TURKCELL ILETISIM HIZMETLERI A S
Form 20-F
June 30, 2005

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**As filed with the Securities and Exchange Commission on June 30, 2005**

# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 20-F

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934**
**For the Fiscal Year Ended December 31, 2004**
**Commission File Number: 1-15092**

# TURKCELL ILETISIM HIZMETLERI A.S.

(Exact name of Registrant as specified in its charter)

**TURKCELL**

(Translation of Registrant's name into English)

**Republic of Turkey**

(Jurisdiction of incorporation or organization)

**Turkcell Plaza**
**Mesrutiyet Caddesi No: 153**
**34430 Tepebasi**
**Istanbul, Turkey**

(Address of principal executive offices)

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

| Title of each class | Name of each exchange on which registered |
|---|---|
| **American Depositary Shares** | **New York Stock Exchange** |
| **Ordinary Shares, Nominal Value TRY 0.001*** | **New York Stock Exchange** |
| | **Istanbul Stock Exchange** |

*

Not for trading on the New York Stock Exchange, but only in connection with the registration of American Depositary Shares representing such ordinary shares pursuant to the requirements of the Securities and Exchange Commission.

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

**None**

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

**None**

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

| | |
|---|---|
| **Ordinary Shares, Nominal Value TRY 0.001** | **1,854,887,341,000** |

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

Indicate by check mark which financial statement item the registrant has elected to follow. **Item 17** o **Item 18** ý

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## INTRODUCTION

This is the annual report for 2004 for Turkcell Iletisim Hizmetleri A.S., a joint stock company organized and existing under the laws of the Republic of Turkey. The terms "we," "us," "our" and similar terms refer to Turkcell, its predecessors and its consolidated subsidiaries except as the context otherwise requires.

Our financial information included in this annual report has been prepared and is presented on a consolidated basis in accordance with US GAAP in US dollars. We have presented this information in accordance with US GAAP, even though we have maintained our books of account and prepared our statutory financial statements in Turkish Lira in accordance with Turkish Accounting Principles promulgated under the Turkish Commercial Code and Turkish tax legislation, because US and international investors are generally unfamiliar with Turkish Accounting Principles. From January 1, 2005 we maintain our books of account and prepare our statutory financial statements in New Turkish Lira. See "Item 3A. Selected Financial Data  Exchange Rate Data". The consolidated financial statements as of December 31, 2003 and 2004, and for each of the years in the three-year period ended December 31, 2004, included herein have been audited by KPMG Cevdet Suner Denetim ve Yeminli Mali Musavirlik A.S., or KPMG, our independent accountants in Turkey. Prior to 2004, our statutory financial statements were presented on a historical cost basis and were not adjusted to account for the effects of inflation (except for the revaluation of fixed assets other than real property). Our statutory financial statements as of and for the year ended December 31, 2004 have been adjusted for the effects of inflation. However, our statutory financial statements as of and for the three months period ended March 31, 2005 are not subjected to the adjustment for the effects of inflation. It is not certain yet that whether our statutory financial statements for 2005 or next years will be subjected to such inflation adjustment. Our statutory financial statements are not consolidated with the financial statements of our subsidiaries.

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

## FORWARD-LOOKING STATEMENTS

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

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

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

- Economic developments in Turkey and the global economy;
- Political developments in Turkey and its neighboring countries;
- Competition in our home market;
- Failure of the Turkish mobile telecommunications market to develop;
- Legal and regulatory restrictions, including those imposed by the Telecommunications Authority;
- Our ability to renew existing agreements on terms favorable to us;
- Failure to abide by the requirements of our license or applicable regulations;
- Legal actions and claims to which we are a party;
- Our ability to obtain the financing we need for our operations;
- Foreign exchange and interest rate risks;
- Damage to our brand;
- The influence of our controlling shareholders;
- Exposure to certain risks through our interests in associated companies;
- Decisions by the Iranian government that affect our Irancell subsidiary;
- Our ability to deal with spectrum limitations;
- Failure by our business partners to carry out their obligations under our agreements;
- Our dependence on certain suppliers of equipment;
- Our ability to manage our operations effectively; and
- Restrictions on our financial and operational flexibility based on our financing arrangements

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

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

Not Applicable.

## ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable.

## ITEM 3. KEY INFORMATION

### 3A. Selected Financial Data

The financial information included in this annual report has been prepared and is presented on a consolidated basis in accordance with US GAAP in US dollars. We have presented this information in accordance with US GAAP, even though we maintain our books of account and prepare our statutory financial statements in Turkish Lira (new Turkish Lira starting from January 1, 2005 onwards) in accordance with Turkish Accounting Principles promulgated under the Turkish Commercial Code and Turkish tax legislation, because US and international investors are generally unfamiliar with Turkish

Accounting Principles. Our financial statements and those of our subsidiaries located in Turkey and Northern Cyprus have been translated into the US Dollar, the reporting currency, in accordance with the relevant provisions of SFAS No. 52, "Foreign Currency Translation" as applied to entities in highly inflationary economies. Prior to 2004, our statutory financial statements were presented on a historical cost basis and were not adjusted to account for the effects of inflation (except for the revaluation of fixed assets other than real property). Our statutory financial statements as of and for the year ended December 31, 2004 have been adjusted for the effects of inflation. However, our statutory financial statements as of and for the three months period ended March 31, 2005 are not subjected to the adjustment for the effects of inflation. It is not certain yet that whether our statutory financial statements for 2005 or next years will be subjected to such inflation adjustment. Our statutory financial statements are not consolidated with the financial statements of our subsidiaries.

The following table presents our selected financial data as of and for each of the years in the five-year period ended December 31, 2004. We have derived the selected consolidated financial data set forth below as of and for each of the years in the five-year period ended December 31, 2004, from our audited consolidated financial statements and the notes thereto, which were prepared in accordance with US GAAP and audited by KPMG, our independent accountants in Turkey.

You should read the following information in conjunction with "Item 5. Operating and Financial Review and Prospects," our consolidated financial statements as of December 31, 2003 and 2004 and for each of the years in the three-year period ended December 31, 2004, the related notes and the independent auditors' report appearing elsewhere in this annual report.

We adopted EITF 01-09 on January 1, 2002. As a result of the application of EITF 01-09 to prior periods, certain figures provided in the table below will differ from those provided previously.

The information appearing under the captions "Other Financial Data" and "Operating Results" is not audited.

| | Year ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2000[1] | 2001[1] | 2002 | 2003 | 2004 |
| | $ | $ | $ | $ | $ |
| | (in millions, except number of shares, per share and margin data) | | | | |
| **Consolidated Statement of Operations Data** | | | | | |
| Revenues | | | | | |
| Communication fees | 1,834.6 | 1,598.2 | 1,911.0 | 2,143.6 | 3,088.1 |
| Monthly fixed fees | 214.5 | 83.8 | 40.9 | 41.1 | 51.9 |
| Subscription fees[2] | 0.1 | | | | |
| SIM card sales | 6.3 | 12.0 | 13.3 | 24.4 | 28.3 |
| Commission fees on betting business | | | | | 20.3 |
| Call center revenues | 6.4 | 7.7 | 7.9 | 7.4 | 8.2 |
| Other | 2.0 | 0.5 | 0.8 | 2.7 | 4.0 |
| Total revenues | 2,063.9 | 1,702.2 | 1,973.9 | 2,219.2 | 3,200.8 |
| Direct cost of revenues[3] | (1,197.1) | (1,173.7) | (1,366.9) | (1,613.2) | (2,001.2) |
| Gross profit | 866.8 | 528.5 | 607.0 | 606.0 | 1,199.6 |
| General and administrative expenses | (187.9) | (130.7) | (104.5) | (137.2) | (137.3) |
| Selling and marketing expenses | (253.3) | (180.5) | (223.5) | (294.6) | (349.2) |
| Income from operations | 425.6 | 217.3 | 278.9 | 174.2 | 713.1 |
| Income (loss) from related parties, net | 2.5 | 2.5 | (0.2) | 3.7 | 1.9 |
| Interest income (expense), net | (156.5) | (207.8) | (206.8) | (366.3) | 31.3 |
| Other income (expense), net | 9.7 | (5.2) | 13.6 | 6.2 | 7.1 |
| Gain on sale of participations | 44.2 | | | | |
| Equity in net income (loss) of unconsolidated investees[4] | (31.6) | (51.3) | (20.4) | 18.9 | 43.6 |
| Minority interest in income (loss) of consolidated subsidiaries | (0.3) | 0.4 | 0.3 | 3.6 | 7.5 |
| Translation loss | (22.0) | (151.5) | (18.0) | (102.4) | (11.3) |
| Income (loss) before taxes | 271.6 | (195.6) | 47.4 | (262.1) | 793.2 |
| Income tax benefit (expense) | (43.7) | 8.8 | | 477.3 | (281.4) |
| Net income (loss) | 227.9 | (186.8) | 47.4 | 215.2 | 511.8 |
| Net income (loss) per share[5] | 0.000138 | (0.000107) | 0.000026 | 0.000116 | 0.000276 |
| **Other Financial Data** | | | | | |
| Dividends declared[6] | | | | 78.1 | 182.2 |
| Dividends per share[7] | | | | 0.00004 | 0.00010 |
| Gross margin[8] | 42.0% | 31.0% | 30.8% | 27.3% | 37.5% |
| EBITDA[9] | 822.4 | 503.4 | 761.3 | 643.0 | 1,338.8 |
| Capital expenditures | 976.8 | 108.3 | 71.2 | 172.9 | 486.7 |
| **Consolidated Balance Sheet Data (at period end)** | | | | | |
| Cash and cash equivalents | 363.4 | 243.1 | 394.1 | 582.7 | 763.8 |
| Total assets | 3,884.9 | 3,536.0 | 3,233.5 | 3,867.3 | 4,361.5 |
| Long-term debt[10] | 1,635.1 | 1,246.0 | 925.0 | 522.2 | 269.7 |
| Total debt | 2,083.8 | 1,637.8 | 1,308.2 | 630.2 | 832.6 |
| Total liabilities | 2,590.1 | 2,250.8 | 1,903.0 | 2,320.0 | 2,376.0 |

