands to promote their goods and services. Under the Shubuo brand, subscribers are allowed to choose from several service packages, each catering to different interest areas including news, finance, football, flirt, city life and music. Subscribers may choose from these services according to their interests and buy individual packages for a monthly fee. Subscribers receive a fixed number of text messages containing information on the subject they choose and are able to utilize content-rich and personalized mobile internet services allowing them to interact with other Shubuo subscribers through chat, competition, voting, etc.

We recognize SIM card sales as revenue upon initial entry of a new subscriber into the GSM network only to the extent of the direct costs associated with providing these services. Excess SIM card sales are deferred and recognized over the estimated effective subscription contract life. In connection with postpaid and prepaid subscribers, we currently incur costs for activation fees to dealers and other promotional expenses, which historically offset all or substantially all of the subscription fees. We charge a usage fee for certain services we offer, such as SMS, voicemail and data and facsimile transmission. Our revenues depend on the number of subscribers, call volume and tariff pricing.

As is the case throughout Europe, airtime charges generally are paid only by the initiator of a call, except when a subscriber travels outside Turkey, in which case we charge the subscriber for a portion of the incoming call.

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In accordance with the Telecommunications Law, we set our tariffs independently, subject to maximum prices defined by the Telecommunications Authority, which are based on, among other things, prices abroad for comparable GSM services, the Turkish consumer price index and the US consumer price index. We also notify the Telecommunications Authority at least seven days before the amendment of any tariff. The net yearly effect of any devaluation of the New Turkish Lira ("TRY") and inflation on our costs are carefully analyzed while making price adjustments. We have taken actions to increase revenues, including raising tariffs in November 2004 and May 2005. We also launched a variety of new tariff packages to set tariffs according to customer satisfaction and to attract new subscribers. We will continue to monitor the market and adjustments to our tariffs will depend on the competitive, regulatory and macroeconomic environment. We aim to strike the right balance between achieving our revenue goals and maintaining our "better value for money" image in the market and will continuously seek to offer products, services and tariff options that are in line with the needs and expectations of our subscribers.

Although the Amending Law No. 4673, or "the Amending Law", has no specific regulations regarding tariff policy, it authorizes the Telecommunications Authority to scrutinize activities in contradiction to fair

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competition. On the regulatory side, the Telecommunications Authority implemented the cost-based interconnect tariffing for the telecommunications sector. See "Item 4B-Business Overview-Regulation of the Turkish Telecommunications Industry" in our 20-F.

Per the Amended Agreement, effective from September 20, 2003 onwards, we charge Turk Telekom a net amount of TRY 0.2100 (equivalent to \$0.16 at June 30, 2005) per minute after deducting VAT, communications tax and other taxes from the basic one-minute charge for local, metropolitan and long-distance traffic switched from Turk Telekom to our network instead of a net amount of basic unit price minus \$0.06. For incoming international calls that are terminated at our network, we were charging Turk Telekom 30% of the international settlement charge which is transferred by the foreign PSTN and GSM operators to Turk Telekom. Under the Amended Agreement, we charge Turk Telekom 45% of the international settlement charge. On October 11, 2003, the Telecommunications Authority resolved that we would charge TRY 0.1788 (equivalent to \$0.13 at June 30, 2005) per minute for traffic originating on all other mobile operators' networks and terminating on our network effective from September 23, 2003. We believe the reference tariff structure defined by the Telecommunications Authority during the fourth quarter of 2004, if applied, will lead to further reductions in termination rates, as pricing terms of the interconnection agreements among operators have not been established through negotiations. For detailed information on reference pricing 20-F, see "Item 4B. Business Overview--Regulation of the Turkish Telecommunications Industry" in our 20F. We entered into an interconnection agreement with Milleni.com in April 2001. Under the interconnection agreement with Milleni.com, we charged Milleni.com a net amount of (euro)0.10 per minute for our network terminated traffic. The interconnection agreement between Milleni.com and us has been bilaterally terminated as of June 21, 2004. However, on February 21, 2005, Bilisim Telekom, one of our subsidiaries, and Milleni.com have signed an agreement to provide telecommunications services 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. Under the new supplemental interconnection agreement signed with Globalstar on December 11, 2003, we charge Globalstar a net amount of \$0.175 per minute for our network terminated traffic. In addition, we charge Globalstar a net amount of \$0.03 per SMS.

The following table shows the amounts per minute we charge Turk Telekom, Telsim and AVEA for calls terminating on our network as of June 30, 2005 and September 30, 2005 both in TRY and equivalent US dollars at June 30, 2005.

	June 30, 2005		September 30, 2005	
	TRY	USD	TRY	USD
Turk Telekom	0.2017	0.15	0.1480	0.11
Telsim	0.1953	0.15	0.2005	0.15
AVEA	0.2065	0.15	0.2119	0.16

During 2001, we were approached by IsTim, a new competitor that began its operations in March 2001 under the brand name of Aria, to negotiate a national roaming agreement. These negotiations did not result in a mutual agreement. Therefore, the discussions continued under the supervision of the

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Telecommunications Authority, but we were unable to reach an agreement with IsTim, and we commenced litigation proceedings to prevent the imposition of an agreement by the Telecommunications Authority. The introduction of national roaming in Turkey could have a negative impact on our revenues. For a description of the dispute regarding the national roaming agreement and the risks related to this dispute, see "Item 8A. Consolidated Statements and Other Financial Information--Legal Proceedings--Dispute on National Roaming Agreement" in our 20F.

We expect our revenues to increase at a slower pace in 2005 overall compared to 2004, mainly due to the increase in our subscriber base and appreciation of TRY, together with the improvement in the macroeconomic indicators and improving minutes of usage.

Operating Costs

Direct Cost of Revenues

Direct cost of revenues includes mainly ongoing license fees, transmission fees, base station rents, billing costs, depreciation and amortization charges, repair and maintenance expenses directly related to services rendered, roaming charges paid to foreign GSM operators for calls made by our subscribers while outside Turkey, interconnection fees paid to Telsim, AVEA, Milleni.com and Globalstar and wages, salaries and personnel expenses for technical personnel. Direct cost of revenues also includes costs arising from legal disputes, which relates to items included in direct cost of revenues. For a detailed discussion of our legal and arbitration proceedings, see "Item.8A. Consolidated Statements and Other Financial Information- Legal Proceedings" in our 20-F.

Under the Amended Agreement, we paid Turk Telekom interconnection fees of TRY 0.0500 (equivalent to \$0.04 at June 30, 2005) per minute for local calls from our network to the Turk Telekom fixed-line network and TRY 0.0700 (equivalent to \$0.05 at June 30, 2005) per minute for non-local calls from our network to the Turk Telekom fixed-line network. On the basis of the Amended Agreement signed with Turk Telekom, we modify the interconnection fees according to the consumer price index and foreign currency exchange rate on a quarterly basis. For international calls originating on our network, we pay Turk Telekom the normal one-unit call charge as outlined in Turk Telekom tariffs in force without any discount. For international calls originating on our network, we also pay Turk Telekom 70% of the net amount of the normal per-minute call charge, as outlined under Turk Telekom's current tariffs.

On November 11, 2003, after the resolution of the Telecommunications Authority on pricing terms, we and Telsim determined new pricing terms for our interconnection agreement, which resulted in an amendment in the interconnection agreement. Per the Telecommunications Authority resolution, we paid TRY 0.1788 (equivalent to \$0.13 at June 30, 2005) per minute for calls originating on our network and terminating on Telsim's network effective from September 23, 2003. On the basis of our amended interconnection agreement signed with Telsim, we modify the interconnection tariffs according to the consumer price index. On October 11, 2003, the Telecommunications Authority resolved that we would pay TRY 0.2338 (equivalent to \$0.17 at June 30, 2005) per minute for traffic

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originating on our network and terminating on Aria's or Aycell's network

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effective from September 23, 2003.

We had entered into interconnection agreements with Is-Tim and Aycell that were effective on March 9, 2001 and July 19, 2001, respectively. After the merger of Is-Tim and Aycell under the company name of TT&TIM, we cancelled our interconnection agreement with Aycell. Our interconnection agreement with Is-Tim was renewed with TT&TIM, which changed its name to AVEA on October 15, 2004.

Under our interconnection agreement with Milleni.com, each of the parties agreed to provide telecommunications services to each other whereby Milleni.com could convey calls to Milleni.com's switch for onward transmission to their destinations. Milleni.com charged us at various prices identified within the scope of the agreement for the calls destined to numerous networks internationally. The interconnection agreement between Milleni.com and us has been bilaterally terminated as of June 21, 2004. However, on February 21, 2005, Bilisim Telekom, our subsidiary, and Milleni.com signed an agreement to provide telecommunications services 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.

The following table shows the amounts per minute we pay Turk Telekom, Telsim and AVEA for calls terminating on our network as of June 30, 2005 and September 30, 2005 both in TRY and equivalent US dollars at June 30, 2005.

	June 30, 2005		September 30, 2005	
	TRY	USD	TRY	USD
Turk Telekom				
Local Calls	0.0504	0.04	0.0340	0.03
Non-Local Calls	0.0706	0.05	0.0510	0.04
Telsim	0.1953	0.15	0.2005	0.15
AVEA	0.2700	0.20	0.2771	0.21

Under the Globalstar interconnection agreement, we pay Globalstar a net amount of \$0.40 per minute up to 500,000 minutes, \$0.31 per minute for traffic between 500,000-1,000,000 minutes, \$0.25 per minute for traffic between 1,000,000-2,000,000 minutes and \$0.20 per minute for traffic after 2,000,000 minutes. In addition, we pay Globalstar a net amount of \$0.03 per SMS.

General and Administrative

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

Selling and Marketing

Selling and marketing expenses consist of public relations, sales promotions, dealer activation fees, advertising, subsidies, prepaid frequency usage fees, wages, salaries and personnel expenses of sales and marketing related employees and other expenses, including travel expenses, office expenses, insurance, company car expenses, training and communication expenses.

