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TURKCELL ILETISIM HIZMETLERI A S  
Form 6-K  
September 03, 2004

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 6-K

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 September 3, 2004

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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: Turkcell Audit Report dated March 31, 2004

Turkcell MDA Q1 2004

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TURKCELL ILETISIM HIZMETLERI ANONIM SIRKETI  
AND ITS SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
AT DECEMBER 31, 2003 AND MARCH 31, 2004 (Unaudited)  
(In thousands, except share data)

	December 31, 2003	March 31, 2004
	-----	-----
		(Unaudited)
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 582,680	939,272
Trade receivables and accrued income, net (Note 5)	255,017	266,950
Due from related parties (Note 6)	70,625	61,614
Inventories	9,222	6,202
Prepaid expenses	23,739	106,402
Other current assets (Note 7)	63,018	140,515
Deferred tax assets (Note 17)	406,375	410,789
	-----	-----
Total current assets	1,410,676	1,931,744
DUE FROM RELATED PARTIES (Note 8)	56,611	60,480
PREPAID EXPENSES	4,637	5,239
INVESTMENTS (Note 9)	149,798	158,800
INVESTMENT SECURITIES	1,993	15,329
FIXED ASSETS, net (Note 10)	1,224,937	1,165,289
CONSTRUCTION IN PROGRESS (Note 11)	53,758	80,051
INTANGIBLES, net (Note 12)	823,969	806,012
GOODWILL	1,349	1,349
OTHER LONG TERM ASSETS	6,911	6,774
DEFERRED TAX ASSETS (Note 17)	132,688	133,189
	-----	-----
	\$ 3,867,327	4,364,256
	-----	=====
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Short term borrowings (Note 13)	\$ 95,031	132,663
Trade payables (Note 14)	47,519	54,361
Due to related parties (Notes 15)	4,585	3,951
Taxes payable (Note 17)	68,734	121,921
Other current liabilities and accrued expenses (Note 16)	1,566,652	1,651,608
	-----	-----
Total current liabilities	1,782,521	1,964,504
LONG TERM BORROWINGS (Note 18)	512,500	701,540
LONG TERM LEASE OBLIGATIONS	9,705	6,049
RETIREMENT PAY LIABILITY	10,834	11,973
MINORITY INTEREST	1,255	1,226
OTHER LONG TERM LIABILITIES	3,234	4,400
<b>SHAREHOLDERS' EQUITY</b>		
Common stock		
Par value one thousand TL; authorized, issued and outstanding		

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500,000,000,000 shares in 2003 and 2004 (Note 19)	636,116	636,116
Additional paid in capital	178	178
Legal reserves	5	5
Accumulated other comprehensive loss (Note 3)	(2,246)	(1,127)
Retained earnings	913,225	1,039,392
	-----	-----
Total shareholders' equity	1,547,278	1,674,564
	-----	-----
	\$ 3,867,327	4,364,256
	=====	=====

COMMITMENTS AND CONTINGENCIES (Note 20)

The accompanying notes are an integral part of these consolidated financial statements.

### TURKCELL ILETISIM HIZMETLERI ANONIM SIRKETI

#### AND ITS SUBSIDIARIES

#### CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE THREE MONTH PERIODS ENDED MARCH 31, 2003 AND 2004 (Unaudited)

(In thousands, except share data)

	March 31, 2003 ----- (Unaudited)	March 31, 2004 ----- (Unaudited)
Revenues	491,091	745,548
Direct cost of revenues	(326,658)	(433,007)
	-----	-----
Gross profit	164,433	312,541
General and administrative expenses	(22,223)	(29,305)
Selling and marketing expenses	(49,040)	(76,007)
	-----	-----
Operating income	93,170	207,229
Income from related parties, net	1,990	464
Interest income	27,517	36,841
Interest expense	(87,682)	(77,373)
Other income (expense), net	3,017	(487)
Equity in net income of unconsolidated investees (Note 9)	2,211	7,886
Minority interest	369	1,027
Translation loss	(1,077)	(20,247)
	-----	-----
Income before taxes	39,515	155,340

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Income tax expense (note 17)	-	(29,173)
	-----	-----
Net income	39,515	126,167
	=====	=====
Basic and diluted earnings per common share (Note 19)	0,00008	0,00025
	=====	=====
Weighted average number of common shares outstanding (Note 19)	500,000,000,000	500,000,000,000

The accompanying notes are an integral part of these consolidated financial statements.

TURKCELL ILETISIM HIZMETLERI ANONIM SIRKETI  
AND ITS SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE THREE MONTH PERIODS ENDED MARCH 31, 2003 AND 2004 (Unaudited)  
(In thousands)

	March 31, 2003	March 31, 2004
	-----	-----
	(Unaudited)	(Unaudited)
Operating Activities:		
Net income	\$ 39,515	126,167
Adjustments in reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	105,088	104,514
Provision for retirement pay liability	474	1,139
Provision for inventories	(974)	(685)
Provision for doubtful receivables	2,648	2,771
Accrued income	27,390	(9,088)
Accrued expense	34,702	94,913
Equity in net income of unconsolidated investees	(2,211)	(7,886)
Minority interest	371	(29)
Deferred taxes	-	(4,915)
Changes in assets and liabilities:		
Trade receivables	(3,776)	(5,616)
Due from related parties	(9,539)	5,142
Inventories	2,689	3,705
Prepaid expenses	(7,330)	(83,265)
Other current assets	5,063	(77,037)
Taxes payable	-	53,187
Other long term assets	88	40
Due to related parties	(863)	(634)
Trade payables	3,717	6,842
Other current liabilities	19,726	(9,351)
Other long term liabilities	(535)	1,166
	-----	-----
Net cash provided by operating activities	216,243	201,080

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Investing Activities:		
Additions to fixed assets	(20,137)	(15,985)
Reductions in (additions to) construction in progress	5,922	(26,293)
Additions to intangibles	(36,416)	(10,922)
Investments in investees	(9,500)	-
Investments in securities	-	(13,336)
	-----	-----
Net cash used for investing activities	(60,131)	(66,536)
Financing Activities:		
Proceeds from issuance of long and short term debt	-	228,178
Payment on long and short term debt	(261,347)	(1,506)
Net decrease in debt issuance expenses	18,095	(362)
Payment on lease obligations	(3,119)	(3,156)
Decrease (increase) in lease obligations	5,129	(1,106)
	-----	-----
Net cash provided by (used for) financing activities	(241,242)	222,048
	-----	-----
Net increase (decrease) in cash	(85,130)	356,592
Cash at the beginning of period	394,071	582,680
	-----	-----
Cash at the end of period	\$ 308,941	939,272
	=====	=====
Supplemental cash flow information:		
Interest paid	51,193	25,541

The accompanying notes are an integral part of these consolidated financial statements.

TURKCELL ILETISIM HIZMETLERI ANONIM SIRKETI

AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME

FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2004 (Unaudited)

(In thousands, except share data)

Common stock	Additional	Legal	Comprehensive	Retain
Shares	paid in	reserves	income	earnings
Amount	capital			
-----	-----	-----	-----	-----

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Balances at December 31, 2003	500,000,000,000 \$ 636,116	178	5	913
Comprehensive income:				
Net income				126,167
Other comprehensive loss:				126
Translation adjustment				1,119
Comprehensive income				127,286
 Balances at March 31, 2004	 500,000,000,000 \$ 636,116	 178	 5	 1,039

The accompanying notes are an integral part of these consolidated financial statements.

Turkcell Iletisim Hizmetleri Anonim Sirketi and Its Subsidiaries

Notes to Consolidated Financial Statements

As of December 31, 2003 and March 31, 2004 (Unaudited) and for the Three Month Periods Ended March 31, 2003 and 2004 (Unaudited)

(Amounts in thousands of US Dollar unless otherwise stated except share amounts)

(1) Business

Turkcell Iletisim Hizmetleri Anonim Sirketi ("Turkcell") was incorporated on October 5, 1993 and commenced operations in 1994. It is engaged in establishing and operating a Global System for Mobile Communications (GSM) network in Turkey and neighboring states.

From 1994 to 1998, Turkcell and Turk Telekomunikasyon AS ("Turk Telekom"), a state owned organization of Turkey, were parties to a revenue sharing agreement (the "Revenue Sharing Agreement"), in accordance with which, Turk Telekom contracted with subscribers, performed billing and collection and assumed collection risks and provided access to its telecommunications network, while Turkcell made related GSM network investments. Under the agreement, Turkcell was entitled to receive 100% of the fees received from subscriber identity module card or simcard sales, but required to pay Turk Telekom approximately 67% of the fees billed for connection, monthly fixed fees and ongoing calls, and 90% of the fees billed for incoming calls. As a result of the Revenue Sharing Agreement, Turkcell retained approximately 25% and 30% of the revenues generated by subscribers on its GSM network.

In April 1998, Turkcell signed a license agreement (the "License Agreement" or "License") with the Ministry of Transportation and Communications of Turkey (the "Turkish Ministry"), under which it was granted a 25 year GSM license in exchange for a license fee of \$500 million. The License permits Turkcell to operate as a stand-alone GSM operator and frees it from some of the operating constraints in the Revenue Sharing Agreement. Under the License, Turkcell collects all of the revenue generated from the operations

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of its GSM network and pays the Undersecretariat of Treasury (the "Turkish Treasury") an ongoing license fee equal to 15% of its gross revenue. Turkcell continues to build and operate its GSM network and is authorized to, among other things, set its own tariffs within certain limits, charge peak and off-peak rates, offer a variety of service and pricing packages, issue invoices directly to subscribers, collect payments and deal directly with subscribers.

In July 1998, Cellco Finance N.V. ("Cellco"), a financing entity set up to issue debt instruments in order to refinance Turkcell's existing indebtedness, issued \$300 million in 15% senior subordinated notes due in 2005, which were fully paid on November 10, 2003, and in December 1999, Cellco issued \$400 million in 12.75% senior notes due in 2005. All amounts raised under Cellco's debt offerings were loaned to Turkcell. As of and for the year ended December 31, 2003, all of the assets and liabilities of Cellco, which were previously recorded in the consolidated financial statements of Turkcell and its subsidiaries (the "Company"), are consolidated under the guidance of FASB Interpretation No. 46 "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51", as revised in December 2003 ("FIN 46 (R)"). The consolidation had no effect on the Company's consolidated financial position or results of operations.

In July 2000, Turkcell completed an initial public offering with the listing of its ordinary shares on the Istanbul Stock Exchange and American Depository Shares, or ADSs, on the New York Stock Exchange.

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Two significant founding shareholders, the Cukurova Group and TeliaSonera, currently own approximately 42.3% and 37.1%, respectively, of the Company's share capital, and are ultimate counterparties to a number of transactions.

Turkcell owns a 41.45% interest in Fintur Holdings B.V. ("Fintur"), which holds the majority of the Company's international GSM investments, with majority ownership in GSM operations in Azerbaijan, Georgia, Kazakhstan and Moldova. Fintur is accounted for under the equity method. The Company also owns 100% of Kibris Mobile Telekomunikasyon Limited Sirketi ("Kibris Telekom") and a company that operates GSM network in Northern Cyprus.

In addition, as of March 31, 2004, the Company was involved in various activities, including call centers and database management, directory assistance, advertising, on-line and telephone gaming, Wireless Application Protocol (WAP), Value Added GSM services (VAS) and internet services through the following consolidated subsidiaries: Global Bilgi Pazarlama Danisma ve Cagri Servisi Hizmetleri AS ("Global"), Corbuss Kurumsal Telekom Servis Hizmetleri AS ("Corbuss"), Turktell Bilisim Servisleri AS ("Turktell"), Hayat Boyu Egitim AS ("Hayat"), Kibrisonline Limited Sirketi ("Kibrisonline"), Bilisim ve Egitim Teknolojileri AS ("Bilisim"), Interaktif Cocuk Programlari Yapimciligi ve Yayinciligi AS ("Digikids"), Mapco Internet ve Iletisim Hizmetleri Pazarlama AS ("Mapco"), Inteltek Internet Teknoloji Yatirim ve Danismanlik Ticaret AS ("Inteltek"), Libero Interaktif Hizmetler AS ("Libero"), Hurrem Sultan Produksiyon Yapim, Turizm ve Ticaret AS ("Hurrem Sultan") and Euroasia Telecommunications Holding BV ("Euroasia"). The subsidiaries are owned 99.89%, 99.25%, 100.00%, 75.00%, 60.00%, 100.00%, 60.00%, 100.00%, 55.00%, 55.00%, 51.00% and 100.00% respectively, by Turkcell or its subsidiaries.

Kibris Telekom and the Ministry of Prosperity and Transportation of the

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Turkish Republic of Northern Cyprus are parties to a revenue sharing agreement, which covers a period of 10.5 years commencing in March 1999, under which revenues billed for subscription fees, monthly fixed fees, incoming and outgoing calls are shared at a ratio of 50% between the parties.

In December 2003, management decided to invest \$50,000 in Digital Cellular Communication (DCC), a Ukrainian telecommunications company with a GSM 1800 license. In order to facilitate the investment in DCC, Turkcell created a new wholly-owned company named Euroasia in the Netherlands in February 2004, and capitalized it with cash contributions of \$50,000. The owners of DCC are expected to contribute the shares of DCC to Euroasia in exchange for a 49% interest in the company in 2004. Under a shareholders agreement dated April 2, 2004, Turkcell has committed to arrange at least \$150 million of financing for DCC prior to 2006, or to provide such financing from its own resources.

### (2) Financial Position and Basis of Preparation of Financial Statements

Turkcell and its subsidiaries (the "Company") maintain their books of account and prepare their statutory financial statements in their local currencies and in accordance with local commercial practice and tax regulations applicable in their respective countries of residence. The accompanying consolidated financial statements are based on these statutory records, with adjustments and reclassifications for the purpose of fair presentation in accordance with accounting principles generally accepted in the United States of America. The unaudited consolidated financial statements of the Company as of March 31, 2004 and for the three month periods ended March 31, 2003 and 2004, in the opinion of the management of the Company, include all the adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the results of such unaudited interim periods.

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Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual amounts could differ from those estimates. Significant estimates and assumptions include the depreciable/amortizable lives of fixed assets and intangibles, amounts reflected as allowances for doubtful receivables, valuation allowances on deferred tax assets and amounts reflected as accruals for liabilities arising from legal proceedings.

These unaudited interim financial statements should be read in conjunction with the Company's Annual Report on Form 20-F.

As of March 31, 2004, the consolidated financial statements include the accounts of Turkcell and thirteen (December 31, 2003: twelve) majority owned subsidiaries and of Cellco, all assets and liabilities of which were previously recorded in the Company's financial statements, which was consolidated for the first time at December 31, 2003 under the guidance of FIN 46 (R). The investment in Fintur is included under the equity method of accounting (Note 9). All significant intercompany balances and transactions have been eliminated in consolidation. Minority interest in net assets and net income of the consolidated subsidiaries are separately classified in



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the consolidated balance sheets and consolidated statements of operations.

### (3) Comprehensive Income

Comprehensive income generally encompasses all changes in shareholders' equity (except those arising from transactions with owners) and includes net income, net unrealized capital gains or losses on available for sale securities and foreign currency translation adjustments. The Company's comprehensive income differs from net income applicable to common shareholders only by the amount of the foreign currency translation adjustment charged to shareholders' equity for the period. Comprehensive income for the three month periods ended March 31, 2003 and 2004 was \$40,109 and \$127,286, respectively.