| | Year ended December 31, | | | | |
|---|---|---|---|---|---|
| Capital stock | 458.2 | 636.1 | 636.1 | 636.1 | 636.1 |
| Total shareholders' equity/net assets | 1,294.8 | 1,285.2 | 1,330.5 | 1,547.3 | 1,985.5 |
| Number of shares | 1,646,177,657,060 | 1,744,887,763,262 | 1,854,887,341,000 | 1,854,887,341,000 | 1,854,887,341,000 |
| **Consolidated Cash Flow Information** | | | | | |
| Net cash provided by operating activities | 348.0 | 288.7 | 608.8 | 1,041.3 | 603.9 |
| Net cash used for investing activities | (981.5) | (159.9) | (141.9) | (198.9) | (542.3) |
| Net cash provided by (used for) financing activities | 748.2 | (249.0) | (315.9) | (653.8) | 119.5 |

(1) We adopted EITF 01-09 "Accounting for Consideration Given to a Customer or a Retailer of the Vendor's Products" on January 1, 2002. As a result of applying the provisions of EITF 01-09, our revenues, gross profit, and selling and marketing expenses were each reduced by $161.0 million and $84.7 million for the years ended December 31, 2000 and 2001, respectively. The adoption of EITF 01-09 had no impact on operating income, net income (loss) or earnings (loss) per share. As a result of the application of EITF 01-09 to prior periods, certain figures provided in this annual report will differ from figures provided previously.

(2) Beginning March 1, 2000, we stopped charging subscription fees to new subscribers. Subscription fees consisted of a one-time nonrefundable fee charged when a new subscriber initially contracted with us for the provision of GSM network services.

(3) Direct cost of revenues includes ongoing license fee payments, transmission fees, base station rents, billing costs, depreciation and amortization charges, technical, repair and maintenance expenses, roaming charges, interconnection fees, wages, salaries and personnel expenses for technical personnel.

(4) Equity in net income (loss) of unconsolidated investees includes primarily the income (loss) from Fintur Holdings B.V. ("Fintur") of which we own 41.45%. Fintur currently holds all of our International GSM investments other than our Northern Cyprus and Ukraine operations. During 2002, Fintur restructured its two business divisions, the international GSM businesses and the technology businesses. As part of the restructuring, we acquired 16.45% of Fintur's international GSM businesses from the Cukurova Group, increasing our ownership interest in that business to 41.45% and Fintur sold its entire interest in its technology businesses to the Cukurova Group. See "Item 4B. Business Overview International Operations Fintur."

(5) Net income (loss) per share figures have been restated to reflect the effect of certain stock splits as explained in note 23 to the consolidated financial statements.