The average acquisition cost was approximately \$23.8 and \$21.6 per new subscriber for the six month periods ended June 30, 2005 and 2004, respectively. We compute average acquisition cost per new subscriber by adding sales promotion expenses, SIM card subsidies, activation fees and the special transaction tax and dividing the sum by the gross number of new subscribers for the related

period. These costs are recorded as either selling and marketing expense or reduction of revenue in our statements of operations. We believe the average acquisition cost will increase in 2005 overall as a result of increasing competition. Although we plan to keep our selling and marketing expenses stable as a percentage of revenue based on foreseeable levels of competition, the total amount of such expenses expected to continue increasing.

The following table shows information concerning our consolidated statements of operations for the periods indicated.

	Six Months ended June 30,		Three J
	2004	2005	2004
Revenues	1,351.9	1,944.0	606.4
Direct cost of revenues	(974.3)	(1,100.9)	(541.3)
Gross profit	377.6	843.1	65.1
General and administrative expenses	(67.5)	(71.0)	(38.2)
Selling and marketing expenses	(153.0)	(230.2)	(77.0)
Operating income (loss)	157.1	541.9	(50.1)
Income from related parties, net	0.9	1.0	0.4
Interest income (expense), net	(1.5)	(25.1)	39.0
Other income, net	0.8	4.2	1.3
Equity in net income of unconsolidated investees	16.4	26.4	8.5
Minority interest in income (expense) at consolidated subsidiaries	2.7	0.4	1.7
Translation gain (loss)	8.7	(10.9)	28.9
Income before taxes	185.1	537.9	29.7
Income tax benefit (expense)	37.5	(195.8)	66.7
Net income	222.6	342.1	96.4

The following table shows certain items in our consolidated statement of operations as a percentage of revenues.

	Six Months ended June 30,		Three J
	2004	2005	2004

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Statement of Operations (% of revenue)

Revenues

Communication fees	96.3	95.0	95.8
Commission fees on betting business	0.2	2.4	0.3
Monthly fixed fees	1.8	1.4	2.0
SIM card sales	1.1	0.9	1.0
Call center revenues	0.3	0.2	0.3
Other	0.3	0.1	0.6
Total revenues	100.0	100.0	100.0
Direct cost of revenues	(72.1)	(56.6)	(89.3)
Gross margin	27.9	43.4	10.7
General and administrative expenses	(5.0)	(3.6)	(6.3)
Selling and marketing expenses	(11.3)	(11.8)	(12.7)
Operating income (loss)	11.6	28.0	(8.3)

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Six month period ended June 30, 2005 compared to six month period ended June 30, 2004 and three month period ended June 30, 2005 compared to the three month period ended June 30, 2004

We had 25.6 million subscribers, including 20.4 million prepaid subscribers, as of June 30, 2005, compared to 20.9 million subscribers, including 15.9 million prepaid subscribers, as of June 30, 2004. During the first six months of 2005, we added approximately 2.2 million net new subscribers compared to 1.9 million net new subscribers for the same period in 2004. We added 1.3 million net new subscribers to our network for the three month period ended June 30, 2005 compared to 1.2 million net new subscribers for the same period in 2004.

Revenues

Total revenues for the six month period ended June 30, 2005 increased 44% to \$1,944.0 million from \$1,351.9 million for the same period in 2004. The increase in revenues is mainly due to the growth in the number of subscribers, increased usage, and tariff increases and also to the negative impact of additional legal provisions recorded for the three month period ended June 30, 2004. Revenue increased 73% to \$1,046.0 million for the three month period ended June 30, 2005 from \$606.4 million for the same period in 2004 for the same reasons.

Revenues from communication fees for the six month period ended June 30, 2005 increased 42% to \$1,847.5 million from \$1,302.5 million for the same period in 2004 mainly due to increased usage, the increase in the subscriber base and the increase in tariffs and the negative impact of additional legal provisions recorded in the second quarter of 2004. Revenues from communication fees increased 72% to \$997.4 million for the three month period ended June 30, 2005 from \$580.7 million for the same period in 2004. The rate of increase in revenue from communication fees for the three month period ended June 30, 2005 was higher than the rate of increase for the six month period because of the impact of additional legal provisions recorded for the three month period ended June 30, 2004. Communication fees include SMS revenue, which amounted to \$201.3 million for the six month periods ended June 30, 2005, \$162.2 million for the same period in 2004, \$97.6 million for the three month period ended June 30, 2005 and \$79.7 million for the three month the same period in 2004. Main reasons per the increase in SMS revenue are the increase in the number of

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subscribers, improvement in macroeconomic indicators and enhanced purchasing power of subscribers.

Our majority-owned subsidiary Inteltek commenced its operations of fixed odds betting games in April 2004, pursuant to the agreement signed with Genclik ve Spor Genel Mudurlugu on October 2, 2003 and started to generate commission revenue from betting business. Commission revenue from betting business amounted to \$46.9 million for the six month period ended June 30, 2005 compared to \$2.1 million for the same period in 2004. In addition, commission revenue from our betting business amounted to \$24.4 million for the three month period ended June 30, 2005, compared to \$1.8 million for the same period in 2004.

Revenues from monthly fixed fees for the six month period ended June 30, 2005 increased 12% to \$27.0 million from \$24.2 million for the same period in 2004 mainly due to the increase in our subscriber base and commencement of operations in Ukraine. In addition, monthly fixed fees increased 11% to \$13.6 million for the three month period ended June 30, 2005 from \$12.3 million for the same period in 2004.

SIM card revenues for the six month period ended June 30, 2005 increased 13% to \$16.7 million from \$14.8 million for the same period in 2004. SIM card revenues increased 23% to \$8.0 million for the three month period ended June 30, 2005 from \$6.5 million for the same period in 2004.

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Direct cost of revenues

Direct cost of revenues increased 13% to \$1,100.9 million for the six month period ended June 30, 2005 from \$974.3 million for the same period in 2004 mainly due to the increase in interconnection fees paid to Turk Telekom and the increase in revenue-based costs such as the ongoing license fee paid to the Turkish Treasury offset by the impact of the additional legal provisions related to the disputes with Turk Telekom and the Turkish Treasury. For the same reasons, direct cost of revenues increased 7% to \$577.4 million for the three month period ended June 30, 2005 from \$541.3 million in the same period of 2004.

Interconnection costs increased 65% to \$185.0 million for the six month period ended June 30, 2005 from \$112.4 million for the same period in 2004 mainly due to the increase in usage and the impact of legal provision related to our dispute with Turk Telekom recorded for the three month period ended June 30, 2004. For the same reasons, interconnection costs increased 111% to \$102.8 million for the three month period ended June 30, 2005 from \$48.7 million for the same period of 2004.

Ongoing license fees paid to the Turkish Treasury increased only 4% to \$379.4 million for the six month period ended June 30, 2005 from \$366.1 million for the same period in 2004. Although increase in revenues and the appreciation of TRY against US dollars have the effect of increasing our ongoing license fees to be paid to the Turkish Treasury, their effect was offset by an additional one-time provision of \$122.0 million for the treasury share on the ongoing license fee dispute booked for the three month period ended June 30, 2004. Due to the impact of this legal provision, ongoing license fees decreased 10% to \$205.2 million for the three month period ended June 30, 2005 compared to \$228.6 million for the same period in 2004.

Transmission costs, site costs, information technology, network maintenance expenses and infrastructure cost decreased approximately 37% to

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\$65.2 million for the six month period ended June 30, 2005 from \$103.6 million for the same period in 2004 mainly due to a one-time expense incurred with respect to the Turk Telekom infrastructure dispute in the three month period ended June 30, 2004. In accordance with the settlement discussions made with Turk Telekom, we incurred an expense amounting to \$36.4 million for the three month period ended June 30, 2004. For this reason, these expenses decreased 47% to \$36.1 million for the three month period ended June 30, 2005 from \$68.3 million in the same period of 2004. In addition, uncapitalizable antenna site costs and expenses increased 32% to \$75.5 million for the six month period ended June 30, 2005 from \$57.1 million for the same period in 2004 mainly due to the increase in radio network operations. For the same reasons, uncapitalizable antenna site costs and expenses increased 21% to \$35.5 million for the three month period ended June 30, 2005 from \$29.3 million for the same period in 2004.

Roaming expenses increased 36% to \$32.4 million for the six month period ended June 30, 2005 from \$23.8 million for the same period in 2004, mainly due to the increase in roaming revenue generated from the calls made by our subscribers while outside Turkey, primarily reflecting better economic conditions and the fact that between June 30, 2004 and June 30, 2005 we added 54 new roaming operators for GSM, 86 for GPRS and 52 for Active Customised Applications for Mobile Network Enhanced Logic ("active CAMEL") technologies which enable our pre-paid subscribers to be able to roam on foreign operators' networks. For the same reasons, roaming expenses increased 36% to \$16.5 million for the three month period ended June 30, 2005 from \$12.1 million for the same period in 2004.

Billing costs increased 3% to \$13.9 million for the six month period ended June 30, 2005 from \$13.5 million for the same period in 2004. In addition billing costs increased 2% to \$6.9 million for the three month period ended June 30, 2005 from \$6.8 million for the same period in 2004.

Depreciation and amortization charges increased 6% to \$224.3 million for the six month period ended June 30, 2005 from \$211.6 million for the same period in 2004 mainly due to the

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increase in the capital expenditures, in particular with respect to Ukrainian operations. Depreciation and amortization expenses increased 8% to \$115.1 million for the three month period ended June 30, 2005 from \$107.1 million in the same period of 2004. The amortization expense for our GSM license and other telecommunication licenses was \$14.7 million and \$10.0 million for the first six month periods ended June 30, 2005 and 2004 and \$8.6 million and \$5.0 million for the three month periods ended June 30, 2005 and 2004, respectively.

The cost of SIM cards sold increased 29% to \$22.8 million for the six month period ended June 30, 2005 from \$17.7 million for the same period in 2004, reflecting primarily growth in the number of subscribers in 2005. The cost of SIM cards sold increased 11% to \$10.5 million for the three month period ended June 30, 2005 from \$9.5 million for the same period in 2004 for the same reasons.