### (4) New Accounting Standards Issued

In March 2004, Emerging Issues Task Force ("EITF") reached a consensus on EITF 03-01, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments". EITF 03-01 provides guidance for assessing other-than-temporary impairment. That proposed guidance would apply to investments accounted for under the cost method or the equity method, investments classified as either available-for-sale or held-to-maturity under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities" (including individual securities and mutual funds). The adoption of EITF 03-01 is not expected to have a material effect on the Company's consolidated financial statements.

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### (5) Trade Receivables and Accrued Income, net

At December 31, 2003 and March 31, 2004, the breakdown of trade receivables and accrued income is as follows:

	December 31, 2003	March 31, 2004
	-----	-----
		(Unaudited)
Receivables from subscribers	\$ 256,597	251,301
Receivable from Turk Telekom	17,662	24,438
Accounts and checks receivable	40,749	44,886
	-----	-----
	315,008	320,625
Accrued service income	75,929	85,016
Allowance for doubtful receivables	(135,920)	(138,691)
	-----	-----
	\$ 255,017	266,950
	=====	=====

Movements in the allowance for doubtful receivables are as follows:

	December 31, 2003	March 31, 2004
--	----------------------	-------------------

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	-----	-----
		(Unaudited)
Beginning balance	\$ 126,677	135,920
Provision for doubtful receivables		
Write offs	13,415	7
Effect of change in exchange rate	(27,715)	(6,029)
	23,543	8,793
	-----	-----
Ending balance	\$ 135,920	138,691
	=====	=====

(6) Due from Related Parties

As of December 31, 2003 and March 31, 2004, the balance comprised:

	December 31, 2003	March 31, 2004
	-----	-----
		(Unaudited)
KVK Teknoloji Urunleri AS ("KVK Teknoloji")	\$31,287	26,701
Digital Platform Iletisim Hizmetleri AS ("Digital Platform")	8,000	14,924
A-Tel Pazarlama ve Servis Hizmetleri AS ("A-Tel")	21,019	14,798
Milleni.com GmbH ("Milleni.com")	3,886	714
Geocell Ltd. ("Geocell")	2,345	539
Other	4,088	3,938
	-----	-----
	\$70,625	61,614
	=====	=====

Due from KVK Teknoloji, a company whose majority shares are owned by some of the shareholders of the Company, mainly resulted from simcard and prepaid card sales to this company.

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Due from Digital Platform, a company whose majority shares are owned by some of the shareholders of the Company, mainly resulted from receivables from call center revenues and advances given for current and planned sponsorships.

Due from A-Tel, a 50-50 joint venture of Yapi Kredi Bankasi AS (a shareholder of the Company) and Sabah media group, mainly resulted from simcard and prepaid card sales to this company.

Due from Milleni.com, a company whose majority shares are owned by some of the shareholders of the Company, mainly resulted from interconnection receivables.

Due from Geocell, a company whose majority shares are owned by Fintur, mainly resulted from roaming receivables and sales of GSM equipment.

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(7) Other Current Assets

At December 31, 2003 and March 31, 2004, the balance comprised:

	December 31, 2003	March 31, 2004
	-----	-----
		(Unaudited)
Prepaid taxes	\$ 37,755	103,548
Advances to suppliers	7,013	8,574
Promotional material	3,600	3,398
Deferred financing costs	2,565	3,025
Other	12,085	21,970
	-----	-----
	\$ 63,018	140,515
	=====	=====

(8) Due from Related Parties - Long Term

	December 31, 2003	March 31, 2004
	-----	-----
		(Unaudited)
Digital Platform	\$56,112	60,077
Other	499	403
	-----	-----
	\$56,611	60,480
	=====	=====

Due from Digital Platform mainly resulted from call center revenues, financial support for operations, and advances given for current and planned sponsorships.

(9) Investments

At December 31, 2003 and March 31, 2004, investments in associated companies were as follows:

	December 31, 2003	March 31, 2004
	-----	-----
		(Unaudited)
Fintur	\$127,179	136,181
Aks Televizyon Reklamcilik ve Filmcilik Sanayi ve Ticaret AS ("Aks TV")	15,750	15,750
Basin Yatirim Sanayi ve Ticaret AS ("Basin Yatirim")	6,869	6,869
	-----	-----
	\$149,798	158,800
	=====	=====

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At December 31, 2003 and March 31, 2004, the Company's ownership interest in Fintur was 41.45%.

In 2003, Bilisim acquired a 6.24% interest in Aks TV and an 8.23% interest in Basin Yatirim, media companies owned by the Cukurova Group. Investments in these companies are accounted for under cost method.

Aggregate summarized information of Fintur as of December 31, 2003 and March 31, 2004 and for the three month periods ended March 31, 2003 and 2004 are as follows:

	December 31, 2003	March 31, 2004	
	-----	-----	(Unaudited)
Current assets	\$ 120,372	140,740	
Noncurrent assets	440,926	461,584	
	-----	-----	
	\$ 561,298	602,324	
	=====	=====	
Current liabilities	\$ 211,885	218,550	
Noncurrent liabilities	159,517	172,154	
Shareholders' equity	189,896	211,620	
	-----	-----	
	\$ 561,298	602,324	
	=====	=====	
	3 months ended March 31, 2003	3 months ended March 31, 2004	
	-----	-----	
	(Unaudited)	(Unaudited)	
Revenue	\$ 65,079	108,649	
Direct cost of revenue	(35,584)	(46,656)	
Income before taxes	4,699	25,879	
Net income	5,335	19,026	

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### (10) Fixed Assets, net

As of December 31, 2003 and March 31, 2004, the analysis of fixed assets is as follows:

	Useful Lives	December 31, 2003	March 31, 2004	
	-----	-----	-----	(Unaudited)
Operational fixed assets:				
Base terminal stations	8 years	\$ 971,805	978,98	

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Mobile switching center/Base station controller	8 years	828,969	833,62
Minilinks	8 years	205,327	206,32
Supplementary system	8 years	36,333	36,49
Call center equipment	5 years	9,127	9,16
GSM services equipment	8 years	87,853	87,99
		-----	-----
		2,139,414	2,152,59
Accumulated depreciation		(1,101,567)	(1,164,90)
		-----	-----
Operational fixed assets, net		1,037,847	987,68
 Non-operational fixed assets:			
Land		773	84
Buildings	25 years	174,038	174,06
Furniture, fixture and equipment	4-5 years	160,521	162,04
Motor vehicles	4-5 years	8,072	8,22
Leasehold improvements	3-5 years	54,032	54,59
		-----	-----
		397,436	399,77
Accumulated depreciation		(210,346)	(222,17)
		-----	-----
Non-operational fixed assets, net		187,090	177,60
		-----	-----
		\$ 1,224,937	1,165,28
		=====	=====

There is no interest capitalized on fixed assets during the three month period ended March 31, 2004. Total interest capitalized on fixed assets during the three month period ended March 31, 2003 amounted to \$29. Such capitalized interest is depreciated over the remaining useful lives of the related fixed assets.

At December 31, 2003 and March 31, 2004, total fixed assets acquired under finance leases amounted to \$72,351 and \$ 71,245, respectively. Depreciation of these assets amounted to \$784 and \$974 for the three month periods ended March 31, 2003 and 2004, respectively, and is included in depreciation expense.

### (11) Construction in Progress

At December 31, 2003 and March 31, 2004, construction in progress consisted of expenditures in GSM and non-operational items and is as follows:

	December 31, 2003	March 31, 2004	
	-----	-----	
		(Unaudited)	
Turkcell-GSM network	\$51,203	74,676	
Non-operational items	1,525	2,269	
Turkcell-Other projects	400	2,744	
Kybrys Telekom-GSM network	630	362	
	-----	-----	
	\$53,758	80,051	
	=====	=====	

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(12) Intangibles, net

As of December 31, 2003 and March 31, 2004, intangibles consisted of the following:

	Useful lives	December 31, 2003	March 31, 2004
	-----	-----	-----
			(Unaudited)
GSM-License (Note 1)	25 years	\$ 500,000	500,000
Computer software	8 years	762,753	773,448
Transmission lines	10 years	15,708	15,937
		-----	-----
		1,278,461	1,289,385
Accumulated amortization		(454,492)	(483,373)
		-----	-----
		\$ 823,969	806,012
		=====	=====

As of March 31, 2004, amortized intangible assets are as follows:

	Gross carrying amount	Accumulated amortization
	-----	-----
Turkcell-License	\$ 500,000	118,333
Computer software	773,448	358,398
Transmission lines	15,937	6,642
	-----	-----
	\$ 1,289,385	483,373
	=====	=====

Aggregate amortization expense

Aggregate amortization expense for the three month periods ended March 31, 2003 and 2004 are \$27,239 and \$28,881, respectively.

Estimated amortization expense

For the year ended December 31, 2004	\$ 115,927
For the year ended December 31, 2005	114,430
For the year ended December 31, 2006	110,621
For the year ended December 31, 2007	98,167
For the year ended December 31, 2008	\$ 60,834

The Company adopted SFAS No. 142 on January 1, 2002. The adoption of SFAS No. 142 did not have a material impact on the Company's consolidated financial position or results of operations. As of March 31, 2004, the Company does not have any indefinite live intangible assets. Goodwill amounting to \$1,349 as of March 31, 2004 was recorded on the acquisition of the remaining 30% shares of Mapco.

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### (13) Short Term Borrowings

At December 31, 2003 and March 31, 2004, short-term borrowings comprised the following:

	December 31, 2003	March 31, 2004
	-----	-----
	(Unaudited)	
Current portion of long term borrowings (Note 18)	\$ 93,375	130,226
Other short term bank loans and overdrafts	1,656	2,437
	-----	-----
	\$ 95,031	132,663
	=====	=====

### (14) Trade Payables

At March 31, 2004, the balance includes amounts due to Ericsson Telekomunikasyon AS ("Ericsson Turkey") and Ericsson Radio Systems AB ("Ericsson Sweden") totalling \$27,277 (December 31, 2003: \$11,631) resulting from fixed asset purchases, site preparation and other services, and amounts due to other suppliers totalling \$27,084 (December 31, 2003: \$35,888) arising in the ordinary course of business.

Turkcell is party to a series of supply agreements with Ericsson Turkey (collectively the "Supply Agreements") under which Ericsson Turkey supplies Turkcell with an installed and operating GSM network, spare parts, training and documentation. The Supply Agreements also give Turkcell a non-exclusive restricted software license for GSM software. Under the Supply Agreements, Ericsson Sweden guarantees all of Ericsson Turkey's obligations to Turkcell.

Turkcell also entered into a GSM service agreement with Ericsson Sweden under which Ericsson Sweden supplies Turkcell with the following system services: trouble report handling service, hardware service, consultation service and emergency service. This agreement expired on December 31, 1998 but contains successive one-year automatic renewals up until December 31, 2005 unless terminated by either party in writing no later than six months prior to the expiration of the then current term. As of December 31, 2003, the agreement was automatically extended through December 31, 2004.

### (15) Due to Related Parties

As of December 31, 2003 and March 31, 2004, due to related parties comprised:

	December 31, 2003	March 31, 2004
	-----	-----
	(Unaudited)	
Hobim Bilgi Islem Hizmetleri AS ("Hobim")	\$ 1,694	1,178
Turkiye Genel Sigorta AS ("Genel Sigorta")	976	795
Yapi Kredi Sigorta AS ("Yapi Kredi Sigorta")	792	382
Other	1,123	1,596
	-----	-----
	\$ 4,585	3,951
	=====	=====

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Due to Hobim resulted from the invoice printing services rendered by this company.

Due to Genel Sigorta and Yapy Kredi Sigorta resulted from fixed assets insurance premiums and health insurance premiums of the Company's personnel.

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(16) Other Current Liabilities and Accrued Expenses

At December 31, 2003 and March 31, 2004, the balance comprised:

	December 31, 2003	March 31, 2004
	-----	-----
		(Unaudited)
License fee accrual--The Turkish Treasury (Note 20)	\$ 538,930	606,421
Interconnection dispute accrual (Note 20)	461,803	488,587
Telecommunications Authority penalty accrual (Note 20)	104,476	118,422
Annual frequency usage fee (Note 20)	94,111	109,473
Taxes and withholdings	137,446	108,584
Deferred income	85,223	101,452
Selling and marketing expense accruals	27,317	27,767
Transmission fee accrual	16,671	18,417
Accrued interest on borrowings	22,399	14,235
Lease obligations--short term portion	12,993	12,387
Telecommunications Authority share accrual	12,005	10,814
Class action accrual	19,200	-
Other expense accruals	34,078	35,049
	-----	-----
	\$1,566,652	1,651,608
	=====	=====

(17) Taxes on Income

The income tax expense is attributable to income from continuing operations and consists of:

	3 Months Ended	
	March 31,	
	2003	2004
	-----	-----
	(Unaudited)	
Current tax expense	\$ -	-
Deferred tax expense	-	(29,173)
	-----	-----
Income tax expense	\$ -	(29,173)
	=====	=====



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Income tax expense attributable to income from continuing operations was nil and \$29,173 for the three month periods ended March 31, 2003 and 2004, respectively. These amounts are different from the amount computed by applying the Turkish income tax rate of 33% (2003: 30%) to pretax income from continuing operations as a result of the following:

	3 Months Ended	
	March 31,	
	2003	2004
	-----	-----
	(Unaudited)	
Computed "expected" tax expense	\$ (13,038)	(51,494)
Non taxable translation gain	(9,714)	(33,047)
Investment tax credit	19,989	5,828
Change in valuation allowance	10,262	(1,592)
Nontaxable items	-	48,755
Other	(7,499)	2,377
	-----	-----
Income tax expense	\$ -	(29,173)
	=====	=====

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For the three month periods ended March 31, 2003 and 2004, substantially all income from continuing operations and related tax expense were domestic.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at December 31, 2003 and March 31, 2004 are presented below:

	December 31,	March 31,
	2003	2004
	-----	-----
	(Unaudited)	
Deferred tax assets:		
Accrued expenses	\$ 345,363	346,082
Accounts and other receivables (principally due to allowance for doubtful accounts) and other	71,867	77,248
Net operating loss carryforwards	12,690	15,091
Tax credit carryforwards (Investment tax credit)	342,964	370,629
	-----	-----
Gross deferred tax assets	772,884	809,050
Less: Valuation allowances	(11,038)	(12,630)
	-----	-----
Deferred tax assets	761,846	796,420
Deferred tax liabilities:		
Fixed assets and intangibles, principally due to financial leases, differences in depreciation and amortization, and capitalization of interest and foreign exchange loss for tax purposes	(222,783)	(252,442)
Total deferred tax liabilities	(222,783)	(252,442)
	-----	-----

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Net deferred tax assets	\$ 539,063	543,978
	=====	=====

At December 31, 2004, net operating loss carry forwards are as follows:

Year	Amount	Expiration Date
----	-----	-----
1999	\$ 84	2004
2000	7,369	2005
2001	10,888	2006
2002	3,294	2007
2003	21,048	2008
2004	5,644	2009

Non taxable translation gain results from translation of Turkish Lira denominated non-monetary assets and liabilities to the US Dollar, the functional and reporting currency, in accordance with the relevant provisions of SFAS No. 52 as applied to entities in highly inflationary economies. Under SFAS No. 109, such translation gains and losses between the tax and book basis of related assets and liabilities do not give rise to temporary differences. Such amounts are primarily attributable to translation gain resulting from the translation of Turkish Lira denominated fixed assets and intangibles into the US Dollar.