(6) The US$ equivalent of the cash dividends declared for the year ending December 31, 2004, which amounted to TRY 250.1 million, were computed by using the Turkish Central Bank's TRY/US$ exchange rate on April 29, 2005, which is the date our General Assembly has accepted dividend payment.

(7) In 2004 we paid dividends of $78.1 million for the period ended December 31, 2003, when 500,000,000,000 of our shares were outstanding. In 2005 we declared dividends of $182.2 million for the year ending December 31, 2004, when 1,854,887,341,000 of our shares were outstanding. Dividends per share for the year ending December 31, 2003 is computed over 1,854,887,341,000 shares in order to reflect the effect of certain stock splits as explained in note 23 to the consolidated financial statements.

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

(9) EBITDA equals net income (loss) before interest expense, income tax benefit (expense), depreciation and amortization. EBITDA is not a measurement of financial performance under US GAAP and should not be construed as a substitute for net earnings (loss) as a measure of performance or cash flow from operations as a measure of liquidity. It is used in this annual report because it is a common and useful measure of performance of a mobile operator. See below for a reconciliation of EBITDA to the most directly comparable US GAAP measure.

(10) Consists of long-term debt and long-term lease obligations.

The following table provides a reconciliation of EBITDA, which is a non-GAAP financial measure, to net cash provided by operating activities, which we believe is the most directly comparable financial measure calculated and presented in accordance with US GAAP.

| | Year ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2000 | 2001 | 2002 | 2003 | 2004 |
| | $ | $ | $ | $ | $ |
| | (in millions) | | | | |
| **EBITDA** | **822.4** | **503.4** | **761.3** | **643.0** | **1,338.8** |
| Minority interest in income (loss) of consolidated subsidiaries | (0.3) | 0.4 | 0.3 | 3.6 | 7.5 |
| Equity in net (income) loss of unconsolidated investees | (31.6) | (51.3) | (20.4) | 18.9 | 43.6 |
| Gain on sale of affiliates | 44.2 | | | | |
| Interest expense | (251.2) | (305.1) | (302.3) | (483.6) | (121.5) |
| Net increase (decrease) in assets and liabilities | (210.9) | 39.5 | 129.7 | 904.4 | (562.3) |
| **Net cash provided by operating activities** | **348.0** | **288.7** | **608.8** | **1,041.3** | **603.9** |

We believe that EBITDA, a measure commonly used in the telecommunications industry in Europe, can enhance the understanding of our operating results.

**Operating Results**

| | Year ended or as at December 31, | | | | |
|---|---|---|---|---|---|
| | 2000 | 2001 | 2002 | 2003 | 2004 |
| **Industry Data** | | | | | |
| Estimated population of Turkey (in millions)[1] | 65.8 | 66.8 | 69.7 | 70.7 | 72.3 |
| **Turkcell Data** | | | | | |
| Number of postpaid subscribers at end of period (in millions) | 5.61 | 4.64 | 4.68 | 4.76 | 5.11 |
| Number of prepaid subscribers at end of period (in millions) | 4.46 | 7.59 | 11.05 | 14.23 | 18.28 |
| Total subscribers at end of period (in millions) | 10.07 | 12.23 | 15.73 | 18.99 | 23.39 |
| Average monthly revenue per user (in $)[2] | 21.3 | 12.6 | 11.7 | 10.6 | 12.3 |
| Postpaid | 27.1 | 19.7 | 23.3 | 24.4 | 29.2 |
| Prepaid | 8.9 | 6.5 | 5.9 | 5.4 | 7.2 |
| Average monthly minutes of use per subscriber[3] | 103.4 | 63.9 | 56.2 | 58.5 | 64.9 |
| Churn[4] | 6.9% | 13.1% | 12.9% | 14.5% | 9.1% |
| Number of Turkcell employees at end of period | 2,523 | 2,241 | 2,163 | 2,148 | 2,441 |
| Number of employees of consolidated subsidiaries at end of period[5] | 1,390 | 1,180 | 1,913 | 2,914 | 4,075 |

(1) The Turkish population for 2000 comes from the 2000 census as announced by the State Statistics Institute. The Turkish population for 2001, 2002, 2003 and 2004 has been estimated based upon the 1996 and 2000 censuses prepared by the State Statistics Institute, applying a projected monthly growth rate of 0.13%.