Wages, salaries and personnel expenses for technical personnel increased 32% to \$60.9 million for the six month period ended June 30, 2005 from \$46.3 million for the same period in 2004 mainly due to the appreciation of TRY against US dollars, periodic increase in salaries, increase in headcount and commencement of operations in Ukraine. For the same reasons, wages and salaries and personnel expenses for technical personnel increased 38% to \$30.4 million for the three month period ended June 30, 2005 from \$22.0 million for the same

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period in 2004.

As a percentage of revenue, direct cost of revenues decreased to 57% for the six month period ended June 30, 2005 from 72% for the same period in 2004 mainly due to additional legal provisions recorded for the three month period ended June 30, 2004. In addition, as a percentage of revenue, direct cost of revenues decreased to 55% for the three month period ended June 30, 2005 from 89% for the same period in 2004.

Gross profit increased to \$843.1 million for the six month period ended June 30, 2005 from \$377.6 for the same period in 2004 mainly due to the impact of additional legal provisions reflected on revenues and direct cost of revenues for the three month period ended June 30, 2004 and the growth in the number of subscribers and the increase in usage in 2005. For the same reasons, gross profit increased to \$468.6 million for the three month period ended June 30, 2005 from \$65.0 million for the same period in 2004.

General and administrative expenses

General and administrative expenses increased 5% to \$71.0 million for the six month period ended June 30, 2005 from \$67.5 million for the same period in 2004, mainly due to the increases in wages, salaries and personnel expenses and bad debt expense despite expenses paid in connection with the Iran GSM license tender and the impact of early extinguishment of Cellco debt in the first half of 2004. General and administrative expenses decreased 6% to \$35.9 million for the three month period ended June 30, 2005 from \$38.2 million for the same period in 2004. As a percentage of revenues, general and administrative expenses slightly decreased to 4% for the six month period ended June 30, 2005 from 5% for the same period in 2004. In addition, as a percentage of revenues, general and administrative expenses decreased to 3% for the three month period ended June 30, 2005 compared to 6% for the same period in 2004.

During 2004 and 2003, we invested in the 12.75% Senior Notes issued by Cellco. The nominal value and amortized cost of such bonds amounted to \$65.0 million and \$73.1 million, respectively. Reacquisition of these bonds is considered an early extinguishment of debt under the provisions of SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities". The difference between the reacquisition price and net carrying amount of Cellco bonds amounting to \$8.1 million is recorded in general and administrative expenses in the three month period ended June 30, 2004.

Bad debt expenses increased 72% to \$12.2 million for the six month period ended June 30,

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2005 from \$7.1 million for the same period in 2004. Since the implementation in 2004 of improved collection activities such as credit scoring, a new option whereby subscribers can make payments under an installment plan and new collection channels and improvement in the legal follow-up system to decrease fraud, the positive impact of this new system decreased the bad debt expense in the first quarter of 2004. Bad debt expenses decreased 34% to \$4.7 million for the three month period ended June 30, 2005 from \$7.1 million for the same period in 2004 mainly due to decreasing effects of collection activities in the three month period ended June 30, 2004. We provided an allowance of \$143.0 million and \$122.9 million for doubtful receivables for the six month period ended June 30, 2005 and 2004, respectively, identified based upon past experience.

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In the first quarter of 2004, Turkcell made a payment to BNP Paribas relating to the GSM license tender on behalf of Irancell. According to the tender conditions, the Consortium that acquires the license will pay the consultancy fees of BNP Paribas (which acts as consultant to the Iranian Authorities). In the first quarter of 2004, we paid such consultancy fees and charged \$8.9 million to general and administrative expenses.

Wages, salaries and personnel expenses for non-technical and non-marketing employees increased 44% to \$25.8 million for the six month period ended June 30, 2005 from \$17.9 million for the same period in 2004 mainly due to increase in headcount, periodic increase in salaries and the commencement of operations in Ukraine. For the same reasons, these expenses increased 46% to \$12.7 million for the three month period ended June 30, 2005 from \$8.7 million for the same period in 2004.

Consulting expenses increased 18% to \$7.3 million for the six month period ended June 30, 2005 from \$6.2 million for the same period in 2004, mainly due to consulting services related with the commencement of operations in Ukraine. For the same reason, consulting expenses increased 24% to \$4.6 million for the three month period ended June 30, 2005 from \$3.7 million in the same period of 2004.

Selling and marketing expenses

Selling and marketing expenses increased 51% to \$230.2 million for the six month period ended June 30, 2005 from \$153.0 million for the same period in 2004, mainly due to the increase in prepaid subscribers' frequency usage fees, increased advertising expenses resulting from intensifying competition and increased activation fees. For the same reason, selling and marketing expenses increased 64% to \$126.6 million for the three month period ended June 30, 2005 from \$76.9 million for the same period in 2004. As a percentage of revenues, selling and marketing expenses were 12% and 11% for the six month periods ended June 30, 2005 and 2004, respectively. In addition, as a percentage of revenues, selling and marketing expenses were 12% and 13% for the three month periods ended June 30, 2005 and 2004, respectively.

Total prepaid advertising, market research, product management, public relations expenses and prepaid subscribers' frequency usage fee expenses increased 70% to \$121.5 million for the six month period ended June 30, 2005 from \$71.5 million for the same period in 2004. The increase in 2005 stemmed mainly from the increase in prepaid subscribers' frequency usage fees and advertising expenses. For the same reasons, total prepaid advertising, market research, product management, public relations expenses and prepaid subscribers' frequency usage fee expenses increased 100% to \$67.2 for the three month period ended June 30, 2005 from \$33.6 million in the same period of 2004.

Total postpaid advertising, market research, product management, public relations and call center expenses increased 16% to \$40.4 million for the six month period ended June 30, 2005 from \$34.8 million for the same period in 2004 mainly due to the increased advertising and customer relations expenses. Total postpaid advertising, market research, product management, public relations and call center expenses increased 3% to \$20.5 million for the three month period ended June 30, 2005 from \$19.9 million in the same period of 2004.

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Activation fees increased 84% to \$24.7 million for the six month period ended June 30, 2005 from \$13.4 million for the same period in 2004 mainly due to the increase in the number of activations and the increase in premiums per

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activation. For the same reason, activation fees increased 93% to \$14.1 million for the three month period ended June 30, 2005 from \$7.3 million in the same period of 2004.

Wages, salaries and personnel expenses for selling and marketing employees increased 38% to \$24.1 million for the six month period ended June 30, 2005 from \$17.5 million for the same period in 2004 mainly due to the increase in the headcount, periodic increase in salaries and commencement of operations in Ukraine. Wages, salaries and personnel expenses for selling and marketing employees increased 48% to \$12.1 million for the three month period ended June 30, 2005 from \$8.2 million in the same period of 2004.

Operating income (loss)

Operating income increased to \$541.9 million for the six month period ended June 30, 2005 from \$157.1 million for the same period in 2004, mainly due to the increase in revenues and the impact of the additional legal provisions recorded for the three month period ended June 30, 2004. Operating income was \$306.1 million for the three month period ended June 30, 2005 compared to operating loss of \$50.1 million for the three month period ended June 30, 2004 mainly due to the impact of additional legal provisions reflected on the revenues and direct cost of revenues.

Interest income (expense), net

Interest expense net of interest income increased to \$25.1 million for the six month period ended June 30, 2005 compared to \$1.5 million for the same period in 2004. The increase in net interest expense was mainly due to the effect of legal provisions. Interest expense related to legal provisions was \$59.0 million for the six month period ended June 30, 2005 compared to \$30.7 million for the same period ended June 30, 2004. For the same reasons, net interest expense was \$1.9 million for the three month period ended June 30, 2005 compared to \$39.0 million net interest income for the same period in 2004. Interest expense related to legal provisions was \$21.3 million for the three month period ended June 30, 2005 compared to \$24.4 million interest income for the same period ended June 30, 2004.

Translation gain (loss)

We recorded a translation loss of \$10.9 million for the six month period ended June 30, 2005, compared to a translation gain of \$8.7 million for the same period in 2004. Translation loss experienced for the six month period ended June 30, 2005 stemmed from the appreciation of TRY against the US dollar for the first quarter of 2005. The translation gain experienced for the six month period ended June 30, 2004 stemmed from the 6% devaluation of the TRY against the US dollar for the six month period ended June 30, 2004. As we recorded a significant amount of accruals against legal disputes on our balance sheet for the three month period ended June 30, 2004 and nearly all of the accruals are in terms of TRY, the devaluation of TRY resulted in a translation gain. For the same reason, we recorded a \$6.8 million translation loss for the three month period ended June 30, 2005 compared to translation gain of a \$28.9 million for the same period in 2004.

Income tax benefit (expense)

Income tax expense for the six month period ended June 30, 2005 was \$195.8 million and income tax benefit was \$37.5 million for the same period in 2004. We establish valuation allowances in accordance with the provisions of SFAS No. 109. We continually review the adequacy of the valuation allowance based on changing conditions in the market place in which we operate and our projections of future taxable income, among other factors. We forecast to have taxable income in 2005 and onwards and have generated taxable income for past

two years. Recently, the economic and

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political situation in Turkey has become more stable and there are positive expectations about the near-term future. Further, there are positive developments regarding the talks for Turkey's accession to the European Union. On October 3, 2005, the member states of the European Union decided to start accession discussions with Turkey. This decision is expected to have certain political and economic benefits for Turkey in the near future. Furthermore, our settlement agreements with Turk Telekom and the Turkish Treasury were signed in the fourth quarter of 2004. As a result, as of June 30, 2005, our assessment of the realizability of the deferred tax assets and related valuation allowance requirements is consistent with that made at December 31, 2004. We concluded that it was more likely than not that the deferred tax assets of \$213.6 million were realizable. Turkish tax legislation does not allow companies to file tax returns on a consolidated basis. Therefore, we believe a valuation allowance should continue to be provided on a portion of the deferred tax assets, resulting from certain consolidated subsidiaries, as we are unable to conclude that the likelihood of realizing these deferred tax assets is more likely than not. Accordingly, a valuation allowance of approximately \$17.3 million is recorded as of June 30, 2005 (December 31, 2004: \$17.2 million) for such amounts. We believe that it is more likely than not that the net deferred tax asset of approximately \$213.6 million as of June 30, 2005 will be realized through reversal of taxable temporary differences as well as future taxable income exclusive of reversing taxable temporary differences. We will continue to evaluate the realizability of our deferred tax assets including net operating loss and tax credit carryforwards and the related impact on the valuation allowance.