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The Turkish Treasury approved investment incentive certificates for a program of capital expenditures by Turkcell and its subsidiaries in GSM and call center operations. Such incentives entitle the Company 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 such deductions are subject to withholding tax at the rate of 19.8% (for expenditures made after April 24, 2003, the investment tax benefit equals 40% of qualifying expenditures but it is not subject to any withholding tax). As of March 31, 2004, investment incentive certificates provide for tax benefits on cumulative purchases of up to approximately \$4,616,132 (December 31, 2003: \$4,389,386) in qualifying expenditures, as defined in the certificates. As of March 31, 2004, the Company had incurred cumulative qualifying expenditures of approximately \$3,612,014 (December 31, 2003: \$3,362,333), resulting in tax credit carryforwards under the certificates of approximately \$370,629 (December 31, 2003: \$342,964), net of foreign exchange translation losses. Such tax credits can be carried forward indefinitely. The certificates are denominated in Turkish Lira. However, approximately \$632,453 of qualifying expenditures through March 31, 2004 (December 31, 2003: \$2,087,834) under such certificates is indexed against future inflation.

The Company establishes valuation allowances in accordance with the provisions of SFAS No. 109. The Company continually reviews the adequacy of the valuation allowance based on changing conditions in the market place in which the Company operates and its projections of future taxable income, among other factors. The Company forecasts taxable income in 2004 and onwards and has generated taxable income for seven consecutive quarters. Management believes that subsequent to the conclusion of the war in Iraq

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during the Company's second quarter of 2003 and the limited impact it has had on the economic situation in Turkey, the economic and political uncertainties surrounding the Company have become less uncertain and provided management better visibility about the near term future. Further, economic and political situation in Turkey became more stable and there are positive expectations about the near term future. In addition, the interconnection agreement with Turk Telekom has been revised in late 2003. Management believes that these matters also provide management better visibility about the near term future. As a result, management concluded that it was more likely than not that the deferred tax assets of \$543,978 were realizable. Turkish tax legislation does not allow companies to file tax returns on a consolidated basis. Accordingly, management believes a valuation allowance should continue to be provided on a portion of the deferred tax assets, resulting from certain consolidated subsidiaries, as they are unable to conclude that the likelihood of realizing these deferred tax assets is more likely than not. Accordingly, a valuation allowance of approximately \$12,630 is recorded as of March 31, 2004 (December 31, 2003: \$11,038) for such amounts. The valuation allowance at December 31, 2003 and March 31, 2004 has been allocated between current and non-current deferred tax assets on a pro-rata basis in accordance with the provisions of SFAS No. 109. Management believes that it is more likely than not the net deferred tax asset of approximately \$543,978 as of March 31, 2004 will be realized through reversal of taxable temporary differences as well as future taxable income exclusive of reversing taxable temporary differences. The Company will continue to evaluate the realizability of its deferred tax assets including net operating loss and tax credit carryforwards and the related impact on the valuation allowance.

In accordance with the Law No. 4842, which made changes in certain laws announced on April 24, 2003, the surcharge of 10% applied on the corporation tax is abolished effective for all tax returns filed on or after January 1, 2004. Accordingly, substantially all taxable income earned from January 1, 2003 is taxed at a rate of 30%. However, in accordance with the Law No. 5035, which was enacted during December 2003 and announced on January 2, 2004, the corporation tax rate will be applied as 33% for taxable income earned in 2004 only.

Further, in accordance with the Law No. 5024, which was announced on December 30, 2003, effective from January 1, 2004, taxable income will be determined based on the financial statements restated for the effects of inflation. Accordingly, taxable income earned from January 1, 2004 will be taxed based on restated financial statements if the conditions in the law are met. Based on the Company's financial position, restated for the effects of inflation at December 31, 2003 in accordance with the Law No. 5024, the change in tax law is not expected to have a material impact on future taxable income.

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### (18) Long Term Borrowings

At December 31, 2003 and March 31, 2004, long-term borrowings comprised:

Interest Rate (%)	December 31, 2003	March 2004
----------------------	----------------------	---------------

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	-----	-----	-----
Cellco 12.75% senior notes, due 2005	12.75%	\$ 400,000	40
Akbank TAS ("Akbank") - 1	Libor + 5.25%	125,000	12
Akbank - 2	Libor + 3.50%	-	10
Turkiye Garanti Bankasi AS ("Garanti Bankasi") - 1	Libor + 3.40%	-	10
Garanti Bankasi - 2	Libor + 5.62%	75,000	7
Murabaha syndicated facility	Libor + 4.50%	-	2
Nordbanken--Stockholm ("Nordbanken")	Libor + 0.6%	5,875	
Other		-	
		-----	-----
		605,875	83
Less: Current portion of long term borrowings (Note 13)		(93,375)	(130)
		-----	-----
		\$ 512,500	70
		=====	=====

The company has short and long term credit lines with local and foreign banks. On October 30, 2003, Yapi Kredi has committed to provide a loan facility, at market rates, of up to \$150,000 to the Company over the next twelve months. This credit line has not been used as of March 31, 2004.

As of March 31, 2004, the outstanding balances of Cellco 12.75% senior notes, Akbank-1, Garanti Bankasi -2 and Nordbanken were, \$400,000, \$125,000, \$75,000 and \$3,601, respectively. Cellco 12.75% senior notes mature in August 2005. Akbank-1, Garanti Bankasi -2 and Nordbanken loans mature in June 2005, in April 2006 and in September 2004, respectively. There are no unused commitments under these facilities.

Turkcell signed a Murabaha syndicated facility, which is led by HSBC Bank AS and the Islamic Development Bank, amounting to \$100,000 in January 2004 and initial drawdown was made on March 3, 2004. The facility has a maturity of two years from each drawdown. The availability period is 180 days from the date of agreement and the grace period is one year from each drawdown. The facility is unsecured and will be used for certain qualified equipment purchases. As of June 16, 2004, the facility was fully drawn down.

Turkcell has fully drawn down additional borrowings of \$100,000 from Akbank in February 2004 and \$100,000 from Garanti Bankasi in March 2004. Both facilities will be repaid in 3 years.

As of March 31, 2004, the Company is not subject any financial covenants or ratios with respect to its borrowings.

As of March 31, 2004, the borrowing from Nordbanken was collateralized by letter of guarantee obtained from Yapi Kredi. No other facilities are collateralized by letters of guarantee or sureties of the Company's shareholders.

(19) Common Stock

At December 31, 2003 and March 31, 2004, common stock represented

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500,000,000,000 authorized, issued and fully paid shares with a par value of one thousand Turkish Lira each.

The following table sets forth the computation of basic and diluted earnings per share:

	3 Months Ended March 31,	
	2003	2004
	-----	-----
	(Unaudited)	
<b>Numerator:</b>		
Net income	39,515	126,167
<b>Denominator:</b>		
Basic and diluted weighted average shares	500,000,000,000	500,000,000,000
Basic and diluted net income per share	0.00008	0.00025

On February 26, 2004, Cukurova Holding AS informed Turkcell that it sold 8,998,845,000 Turkcell shares (nominal value of TL 8,998,845 million) to Yapi Kredi. Following this transaction, the direct ownership of Cukurova Holding AS and Yapi Kredi in Turkcell is 7.47% and 2.89%, respectively.

On July 21, 2004, it has been made public that the debt restructuring talks between the Banking Regulation and Supervision Agency (the "BRSA") and the Cukurova Group, one of the significant founding shareholders of the Company, have been finalized by mutual agreement. In accordance with this agreement, the Cukurova Group will purchase 5,699,493,626 Turkcell shares (nominal value of TL 5,699,494 million) based on the weighted average price of the last 30 trading days in Istanbul Stock Exchange and 8,998,845,000 Turkcell shares (nominal value of TL 8,998,845 million), based on the acquisition cost plus Libor+3.5% annual interest from Yapi Kredi until April 30, 2005.

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### (20) Commitment and Contingencies

As of December 31, 2003 and March 31, 2004, commitments and contingent liabilities comprised the following:

	December 31, 2003	March 31, 2004
	-----	-----
	(Unaudited)	
Bank Letters of Guarantee	\$ 44,952	41,975
Guarantees		
Irancell		281,070

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Iranian Authorities	-	256,200
Iranian Authorities	-	24,870
Digital Platform	46,965	35,045
BNP--Brussels (Buyer Credit)	31,825	24,327
BNP--Brussels (Financial Loan)	2,658	2,172
BNP--Hungary (Buyer Credit)	7,417	5,790
BNP--Hungary (Financial Loan)	864	422
Websterbank--USA	351	234
HSBC--Istanbul Main Branch	3,850	2,100
Hobim		
BNP AK Dresdner (Financial Leasing)	129	129
Purchase Commitment		
Asli Gazetecilik	25,000	25,000

As of March 31, 2004, the Company is contingently liable in respect of bank letters of guarantee obtained from Yapi Kredi and given to the Telecommunications Authority amounting to \$5,000 (December 31, 2003: \$5,000), and customs authorities, private companies and other public organizations amounting to \$34,816 (December 31, 2003: \$37,916). In addition, as of March 31, 2004, the Company is contingently liable in respect of bank letters of guarantee obtained from other banks and given to private companies and other public organizations amounting to \$2,159 (December 31, 2003: \$2,036).

As a condition of the GSM license bid in Iran, the Consortium is obliged to provide a bid bond amounting to 263,000,000,000 Iranian Rial (approximately EUR 25 million) to the Iranian Authorities. This bid bond was issued in Iranian Rial amounting 263,000,000,000 Rial (equivalent to \$24,870 at March 31, 2004), which was equivalent to EUR 25 million at the date of issuance, by Bank Saderat under a Deutsche Bank AG counter-guarantee on February 8, 2004 and was underwritten by Turkcell. The bid bond originally expired on August 7, 2004. Since Irancell has not been established as of August 7, 2004, the bid bond maturity was extended by Bank Saderat under Deutsche Bank AG counter-guarantee until November 7, 2004.

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The Consortium is also obliged to provide a payment guarantee to the Iranian Authorities amounting to EUR 300 million, which is equal to the upfront license fee. The guarantee becomes effective when the license is formally awarded to Irancell. Turkcell has guaranteed a EUR 210 million (equivalent to \$256,200 at March 31, 2004) portion of this guarantee through HSBC plc, which issued the payment guarantee under a syndicate with Akbank and BNP Paribas. The payment guarantee was issued on March 5, 2004 and expires in September 7, 2004. In addition to the upfront license fee, once the Iranian subsidiary of the Company is formally established and the license will be awarded, the Iranian subsidiary of the Company will pay an ongoing license fee based on the greater of a minimum precommitted gross revenues agreed with the Iranian Authorities, or the actual gross revenues.

Guarantees 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.

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Guarantees given for Hobim are related to financial leasing agreements made with the respective lessor.

Under a framework agreement, (the "framework agreement") Asli Gazetecilik agreed to provide advertisement services to the Company from July 1, 2002 until October 4, 2004. In consideration of Asli Gazetecilik advertisement services for the Company and services that will be deemed satisfactory to the Company, the Company will pay a total amount of \$25,000. As of March 31, 2004, no payments were made and no services were rendered under the framework agreement. On May 30, 2004, the Company signed the "Amended Framework Agreement" with Asli Gazetecilik, extending the terms of the agreement until December 31, 2005 and, in accordance with the amended agreement, the Company paid \$5,000 on June 18, 2004.

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### Legal Proceedings

The Company is involved in various claims and legal actions arising in the ordinary course of business described below.

#### Dispute on Ongoing License Fee on Value Added Taxes, Education Fund and Frequency Usage and Transmission Fees

On an ongoing basis, Turkcell must pay 15% of its monthly gross revenue, which is defined in its license agreement as subscription fees, monthly fixed fees and communication fees including taxes, charges and duties to the Turkish Treasury. The Turkish Ministry and the Turkish Treasury informed Turkcell that, in their view, its 15% ongoing license fee should be calculated before deduction of VAT, the education fund and the frequency usage and transmission fees. Turkcell had calculated its 15% ongoing license fee after deducting for these items, which Turkcell believes is consistent with the terms of its license.

Turkcell disagrees with the Turkish Treasury's position, and initiated an administrative suit at the Danistay against the Turkish Ministry and the Turkish Treasury. On October 15, 2001, the Danistay ruled that VAT should be included in the calculation of gross revenue whereas the education fund and the frequency usage and transmission fees should not. Turkcell has appealed the Danistay's decision with respect to the VAT and the Ministry appealed the decision with respect to the other items. Both appeals have been rejected by General Assembly of Administrative Courts of Danistay. Turkcell initiated "Correction of decision" against this decision following the notification. On March 24, 2000, Turkcell paid to the Turkish Treasury a sum of \$57,163 for ongoing license fees on VAT including interest since April 1998, which excludes ongoing license fees on the education fund and the frequency usage and transmission fees.

Turkcell has paid the above amount, with a reservation, to the Turkish Treasury and will continue to pay ongoing license fees in respect of VAT collections, subject to a final judgement to be rendered by the Danistay. Turkcell and its legal counsel believe that Turkcell will prevail with respect to the ongoing licence fees on the education fund and frequency usage and transmission fees. Accordingly, Turkcell has not made any provisions in its consolidated financial statements for ongoing license fees on the education fund and frequency usage and transmission fees. There can be no assurance, however, that there will not be an unfavourable ruling in this matter or that such an outcome would not have a material adverse

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effect on the Company's consolidated financial position, results of operations, or liquidity.

On June 11, 2002, Turkcell initiated an arbitration suit in the International Court of Arbitration of the International Chamber of Commerce ("ICC") against the Turkish Treasury and the Telecommunications Authority, concerning 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 in accordance with Article 8 of the License Agreement. On January 5, 2004, ICC rendered a decision stating that taxes collected by Turkcell under its tax responsibility should be excluded from the calculation of gross revenue. The Turkish Ministry and the Telecommunications Authority filed a challenge to the ICC's decision to annul the decision. On May 20, 2004, the Ankara 20th Civil Court annulled the part of ICC's decision concerning exclusion of the taxes collected by Turkcell under its tax responsibility that it conflicts with Danistay's previous rulings. Turkcell has appealed this decision.

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Dispute on Additional Ongoing License Fee on Value Added Services and Other Charges

On November 2, 2000, Turkcell received a notice from the Turkish Ministry stating that certain value-added services, transaction fees, roaming revenue and interest charges for late collections should be included in the determination of the ongoing license fees paid to the Turkish Treasury. The Turkish Treasury informed Turkcell that the ongoing license fees for all such services would be retroactively recalculated from the date of its license agreement and paid to the Turkish Treasury with interest. On December 22, 2000, Turkcell initiated a suit against the Turkish Ministry and the Turkish Treasury to enjoin the Turkish Ministry and the Turkish Treasury from charging Turkcell these fees. On October 20, 2003, Danistay dismissed the case. On February 10, 2004, Turkcell appealed this decision.