(2) We calculate average revenue per user, ARPU, using the weighted average number of our subscribers during the period. ARPU does not include the results of our operations in Ukraine and Northern Cyprus.

(3) Average monthly minutes of use per subscriber is calculated by dividing the total of incoming and outgoing airtime minutes of use by the average monthly number of postpaid and prepaid subscribers for the year divided by twelve. Our MOU calculation does not include our operations in Ukraine and Northern Cyprus.

(4) Churn is calculated as the total number of subscriber disconnections during a period as a percentage of the average number of subscribers for the period. Our churn calculations do not include our operations in Ukraine and Northern Cyprus.

(5) See "Item 6D. Employees" for information with respect to our consolidated subsidiaries.

**Exchange Rate Data**

In 2004, the Turkish Parliament approved a law requiring the removal of six zeroes from the Turkish Lira and the creation of a new currency, the New Turkish Lira. The Turkish Parliament approved the redenomination of the Turkish Lira and the creation of the New Turkish Lira because of the problems in accountancy and statistical records, data processing software and payments systems as well as everyday business transactions that had arisen due to the chronic inflation experienced in Turkey since the 1970's that resulted in severe depreciation of the value of the Turkish Lira. Therefore, effective January 1, 2005 one million Turkish Lira is equal to one New Turkish Lira. Turkish Lira will remain in circulation along with the New Turkish Lira, until the end of 2005 at which time only the New Turkish Lira will remain in circulation.

The Federal Reserve Bank of New York does not report a noon buying rate for the New Turkish Lira, and historically has not reported a noon buying rate for the Turkish Lira. For the convenience of the reader, this annual report presents unaudited translations of certain new Turkish Lira amounts into US dollars at the relevant new Turkish Lira exchange rate for purchases of US dollars at the TL/$ Exchange Rate announced by the Central Bank of Turkey. In addition, this annual report presents unaudited translations of certain New Turkish Lira amounts into US dollars at the relevant New Turkish Lira exchange rate for purchases of US dollars at the TRY/$ Exchange Rate announced by the Central Bank of Turkey. Unless otherwise stated, any balance sheet data in US dollars derived from our consolidated financial statements are translated from New Turkish Lira into US dollars at rates for US dollars announced by the Central Bank of Turkey on the date of such balance sheet for monetary assets and liabilities and at historical rates for capital and nonmonetary assets and liabilities. Any data from our consolidated statements of operations in US dollars derived from our consolidated financial statements are translated from New Turkish Lira into US dollars at historical rates. Unless otherwise indicated, the TL/$ exchange rate or TRY/$ exchange rate used in this annual report is the TL/$ exchange rate or TRY/$ exchange rate in respect of the date of the financial information being referred to.

The following table sets forth, for the periods and the dates indicated, the Central Bank of Turkey's buying rates for US dollars. These rates may differ from the actual rates used in preparation of our consolidated financial statements and other information appearing herein. The TRY/$ exchange rate as of June 24, 2005 was TRY 1.3498 = $1.00.

| | Year ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | **2000** | **2001** | **2002** | **2003** | **2004** | **2005(2)(3)** |
| High | 689,213 | 1,636,942 | 1,688,410 | 1,746,390 | 1,550,710 | 1.4000 |
| Low | 535,141 | 663,739 | 1,286,543 | 1,348,023 | 1,301,340 | 1.2541 |
| Average(1) | 628,478 | 1,241,391 | 1,513,611 | 1,492,581 | 1,422,514 | 1.3479 |
| Period End | 671,765 | 1,439,567 | 1,634,501 | 1,395,835 | 1,342,100 | 1.3498 |

(1) Calculated based on the average of the exchange rates on the last day of each month during the relevant period.

(2) Through June 24, 2005.

(3) This column sets forth the Central Bank of Turkey's buying rates for US dollars expressed in New Turkish Lira.

| | **December 2004** | **January 2005(1)** | **February 2005(1)** | **March 2005(1)** | **April 2005(1)** | **May 2005(1)** | **June 2005(1)(2)** |
|---|---|---|---|---|---|---|---|
| High | 1,433,900 | 1.4000 | 1.3327 | 1.3838 | 1.3844 | 1.3844 | 1.3728 |
| Low | 1,342,100 | 1.3267 | 1.2885 | 1.2541 | 1.3356 | 1.3363 | 1.3436 |

Source: Central Bank of Turkey

(1) These columns set forth the Central Bank of Turkey's buying rates for US dollars expressed in New Turkish Lira.