Equity in net income of unconsolidated investees

Our share of the net income of unconsolidated investees was \$26.4 million for the six month period ended June 30, 2005 compared \$16.4 million for the same period in 2004. The increase in net income of unconsolidated investees was mainly due to an increase in Fintur's net income to \$63.7 million for the six month period ended June 30, 2005 from \$39.5 million for six month period ended June 30, 2004. Net income of unconsolidated investees was \$13.3 million for the three month period ended June 30, 2005 compared to \$8.5 million in the same period of 2004.

Net income

Net income increased to \$342.1 million for the six month period ended June 30, 2005 compared to net income of \$222.6 million for the same period in 2004. The increase was mainly due to the increase in operating income despite the negative effect of the income tax charge for the period ended June 30, 2005 compared to income tax benefit for the same period ended June 30, 2004 and increase in net interest expense for the six month period ended June 30, 2005 compared to the same period of 2004. Mainly due to the same reasons, net income was \$213.7 million for the three month period ended June 30, 2005 compared to a net income of \$96.4 million in the same period of 2004.

Taxation Issues in Telecommunications Sector

For a discussion of Turkish Tax legislation on telecommunications revenues, please see "Item 5A. Operating Results-Taxation Issues in Telecommunications Sector" in the 20-F. Other than as disclosed herein, there have been no material changes in the taxes imposed on telecommunications

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services since the date of the 20-F.

Investment Incentive Certificates

In 1993, 1997, 2000, 2001 and 2004, the Under Secretariat of the Treasury approved investment incentive certificates for a program of capital expenditures made by us and our subsidiaries in our mobile communications operations, call center operations and betting games operations. Such incentives entitle us to a 100% exemption from customs duty on imported machinery and equipment and an investment tax benefit of 100% on qualifying expenditures. The investment tax benefit takes the form of deductions for corporation tax purposes, but these deductions were subject to withholding tax at a rate of 19.8% (for expenditures made after April 24, 2003, the investment tax

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benefit equals 40% of qualifying expenditures but it is not subject to any withholding tax). As of June 30, 2005, investment incentive certificates provide for tax benefits on cumulative purchases of up to approximately \$4.5 billion in qualifying expenditures as defined in the certificates. As of June 30, 2005, we had unused tax credit carryforwards under the certificates of approximately \$284.7 million (\$313.1 million as of December 31, 2004) which can be carried forward indefinitely. The certificates are denominated in TRY. However, approximately \$0.5 billion of qualifying expenditures through June 30, 2005 (\$0.7 billion as of December 31, 2004) under the certificates are indexed against future inflation.

Law No. 4842, which made changes in certain taxation matters, was announced on April 24, 2003. For a discussion of these changes, see "Item 5A. Operating Results - Investment Incentive Certificates" in our 20-F.

Capital Transactions

On April 5, 2005, our board of directors declared that our statutory paid-in capital would be increased from TRY 1,474.6 million to TRY 1,854.9 million by adding TRY 234.1 million out of the total dividend for 2004 and the statutory capital inflation adjustment included in the financial statements prepared in accordance with the accounting standards promulgated by the Capital Markets Board of Turkey (the "CMB") amounting to TRY 146.2 million for 2004. The increase of TRY 380.3 million was distributed to our shareholders in the form of a stock split. The capital increase was accounted for as a stock split in our accompanying consolidated financial statements. As a result of the aforesaid transactions, we issued new shares with a total nominal value of TRY 380,247,980.

All share amounts and per share figures reflected in our historical financial statements have been retroactively restated for the stock splits discussed above.

On March 25, 2005, Cukurova Holding announced that it had an intention to sell approximately 53% of its directly and indirectly held shares in Turkcell Holding for a cash consideration of \$3.1 billion to Sonera Holding BV ("Sonera"). Finalization of the transaction would have been subject to completion of the final share purchase/sale agreement, due diligence reports and obtaining the necessary permissions from regulatory authorities including an exemption to be granted to Sonera by the CMB for not offering the same purchase price per share for the public shares. If the transaction had been finalized as planned, the Cukurova Group's effective interest in us would have decreased

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approximately to 13.3% and Sonera's effective interest would have increased to approximately 64.1%. On May 23, 2005, Cukurova Holding announced that the exclusive negotiation obligation period was finalized without a conclusion on a share purchase/sale agreement between the parties. In the same announcement, it was noted that, as a result of public reaction and opinions raised at the Annual Shareholders' Meeting on the issue, Cukurova Group would start to work on options that may not lead to a change in our control structure and/or Turkcell Holding's control structure. Following Cukurova Holding's announcement, Sonera filed a request for arbitration at the International Court of Arbitration of the International Chamber of Commerce. Sonera also filed a request for interim measures at a civil court in Geneva. Sonera demanded that the court prohibit Cukurova Holding from initiating or continuing negotiations to sell or pledge shares in Turkcell Holding with third parties other than Sonera.

On June 13, 2005, the Cukurova Group announced that the Cukurova Group and Alfa Group formed a \$3.3 billion financial package. The financial package consists of an approximately \$1.7 billion six-year duration loan while the remaining portion will be a year 2011 dated convertible bond. The bonds can be exchanged into shares of a Cukurova Group company after 18 months, which may lead to a 13.2% indirect ownership of Alfa Group in us. Finalization of the transaction was subject to due diligence reports and obtaining the necessary permissions from regulatory authorities. In the same announcement, it was noted that the funds would be primarily used by the Cukurova Group to retire its

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debt to the SDIF and finance the Cukurova Group's option regarding the acquisition of Yapi Kredi Bank's shares in us and Turkcell Holding.

Effects of Inflation

The annual inflation rates in Turkey were 29.7%, 18.4% and 9.3% for the years ended December 31, 2002, 2003 and 2004, respectively, based on the Turkish consumer price index. Annualized inflation rates were 9.0% for the six-month period ended June 30, 2005 and 8.9% for the same period in 2004. With the help of tight monetary policy followed by the Central Bank of Turkey and 6.5% target primary budget balance required by the IMF program, inflation has decreased to single digit numbers. The current inflation target set by the Central Bank of Turkey is 8% for 2005. With adherence to the IMF program and implementation of structural reforms, inflation could be decreased further in 2005. Furthermore, the Central Bank of Turkey announced that it will start inflation targeting from 2006. In addition to the IMF Program, negotiations for the accession of Turkey to the European Union started on October 3, 2005, which will also be a very important factor in the macro economic policies intended to decrease inflation. For additional information about the effects of inflation, see "Item 3A. Selected Financial Data - Exchange Rate Data" and "Item 3D. Risk Factors" in our 20-F.

New Accounting Standards Issued

In March 2005, the FASB issued FIN 47, "Accounting for Conditional Asset Retirement Obligations an interpretation of SFAS No. 143". FIN 47 clarifies the term "conditional asset retirement obligation" as used in SFAS No. 143, "Accounting for Asset Retirement Obligations". An entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. The fair value of a liability for the conditional asset retirement obligation should be recognized when incurred--generally upon acquisition, construction, or

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development and/or through the normal operation of the asset. FIN 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. FIN 47 is effective no later than the end of fiscal years ending after December 15, 2005. Retrospective application for interim financial information is permitted but is not required. The adoption of FIN 47 is not expected to have a material effect on our consolidated financial statements.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20 and SFAS No. 3". SFAS No. 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes, unless impracticable, retrospective application as the required method for reporting a change in accounting principle in the absence of explicit transition requirements specific to the newly adopted accounting principle. SFAS No. 154 also provides guidance for determining whether retrospective application of a change in accounting principle is impracticable and for reporting a change when retrospective application is impracticable. The correction of an error in previously issued financial statements is not an accounting change. However, the reporting of an error correction involves adjustments to previously issued financial statements similar to those generally applicable to reporting an accounting change retrospectively. Therefore, the reporting of a correction of an error by restating previously issued financial statements is also addressed by SFAS No. 154. SFAS No. 154 shall be effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. Early adoption is permitted for accounting changes and corrections of errors made in fiscal years beginning after SFAS 154 is issued. The adoption of SFAS No. 154 is not expected to have a material effect on our consolidated financial statements.

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Liquidity and Capital Resources

Liquidity

We require significant liquidity to finance capital expenditures for the expansion and improvement of our GSM network, for non-operational capital expenditures, for working capital and to service our debt obligations. To date, these requirements have been funded largely through supplier financings, bank borrowings, and the issuance of \$700 million in bonds by a finance vehicle, Cellco Finance N.V. ("Cellco"), which issued \$300 million of debt securities in July 1998 and \$400 million of debt securities in December 1999, and a rights issue. As of June 30, 2005, total net outstanding payables related to the Cellco transaction was \$335 million. We extinguished the aggregate principal amount of \$400 million plus accrued interest on August 1, 2005. During 2003 and 2004, we purchased Cellco notes with a nominal value of \$65 million. Reacquisition of these bonds is considered an early extinguishment of debt under the provisions of SFAS No. 140 and netted against outstanding payables.

A summary of our consolidated cash flows for the six month periods ended June 30, 2005 and 2004 are as follows:

(In millions of USD)	2004	2005
	----	----
Net cash provided by operating activities	318.1	563.4
Net cash used for investing activities	(198.6)	(464.5)
Net cash provided by (used for) financing activities	120.4	(182.1)
	-----	-----
Net cash increase (decrease)	239.9	(83.2)

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The net cash provided by our operating activities for the six month period ended June 30, 2005 and 2004 amounted to \$563.4 million and \$318.1 million, respectively. The increase in 2005 was primarily due to the increase in revenues in 2005 despite litigation related payments.