On June 11, 2002, Turkcell initiated an arbitration suit in the ICC against the Turkish Treasury and the Telecommunications Authority, concerning 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 in accordance with Article 8 of the License Agreement. On January 5, 2004, ICC rendered a decision stating that all the revenue items originating from telecommunication services should be included in the calculation of gross revenue, while the interest charges for late collections should be excluded. The Turkish Ministry and the Telecommunications Authority filed a challenge to the ICC's decision to annul the decision. On May 20, 2004, the Ankara 20th Civil Court annulled the part of ICC's decision concerning exclusion of interest charges for late collections that it conflicts with Danistay's previous rulings. Turkcell has appealed this decision.

Based on its management and legal counsel's opinion, Turkcell has accrued TL 288.6 trillion (equivalent to \$220,096 as of March 31, 2004) including TL 136.3 trillion of interest (equivalent to \$103,953 as of March 31, 2004) on its consolidated financial statements as of March 31, 2004 for additional ongoing license fees for certain value-added services, transaction fees, roaming revenue and interest charges for late collections.

Dispute on Additional Ongoing License Fee on Special Transaction Tax and Stamp Duty



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Turkcell received a notice from the Turkish Treasury stating that special transaction tax and stamp duty should be included in the determination of the ongoing license fees paid to the Turkish Treasury. Turkcell initiated a suit against the Turkish Treasury before the Administrative Court to obtain an injunction. On July 10, 2001, Danistay dismissed the case. On July 17, 2001, the General Assembly of Administrative Courts of Danistay rejected Turkcell's request to obtain an injunction to prevent the Turkish Treasury to collect such fees. On November 19, 2003, the Danistay rendered a decision rejecting the case. Turkcell has appealed the decision.

On January 5, 2004, ICC rendered a decision stating that taxes collected by Turkcell under its tax responsibility should be excluded from the calculation of gross revenue. The Turkish Ministry and the Telecommunications Authority filed a challenge to the ICC's decision to annul the decision. On May 20, 2004, the Ankara 20th Civil Court annulled the part of ICC's decision concerning exclusion of the taxes collected by Turkcell under its tax responsibility that it conflicts with Danistay's previous rulings. Turkcell has appealed this decision.

Based on its management and legal counsel's opinion, Turkcell has accrued TL 39.0 trillion (equivalent to \$29,733 as of March 31, 2004) including TL 23.2 trillion of interest (equivalent to \$17,671 as of March 31, 2004) on its consolidated financial statements as of March 31, 2004 for additional ongoing license fees for special transaction tax and stamp duty.

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### Dispute on Additional Ongoing License Fee on Interconnection Revenues

In December 2000, Turkcell informed the Turkish Treasury that it would no longer include its interconnection revenues in the determination of ongoing license fees paid to the Turkish Treasury as 15% of gross revenues. Effective from March 1, 2001, Turkcell's ongoing license payments made to the Turkish Treasury have been calculated by excluding its interconnection revenues from the gross revenues. Turkcell obtained an injunction from the judicial court on November 2, 2001 allowing it to compute the gross revenue on which the ongoing license fees are to be computed without including interconnection revenues. On October 29, 2001, Turkcell initiated an arbitration suit in the ICC against the Turkish Ministry, the Telecommunications Authority and the Turkish Treasury. On October 7, 2003, the ICC decided that the interconnection revenues should be included in the calculation of the ongoing license fees to the Turkish Treasury. Turkcell filed a suit of annulment against the ICC ruling as per the International Arbitration Code. On April 6, 2004, Ankara 26th Civil Court rejected the case. Turkcell appealed this decision. Although Turkcell did not pay such fees, as of March 31, 2004, it has accrued TL 439.0 trillion including interest (equivalent to \$334,794 as of March 31, 2004) for the unpaid amounts and included them in the determination of net income.

### Dispute on VAT on Ongoing License Fee

On December 28, 2001, the board of accounting experts of the Ministry of Finance issued an opinion stating that Turkcell should pay VAT on the ongoing license fee paid to the Turkish Treasury. Accordingly, the Tax Office delivered to Turkcell a notice on January 31, 2002, asserting deficiencies in VAT declarations requesting payments of approximately TL 91.4 trillion (equivalent to \$69,683 at March 31, 2004) for VAT, which

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would be offset by a VAT recoverable and would not result in a cash outflow from Turkcell and a total of approximately TL 145.3 trillion (equivalent to \$110,786 at March 31, 2004) for penalty. Turkcell applied on March 1, 2003 to benefit from the Tax Amnesty Law entered into force in February 2003 for the amounts covering the period between April 1998 and November 2001. Turkcell's application was accepted and, accordingly, it received amnesty in respect to VAT on the ongoing licence fee. Turkcell and the Tax Office agreed that Turkcell would make payments for the VAT amounts amounting to TL 45.7 trillion (equivalent to \$34,841 as of March 31, 2004) covering the period between April 1998 and November 2001 by nine equal instalments between March 31, 2003 and June 30, 2004. By completing the payments in 2003, Turkcell received a discount of TL 4.6 trillion (equivalent to \$3,472 as of March 31, 2004).

Turkcell has begun to make payments for VAT on ongoing license fee with reservation starting from June 2003 and commenced a lawsuit against the Tax Office for the related period. On December 31, 2003, the Tax Court decided that Turkcell would not have to pay VAT on ongoing license fee from February 2004 onwards. The Tax Office has appealed to this decision.

Dispute with Turk Telekom on Payments to the Turkish Treasury and Turkish Radio and Television Institution

Turk Telekom notified Turkcell on February 14, 2000, that it was modifying the method by which it calculates the interconnection fee that it pays to Turkcell. Turk Telekom believes that it should be permitted to deduct from the revenues used to determine the interconnection fee the 15% fund payment that it pays to the Turkish Treasury and a 2.5% payment that it pays to Turkish Radio and Television Institution (the "TRT"), which is a payment that Turk Telekom was required to make during 2000 only. Based on this position, Turk Telekom withheld TL 6.6 trillion (equivalent to \$5,034 at March 31, 2004) from the amount it paid to Turkcell for interconnection for the first two months of 2000. On May 4, 2000, Turkcell commenced a first lawsuit against Turk Telekom to recover the TL 6.6 trillion.

Turk Telekom subsequently notified Turkcell on October 16, 2000 that it was requesting payment for TL 37.5 trillion (equivalent to \$28,598 at March 31, 2004) representing the amount Turk Telekom would have deducted from its revenues for the period between March 2000 and September 2000. On October 31, 2000, Turkcell paid Turk Telekom a first instalment of TL 16.0 trillion (equivalent to \$12,278 at March 31,

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2004) with a reservation. On May 11, 2001, the appeals court ruled that Turk Telekom should be permitted to deduct from its revenues the 2.5% payment that it paid to the TRT for the year 2000 but remanded the decision regarding the 15% fund to the lower court.

On January 24, 2002, the lower court rendered a decision in line with the appeals court's decision. On March 13, 2002, Turkcell received approximately TL 14.0 trillion (equivalent to \$10,092 at payment date and equivalent to \$10,696 at March 31, 2004) from Turk Telekom, which was related to the TL 6.6 trillion (equivalent to \$5,034 at March 31, 2004) withheld by Turk Telekom, plus interest.

On November 10, 2000, Turkcell filed a second lawsuit to recover the TL 16.0 trillion (equivalent to \$12,278 at March 31, 2004) paid to Turk Telekom as its first instalment. The appeals court decided in favour of

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Turkcell with respect to the fund payment. On June 10, 2004, the lower court rendered a decision in line with the appeals court's decision. Management and legal counsel of the Company are confident that Turkcell will recover the TL 16.0 trillion paid to Turk Telekom with interest.

### Dispute on Turk Telekom Interconnection Fee

The Turkish Electrical Engineers' Society commenced a lawsuit against Turk Telekom claiming that Turkcell's interconnection agreement with Turk Telekom violates public policy and the provisions of the Turkish Constitution relating to the protection of consumers and the prevention of monopolies and cartels. In October 2000, the court annulled Annex 1-A.1 of Turkcell's interconnection agreement with Turk Telekom, which deals with call tariffs. Although Turkcell was not a party to the lawsuit, its interest has been affected by the decision. On November 20, 2000, Turkcell was informed of the court's decision and received notification from Turk Telekom that all interconnection fees since the acquisition of its license paid by Turkcell to Turk Telekom and by Turk Telekom to Turkcell must be the same to comply with the court's decision and should be retroactively calculated from the date of its license with interest. Turk Telekom made a first claim pertaining to the period extending from the date of its license up to October 2000, and a second up to January 2001. Turkcell initiated two separate lawsuits for each period to cancel Turk Telekom's request until Turkcell agrees with Turk Telekom to replace the cancelled provisions of its interconnection agreement. In November 2001, Turkcell obtained an injunction in the second lawsuit which helps cover both periods. In the first case, the court decided to postpone its decision until the court in the second case renders a final decision. Turk Telekom appealed the decision in the second case. This case has been dismissed and, on March 5, 2003, the court decision communicated to Turkcell. On March 14, 2003, Turkcell has applied for a "Correction of decision" against this decision but Turkcell's request was rejected. On July 3, 2003, Turk Telekom informed Turkcell that the injunction was lifted and it would calculate the sharing of its interconnection revenue with Turkcell on an equal basis. Turk Telekom did not make the monthly interconnection payment to Turkcell due in June 2003, amounting to TL 83.9 trillion (equivalent to \$63,934 as of March 31, 2004) to offset the amount against its receivables from Turkcell according to its claim that interconnection revenues should be shared equally. Turkcell has applied to obtain another injunction to cease Turk Telekom's action. On December 17, 2003, the Administrative court rejected Turkcell's appeal. On July 17, 2003, the Ankara Seventh Commercial Court decided that the terms of the Interconnection Agreement should remain in effect until the parties reach a new interconnection agreement. The appeals court annulled the decision of the lower court. Following the decision of the appeals court on May 27, 2004, the lower court dismissed the case on the ground that compliance with decisions of the appeals court is a legal obligation. After the notification of court to Turkcell, the period for Turkcell for application to administrative courts will begin.

Turkcell concluded the negotiations with Turk Telekom by signing an addendum, which changed some articles of the Interconnection Agreement on September 20, 2003. As the juridical process continues, Turk Telekom initiated a lawsuit with the aim to collect the amount calculated via its claim that interconnection revenues should be shared equally. On November 14, 2003, the Ankara First Commercial Court decided that monthly interconnection payments made by Turk Telekom to Turkcell be ceased with the aim of collection of Turk Telekom's receivable. Accordingly, on December 3, 2003, Turk Telekom informed Turkcell that it has stopped making its monthly interconnection fee payments. Turkcell appealed the decision. On January 29, 2004, the commercial court rendered a decision excluding 30% of monthly interconnection payments made by Turk Telekom from the scope of the previous decision dated November

14, 2003. According to this decision, Turk Telekom would have to pay 30% of its monthly interconnection payments to Turkcell. On March 2, 2004, Turk Telekom appealed this decision but the court rejected Turk Telekom's request.

In addition to the foregoing, Turk Telekom initiated two separate lawsuits to share interconnection fees equally and requested TL 1,083.2 trillion and TL 490 trillion (equivalent to \$826,059 and \$373,686 at March 31, 2004). The respective courts decided the cases should be consolidated with the first case. Furthermore, Turk Telekom initiated another lawsuit on the same grounds in a different court with a payment request of TL 280.1 trillion (equivalent to \$213,645 as of March 31, 2004) including interest of TL 35.3 trillion (equivalent to \$26,945 as of March 31, 2004).

Turkcell has deducted the interconnection receivables from Turk Telekom amounting to TL 248.3 trillion (equivalent to \$189,380 as of March 31, 2004) from its interconnection receivables on its consolidated financial statements as of and for the three months period ended March 31, 2004. The remaining balance of TL 70.1 trillion (equivalent to \$53,488 as of March 31, 2004), which results from taxes on interconnection receivables, is classified as other current assets. Since Turkcell believes that Turk Telekom's payments are substantially lower than the amounts that should have been paid under the Interconnection Agreement, Turkcell has initiated the necessary legal actions against Turk Telekom for the recovery of its confiscated portion of interconnection receivables. However, based on current legal status and the management's negotiation strategies, Turkcell has accrued TL 640.7 trillion (equivalent to \$488,587 at March 31, 2004) including interest of TL 294.4 trillion (equivalent to \$224,532 as of March 31, 2004) on its consolidated financial statements as of March 31, 2004.

#### Dispute on Turk Telekom Transmission Lines Leases

Effective from July 1, 2000, Turk Telekom annulled the discount of 60% that it provided to Turkcell based on its regular ratio, which had been provided for several years, and, at the same time, Turk Telekom started to provide a discount of 25% being subject to certain conditions. Turkcell filed a lawsuit against Turk Telekom for the application of the agreed 60% discount. However, on July 30, 2001, Turkcell had been notified that the appeals court upheld the decision made by the commercial court allowing Turk Telekom to terminate the 60% discount. Accordingly, Turkcell paid and continues to pay transmission fees to Turk Telekom based on the 25% discount. Although Turk Telekom did not charge any interest on late payments at the time of such payments, Turkcell recorded an accrual amounting to TL 3.0 trillion (\$2,304 as of March 31, 2004) for possible interest charges as of December 31, 2000. On May 9, 2002, Turk Telekom requested an interest amounting to TL 30.1 trillion (equivalent to \$22,930 as of March 31, 2004). Turkcell did not agree with the Turk Telekom's interest calculation and, accordingly, obtained an injunction from the commercial court to prevent Turk Telekom from collecting any amounts relating to this interest charge. Also, Turkcell initiated a lawsuit against Turk Telekom on the legality of such interest. As of March 31, 2004, Turkcell recorded a provision of TL 13.3 trillion (equivalent to \$10,138 as of March 31, 2004) because its management and legal counsel believe that this is the maximum potential liability in accordance with the relevant provisions of the Interconnection Agreement.

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### Dispute on National Roaming Agreement

During the third quarter of 2001, Turkcell was approached by IsTim to negotiate a national roaming agreement. These negotiations did not result in a mutual agreement. Therefore, the discussions continued under the supervision of the Telecommunications Authority. The Telecommunications Authority proposed a solution on October 18, 2001 and asked the parties to reach a decision by November 15, 2001. As Turkcell believes that the Telecommunications Authority is not authorized to intervene in this issue and its proposal is technically impossible to apply and commercially unacceptable, Turkcell obtained an injunction on November 12, 2001 from the Ankara Fourth Court of First Instance regarding the conflict. On December 6, 2001, the Ankara Fourth Court upheld the injunction it rendered in Turkcell's favor on November 12, 2001. According to the Court's decision, the execution of a national roaming agreement between IsTim and Turkcell has been prevented. The Telecommunications Authority and IsTim have appealed the granting of the injunction and the appeals were disapproved in the court trials on February 6, 2003 and February 24, 2003.