(2) Through June 24, 2005.

No representation is made that the New Turkish Lira or the US dollar amounts in this annual report could have been or could be converted into US dollars or New Turkish Lira, as the case may be, at any particular rate. Changes in the exchange rate between New Turkish Lira and US dollars could affect our financial results. For a discussion of the effects of fluctuating exchange rates on our business, see "Item 5A. Operating Results."

### 3B. Capitalization and Indebtedness

Not applicable.

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

Not applicable.

### 3D. Risk Factors

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

Although the Turkish economy has showed signs of improvement and relative stability over the last two years, it had experienced significant turmoil in previous years. In particular, high inflation, volatility in the debt and equity markets, and a significant depreciation of the Turkish Lira against the U.S. dollar affected Turkey in 2001 and 2002. However, a new International Monetary Fund stand-by agreement introduced in 2002, tight macroeconomic and fiscal policies initiated by the Turkish government and the establishment of October 3, 2005 as the start of talks to evaluate Turkey for membership in the European Union (EU), has had a positive effect on the Turkish economy. The Turkish Lira has been appreciating against the US dollar since April 2003, although there have been short term periods where the Turkish Lira depreciated against the US dollar due to some political turmoil and international developments in emerging markets.

Our consolidated financial condition, future operations and cash flows could be adversely affected by economic difficulties in the Turkish economy. In particular, our operating results, including average monthly revenue per user, may be negatively impacted as a result of the economic factors affecting the Turkish economy, which include the following factors:

- widening of the current account deficit which accounted for 5% of GDP at the end of 2004, due to further appreciation of the New Turkish Lira and increasing consumer consumption in 2005. In addition, foreign direct investment into Turkey may remain weak which limits the potential of financing of the current account deficit;

- sustainability of sovereign debt (the capacity to service debt) has been a concern with respect to the Turkish Economy for years. Turkey has made progress in restoring debt sustainability with positive primary surplus and growth and lowering of the borrowing costs.

- increased inflation rates. Although inflation rates have come down to single digit levels in 2004 for the first time in 40 years, we can provide no assurance that this trend will continue. A sudden increase in inflation rate due to local and international factors like a huge rise in oil prices or depreciation of the New Turkish Lira may have a negative impact on the economy.

In addition to the foregoing recent rejection of the EU constitution by voters in France and The Netherlands may cause a delay in EU accession process which is supposed to start on October 3, 2005. One of the political reasons that caused Turkish economy to further develop and improve is the start of the EU accession process on December 17, 2004. If this process is delayed or changed this may have a material adverse impact on the Turkish economy.

**Political developments in Turkey and its neighboring countries may have a material adverse effect on our business, consolidated financial condition, results of operations or liquidity in the future.**

Turkey has been a parliamentary democracy since 1923, although the military has in the past played a significant role in politics and the Turkish government, intervening in the political process through coups in 1960, 1971 and 1980. A divided parliament and coalition government have been common traits of recent Turkish politics. In the 82 years since its formation, the Republic of Turkey has had 59 governments with political controversies frequently resulting in early elections. In Turkey's most recent national elections, held in November 2002, the Justice and Development Party ("AKP") won a supermajority in the Parliament. Recep Tayyip Erdogan has served as prime minister since March 2003.

Any negative changes in the government and political environment, including conflicts between senior politicians in Turkey may create instability and may adversely affect the Turkish economy. In addition, the failure of the Turkish government to devise or implement appropriate economic programs, or the failure of the IMF to complete periodic reviews of the economic program introduced by the IMF in 2005, may also adversely affect the Turkish economy.

Recently, the government has been criticized for its policies on issues related to Turkey's accession into the EU and IMF related issues. The government may also have difficulties addressing the economic and social demands of AKP's supporters. In particular, the AKP's core Islamist supporters have periodically expressed unhappiness with the government's handling of various matters of domestic and international policy. Despite previous attempts by the AKP to address these issues, some of these attempts have in the past faced resistance from the president and the military, and any future attempts may face similar resistance, which could potentially create political and economic instability within Turkey.