The net cash used for investing activities for the six month periods ended June 30, 2005 and 2004 amounted to \$464.5 million and \$198.6 million, respectively. Total investments in investees amounted to \$223.0 million as of June 30, 2005 compared to \$168.1 million as of June 30, 2004. For the six month period ended June 30, 2005, we spent approximately \$451.2 million for capital expenditures compared with \$198.6 million for the same period in 2004. The increase in capital expenditures was mainly due to the increase in capital expenditures of DCC. The additional capital expenditures made by DCC in 2005 mainly represent new network investments. The remaining capital expenditures are primarily due to increased capital expenditures for our GSM network in Turkey. For the full year 2005, we are planning approximately \$500.0 million capital expenditures in our network in Turkey in order to improve capacity, replace some of the phased out hardware, provide increased network functionality, and improve network efficiency in order to better serve our customers.

The net cash used for financing activities for the six months period ended June 30, 2005 amounted to \$182.1 million and the net cash provided by financing activities for the six month period ended June 30, 2004 amounted to \$120.4 million. As of June 30, 2005, \$825.7 million was outstanding as short-term and long-term borrowings. We also entered into lease agreements in the amount of \$82.5 million with various leasing companies (\$64.9 million for our headquarters and other real estate, \$3.5 million for computers installed at the building, office equipment and company cars and \$14.1 million for a central betting system).

During the first quarter of 2004, we have fully drawn down additional borrowings of \$100 million from Akbank in February 2004 and \$100 million from Garanti in March 2004. In addition, we have finalized the Syndicated Murabaha facility with Islamic Development Bank and HSCB Bank AS, which became effective on January 16, 2004 with the initial drawdown done on March 3, 2004.

During the first half of 2005 Astelit has drawn down additional borrowings from Ericsson Credit AB, ABN Amro NV and HSBC Bank Plc to finance capital expenditures and for working capital requirements. During the first half of 2005, under the vendor financing agreement signed with

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Ericsson AB and Ericsson Credit AB, Astelit has utilized additional borrowings of \$43.7 million. During the first half of 2005, under the vendor financing agreement signed with Nokia Corporation ("Nokia") and ABN Amro NV, Astelit has utilized an additional \$64.3 million of borrowing. Astelit has also utilized \$3.8 million under the vendor financing agreement signed with Sysdate Pty Ltd ("Sysdate") and ABN Amro NV during the first half of 2005. Besides, Astelit utilized \$25.5 million from HSBC Bank Plc for working capital requirements.

Source of liquidity

We believe that we will be able to finance our current operations, capital expenditures and financing costs and maintain and enhance our network in 2005 through our operating cash flow and our strong cash balance as of June 30,

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2005. Additionally, we are continuously evaluating local and international markets for new financing alternatives such as TRY denominated funding in order to reduce currency mismatch of our balance sheet and extend the duration of our loans while reducing our cost of borrowing.

Astelit, being in the start-up process, continues to create negative operating cash flow and this is financed through external resources. Recently, shareholders contributed an additional \$50.0 million capital for working capital requirements. For further financing sources, Astelit intends to rely on international and/or local debt financing to refinance existing vendor loans, additional capital expenditures, and working capital requirements. In this respect, Astelit signed a mandate letter for a long term financing arrangement with ING Bank N.V. and Standard Bank London Limited to arrange a financing of \$280.0 million with a maturity of six years. The financing will be in the form of a syndicated loan and it is expected to be finalized in the second half of 2005 with the possibility of an increase in the facility amount from \$280.0 million up to \$350.0 million following banks' further analysis of credit and market conditions. To date Astelit has not encountered any difficulties in attracting short term loans from local banks for short term financing needs and has utilized \$23.0 million during the first half of 2005 of which \$5.0 million was repaid with the capital increase proceeds. These short term credits will be refinanced through the proceeds of long term financing. Additionally, loans amounting to \$25.5 million from local sources were utilized in the three month period ended June 30, 2005 and were fully repaid as of June 30, 2005.

On August 24, 2005, a TRY 50 million loan was obtained from West LB A.G., London Branch with a tenor of 3 years. The interest and principal are payable every 6 months and interest is calculated on a floating rate of 6 month TRYibor (TRY Libor) minus 15 basis points. The facility will reduce the currency risk on our balance sheet.

Off-balance sheet arrangements

Off-balance sheet arrangements refer to any transaction, agreement, or other contractual arrangement involving an unconsolidated entity (other than contingent liabilities arising from litigation, arbitration or regulatory actions), under which a company has:

- provided guarantee contracts;
- retained or contingent interests in transferred assets;
- any obligation under derivative instruments classified as equity; or
- any obligation arising out of material variable interests in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to the company, or that engages in leasing, hedging, or research and development arrangements with the company.

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Based on the shareholders agreement signed on January 27, 2004 and effective from April 2, 2004, we committed to arrange a maximum \$150.0 million of financing for DCC. We have substantially fulfilled our above-mentioned commitment by acting as the guarantor of vendor financing agreements signed by Astelit with Nokia and ABN Amro NV, Ericsson AB and Ericsson Credit AB and Sysdate and ABN Amro NV. In return for these guarantees, we pledged minority shares of Euroasia.

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Irancell had been selected as the licensee to be authorized to build and operate a nationwide GSM network in Iran and provide GSM services to the Iranian market. The GSM license agreement was signed on September 12, 2004 between the Consortium and the Iranian Authorities. On September 26, 2004, both the Iranian Parliament and the Guardian Council stated that the agreement concerning the mobile phone network would become effective upon the approval of the Parliament. Accordingly, Irancell must receive the Iranian Parliament's approval prior to the payment of the EUR 300 million of license fee in order to become the second licensed GSM operator in Iran. On April 25, 2005, the Iranian Parliament approved a revised proposal, which suggests reduction of our stake in Irancell to 49%, and submitted the proposal to the Guardian Council for their consent. In May 2005, the Guardian Council gave their consent. The consent was approved by the Iranian President.

On September 2, 2005, our Board of Directors decided to continue with the Irancell project and approved the ownership structure of Irancell with a stake of 49% in Irancell for Eastasia. However, it has been stated that 21% of the shares of Irancell should be transferred to the National Bank of Iran, Bank Melli, and the parties should agree that these shares shall be publicly offered in the third year following the initiation of the Irancell operations and these agreed terms should be reflected into all agreements between the parties in Irancell. Iranian Telecommunications Ministry has set November 21, 2005 as the deadline with respect to the finalization of the shareholder structure of the Consortium.

In the meantime, Eastasia has deposited EUR 172.7 million in Bank Saderat Plc. located in London as its potential contribution to the GSM network license fee and a portion of the initial capital, to show its willingness to invest in Irancell. We have provided a deposit pledge with Garanti Bankasy in the amount of EUR 91.6 million, and Garanti Bankasy provided a bank loan to Eastasia for the same amount. The maturity of this loan is set as November 21, 2005 which is also the proposed deadline for the completion of the negotiations over the shareholder structure of the Consortium.

We are continuing to negotiate the terms of our shareholding in Irancell with the other members of the Consortium. The level of our shareholding in the revised Consortium shareholder structure, including whether we will participate at all in Irancell, is uncertain and subject to continuing negotiation.

Although Irancell has plans for commencing operations in Iran, it has not commenced operations in Iran and will not do so, if at all, prior to finalizing the terms of the revised Consortium shareholder structure. Although we do not currently conduct any operations in Iran, to the extent the members of the Consortium finalize the shareholder structure of Irancell with one another and Irancell commences operations in Iran, such operations may in the future be material to us. As with any other investment, our potential investment in Iran through Eastasia and the Consortium involves risk.

Notwithstanding the foregoing, we believe the Iranian Ministry of Communication and Information Technology has not properly implemented the laws and regulations passed by the Iranian Parliament in connection with the GSM tender process, which was won by the Consortium. As a result, we have brought a claim in Iranian courts seeking to compel the Ministry to implement the laws and regulations passed by the Iranian Parliament in connection with the GSM tender process.

As a condition of the GSM license bid in Iran, the Consortium was obliged to provide a payment guarantee to the Iranian Authorities of EUR 300.0 million for an upfront license fee. The payment guarantee becomes effective when the license is formally awarded to Irancell. We guaranteed

EUR 210.0 million (equivalent to \$253.1 million as of June 30, 2005) of this guarantee through HSBC plc, which issued the payment guarantee under a syndicate with Akbank and BNP Paribas with an initial maturity of September 7, 2004. Since Irancell has not yet been established, we have notified HSBC plc that we would not request any more extension of the payment guarantee beyond March 7, 2005 and stated that HSBC plc could release the payment guarantee. On July 26, 2005, the EUR 210 million guarantee was released. In addition to the upfront license fee, if our Iranian subsidiary is formally established and if the license is awarded, our Iranian subsidiary will pay an ongoing license fee based on the greater of minimum precommitted gross revenues agreed with the Iranian Authorities, or the actual gross revenues.

As of June 30, 2005, the outstanding amount of the purchase contracts relating to advertising services was \$18.0 million. As of June 30, 2005, we obtained advertising services amounting to \$15.0 million from Asli Gazetecilik and the amount under the framework agreement signed with Asli Gazetecilik decreased to \$10.0 million. In addition, we routinely enter into operating leases for property in the normal course of business. At June 30, 2005, there were no commitments and contingent liabilities in material amounts arising from such operating leases.

Guarantees given on behalf of Digital Platform are related to loans for set-top boxes, head-end and uplink imports and working capital financing used from the respective banks.

Contractual Obligations and Commercial Commitments

The following table illustrates our major contractual obligations and commitments as of June 30, 2005.