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In addition, on November 26, 2001, Turkcell initiated an arbitration suit in the ICC against the Turkish Ministry and the Telecommunications Authority. On November 25, 2003, ICC rendered a decision stating that the case is not under its jurisdiction. In January 2004, Turkcell appealed the decision before the Ankara 13th Court of First Instance. On April 6, 2004, the court dismissed the appeal. Turkcell has appealed this decision. Furthermore, Turkcell had previously initiated an action before the Ankara Ninth Administrative Court on November 13, 2001 to annul the above-mentioned proposed solution of the Telecommunications Authority. On April 18, 2002, the court decided that the issue is not under its jurisdiction and transferred the case to Danistay. On September 13, 2003, Danistay rejected Turkcell's request of injunction.

On March 8, 2002, the Telecommunications Authority issued a new regulation regarding procedures and policies related to a national roaming agreement. Two of the most important provisions of the new regulation are Provisional Article 1 and Article 17. Provisional Article 1, which deals with negotiations, agreements and documents relating to the issuance of this regulation, states that all ongoing negotiations shall continue in compliance with the new regulation and that all agreements and documents completed before issuance of the new regulation shall remain valid and binding. Article 17, which sets out penalties to be imposed on any party violating the provisions of the new regulation.

In a letter dated March 14, 2002, the Telecommunications Authority subjected IsTim's request for national roaming to the condition that it be reasonable, economically viable, and technically possible. Nevertheless the Telecommunications Authority declared that Turkcell is under an obligation to enter a national roaming agreement with IsTim within a 30 day period. On April 8, 2002, Turkcell obtained a precautionary injunction from the Court against the application of the new regulation issued by the Telecommunications Authority requiring it to agree on national roaming within 30 days and providing for penalties in case Turkcell did not agree. Turkcell initiated proceedings against application of the new regulation before the ICC on April 11, 2002, requesting certification of the fact that it is not required to enter into an agreement within 30 days and that it is under no obligation to pay any penalties whatsoever if it does not agree within 30 days. While the ICC proceedings are being pursued Turkcell has

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initiated a lawsuit before the Danistay, concerning the annulment of these Regulations. On January 23, 2004, ICC rendered a decision stating that the case is not under its jurisdiction. In March 2004, Turkcell appealed the decision before the Ankara 21st Court of First Instance. The case is still pending.

On June 9, 2003, the Turkish Competition Board (the "Competition Board") decided that Turkcell abused its dominant position by refusing to enter into a national roaming agreement with IsTim, and fined Turkcell by approximately TL 21.8 trillion (equivalent to \$16,642 at March 31, 2004). On June 7, 2004, the Competition Board's written decision was communicated to Turkcell. Turkcell initiated a lawsuit requesting the cancellation of the Competition Board's decision. Turkcell believes that it has not abused its dominant position and based on its management and legal counsel's opinion, it has not recorded any accrual for Competition Board's decision.

The Telecommunications Authority decided that Turkcell has not complied with its responsibility under Turkish regulations to provide national roaming and fined Turkcell by approximately TL 21.8 trillion (equivalent to \$16,642 at March 31, 2004). Turkcell has recorded an accrual amounting to \$16,642 on its consolidated financial statements as of March 31, 2004. On April 7, 2004, Turkcell made the related payment. On May 27, 2004, Turkcell commenced a lawsuit against Telecommunications Authority's decision.

If Turkcell is forced to enter a national roaming agreement on terms and conditions that do not provide an adequate return on its investment in its GSM network, its financial position, results of operations and cash flows could be materially adversely affected.

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### Investigation of the Turkish Competition Board

The Competition Board commenced an investigation of business dealings between Turkcell and KVK, in October 1999. The Competition Board decided that Turkcell was disrupting the competitive environment through an abuse of dominant position in the Turkish mobile market and infringements of certain provisions of the Law on the Protection of Competition. As a result, Turkcell was fined by approximately TL 7 trillion (equivalent to \$5,318 as of March 31, 2004) and were enjoined to cease these infringements. The Competition Board's written decision was communicated to Turkcell on June 29, 2003 and Turkcell initiated a lawsuit before Danistay for the injunction and cancellation of the decision. Danistay dismissed the case and Turkcell appealed this decision. Turkcell has accrued TL 7 trillion (equivalent to \$5,318 at March 31, 2004) on its consolidated financial statements as of March 31, 2004.

### Dispute on Collection of Frequency Usage Fees

On May 21, 1998, Turkcell entered into a protocol with the Wireless Communications General Directorate (the "Directorate") regarding the application of the governing provisions of the Wireless Law No. 2813 to the administration of its GSM mobile phone network. Under this protocol, Turkcell is to collect frequency usage fees, which are calculated by the Directorate, from the taxpayers using mobile phones on behalf of the Directorate, and to pay the levied tax to the Directorate. In 2001, the Directorate's power, including all of its rights and obligations, was transferred to the Telecommunications Authority. On March 22, 2002, as a consequence of the impossibility in fact and at law of collecting such tax

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from its prepaid subscribers, Turkcell applied to the Ankara 17th Judicial Court and obtained an injunction in respect of the collection of the frequency usage fees. Immediately after this decision, on March 27, 2002, Turkcell filed a lawsuit against the Telecommunications Authority requesting cancellation of the protocols obligating it to collect the frequency usage fees from the prepaid subscribers and to pay it to the Telecommunications Authority. On July 10, 2002, the court decided in favour of Turkcell. On March 31, 2003, the Supreme Court notified Turkcell that it has accepted Telecommunications Authority's appeal and annulled the decision of the lower court. Accordingly, Turkcell accrued TL 52.3 trillion (equivalent to \$39,912 as of March 31, 2004) for principal and TL 85.3 trillion (equivalent to \$65,057 as of March 31, 2004) for interest for the frequency usage fees of 2002 in the accompanying consolidated financial statements as of March 31, 2004. The lower court revised its decision in line with the Supreme Court's decision. The decision is final and is not subject to appeal. On April 20, 2004, Turkcell paid TL 145.6 trillion (equivalent to \$111,070 as of March 31, 2004) for the frequency usage fees of 2002 including interest through that date with reservation.

### Dispute on the Determination of Items of Gross Revenue

On June 11, 2002, Turkcell initiated an arbitral proceeding before the ICC against the Turkish Treasury and the Telecommunications Authority to resolve the dispute in respect to the determination of the items to be taken into account in the calculation of gross revenue, which is the base for the calculation of the amounts to be paid to the Turkish Treasury in accordance with Article 8 of the License Agreement. On January 5, 2004, ICC rendered a decision stating that all the revenue items originating from telecommunication services should be included in the calculation of gross revenue, while the taxes collected by Turkcell under its tax responsibility and interest charges for late collections should be excluded. The Turkish Ministry and the Telecommunications Authority filed a challenge to the ICC's decision to annul the decision. On May 20, 2004, the Ankara 20th Civil Court annulled the part of ICC's decision concerning exclusion of the taxes collected by Turkcell under its tax responsibility and interest charges for late collections that it conflicts with Danistay's previous rulings. Turkcell has appealed this decision.

### New Action by Turk Telekom on Basic Unit Price

In a case filed by Turk Telekom against the Turkish Telecommunications Authority, the Danistay granted an injunction limiting the applicability of the last paragraph of Article 13 of the License Agreement signed between the Turkish Telecommunications Authority and Turkcell. Article 13 regulates the base unit price, the minimum price charged by the Turk Telekom to its subscribers for calls originating on fixed lines and terminating on Turkcell's network. Pursuant to the injunction by the Danistay, Turk Telekom has informed Turkcell that it will recalculate and make its monthly payments to Turkcell on an ongoing basis beginning

from the January 2003 payment. Turkcell has appealed the Danistay's decision with respect to the injunction received by Turk Telekom. Its appeal has been rejected by General Assembly of Administrative Courts of Danistay. In spite of the injunction obtained from Danistay, for the period between January - April 2003, Turk Telekom has made additional payments with reservation. The case is still pending. Turkcell and its legal counsel believe that it is premature to estimate the outcome of this dispute.

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### Investigation of the Telecommunications Authority on International Voice Traffic

In May 2003, Turkcell has been informed that the Telecommunications Authority had initiated an investigation against Turkcell claiming that Turkcell has violated Turkish laws by carrying some of its international voice traffic through an operator other than Turk Telekom. Turkcell is disputing whether Turk Telekom should be the sole carrier of international voice traffic. On March 5, 2004, the Telecommunications Authority fined Turkcell by approximately TL 31.7 trillion (equivalent to \$24,198 as of March 31, 2004). On June 2, 2004, Turkcell has commenced a lawsuit against the decision of the Telecommunications Authority. Turkcell accrued TL 31.7 trillion (equivalent to \$24,198 as of March 31, 2004) for this penalty in the accompanying consolidated financial statements as of March 31, 2004. On April 9, 2004, Turkcell made the respective payment.

### Dispute on Taxation on Investment Tax Credit

On July 14, 2003, the Tax Office claimed that Turkcell should have paid withholding tax and fund on investment tax credit used for 1999. The notice stated that, based on calculation made by the Tax Office, Turkcell should pay TL 1.8 trillion (equivalent to \$1,370 as of March 31, 2004). The Tax Office also imposed a penalty fee of TL 4.3 trillion (equivalent to \$3,247 as of March 31, 2004). Management decided not to pay such amounts and initiated a juridical process based on the decision of the general counsel of Danistay in relation with withholding tax and fund on investment tax credit for 1999. On September 10, 2003, Turkcell has initiated a lawsuit in the tax court related with this dispute. On May 12, 2004, the Tax court decided in favor of Turkcell. The Tax Office has appealed to this decision. The case is still pending. Management and the legal counsel believe that Turkcell will prevail in this matter.

### Dispute on Turk Telekom Infrastructure

On December 29, 2001, Turk Telekom notified Turkcell that it has issued a new regulation and increased prices related to infrastructure services that it renders to Turkcell and requested TL 9.0 trillion TL (equivalent to \$6,845 as of March 31, 2004) including interest. Turkcell refused to make the payment and Turk Telekom deducted such amount from Turkcell's receivables from Turk Telekom. Turkcell commenced a lawsuit against Turk Telekom before the Ankara First Commercial Court requesting an injunction, annulment of the regulation and collection of the deducted amount from its receivables. On February 27, 2002, the Telecommunications Authority decided that Turk Telekom has no right to regulate the prices of services rendered from its infrastructure on its own. Turk Telekom commenced a lawsuit against this decision before the administrative court. In the first case, the Ankara First Commercial Court decided to postpone its decision until the administrative court in the second case renders a final decision. On March 4, 2004, the administrative court decided to annul the Telecommunications Authority's decision dated February 27, 2002. On May 13, 2004, the Ankara First Commercial Court dismissed the case. Turkcell has appealed to this decision. Based on its management and legal counsel's opinion, Turkcell has not made any accrual related with this dispute.

### Investigation of the Telecommunications Authority on Frequency Fee Payments

On October 23, 2003, the Telecommunications Authority fined Turkcell claiming that Turkcell has made inadequate annual frequency usage fee payments. The Telecommunications Authority requested TL 16 trillion (equivalent to \$12,206 as of March 31, 2004) for principal, an interest charge of TL 10.8 trillion (equivalent to \$8,207 as of March 31, 2004) and



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a penalty of TL 63.4 trillion (equivalent to \$48,396 as of March 31, 2004). Management and legal counsel believe that the Telecommunications Authority's decision is due to a misinterpretation of the applicable regulations. On February 20, 2004, Turkcell initiated the legal proceedings for the annulment of the decision. Turkcell accrued TL 101.7 trillion (equivalent to \$77,582 as of March 31, 2004) for this penalty in the accompanying consolidated financial statements as of

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March 31, 2004. The court has rejected Turkcell's appeal for annulment of Telecommunications Authority's decision. The case is transferred to upper court. On April 16, 2004, Turkcell paid TL 103.7 trillion (equivalent to \$79,114 as of March 31, 2004) including interest through that date regarding the Telecommunication Authority's claim.

### Dispute on Special Transaction Taxation Regarding Prepaid Card Sales

On September 18, 2003, Ministry of Finance issued a report stating that by applying discounts for prepaid card sales for the period between June - December 2002, Turkcell calculated the special transaction tax on post-discounted amount. Pursuant to this report, the Tax Office delivered to Turkcell a notice, asserting deficiencies in special transaction tax declarations and requesting special transaction tax payment amounting to TL 7 trillion (equivalent to \$5,332 as of March 31, 2004) and a tax penalty of TL 9.9 trillion (equivalent to \$7,530 as of March 31, 2004). On November 20, 2003, Turkcell has initiated a lawsuit in the tax court related with this dispute. On May 31, 2004, the Tax court decided in favor of Turkcell. The case is still pending. Management and legal counsel believe that Turkcell will prevail in this matter.

### Investigation of the Turkish Competition Board

The Competition Board initiated an investigation against Turkcell and Telsim, alleging that both companies have abused their dominant position by restricting IsTim and Aycell's entry into market via increasing their call termination rates of interconnection between each other's networks 1.4 cents per minute to 20 cents per minute before IsTim and Aycell entered into the market. The investigation is pending.

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### (21) Subsequent Events

(a) On May 26, 2004, the Board of Directors declared a distributable dividend of TL 236,317 billion (equivalent to \$180,218 at March 31, 2004). TL 118,159 billion (equivalent to \$90,109 at March 31, 2004) of the dividend will be distributed in the form of bonus shares and TL 118,159 billion (equivalent to \$90,109 at March 31, 2004) will be distributed in cash. The rate of the bonus share certificate to be issued for each share having a nominal value of TL 1,000 will be 23.63%. Also, net TL 236.3 (equivalent of approximately 0.018 cents at March 31, 2004) will be paid to shareholders for each share they own.

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At the Board of Directors Meeting of the Company, which was held on June 23, 2004, it was resolved that the issued capital of the Company would be increased to TL 1,474,639 billion from TL 500,000 billion. Accordingly, the total amount to be increased is TL 974,639 billion. Of this, TL 118,158 billion is from the distributable income of the Company from 2003 earnings while TL 856,480 billion is from the statutory capital inflation adjustment. The total amount will be added to the capital of the Company and the bonus shares to be issued accordingly will be distributed to the shareholders. As a result of the above decision, 1.949278722 bonus shares will be issued for each ordinary share having a nominal value of TL 1,000. The application for the registration of the bonus share certificates to be issued after the capital increase is approved by the Turkish Capital Markets Board on July 15, 2004.

(b) The Company and Ericsson Turkey have established a company named East Asian Consortium B.V. ("East Asian"), with a share capital of EUR 91 million, in order to invest in the Iranian GSM business. Turkcell owns 85% of this company and Ericsson owns the remaining 15%. Subsequent to March 31, 2004, Turkcell has fully completed its capital contribution in East Asian. East Asian is a member of the Irancell Consortium (the "Consortium").

(c) On July 21, 2004, it has been made public that the debt restructuring talks between the Banking Regulation and Supervision Agency (the "BRSA") and the Cukurova Group, one of the significant founding shareholders of the Company, have been finalized by mutual agreement. In accordance with this agreement, the Cukurova Group will purchase 5,699,493,626 Turkcell shares (nominal value of TL 5,699,494 million) based on the weighted average price of the last 30 trading days in Istanbul Stock Exchange and 8,998,845,000 Turkcell shares (nominal value of TL 8,998,845 million), based on the acquisition cost plus Libor+3.5% annual interest from Yapi Kredi until April 30, 2005.