(US\$ Million)	Payments due by period			
	Total	Less than 1 year	1-3 years	4-5 years
Contractual Obligations	-----	-----	-----	-----
Long-Term Borrowings	805.0	722.0	83.0	-
Settlement Agreements	475.2	475.2	-	-
Finance Lease Obligations	6.1	5.1	1.0	-
Purchase Obligations	121.8	89.7	32.1	-
Advertising services	18.0	15.5	2.5	-
GSM Equipment	76.3	61.5	14.8	-
Baytur Dealer Loyalty Program	27.5	12.7	14.8	-
Total Contractual Cash Obligations	1,408.1	1,292.0	116.1	-

On December 24, 2004, we signed settlement agreements with the Turkish Treasury and Turk Telekom to settle our disputes on the calculation and payment of our 15% ongoing license fees from April 1998 through May 2004 and to settle our interconnection dispute regarding call termination pricing, for the period between April 1998 and September 2003, respectively and to end several other related lawsuits. In connection with the settlement agreement with the Turkish

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Treasury, we completed all payments as of June 30, 2005. With respect to the interconnection settlement agreement with Turk Telekom, our outstanding contractual obligation was \$470.5 million as of June 30, 2005. After netting our interconnection receivables from Turk Telekom, our outstanding payable is \$450.5 million which is classified as current trade payables in our consolidated financial statements as of June 30, 2005. On October 13, 2004, we also settled our infrastructure usage dispute with Turk Telekom through negotiation. As of June 30, 2005 our outstanding payable is \$4.7 related to the infrastructure settlement. We have paid, including interest, TRY 69.5 million (equivalent to \$51.8 million at June 30, 2005), TRY 266.5 million (equivalent to \$198.7 million at June 30, 2005) and TRY 571.5 million

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(equivalent to \$426.1 million at June 30, 2005) with respect to the infrastructure usage dispute with Turk Telekom, settlement agreement with the Turkish Treasury and settlement agreement with Turk Telekom, respectively as of September 15, 2005. For more information related to these disputes, see "Item 8A. Consolidated Statements and Other Financial Information--Legal Proceedings" in our 20- F.

Purchase obligations in relation to advertising services arise due to the "Amended Framework Agreement" signed with Asli Gazetecilik on May 30, 2004, extending the terms of the agreement until December 31, 2005, and the sponsorships agreement signed with ADD Production Medya A.S. ("ADD") relating to the sponsorship of Besiktas Jimnastik Klubu ("BJK"), a football club in Istanbul, on June 21, 2004. In accordance with the "Amended Framework Agreement", we paid \$15.0 million and obtained advertising services amounting to \$15.0 million as of June 30, 2005. Subsequent to June 30, 2005, we paid \$2.5 million and obtained advertising services amounting to \$2.5 million in accordance with this agreement.

With respect to the sponsorships agreement signed between ADD and us on June 21, 2004, relating to the sponsorship of Besiktas Jimnastik Kulubu ("BJK"), a football club in Istanbul, we have paid \$7.0 million to ADD on June 23, 2004 for 2004-2005 and 2005-2006 Football League seasons. In connection with this agreement, we have committed to pay \$8.0 million to ADD in two equal installments on July 1, 2006 and on July 1, 2007 with respect to 2006 - 2007 and 2007 - 2008 Football League seasons. On May 31, 2005, BJK informed ADD that they want to terminate the agreement unilaterally and asked for the terms of termination. On June 1, 2005, ADD informed BJK that the agreement may be terminated immediately upon repayment of \$3.5 million paid for the 2005-2006 Football League season, related stamp duty and interest and release of the commitment amounting to \$8.0 million. On June 21, 2005, ADD made a repayment to us amounting to \$3.5 million. On July 19, 2005 our commitment amounting to \$8 million has been released with mutual agreement.

The principal shareholder of Baytur, a construction company, is the Cukurova Group. Baytur committed to complete construction of 484 apartments within the scope of an agreement signed among us, Baytur and the land owner, which is a governmental organization, on October 19, 2004. The agreement amount is \$39.7 million and the project is planned to be completed in 2008. We paid \$12.2 million to Baytur within the scope of this contract as of June 30, 2005.

Purchase obligations in relation to GSM equipment arise from GSM equipment supply and service contracts signed by Astelit. Astelit has entered into an \$89.0 million vendor financing agreement with Ericsson AB and Ericsson Credit AB, EUR 125.0 million (equivalent to \$150.7 million as of June 30, 2005) with Nokia and ABN Amro NV and \$7.2 million with Sysdate and ABN Amro NV. As of

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June 30, 2005, Astelit has utilized \$82.6 million, \$89.7 million and \$6.5 million of these facilities, respectively. As of June 30, 2005, our outstanding purchase commitments under these facilities were \$8.9 million, \$61.5 million and \$5.9 million, respectively. On August 28, 2005, Astelit has entered into term facility agreement with Ericsson AB and Ericsson Credit AB amounting to \$45.0 million in accordance with the clause which allows Astelit to purchase additional equipment and services within the vendor financial agreement. Maturity of this additional financing is December 21, 2005.

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Related Party Transactions

For a discussion of our transactions with related parties see "Item 7B. Related Party Transactions" in our 20-F. There have been no material changes in our related party transactions since the date of our 20-F.

Contingent Liabilities

The following table illustrates our major contingent liabilities as of June 30, 2005.

USD million	Total amount committed -----	Remaining commitment at June,30 2006 -----	Less than 1 year ----	1 - 3 years -----
Guarantees	71.5	71.5	*	
Irancell	253.1	253.1	253.1	-
Iranian Authorities	253.1	253.1	253.1	-
Digital Platform	61.9	10.1	10.1	-
BNP - Brussels (Buyer Credit)	50.2	7.2	7.2	-
BNP - Hungary (Buyer Credit)	11.7	2.9	2.9	-

* Bank letter of guarantees are not given for a specific period. Most of the guarantees will remain as long as the business relationship with the counterparty continues.

As of June 30, 2005, we are contingently liable in respect of bank letters of guarantee obtained from Yapi Kredi and given to the customs authorities, private companies and other public organizations amounting to \$40.6 million. In addition, as of June 30, 2005, we are contingently liable in respect of bank letters of guarantee obtained from other banks and given to private companies and other public organizations amounting to \$0.9 million.

In addition, on June 16, 2005, we agreed to form a consortium structure to submit a bid on June 17, 2005 in the context of the privatization of Turk Telekom. In addition we agreed with Turktell to have a 40%share in the

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consortium. In the context of the bidding agreement, we gave a bank letter of guarantee amounting to \$30 million but since the bidding process was finalized in favor of another party, the bank letter of guarantee has been released as of July 8, 2005.

As a condition of the GSM license bid in Iran, the Consortium was obliged to provide a payment guarantee to the Iranian Authorities amounting to EUR 300 million for an upfront license fee. The payment guarantee becomes effective when the license is formally awarded to Irancell. We have guaranteed EUR 210 million (equivalent to \$253.1 million at June 30, 2005) of this guarantee through HSBC plc, which issued the payment guarantee under a syndicate with Akbank and BNP Paribas with an initial maturity of September 7, 2004. Since Irancell has not yet been established, we have notified HSBC plc that we would not request any more extension of the payment guarantee and stated that HSBC plc could release the payment guarantee. On July 26, 2005, the EUR 210 million guarantee was released accordingly. In addition to the upfront license fee, if our Iranian subsidiary is formally established and if the license is awarded, our Iranian subsidiary will pay an ongoing license fee based on the greater of minimum precommitted gross revenues agreed with the Iranian Authorities, or the actual gross revenues.

Guarantees given on behalf of Digital Platform are related to loans for set-top boxes, head-end and uplink imports and working capital financing used from the respective banks.

We committed to arrange at maximum \$150 million of financing for DCC until the end of 2006. We have substantially fulfilled the above mentioned commitment by acting as the guarantor of

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the vendor financing agreements signed by Astelit with Ericsson AB and Ericsson Credit AB, Nokia and ABN Amro NV and Sysdate and ABN Amro NV. In return of these guarantees, we pledged minority shares of Euroasia.

Based on the shareholders loan agreement signed on January 6, 2005, the shareholders of Euroasia committed to arrange \$50.0 million of financing to Euroasia in proportion to their respective shareholding in Euroasia. The loan shall be used by Euroasia to fund its consolidated subsidiary Astelit. The capital of Euroasia will be increased with an amount being equal to the aggregate of the loan amount. Turktell Uluşlararasi has fulfilled its commitment amounting to \$25.5 million. However, Eurocorp, which is one of the minority shareholders of Euroasia, could not fulfil its commitment. As a result, in accordance with the shareholders loan agreement, Eurocorp has agreed to sell its 1.4% interest in Euroasia to Turktell Uluşlararasi with a consideration of \$2.0 million. On May 19, 2005, the transaction was completed. Our effective interest in Euroasia has increased to 52.4%. According to the share sale and purchase agreement signed on June 2, 2005, Eurocorp has committed to sell its remaining 4.9% interest in Euroasia to Turktell Uluşlararasi and another minority shareholder with a cash consideration of \$4.0 million and \$3.3 million, respectively. Based on the agreement, Turktell Uluşlararasi elected to make related payments in three installments in three years. On June 15, 2005, required payments for the first installments amounting to \$2.8 million and \$2.3 million have been made by Turktell Uluşlararasi and the other minority shareholder, respectively. Our effective interest in Euroasia has increased to 54.2%. Until the financial closing of the long term financing arrangements, based on the shareholders loan agreement signed on October 3, 2005, the shareholders of Euroasia committed to arrange an additional \$55.6 million of

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financing to Euroasia in proportion to their respective shareholding in Euroasia, first as a shareholder loan, then converted to equity through a shareholders' resolution. We provided a deposit pledge in the amount of \$30.6 million, representing our pro-rata share of shareholder financing, and HSBC provided a bank loan to Euroasia for the same amount. All proceeds have been used by Euroasia to fund its consolidated subsidiary, Astelit. On October 24, 2005, our board of directors, decided to pay TRY 35.0 million to Turktell Uluslararasi, Turkcell's wholly owned subsidiary, in the form of capital advance, which shall be used in the future capital increase of Astelit based in Ukraine which is Turktell Uluslararasi's indirect subsidiary. Turktell Uluslararasi, through a board decision dated 24 October, 2005, approved the equity injection into Euroasia in the amount of \$30.6 million, representing its share. Therefore, the Euroasia loan will be paid down and replaced with the equity injection prior to the end of November 2005. Following the \$55.6 million additional equity injection, the total equity in Euroasia, the parent of Astelit, will be \$203.6 million, with our shareholding being 54.4%.

The interconnection agreement with Turk Telekom provided for a renegotiation of pricing terms after December 31, 2004, and in the event that the parties could not agree on new terms by February 28, 2005, for referral to the Telecommunications Authority for resolution. As we and Turk Telekom were unable to agree on new terms, Turk Telekom referred the matter to the Telecommunications Authority, which has temporarily set call termination fees for calls terminating on each operator's network starting from August 10, 2005. According to its resolution procedure, the Authority is expected to set final termination fees, which are binding on us and Turk Telekom, by February 2006.

These temporary prices are not as favorable to us as they have been previously, and the Telecommunications Authority may impose further reductions in call termination fees. At this point, we are unable to estimate the timing and impact of the possible changes to our fees. However, new pricing terms could be lower and these could have a material adverse effect on our financial position, results of operations and cash flows.

Liquidity Outlook

Under the current assumptions and circumstances, we expect to generate sufficient cash to maintain our strong cash position and positive free cash flow in the GSM business in Turkey. According to our current business plan for the operations in Turkey, we believe that we will be able to finance our current operations, capital expenditures and financing costs and maintain and enhance our

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network through our operating cash flow and our strong cash balance as of June 30, 2005. In addition, in order to build a GSM 1800 network and fund operations in Ukraine, long term financing arrangements will be sufficient to fully fund Astelit's business plan.

The forward-looking statements made here regarding our liquidity and any other financial results are not a guarantee of performance. They are subject to risks and uncertainties that could cause future activities and results of operations to be different from those set forth in this MD&A.

Important factors that may adversely affect our projections include general economic conditions, change in the competitive environment, developments in the domestic and international capital markets, increased investments, changes in telecommunication regulations. Please see "Item 3D. Risk Factors" in

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our 20-F for a discussion of these and other factors that may affect our projections.

General Economic Conditions

With the support of the encouraging outlook of the economy and the positive consumer sentiment in the market, we expect our net cash generation trend to be sustained. The Turkish government's efforts to engage in a new economic program with the IMF lasting until 2007, acceptance of Turkey for membership negotiations with the EU, recovery in consumer purchasing power in line with developments such as sustainable GDP growth, decreasing inflation in line with government targets, improved distribution of wealth and a growing young and technology oriented population are projected to expand the GSM penetration in the market.

However, any change in the above stated factors including structure of the current competition might create need for additional financing for us.

Loans

In the first half of 2005, no borrowing has been obtained versus year 2004's total new financings of \$300 million by Turkcell. On August 24, 2005, TRY 50 million (equivalent to \$37.3 million at June 30, 2005) loan has been obtained from West LB A.G., London Branch with a tenor of 3 years. The interest and principal will be paid semiannually and interest is calculated on a floating rate of 6 month TRYibor (TRY Libor) minus 15 basis points. The facility will reduce the currency risk on our balance sheet.

The outstanding balance of senior notes issued by Cellco in 1999 has been fully repaid on August 1, 2005. The loan had an interest rate of 12.75% and its original maturity was August 1, 2005.

In Ukraine, Astelit signed a mandate letter for a long term financing arrangement. On April 28, 2005, Astelit provided a mandate to ING Bank N.V. and Standard Bank London Limited to arrange a financing of at least \$280.0 million with a maturity of six years to refinance Astelit's existing vendor loans, additional capital expenditures and working capital requirements. The financing will be in the form of a syndicated loan and it is expected to be finalized in the fourth quarter of 2005.

We believe that we will be able to fully fund the operations in Turkey by our cash from operations through the remainder of 2005, which includes the repayment of approximately \$433.2 million in debt principal and interest obligations. Included in this debt repayment figure was the redemption of our Celco \$400 million notes which was successfully paid from our cash flow on August 1, 2005. In Ukraine, in order to build a GSM network and fund the operations, long term financing arrangements will be sufficient to fully fund Astelit's business plan through the end of 2005 which includes the repayment of approximately \$116.2 million in debt principal and interest obligations. Until the financial closing of the long term financing arrangements, based on the shareholders loan agreement signed on October 3, 2005, the shareholders of Euroasia committed to arrange an additional \$55.6 million of financing to Euroasia in proportion to their respective

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shareholding in Euroasia, first as a shareholder loan then converted to equity through a shareholders' resolution. We provided a deposit pledge in the amount

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of \$30.6 million, representing our pro-rata share of shareholder financing, and HSBC provided a bank loan to Euroasia for the same amount. All proceeds have been used by Euroasia to fund its consolidated subsidiary, Astelit. On October 24, 2005, our board of directors, decided to pay TRY 35.0 million to Turktell Uluslararasi, Turkcell's wholly owned subsidiary, in the form of capital advance, which shall be used in the future capital increase of Astelit based in Ukraine which is Turktell Uluslararasi's indirect subsidiary. Turktell Uluslararasi, through a board decision dated 24 October, 2005, approved the equity injection into Euroasia in the amount of \$30.6 million representing its share. Therefore, the Euroasia loan will be paid down and replaced with the equity injection prior to the end of November 2005. Following the \$55.6 million additional equity injection, the total equity in Euroasia, the parent of Astelit, will be \$203.6 million, with our shareholding being 54.4%. Based on our debt repayment schedule, and our current expectations regarding the domestic and international macroeconomic environment, developments in the telecommunications sector, pending litigation costs, capital expenditures and domestic and international investments and partnerships obligations, we do not foresee any funding gap in 2005. We continuously monitor and examine financing opportunities to improve our financial condition and performance. We continuously evaluate domestic and international debt and capital markets, looking for new financing alternatives for both restructuring and contingency purposes. We maintain effective relationships with financial institutions and watch the debt and capital markets for possible club deals, bilateral and syndicated loans, Eurobond issues, and many other financial instruments. We maintain our focus on strategies that lower the weighted average cost of total borrowing and extend the maturity of outstanding borrowings. We are reviewing the domestic loan alternatives of either extending the existing facilities or obtaining additional domestic debt denominated in TRY.

We cannot assure you that we will be able to obtain any of this additional financing on terms that are satisfactory to us, or at all. If for any reason adequate internal resources or external financing are not available as needed, we may not be able to maintain and enhance the quality of our network or to meet our other obligations and liabilities as they become due. This could lead to a loss of subscribers and market share, as well as potential defaults under, and refinancing or restructuring of, existing debt and other obligations, all of which could have a material adverse effect on our business, consolidated financial condition or results of operations, or liquidity.

Credit Ratings

Our debt ratings as of June 24, 2005:

Standard & Poor's	B
Moody's	B2
Fitch	BB-

The ratings upgrade had no impact on the interest cost of our existing debt. Any further upgrades from the ratings agencies may allow us to lower the cost of borrowing for any future indebtedness in the domestic and international debt and capital markets. Conversely, any ratings downgrade may limit our future access to debt and capital markets and increase the cost of borrowing.

After the extinguishment of the Cellco notes in August 2005, Moody's no longer has a valid credit rating for us. In addition, Fitch has upgraded our senior unsecured local currency rating to BB from BB- and assigned it a stable outlook.

Dividend Payments

Until 2003, we did not make any dividend payments as a result of our accumulated losses under previous CMB accounting standards. The CMB adopted new accounting standards in 2003, which are generally in compliance with International Financial Reporting Standards ("IFRS"). We have adopted these accounting standards as of and for the year ended December 31, 2003 for CMB reporting purposes, and we have generated profit under those accounting standards.

In 2004, we declared that we would pay a dividend amounting to TRY 236.3 million (equivalent to \$176.2 million at June 30, 2005), of which one half, TRY 118.2 million (equivalent to \$88.1 million as of June 30, 2005), was distributed in cash and the other half was distributed in the form of bonus shares in June and July 2004, respectively. We have adopted a dividend policy, which is set out in its Corporate Governance Guidelines. As adopted, our general dividend policy is to pay dividends to shareholders with due regard to trends in our operating performance, financial condition and other factors. Our Board of Directors intends to distribute cash dividends in an amount of not less than 50% of our distributable profits for each fiscal year, starting with profits for fiscal 2004. However, the payment of dividends will still be subject to cash flow requirements of us, compliance with Turkish law and regulations and the approval of, or amendment by, our Board of Directors and the General Assembly of Shareholders.

On April 29, 2005, during the Annual Shareholders' Meeting, our shareholders decided to distribute all of our distributable income (included in the financial statements prepared in accordance with the accounting standards promulgated by the CMB) for the year ended December 31, 2004. The dividend was in the form of 50% cash and 50% bonus shares. The net distributable income, after deducting legal reserves, amounted to TRY 500.3 million (equivalent to \$373.0 million at June 30, 2005). Accordingly, the dividend was distributed as follows:

	Amount per share (TRY in full)	Total (TRY Million)	USD equivalent June 30, 2005
	-----	-----	-----
Dividend in cash	0.000134848	250.1	\$ 186.5
Dividend in bonus shares	-	234.1	174.5

Accordingly, the rate of the bonus share certificate to be issued for each share having a nominal value of TRY 0.001 was declared as 0.0204997881%. Distribution of the cash dividend payment to the shareholders commenced on May 17, 2005 and distribution of the bonus share certificates commenced on May 31, 2005.

New Technology Investments and Partnership Opportunities

Cash flow from the operations provides us with sufficient means to implement our plans. However, new technologies are excluded from the current

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projections, so addition of any new technology such as 3G technology or any new partnership opportunity may require both higher operating expense and capital expenditures leading to a need for additional cash injection in the future.

Investment in Iran

In order to get the GSM license in Iran, we have to establish Irancell and pay EUR 300 million to the Iranian Authorities. We and other shareholders of the Consortium were obliged to give a payment guarantee amounting to EUR 300 million, which is equivalent to the license fee. The GSM license agreement was signed on September 12, 2004 between the Consortium and the Iranian Authorities. On September 26, 2004, both the Iranian Parliament and the Guardian Council stated that the agreement concerning the mobile phone network, would be effective upon the approval of the Iranian Parliament. On April 25, 2005, the Iranian Parliament approved a revised proposal, which suggested reduction of our stake in Irancell to 49%, and submitted to the Guardian Council for their

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consent. In May 2005, the Guardian Council gave their consent. The consent was approved by the Iranian President.