(d) Subsequent to March 31, 2004, Turkcell has engaged in discussions with third parties relating to the settlement of certain legal proceedings discussed in footnote 20, which include the dispute on the additional ongoing license fee on value added services and other charges; the dispute on additional ongoing license fee on special transaction tax and stamp duty; the dispute on additional ongoing license fee on interconnection revenues; the dispute on Turk Telekom interconnection fee and the dispute on Turk Telekom infrastructure. Since these discussions are ongoing Turkcell management believes that it is too early to estimate the outcome of these disputes. However, based upon these ongoing discussions the Turkcell management believes that the amounts required to resolve these disputes may be higher than Turkcell's net legal provisions as of March 31, 2004 as much as \$250 million to \$350 million.

### OPERATING AND FINANCIAL REVIEW FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2004

#### 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, 2002 and 2003 and the related consolidated statements of operations, changes in shareholders' equity and comprehensive income, and cash

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flows for each of the years in the three year period ended December 31, 2003 and the related notes included in our annual report on Form 20-F for the year ended December 31, 2003 (the "20-F") and the consolidated balance sheets as of December 31, 2003 and March 31, 2004, and the related consolidated statements of operations, changes in shareholders' equity and comprehensive income, and cash flows for each of the three month periods ended March 31, 2003 and 2004 and the related notes included herein. The information as of March 31, 2004 and for each of the three month periods ended March 31, 2003 and 2004 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 on November 10, 2003, with amended tariffs and tariff adoption procedures.

Under our GSM license, we pay the Turkish Treasury a monthly amount 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. 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 the fixed-line network and terminating on our network. We also have interconnection agreements with Telsim, Aycell, IsTim, Milleni.com and Globalstar pursuant to which we have agreed, among other things to pay interconnection fees to the other parties for calls originating on our network and terminating on theirs, and they have agreed to pay interconnection fees for calls originating on their networks and terminating on ours. On October 9, 2003, we also signed a new agreement with Telsim, revising the pricing terms of the interconnection agreement signed on October 4, 2001. However, after the resolution of the Telecommunications Authority on the pricing terms, on November 21, 2003, Telsim and we determined the new pricing terms, which resulted in an amendment on the pricing terms. On September 10, 2003, we entered into an interconnection agreement with Globalstar Avrasya Uydu ve Data Iletisim AS ("Globalstar"), which is effective from September 10, 2003. The agreement between Turkcell and Globalstar was concluded on December 11, 2003, with amended tariffs and tariff adoption procedures.

We commenced construction of our GSM network in 1993. As of March 31, 2004, we have made capital expenditures amounting to approximately \$4.0 billion including the cost of our license.

As of March 31, 2004, our network coverage area included 100% of the all cities and towns with a population of 10,000 or more 99.87% of all cities with a

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population of 5,000 or more and 99.45% of all cities with a population of 3,000 or more. Our coverage also includes all holiday destinations, seasonally populated areas and intercity highways.

Our subscriber base has expanded from 63,500 at year-end 1994 to approximately 12.2 million at year-end 2001, 15.7 million at year-end 2002, 19.0 million at year-end 2003 and 19.7 million as of March 31, 2004. The rate of increase in the first three months of 2004 was slower than in previous years, mainly due to the increase in penetration levels. We believe we can achieve similar subscriber growth in nominal terms compared to that in 2003; however the percentage growth in 2004 is likely to be smaller than in 2003 since the subscriber base is higher in 2004.

During the first quarter of 1999, we introduced a prepaid mobile service in order to increase penetration and limit 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. By March 31, 2004, 14.8 million subscribers had commenced usage of the prepaid service. Average monthly minutes of use per prepaid subscriber and average revenue per prepaid subscriber tend to be lower than postpaid subscribers. Our average monthly minutes of use per subscriber has increased 11.0% to 56.4 minutes for the three month period ended March 31, 2004 from 50.8 minutes for the same period in 2003 mainly due to the favorable effect of the improving macroeconomic environment on consumer sentiment along with volume based campaigns and mass loyalty programs. Our average monthly revenue per user increased 26% to \$12.7 for the three month period ended March 31, 2004 from \$10.1 for the same period in 2003. This increase was mainly due to the appreciation of TL against US dollars, the increase in average minutes of use per subscriber, two price increases and improved consumer sentiment. Together with the improvement in the macroeconomic indicators, improving consumer sentiment and their impact on usage levels, we expect average minutes of use per subscriber and average monthly revenue per user to improve compared to 2003. We expect average monthly minutes of usage to improve compared to 2003 as a result of the improvement in macroeconomic indicators and consumer sentiment.

Churn is calculated as the total number of subscribers disconnections during a period as the percentage of the average number of subscribers for the period. Churn refers to subscribers that are disconnected, both voluntary and involuntary. 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, 2003, we disconnected approximately 170,993 additional subscribers for nonpayment of bills and our annual churn rate was 14.5%. For the three month period ended March 31, 2004, we disconnected approximately 31,000 additional subscribers for nonpayment of bills. Our churn rate was 3.2% for the three month period ended March 31, 2004. We have a bad debt provision in our financial statements for such non-payments and disconnections amounting to \$135.9 million and \$138.7 million as of December 31, 2003 and March 31, 2004, respectively, which we believe is adequate. Prior to 2003, the majority of disconnections were due to non-payment of bills. However, starting with 2003, the majority of subscriber disconnections were prepaid subscribers' disconnections as a result of the increased number of our prepaid subscribers in our subscriber base. We will keep churn rate at lower levels compared to 2003 levels.

### International and Other Domestic Operations

In 2004, we have expanded our international GSM operations, by our investments in Irancell and Digital Cellular Communications, which are located

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in Iran and Ukraine, respectively. For a description and additional information regarding our international and other domestic operations see "Item 4B. Business Overview - International 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, call center revenues and sales of SIM cards. 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 amount that varies according to the subscriber's service package, without regard to actual use of our GSM network services. Call center revenues consist of revenues for call center services provided by our call center subsidiary to affiliated non-consolidated companies. 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. 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 and SMS and Internet applications. GPRS charges to subscribers are based on the amount of data downloaded.

In June 2003, we commercially launched our 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 are generally 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

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call.

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 7 days before the amendment of any tariff. We raise tariffs from time to time to offset Turkish inflation and devaluation of the Turkish Lira ("TL"). We have taken actions to increase revenues, including raising tariffs in February, April and June 2002, March and December 2003. We also launched a variety of new tariff packages to attract new subscribers. We will continue to monitor the market and the implementation of

the price will be depending on the competitive, regulatory and macroeconomic environment. We will continue to take the necessary actions to maintain the right balance between our revenue goals and our customers' perception on our price-value relation.

Although the Amending Law has no specific regulations in case of tariff policy, it authorizes the Telecommunications Authority to scrutinize activities in contradiction to fair competition. On the regulatory side, the Telecommunications Authority is working towards implementation of 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, we charge Turk Telekom a net amount of TL 210,000 (equivalent to \$0.16 at March 31, 2004) 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 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 will charge TL 178,750 (equivalent to \$0.14 at March 31, 2004) per minute for traffic originating on all other mobile operators' networks and terminating on our network effective from September 23, 2003. Previously, from March 1, 2001, we had charged Telsim a net amount of \$0.20 per minute for traffic switched from Telsim to us. We entered into an interconnection agreement with IsTim that became effective on March 9, 2001, after the Ministry of Transportation's approval. Under this agreement, we charge IsTim a net amount of \$0.20 per minute for traffic switched from IsTim to us. We also entered into an interconnection agreement with Aycell on July 19, 2001. We charge Aycell a net amount of \$0.20 per minute for traffic switched from Aycell to us. After Aria-Aycell merger under the company name of TT&TIM, we started to negotiate on new interconnection agreement. We entered into an interconnection agreement with Milleni.com in April 2001. Under the interconnection agreement with Milleni.com, we charge Milleni.com a net amount of (euro)0.11 per minute for our network terminated traffic. Our agreement with Milleni.com is not affected by the Telecommunications Authority resolution of October 11, 2003. Under the interconnection agreement with Globalstar, effective from September 10, 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.

Under our GSM license, we estimate that the amount of revenue after deducting ongoing license fees, international roaming and interconnect expenses

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represent 71% and 70% of our revenues for the three month periods ended March 31, 2003 and 2004. 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 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. Together with the improvement in the macroeconomic indicators and consumer sentiment, we expect revenues to increase under current macroeconomic projections compared to 2003. For a description of the dispute regarding the national roaming agreement and the risks relating to such dispute, see "Item 3D. Risk Factors" in our 20-F.

### Operating Costs

#### Direct Cost of Revenues

Direct costs of revenues include mainly ongoing license fees, transmission fees, base station rents, billing costs, depreciation and amortization charges, technical, 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 Turk Telekom, Telsim, TT&TIM, Milleni.com and Globalstar and wages, salaries and personnel expenses for technical personnel. Direct costs of revenues also include 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 and Arbitration Proceedings" in our 20-F.

Under the Amended Agreement, we pay Turk Telekom interconnection fees of TL 50,000 (equivalent to \$0.04 at March 31, 2004) per minute for local calls from our network to the Turk Telekom fixed-line network and TL 70,000 (equivalent to \$0.05 at March 31, 2004) per minute for non-local calls from our network to the Turk Telekom fixed-line network. 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. We pay Turk Telekom 70% of the net amount of the normal per-minute call charge, as outlined under Turk Telekom's current tariffs. Prior to September 20, 2003, we paid Turk Telekom interconnection fees of \$0.06 per minute for calls to our GSM network, \$0.014 per minute for local calls from our network to the Turk Telekom fixed-line network and \$0.025 per minute for non-local calls from our network to the Turk Telekom fixed-line network.

Per the Amended Agreement signed with Telsim, effective from October 9, 2003, we pay Telsim a net amount of TL 210,000 (equivalent to \$0.16 at March 31, 2004) per minute for traffic switched from us to Telsim. However, after the resolution of the Telecommunications Authority on the pricing terms, on November 11, 2003, Telsim and we determined the new pricing terms, which resulted in an amendment in the agreement. Per the Telecommunications Authority resolution, we paid TL 178,750 (equivalent to \$0.14 at March 31, 2004) per minute for calls originating on our network and terminating on Telsim's network effective from September 23, 2003. On October 11, 2003, the Telecommunications Authority resolved that we would pay TL 233,750 (equivalent to \$0.18 at March 31, 2004) per minute for traffic originating on our network and terminating on Telsim's network effective from September 23, 2003.

We entered into an interconnection agreement with IsTim that became

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effective on March 9, 2001, after the Ministry of Transportation's approval. Under the IsTim interconnection agreement, each party agreed, among other things, to permit the interconnection of its network after the other's network to enable calls to be transmitted to, and received from, the GSM system operated by each party in accordance with technical specifications set out in the interconnection agreement. Under the agreement, we paid IsTim a net amount of \$0.20 per minute for traffic switched from us to IsTim.

We also entered into an interconnection agreement with Aycell on July 19, 2001. Under the agreement, we paid Aycell a net amount of \$0.20 per minute for traffic switched from us to Aycell. After Aria-Aycell merger under the company name of TT&TIM, we have been negotiating on new interconnection agreement. Under our interconnection agreement with Milleni.com, each of the parties agrees 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. Milleni.com charges us at various prices identified within the scope of the agreement for the calls destined to numerous networks around the globe. 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, company cars, office rent, office maintenance, insurance, consulting, wages, salaries and personnel expenses for non-technical and non-marketing employees and other overhead charges. In addition, while these expenses are generally related to the size of our employee base, the general and administrative expense per employee has decreased over the past three years due to economies of scale. 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, wages and 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 remained stable at \$23 per new subscriber for the three month periods ended March 31, 2003 and 2004, respectively. We compute average acquisition cost per new subscriber by adding sales promotion expenses, SIM card subsidies, activation fees and 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. The average acquisition cost per subscriber in 2004 is expected to remain at levels similar to 2003. However, in case that the average acquisition cost per subscriber increases due to comparatively lower acquisitions, its impact on financials is not expected to be significant.

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

Three months ended



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	March 31,	
	2003	2004
Statement of Operations (% of revenue)		
Revenues		
Communication fees	96.9	96.8
Monthly fixed fees	1.8	1.6
SIM card sales	0.9	1.1
Call center revenues	0.3	0.3
Other	0.1	0.2
Total revenues	100.0	100.0
Direct cost of revenues	(66.5)	(58.1)
Gross margin	33.5	41.9
General and administrative expenses	(4.5)	(3.9)
Selling and marketing expenses	(10.0)	(10.2)
Operating income	19.0	27.8

Three month period ended March 31, 2004 compared to three month period ended March 31, 2003

We had 19.7 million subscribers, including 14.8 million prepaid subscribers, as of March 31, 2004, compared to 16.3 million subscribers, including 11.6 million prepaid subscribers, as of March 31, 2003. During the first quarter of 2004, we added approximately 0.7 million net new subscribers. Based on our understanding of the market, and considering the changing dynamics this year, we expect to add similar numbers of new subscribers in the second half of 2004 in nominal terms, compared to the first half of 2004.

### Revenues

Total revenues for the three month period ended March 31, 2004 increased 52% to \$745.5 million from \$491.1 million for the same period in 2003. The increase in revenues is mainly due to the growth in the number of subscribers and increased usage, and tariff increase in 2003.

Revenues from communication fees for the three month period ended March 31, 2004 increased 52% to \$721.8 million from \$475.9 million for the same period in 2003. Communication fees include SMS revenue, which amounted to \$82.5 million and \$52.1 million for the three month periods ended March 31, 2004 and 2003, respectively. Although the monthly fixed fee in TL remained the same, in line with the appreciation of TL against US dollars, revenues from monthly fixed fees for the three month period ended March 31, 2004 increased 32% to \$11.9 million from \$9.0 million for the same period in 2003. SIM card revenues for the three month period ended March 31, 2004 increased 93% to \$8.3 million from \$4.3 million for the same period in 2003.

### Direct cost of revenues

Direct cost of revenues increased 33% to \$433.0 million for the three month period ended March 31, 2004 from \$326.7 million for the same period in 2003, mainly due to the increase in revenue-based costs such as the ongoing license fee paid to the Turkish Treasury. The ongoing license fee increased 57% to \$137.5 million for the quarter ended March 31, 2004 from \$87.6 million for the same period in 2003, due to the increase in revenues and appreciation of TL against US dollars. Interconnection costs increased 28% to \$63.7 million for the three month period ended March 31, 2004 from \$49.8 million for the same period

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in 2003, mainly due to the appreciation of TL against US dollars and the increase in Turk Telekom's interconnection tariff under the Amended Agreement, effective from September 20, 2003.

Transmission costs, site costs, information technology and network maintenance expenses increased approximately 27% to \$35.3 million for the three month period ended March 31, 2004 from \$27.8 million for the same period in 2003, mainly due to appreciation of TL against US dollars. In addition, uncapitalizable antenna site costs and expenses increased 71% to \$27.8 million for the three month period ended March 31, 2004 from \$16.3 million for the same period in 2003, mainly due to increase in radio network operations and increase in radio rent expenses under the renewed rent agreements.

Roaming expenses increased 26% to \$11.7 million for the three month period ended March 31, 2004 from \$9.3 million for the same period in 2003, mainly due to the increase in roaming revenue generated from the calls made by our subscribers while outside Turkey, primarily reflecting the better economic climate and appreciation of TL against US dollars.

Billing costs increased 40% to \$6.7 million for the three month period ended March 31, 2004 from \$4.8 million for the same period in 2003, mainly due to appreciation of TL against US dollars and increase in postage fees.

Depreciation and amortization charges slightly decreased 1% to \$104.5 million for the three month period ended March 31, 2004 from \$105.1 million for the same period in 2003. The amortization expense for our GSM license was \$5.0 million for the three month period ended 2004 and the same period in 2003.

The cost of SIM cards sold increased 11% to \$8.2 million for the three month period ended March 31, 2004 from \$7.4 million for the same period in 2003 reflecting the increase in simcard revenue as compared to the same period in 2003.

Wages, salaries and personnel expenses for technical personnel increased 79% to \$24.3 million for the three month period ended March 31, 2004 from \$13.6 million for the same period in 2003 mainly due to appreciation of TL against US dollars, periodic increase in salaries and increase in headcount.

As a percentage of revenue, direct cost of revenues decreased to 58% for the three month period ended March 31, 2004 from 67% for the same period in 2003 mainly due to increased operational efficiency.

Gross profit increased to \$312.5 million for the three month period ended March 31, 2004 from \$164.4 million for the same period in 2003, mainly due to stable depreciation and amortization charges in 2004 as compared to 2003.

### General and administrative expenses

General and administrative expenses increased 32% to \$29.3 million for the three month period ended March 31, 2004 from \$22.2 million for the same period in 2003, mainly due to one time fees paid for the Iran GSM license tender. As a percentage of revenues, general and administrative expenses decreased to 4% for the three month period ended March 31, 2004 compared to 5% for the same period in 2003.

Bad debt expenses decreased to \$7 thousand for the three month period ended March 31, 2004 compared to \$8.4 million for the same period in 2003, mainly due to improved collection activities such as credit scoring, a new option whereby subscribers can make payments under an installment plan and new

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collection channels and improvement in the legal follow-up system to decrease fraud. We provided an allowance for doubtful receivables identified based upon past experience in our consolidated financial statements.

In the first quarter of 2004, Turkcell made a payment to BNP Paribas related with Iran 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 the consultant to the Iranian government). In the first quarter of 2004, we paid such consultancy fees and charged \$8.9 million to general and administrative expenses. We do not foresee any additional payment.

Wages, salaries and personnel expenses for non-technical and non-marketing employees increased 100% to \$9.2 million for the three month period ended March 31, 2004 from \$4.6 million for the same period in 2003. The increase was mainly due to the increase in headcount, appreciation of TL against US dollars and periodic increase in salaries.

### Selling and marketing expenses

Selling and marketing expenses increased 55% to \$76.0 million for the three month period ended March 31, 2004 from \$49.0 million for the same period in 2003, mainly due to increase in the prepaid subscribers' frequency usage fees, increased sponsorships and appreciation of TL against US

dollars. As a percentage of revenues, selling and marketing expenses were 10% for the first quarter of 2004 and 2003. We expect our selling and marketing expenses to increase due to increasing competition. However, we aim to keep it stable as a percentage of revenues.

Total postpaid advertising, market research, product management, public relations and call center expenses increased 49% to \$14.9 million for the three month period ended March 31, 2004 from \$10.0 million for the same period in 2003, mainly due to increased corporate and social sponsorships.

Total prepaid advertising, market research, product management, public relations expenses and prepaid subscribers' frequency usage fee expenses increased 75% to \$37.9 million for the three month period ended March 31, 2004 from \$21.6 million for the same period in 2003. The increase in 2004 stemmed mainly from the increase in prepaid subscribers' frequency usage fees. See "Item 8A. Consolidated Statements and Other Financial Information-Legal and Arbitration Proceedings" in our 20-F.

Activation fees decreased 2% to \$6.1 million for the three month period ended March 31, 2004 from \$6.2 million for the same period in 2003. Of the total dealer activation fees for the three month period ended March 31, 2004 and March 31, 2003, \$4.1 million and \$5.0 million were for prepaid activations, respectively.

Wages, salaries and personnel expenses for selling and marketing employees increased 52% to \$9.3 million for the three month period ended March 31, 2004 from \$6.1 million for the same period in 2003 mainly due to appreciation of TL against US dollars and periodic increase in salaries.

### Operating income

Operating income increased 122% to \$207.2 million for the three month period ended March 31, 2004 from \$93.2 million for the same period in 2003, mainly due to increase in revenues.

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### Income from related parties, net

Income from related parties, which includes sales of GSM equipment and SIM cards and charges for management, promotional materials and technical advisory services provided to Azercell, Moldcell, Milleni.com, Geocell and GSM Kazakhstan net of cost of goods sold after accounting for intercompany profit elimination was \$0.5 million for the three month period ended March 31, 2004 compared to \$2.0 for the same period in 2003, mainly due to the sales of GSM equipment to Geocell in the first quarter of 2003.

### Interest income (expense), net

Interest expense net of interest income decreased 33% to \$40.5 million for the three month period ended March 31, 2004 compared to \$60.2 million for the same period in 2003. The decrease in net interest expense was mainly due the repayment of principal portion of loans made during 2003 amounting to \$673.5 million. Interest expense related to the principal repayments of the loans decreased to \$17.4 million for the three month period ended March 31, 2004 from \$31.7 million for the three month period ended March 31, 2003. Interest expense related to legal cases increased to \$55.1 million for the three month period ended March 31, 2004 from \$39.5 million for the three month period ended March 31, 2003.

### Other income (expense), net

Other expense net of other income was \$0.5 million for the three month period ended March 31, 2004 compared \$3.0 million other income, net for the same period in 2003.

### Translation gain (loss)

We have recorded a translation loss of \$20.2 million for the three month period ended March 31, 2004, compared to \$1.1 million for the same period in 2003. The increase in translation loss experienced for the three month period ended March 31, 2004 stemmed from the 6% appreciation of TL against the US dollar for the three month period ended March 31, 2004 compared to the 4% devaluation of the TL against the US dollar for the same period in 2003. As we recorded significant accruals, against legal disputes in our balance sheet, and nearly all accruals are in terms of TL, the appreciation of TL resulted in translation loss.

### Income tax expense

Income tax expense was \$29.2 for the three month periods ended March 31, 2004 and nil for the same period in 2003. 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 taxable income in 2004 and onwards and have generated taxable income for seven consecutive quarters. We believe that subsequent to the conclusion of the war in Iraq during the second quarter of 2003 and the limited impact it has had on the economic situation in Turkey, the economic and political uncertainties surrounding us have become less uncertain and provided us better visibility about the near term future. In addition, economic and political situation in Turkey became more stable and there are positive expectations about the near term future. Furthermore, the interconnection agreement with Turk Telekom was revised in late 2003. We believe that these matters also provide us better visibility about the near term future. As a

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result, we concluded that it was more likely than not that the deferred tax assets of \$544.0 million were realizable. Turkish tax legislation does not allow companies to file tax returns on a consolidated basis. Accordingly, we believe a valuation allowance should continue to be provided on a portion of the deferred tax assets, resulting from certain consolidated subsidiaries, as they are unable to conclude that the likelihood of realizing these deferred tax assets is more likely than not. Accordingly, a valuation allowance of approximately \$12.6 million is recorded as of March 31, 2004 (December 31, 2003: \$11.0 million) for such amounts. The valuation allowance at December 31, 2003 and March 31, 2004 has been allocated between current and non-current deferred tax assets on a pro-rata basis in accordance with the provisions of SFAS No. 109. We believe that it is more likely than not the net deferred tax asset of approximately \$544.0 million as of March 31, 2004 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 \$7.9 million for the three month period ended March 31, 2004 compared to \$2.2 million for the same period in 2003. The increase in net income of unconsolidated investees was mainly due to an increase in Fintur's net income from \$5.3 million for the three month period ended March 31, 2003 to \$19.0 million for three month period ended March 31, 2004.

### Net income

Net income was \$126.2 million for the three month period ended March 31, 2004 compared to the net income of \$39.5 million for the same period in 2003. The increase was mainly due to the strong operational performance and the appreciation of TL against US dollars.

### Taxation Issues in Telecommunications Sector

On August 1, 2004, certain provisions of the Special Communication Tax Law were amended. In particular, the Special Communications Tax imposed on new subscribers that transfer from other mobile operator to another, which used to be TL 20.0 million per subscriber, has been abolished.

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 otherwise disclosed herein, here have been no material changes in the taxes imposed on telecommunications services since the date of the 20-F.

### Investment Incentive Certificates

In 1993, 1997, 2000, and 2001, the Undersecretariat of the Treasury approved investment incentive certificates for a program of capital expenditures by us and our subsidiaries in our mobile communications operations and call center 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 are subject to withholding tax at the rate of 19.8% (for expenditures made after April 24, 2003, the investment tax benefit equals 40% of qualifying expenditures but it

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is not subject to any withholding tax). Investment incentive certificates provide for tax benefits on cumulative purchases of up to approximately \$4.6 billion in qualifying expenditures. As of March 31, 2004, we had incurred cumulative qualifying expenditures of approximately \$3.6 billion (\$3.4 billion as of December 31, 2003), resulting in tax credit carryforwards under the certificates of approximately \$370.6 million (\$343.0 million as of December 31, 2003), net of foreign exchange translation losses. Such tax credits can be carried forward indefinitely. The certificates are denominated in TL. However, approximately \$0.6 billion of qualifying expenditures through March 31, 2004 (\$2.1 billion as of December 31, 2003) 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 the 20-F.

### Capital Transactions

On June 23, 2004, our board of directors decided that Turkcell's paid-in capital shall be increased from TL 500 trillion to TL 1,474.6 trillion by adding TL 118.1 trillion out of the total dividend for the year 2003 and the statutory capital inflation adjustment (included in the financial statements prepared in accordance with the accounting standards promulgated by the Turkish Capital Markets Board) difference amounting to TL 856.5 trillion for 2003 to Turkcell's paid-in capital. An application to the Turkish Capital Markets Board has been made for the approval of such capital increase and the registration of the bonus shares to be issued and distributed to our shareholders. The Turkish Capital Markets Board approved the application on July 15, 2004.

### Effects of Inflation

The annual inflation rates in Turkey were 29.7% and 18.4% for the years ended December 31, 2002 and 2003, respectively, based on the Turkish consumer price index. Annual inflation rates were 11.8% as of March 31, 2004 and 29.4% for the same period in 2003. Within a hyperinflationary

economy such as Turkey's, holding TL-denominated monetary assets in excess of TL-denominated monetary liabilities results in a loss as the real value of the net monetary assets decreases in line with the inflation rate. In a situation where monetary liabilities exceed monetary assets, a gain results as the real value of the net liabilities decreases. In order to try to contain inflation rates that have averaged about 38.9% per annum over the past three years, the Turkish government has implemented policies, including certain austerity measures that could have a negative impact on the Turkish economy and on our profitability. 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 2004, the Emerging Issues Task Force ("EITF") reached a consensus on EITF 03-01, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." EITF 03-01 provides guidance for assessing other-than-temporary impairment. That proposed guidance would apply to investments accounted for under the cost method or the equity method, investments classified as either available-for-sale or held-to-maturity under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities" (including individual securities and mutual funds). The adoption of EITF 03-01 is not expected to have a material effect on our consolidated financial

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statements.

### 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 finance vehicle and subsidiary, 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 March 31, 2004, total outstanding payables related to the Cellco transactions were \$400 million.

Summary of our consolidated cash flows for the three month periods ended March 31, 2004 and 2003 are as follows:

(In millions of USD)	2003	2004
	----	----
Net cash provided by operating activities	216.2	201.1
Net cash used for investing activities	(60.1)	(66.5)
Net cash provided by (used for) financing activities	(241.2)	222.0
	-----	-----
Net cash increase (decrease)	(85.1)	356.6
	=====	=====

The net cash provided by our operating activities for the three month period ended March 31, 2004 and 2003 amounted to \$201.1 million and \$216.2 million, respectively. The decrease in 2004 was primarily due to the net effect of payments with respect of litigations and increase in revenues in 2004.

The net cash used for investing activities the three month periods ended March 31, 2004 and 2003 amounted to \$66.5 million and \$60.1 million, respectively. Total investments in investees amounted to \$158.8 million as of March 31, 2004 compared to \$118.8 million as of March 31, 2003.

We have invested in the 12.75% Senior Notes due August 1, 2005 issued by Cellco, in the total nominal amount of \$2.0 million in 2003 and will hold the bonds till maturity. Additionally, on

February 17, 2004, on February 18, 2004, on February 26, 2004, on March 29, 2004 and on March 31, 2004, we purchased \$12.1 million Senior Notes bringing the total to \$14.1 million as of March 31, 2004. Subsequent to March 31, 2004, we purchased another \$50.9 million Senior Notes.

For the three month period ended March 31, 2004, we spent approximately \$53.2 million for capital expenditures compared with \$50.6 million for the same period in 2003. In line with the need of additional capacity, our management decided to increase total capital expenditures budget approximately up to \$300.0 million by the end of 2004 for purchase of additional infrastructure equipment. This was mainly due to improved subscriber base and profile, which resulted in higher voice and data usage.

The net cash provided by financing activities for the three months period ended March 31, 2004 amounted to \$222.0 million and the net cash used for financing activities for the three month period ended March 31, 2003 amounted to

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\$241.2 million. As of March 31, 2004, \$834.2 million was outstanding as short-term and long-term borrowings. We also entered into lease agreements in the amount of \$72.5 million with various leasing companies (\$64.7 million for our headquarters and other real estate, \$3.7 million for computers installed at the building, office equipment and company cars and \$4.1 million for a central betting system, which is classified as other long term assets).

Since the beginning 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. Both facilities will be repaid in three years. 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. This facility has maturity of two years from each drawdown.

### 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:

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

We have signed a shareholders agreement with the other shareholders of DCC, our Ukrainian subsidiary, on April 2, 2004. Under the shareholders agreement, we have provided a financial assistance guarantee pursuant to which we agreed to arrange at least \$150 million of financing for DCC prior to 2006.

Irancell (of which Turkcell has an effective 51% interest) has 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. It should be noted that Irancell is in the process of formation. Once Irancell is formally established and the license will be awarded to Irancell, Irancell will be required to pay an initial upfront fee of EUR 300 million and an ongoing license fee based on a percentage of the greater of the precommitted gross revenue or the actual gross revenue, whichever is greater.

As a condition of its GSM license bid, the Irancell Consortium was obliged to provide a bid bond amounting to 263,000,000,000 Iranian Rial (approximately EUR 25 million) to the Iranian

Authorities. This bid bond was issued in Iranian Rial amounting 263,000,000,000 Rial (equivalent to \$24.9 million at March 31, 2004), which was equivalent to EUR 25 million at the date of issuance, by Bank Saderat under a Deutsche Bank AG counter-guarantee on February 8, 2004 underwritten by us. The bid bond originally matured on August 7, 2004. Since Irancell has not been established as of August 7, 2004, the bid bond maturity was extended by Bank Saderat under Deutsche Bank AG counter-guarantee until November 7, 2004.