On September 2, 2005, our Board of Directors decided to continue with the Irancell project and approved the ownership structure of Irancell with a stake of 49% in Irancell for Eastasia. However, it has been stated that 21% of the shares of Irancell should be transferred to the National Bank of Iran, Bank Melli, and the parties should agree that these shares shall be publicly offered in the third year following the initiation of the Irancell operations and these agreed terms should be reflected into all agreements between the parties in Irancell. Iranian Telecommunications Ministry has set November 21, 2005 as the deadline with respect to the finalization of the shareholder structure of the Consortium.

In the meantime, Eastasia has deposited EUR 172.7 million in Bank Saderat Plc. located in London as its potential contribution to the GSM network license fee and a portion of the initial capital, to show its willingness to invest in Irancell. We have provided a deposit pledge with Garanti Bankasy in the amount of EUR 91.6 million, and Garanti Bankasy provided a bank loan to Eastasia for the same amount. The maturity of this loan is set as November 21, 2005 which is also the proposed deadline for the completion of the negotiations over the shareholder structure of the Consortium.

We are continuing to negotiate the terms of our shareholding in Irancell with the other members of the Consortium. The level of our shareholding in the revised Consortium shareholder structure, including whether we will participate at all in Irancell, is uncertain and subject to continuing negotiation.

Although Irancell has plans for commencing operations in Iran, it has not commenced operations in Iran and will not do so, if at all, prior to finalizing the terms of the revised Consortium shareholder structure. Although we do not currently conduct any operations in Iran, to the extent the members of the Consortium finalize the shareholder structure of Irancell with one another and Irancell commences operations in Iran, such operations may in the future be material to us. As with any other investment, our potential investment in Iran through Eastasia and the Consortium involves risk.

Notwithstanding the foregoing, we believe the Iranian Ministry of Communication and Information Technology has not properly implemented the laws

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and regulations passed by the Iranian Parliament in connection with the GSM tender process, which was won by the Consortium. As a result, we have brought a claim in Iranian courts seeking to compel the Ministry to implement the laws and regulations passed by the Iranian Parliament in connection with the GSM tender process.

We have guaranteed EUR 210 million (equivalent to \$253.1 million at June 30, 2005) of this guarantee through HSBC plc, which issued the payment guarantee under a syndicate with Akbank and BNP Paribas with an initial maturity of September 7, 2004. Since Irancell was not established, we have notified HSBC plc that we do not request any more extension of the payment guarantee and stated that HSBC plc can release the payment guarantee. On July 26, 2005, EUR 210 million guarantee has been released. In addition to the upfront license fee, if the Iranian subsidiary of us is formally established and if the license is awarded, the Iranian subsidiary of us will pay an ongoing license fee based on the greater of minimum precommitted gross revenues agreed with the Iranian Authorities, or the actual gross revenues. Amounts paid by the Company as capital advances to Irancell within 2004 have been repaid by Iranian authorities on March 16 and March 17, 2005.

Quantitative and Qualitative Discussion of Market Risk

Our functional currency is the TRY for operations conducted in Turkey, but certain revenues, purchases, operating costs and expenses and resulting receivables and payables are denominated in foreign currencies, primarily US dollars, Euros and Swedish Krona ("SEK"). In addition, our indebtedness is principally in US dollars. Transactions denominated in foreign currencies are recorded

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at the exchange rates prevailing at the dates of the transactions. Assets and liabilities denominated in foreign currencies are converted into TRY at the exchange rates prevailing at the balance sheet date, with the resulting exchange differences recognized in the determination of net income.

Market risk sensitive instruments consist of loans denominated in foreign currencies (substantially in US dollars) totaled to \$625.9 million, representing almost all of total indebtedness at June 30, 2005.

The fair value of indebtedness as of June 30, 2005 has not changed significantly compared to June 30, 2004 except our loan under the 1999 Issuer Credit Agreement. The fair value of indebtedness as of June 30, 2005 is \$335.8 million with carrying amount of \$335 million. The fair value of our indebtedness at June 30, 2004 was \$359.3 million with carrying amount of \$335 million.

We are exposed to foreign exchange availability and rate risks that could significantly impact our ability to meet our obligations and finance our network construction. A substantial majority of our debt obligations and capital expenditures are, and are expected to continue to be, denominated in US dollars. By contrast, substantial portion of our revenues are, and will continue to be, denominated in TRY.

To manage our foreign exchange risk more efficiently, in 2005, we have entered into \$243.0 million notional of structured forward transactions to buy US dollar against TRY. As of October 21, 2005, we have bought \$304.0 million through these transactions. We have also entered into \$37.0 million notional of structured forward transactions to sell US dollar against TRY where we sold

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\$37.0 million against TRY until October 21, 2005. As of October 21, 2005, we have \$36.0 million notional of structured forwards outstanding.

In 2005, we have also entered into SEK and EUR forward transactions. We have entered into EUR 2.0 million notional of structured forward transactions and as of October 21, 2005 we have bought EUR 4.0 million through these transactions. We have also entered into EUR 6.0 million notional of outright forward transactions to buy EUR against TRY and SEK 599.5 million notional of outright forwards to buy SEK against US dollar with maturities from June to December 2005. As of October 21, 2005, SEK 134.7 million notional of these transactions is still outstanding.

We have run sensitivity analysis on our portfolio of structured US dollar hedging products. We included two extreme case scenarios of 10% appreciation and 10% depreciation of TRY/US dollar exchange rate. In case of 10% depreciation, from a spot rate of 1.3592 on October 21, 2005, our total structured US dollar call forward transaction size would fall to a total of \$3.0 million with a total gain effect of \$0.6 million. In the case of a 10% appreciation our total structured US dollar call forward transaction size would rise to \$72.0 million with a total loss effect of \$6.7 million.

All hedging transactions have been authorized and executed pursuant to clearly defined policies and procedures, which provide that the transaction is entered into to protect us from fluctuations in currency values. Analytical techniques are used to manage and monitor foreign exchange risk which include market valuation and sensitivity analysis. In addition, we keep a reasonable proportion of our monetary assets in US dollars to reduce our currency exposure. Furthermore, the maximum tariffs we may charge are adjusted periodically by the Telecommunications Authority to account for, among other things, the devaluation of the TRY.

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Legal Proceedings

We are involved in various claims, which are described in "Item 8A. Consolidated Statements and Other Financial Information - Legal Proceedings" in our 20-F.

There has not been any material change in our legal and arbitration proceedings since the date of our 20-F, except for the following:

Regarding the investigation of the Telecommunications Authority on international voice traffic, on March 2, 2005, Turk Telekom notified us that we have allegedly damaged Turk Telekom because of the interconnection agreement signed with Milleni.com. Accordingly, Turk Telekom requested us to pay TRY 219 million (equivalent to \$163 million at June 30, 2005) of principal and TRY 178 (equivalent to \$133 million at June 30, 2005) of interest, which make a sum of TRY 397 million (equivalent to \$296 million at June 30, 2005) until March 7, 2005.

In addition, on August 19, 2005, Turk Telekom filed a lawsuit against us in order to obtain an injunction and block all our deposits and receivables in order to collect damage amounting TRY 451 million (\$336 million at June 30, 2005) including principal and interest related to Milleni.com. The court rejected the injunction request of Turk Telekom.

On April 15, 2005, Spor Toto Teskilat Mudurlugu, a governmental body, notified Inteltek that Inteltek is obliged to pay TRY 1.4 million (equivalent to

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\$1.0 million at June 30, 2005) including 5% interest charge, with the claim of the inadequacy of the system software, failure to spot dealer sales on a live basis and lack of control mechanisms and cause for the non-collection of a certain portion of turnover from dealers. Inteltek management believes that the claim of Spor Toto Teskilat Mudurlugu has no legal basis and collection risks from dealers belong to Spor Toto Teskilat Mudurlugu.

On August 29, 2005, we were notified that Telsim has initiated a lawsuit claiming that, we have not applied the reference interconnection rates determined by the Telecommunications Authority, and have charged interconnection fees exceeding the ceiling rates approved by Telecommunications Authority. Telsim requested an injunction to be applicable starting from August 1, 2005, to cease this practice and requested collection of its damages totaling to TRY 26.1 million (equivalent to \$19.5 million at June 30, 2005) including principal, interest and penalty on late payment.

On June 23, 2005, our board of directors decided to allow Alfa Telecom Turkey Limited ("Alfa Turkey") to conduct due diligence on us. On July 1, 2005, Sonera filed a suit with the interim injunction demand against us in Beyoglu 2nd Commercial Court of First Instance for the purpose of determining the invalidity of the Board resolution dated June 23, 2005. On July 4, 2005, Beyoglu 2nd Commercial Court of First Instance resolved to reject the interim injunction demand. The case is still pending.

The interconnection agreement with Turk Telekom provided for a renegotiation of pricing terms after December 31, 2004, and in the event that the parties could not agree on new terms by February 28, 2005, for referral to the Telecommunications Authority for resolution. As we and Turk Telekom were unable to agree on new terms, Turk Telekom referred the matter to the Telecommunications Authority, which has temporarily set call termination fees for calls terminating on each operator's network starting from August 10, 2005. According to its resolution procedure, the Authority is expected to set final termination fees, which are binding on us and Turk Telekom, by February 2006. On October 7, 2005 we filed a lawsuit against the Telecommunications Authority for the injunction and cancellation of this decision, which has temporarily set call termination fees for calls terminating on each operator's network starting from August 10, 2005.

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Other Matters

On August 19, 2005, Sonera announced that they filed a lawsuit against Cukurova Holding in the Conciliation Court of the Vienna International Chamber of Commerce since the shareholder agreement between Sonera and Cukurova Holding has been violated.

With the amendment to the Privatization Law, on July 3, 2005, the definition of the items that should be included in the gross revenue used in the calculation of the amounts to be paid to the Turkish Treasury has been amended. According to the amendment, interest charges for late collections and indirect taxes such as value added taxes, special transaction tax and stamp duty are excluded from the definition of the gross revenue. This amendment has been approved by the President of the Turkish Republic and published in the Official Gazette on July 21, 2005.