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The Irancell Consortium was also obliged to give a payment guarantee amounting EUR 300 million, which is equivalent to the upfront license fee. The guarantee becomes effective when the license is formally awarded to Irancell. We have provided a guarantee of EUR 210 million (equivalent to \$256.2 million at March 31, 2004) of this payment guarantee to HSBC plc, which issued the payment guarantee under a syndicate with Akbank and BNP Paribas. The payment guarantee was issued on March 5, 2004 and matures in September 7, 2004. Subsequently, we have started to process the extension of this payment guarantee for an additional three months.

The remaining guarantees that we have provided to third parties are set put in the contingent liabilities table below.

As of March 31, 2004, we have entered into purchase contract in relation advertising services, the value of which amounted to \$25 million. In addition, we routinely enter into operating leases for property and equipment in the normal course of business. At March 31, 2004, there were no commitments and contingent liabilities in material amounts arising from such operating leases.

### Contractual Obligations and Commercial Commitments

The following table illustrates our major contractual obligations and commitments as of March 31, 2004.

(US\$ Million)	Payments due by period				
	Total	Less than 1 year	1-3 years	4-5 years	After 5
	-----	-----	-----	-----	-----
Contractual Obligations					
Long-Term Borrowings	831.7	130.2	701.5		-
Capital Lease Obligations	21.5	14.6	6.9		-
Purchase Obligations	25.0	12.5	12.5	-	-
Operating Leases					-
Total Contractual Cash Obligations	878.2	157.3	720.9	0.0	0.0

### 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 March 31, 2004.

USD million	Total amount	Amount of contingent liability expiration Remaining commitment at March,31	Less than 1	1 - 3
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	committed -----	2004 ----	year ----	years -----
Guarantees				
Irancell	281.1	281.1	281.1	-
Iranian Authorities	256.2	256.2	256.2	-
Iranian Authorities	24.9	24.9	24.9	-
Digital Platform	87.2	35.0	21.3	13.8
BNP - Brussels (Buyer Credit)	50.2	24.3	13.5	10.9
BNP - Brussels (Financial Loan)	8.2	2.2	2.2	-
BNP - Hungary (Buyer Credit)	11.7	5.8	2.9	2.9
BNP - Hungary (Financial Loan)	1.9	0.4	0.4	-
Websterbank - USA	1.2	0.2	0.2	-
HSBC - Istanbul Main Branch	14.0	2.1	2.1	-
Hobim	0.1	0.1	0.1	-
BNP AK Dresdner (Financial Leasing)	0.1	0.1	0.1	-

We have contingent liabilities in respect of bank letters of guarantee obtained from Yapi Kredi and given to the Telecommunications Authority amounting to \$5.0 million, and customs authorities, private companies and other public organizations amounting to \$34.8 million. In addition, as of March 31, 2004, 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 \$2.2 million.

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

Guarantees given for Hobim are related to financial leasing agreements made with the respective lessor.

Irancell Consortium was obliged to provide a bid bond amounting EUR 25 million to the Iranian Authorities. This bid bond was issued by Bank Saderat under Deutsche Bank AG counter-guarantee on February 8, 2004 with Turkcell guarantee. The maturity of the Bid Bond is August 7, 2004 and it was issued in Iranian Rial amounting 263,000,000,000 Rial (equivalent to \$24.9 million at March 31, 2004), which was equivalent to EUR 25 million at the date of issuance. Since Irancell has not been established as of August 7, 2004, the bid bond maturity was extended by Bank Saderat under Deutsche Bank AG counter-guarantee until November 7, 2004. Under the terms of the license Irancell will be required to pay an ongoing license fee based on a percentage of the greater of the precommitted gross revenue or the actual gross revenue, whichever is greater.

Additionally, Irancell Consortium was also obliged to provide a payment guarantee amounting EUR 300 million, which is equivalent to the upfront license fee. The guarantee becomes effective when the license is formally awarded to Irancell. Turkcell has given a guarantee of EUR 210 million (equivalent to \$256.2 million at March 31, 2004) of this payment guarantee. EUR 210 million (equivalent to \$256.2 million at March 31, 2004) payment guarantee was issued by HSBC Plc. under Akbank and BNP Paribas counter-guarantee of EUR 100 million (equivalent to \$122.0 million at March 31, 2004) and EUR 85 million (equivalent to \$103.7 million at March 31, 2004), respectively. The payment guarantee was issued on March 5, 2004 and has maturity date of September 7, 2004. Subsequently, we have started to process the extension of this payment guarantee for an additional

three months. Also, according to the Shareholders Agreement, signed by us and

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other shareholders of Digital Cellular Communication (DCC) on April 2, 2004, we have provided a financial assistance guarantee pursuant to which we agreed to arrange at least \$150 million of financing for DCC prior to 2006.

Astelit, which is a 99% subsidiary of DCC, has signed vendor financing agreements with Ericsson and Nokia; amounting to \$89.0 million and EUR 125.0 million on June 30, 2004 and July 12, 2004, respectively. We have given guarantees of \$49.0 million and EUR 68.9 million, which are equivalent to 55% of contract amount plus 55% of interest and costs in case of non-payment by Astelit. The payment guarantee given to Ericsson was issued on July 22, 2004 and has maturity date of January 31, 2006. The guarantee agreement with Nokia will be signed once the conditions present in credit agreement are satisfied and will have maturity date of December 30, 2005.

### Liquidity Outlook

Under the current assumptions and knowledge of the present facts, we expect Turkcell to be cash self-sufficient maintaining its strong cash position in the business. According to our current business plan, we believe that we will be able to finance our current operations, capital expenditures and financing costs and maintain and enhance our network through our operating cash flow, our strong cash balance as of March 31, 2004 and certain financing transactions we have completed in the first half of 2004.

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.

The important factors that may adversely affect our projections are; general economic conditions, change in the competition, developments in the domestic and international capital markets, investments, changes in telecom regulations and the ongoing legal cases.

### General Economic Conditions

With the support of the encouraging outlook of the economy and the positive consumer sentiment in the market, Turkcell is expected to maintain its net cash generation trend to be sustained. Government's efforts to comply with IMF and the economic program, recovery in the purchasing power parallel with the developments such as GDP growth, decreasing inflation in line with government targets, improved distribution of wealth and 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 additional cash need for Turkcell.

### Loans

During the first quarter of 2004, we continued to restructure our debt in line with our priorities to decrease the borrowing costs, extending the maturity. We have finalized the Syndicated Murabaha facility with IDB and HSBC in January 2004, amounting to \$100 million with a maturity of two years. This facility has an availability period of 180 days, and will be used to finance network equipment purchases in 2004. This agreement was signed on January 16, 2004 and the facility has been utilized completely as of 16 June 2004. Our aim was to diversify our international investor base and lower our borrowing costs on an unsecured basis.

In the first quarter of 2004, we obtained an additional \$200 million from Akbank and Garanti Bank, \$100 million from each with maturities of three years. These facilities provided us further financial flexibility for equity

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injections to be made to our foreign investment and possible payments

to be made related with legal disputes. Meanwhile, we were able to extend the maturity of our loan portfolio while lowering our total borrowing costs through these local bilateral facilities.

Also on October 30, 2003, Yapi Kredi has committed to provide a cash loan facility, with market rates available at our future drawdowns, up to \$150 million to us over the next twelve months. As part of our risk management strategy, we always monitor and consider contingency financing alternatives in line with our business plans.

Also, on March 13, 2003, Garanti Bankasi agreed to extend the maturity of its outstanding loan to us. As a result of this extension, the outstanding balance of \$75 million will be repaid in three equal installments on June 21, 2004, which is completed, January 23, 2006 and April 21, 2006. Further, on April 30, 2003, Akbank agreed to extend the principal payments of \$100 million and \$25 million, which were due on May 9, 2003 and June 5, 2003, respectively. As a result of this extension, \$100 million will be repaid in two equal installments on May 10, 2004 which is completed and May 9, 2005, and \$25 million will be repaid in two equal installments on June 7, 2004, which is completed, and June 6, 2005. We believe that our cash from operations will be sufficient to fully fund our business plan through in the remaining three quarters of 2004, which includes the repayment of approximately \$132.9 million in debt principal and interest obligations. Based on our current expectations regarding the domestic and international macroeconomic environment, developments in the telecommunications sector in general, our debt repayment schedule, costs arising from pending litigation, our obligations on our domestic and international investments and partnerships and the cost of new financing, we do not foresee any funding gap in 2004.

Meanwhile, we are continuing to evaluate different financing alternatives through domestic and international markets to ensure the continuity of our long-term borrowing structure and strategies. We will continue to focus on strategies for lowering the weighted average cost of total borrowing and extending the maturity of outstanding borrowings. We are reviewing the domestic loan alternatives of either extending the existing facilities or by obtaining additional domestic debt. In addition, we will be watching international debt markets for opportunities to make a longer term club deal or syndication. In the meantime, we will be following the high yield markets in 2004, depending on the performance of the existing Cellco Bonds and market availability.

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 long term credit ratings were upgraded by Fitch on October 16, 2003 from B- to B and again on February 17, 2004 from B to B+. Although Moody's and S&P's ratings were unchanged at B2 and B, respectively, S&P has changed our outlook from stable to positive.

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Our debt ratings since May 24, 2004:

Standard & Poor's	B
Moody's	B2
Fitch	B+

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

### Dividend Payments

Until 2003, we were not making any dividend payments due to our previous accumulated loss under previous Capital Market Board ("CMB") accounting standards. The CMB has 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. We have reported accumulated profit according to the new accounting standards. We have declared that we will pay dividend amounting TL 236,317 billion (equivalent to \$180.2 million at March 31, 2004). TL 118,159 billion (equivalent to \$90,1 million at March 31, 2004) of the dividend will be distributed in the form of bonus shares and TL 118,159 billion (equivalent to \$90.1 million at March 31, 2004) is distributed in cash subsequent to March 31, 2004. The rate of the bonus share certificate to be issued for each share having a nominal value of TL 1,000 will be 23.63%. Also, net TL 236.3 (equivalent of approximately 0.018 cents at March 31, 2004) will be paid to shareholders for each share they own. The distribution of the ordinary bonus shares started on July 30, 2004.

Future payment of dividends depend on profitability in accordance with the new accounting standards and distribution of dividends in the following years may be considered depending on our financial performance, changes in the economic conditions and other developments in the environment.

### New Technology Investments and Partnership Opportunities

Cash flow from the operations provides us with the sufficient means to implement our plans. However, new technologies are excluded from the current 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 license in Iran, we have to establish Irancell and pay EUR 300 million to the Iranian authorities. We and other shareholders of Irancell Consortium were obliged to give a payment guarantee amounting to a EUR 300 million, which is equivalent to license fee. The guarantee becomes effective when the license is formally awarded to Irancell. We have given guarantee of EUR 210 million of this payment guarantee. EUR 210 million (equivalent to \$256.2 million at March 31, 2004) payment guarantee was issued by HSBC Plc. under Akbank and BNP Paribas counter-guarantee of EUR 100 million (equivalent to \$122.0 million at March 31, 2004) and EUR 85 million (equivalent to \$103.7

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million at March 31, 2004), respectively. Payment guarantee was issued on March 5, 2004 and has maturity date of September 7, 2004. Subsequently, we have started to process the extension of this payment guarantee for an additional three months. Upon establishment of Irancell, we will make capital injection to Irancell amounting to EUR 76.5 million. Under current circumstances Irancell is expected to be consolidated.

### Quantitative and Qualitative Discussion of Market Risk

Total indebtedness denominated in foreign currencies (all in US dollar) amounted to \$850.2 million, representing almost 100% of our total indebtedness at March 31, 2004.

During the first three month period of 2004, we made principal loan payments of \$2.3 million.

Fair value of indebtedness as of March 31, 2004, which was outstanding at December 31, 2003, has not changed significantly except for loans under 1999 Issuer Credit Agreements. The fair value of the loan under 1999 Issuer Credit Agreement has decreased from \$446.0 million at December 31, 2003 to \$442.5 million at March 31, 2004.

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 portion of our debt obligations and capital expenditures are, and are expected to continue to be, denominated in US dollars. By contrast, substantially all of our revenues are, and will continue to be, denominated in TL. In the normal course of business, in order to manage our foreign exchange risk more efficiently we engaged in 12 forward transactions to buy USD in July 2004 with different maturities. The transactions totaled to \$25 million. There is no covenant restriction related to hedging transactions provided that the transaction is authorized and executed pursuant to clearly defined policies and procedures, which provide that the transaction is entered into to protect the company from fluctuations in currency values. However, we keep a significant proportion of our monetary assets in US dollars to reduce our currency exposure and the maximum tariffs we may charge are adjusted periodically by the Telecommunications Authority to account, among other things, for the devaluation of the TL.

### Legal and Arbitration Proceedings

We are involved in various claims, which are described in "Item 8A. Consolidated Statements and Other Financial Information - Legal and Arbitration 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:

Our net legal provision as of March 31, 2004 was \$1,278.0 million which included provisions of \$1,073.1 million with respect to ongoing uncertainties regarding certain legal proceedings, which include the dispute on the additional ongoing license fee on value added services and other charges; the dispute on additional ongoing license fee on special transaction tax and stamp duty; the dispute on additional ongoing license fee on interconnection revenues; the dispute on Turk Telekom interconnection fee and the dispute on Turk Telekom infrastructure. Our estimate of the amount required to resolve these disputes was based on an analysis of potential results, assuming a combination of

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litigation and settlement strategies. For additional information on these disputes and provisions see note 20 to the consolidated financial statements attached hereto.

Subsequent to March 31, 2004 we have engaged in discussions with third parties relating to the settlement of these disputes. Since these discussions are ongoing we believe that it is too early to estimate the outcome of these disputes. However, based upon these ongoing discussions we believe that the amounts required to resolve these disputes may be higher than our net legal provisions as of March 31, 2004 as much as \$250 million to \$350 million.

Our estimate of the amounts required to resolve these disputes is based upon assumptions and judgments regarding the ultimate outcome of these disputes. If our assumptions or judgments are wrong or the actual costs associated with resolving these disputes differ from our estimates, our results may be materially, adversely affected.

### Other Matters

On February 26, 2004, Cukurova Holding AS informed us that it sold 8,998,845,000 Turkcell shares (nominal value of TL 8,998,845 million) to Yapi Kredi. Following this transaction, the direct ownership of Cukurova Holding AS and Yapi Kredi in Turkcell is 7.47% and 2.89%, respectively.

On July 21, 2004, it has been made public that the debt restructuring talks between the Banking Regulation and Supervision Agency (the "BRSA") and the Cukurova Group, one of our significant founding shareholders, have been finalized by mutual agreement. In accordance with this agreement, the Cukurova Group will purchase 5,699,493,626 Turkcell shares (nominal value of TL 5,699,494 million) based on the weighted average price of the last 30 trading days in Istanbul Stock Exchange and 8,998,845,000 Turkcell shares (nominal value of TL 8,998,845 million), based on the acquisition cost plus Libor+3.5% annual interest from Yapi Kredi until April 30, 2005.

### SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, Turkcell Iletisim Hizmetleri A.S. has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TURKCELL ILETISIM HIZMETLERI A.S.

Date: September 3, 2004

By: /s/ MUZAFFER AKPINAR  
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Name: Muzaffer Akpinar  
Title: Chief Executive Officer