Turkey has also had problems with terrorist and ethnic separatist groups in recent years. For example, Turkey has been in conflict with the Kurdistan Workers Party, PKK, Kadek or Kongra-Gel, an outlawed Kurdish separatist terrorist organization, since 1984. In 2003 and 2004, Turkey experienced several terrorist attacks including the bombings of HSBC Bank, the British Consulate, and two synagogues in Istanbul. These attacks caused casualties and had a negative impact on the financial markets. The continuing threat of global terrorism could have a negative impact on the Turkish government's ability to function effectively or on the overall Turkish economy.

Political uncertainty within Turkey, armed conflict and the threat of armed conflict in neighboring countries, such as Iran, Syria, Georgia and Armenia, historically have been among the potential risks associated with investment in Turkish companies. The uncertainty and potential instability surrounding the post-war situation in Iraq, as well as tension in and involving the Kurdish regions of northern Iraq could also have negative economic consequences for us. Recently there has been increased instability in Lebanon and increased tensions between Lebanon and Syria, resulting from the assassination of Rafik Hariri the former prime minister of Lebanon. This has contributed further to the already existing tensions in the Middle East.

Although relations with the United States have always played a major role in the stability of the Turkish economy the relationship has become even more important due to the United States' presence and role in post-war Iraq. However, relations between Turkey and the United States have become much more delicate since the events surrounding the war in Iraq, and the situation in Iraq remains a considerable risk for Turkey. Furthermore, even though in recent years Turkey has undergone significant political and economic reforms, Turkey is generally considered by international investors to be an emerging market. In general, investing in the securities of issuers with substantial operations in emerging markets like Turkey involves a higher degree of risk than investing in the securities of issuers with substantial operations in the United States, the countries of the EU or other similar jurisdictions.

In addition to our investments in Fintur, we have been operating a GSM network in Northern Cyprus since July 1999. Since 1983, Northern Cyprus has functioned as an independent state under the name The Turkish Republic of Northern Cyprus. Throughout that time, Northern Cypriot independence has been disputed by the southern Greek part of Cyprus. This dispute has resulted in periods of high tension and occasionally violence between the parties on Cyprus. In 2002, the EU invited the Greek Cypriot government to represent a united Cyprus as a member of the EU. As a result of this invitation direct talks were held between the leaders of the northern and southern parts of Cyprus in 2002 and 2003 concerning the future of the island and a peaceful solution to the problems between the two areas. In February 2004, the leaders resumed negotiations on the basis of a United Nations unification plan in the hope that Cyprus could be reunited prior to acceding to the EU. In April 2004, residents of the northern and southern parts of Cyprus voted on the United Nations reunification plan, which was marked by high participation rates on both sides. The residents of Northern Cyprus voted strongly in favor of the referendum, but the residents of Southern Cyprus overwhelmingly rejected it. This overwhelming rejection of the referendum by Southern Cypriots has led to concerns over the success of any further reunification efforts. Consequently, the island remained divided as Southern Cyprus joined the EU in May 2004.

Any hostilities and/or political instability in Cyprus may have a material adverse effect on the Northern Cypriot economy as well as on the economy of Turkey, the progress of Turkey's accession talks with the EU and on our investments and business in Northern Cyprus.

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

We currently face competition from Telsim and Avea in the GSM sector. Avea was established from the February 2004 merger of Aycell, an affiliate of Turk Telekom which is the fixed-line telephone operator in Turkey, and Is-Tim, a company formed by Telecom Italia and Isbank, one of the largest private banks in Turkey. Telsim, which is our principal competitor, began offering mobile services shortly after us in 1994. In February 2004, Turkey's Savings and Deposit Insurance Fund (the "SDIF") took over the management of Telsim due to the high amount of debt owed by the owners of Telsim to the government and shortly after the takeover, began an aggressive acquisition campaign to increase its subscriber base. The SDIF has announced that it is planning to sell Telsim to a third party and such sale may be consummated during 2005. According to press reports both international firms and major Turkish conglomerates have expressed interest in purchasing Telsim. If Telsim is sold to a powerful national or international group, its competitive position may be enhanced.

Is-Tim and Aycell received their GSM 1800 licenses in September 2000. Is-Tim began offering GSM services in March 2001, and Aycell began offering GSM services in December 2001. The merged entity, Avea, may benefit from its position as an affiliate of Turk Telekom (which owns 40% of Avea) by entering into agreements with Turk Telekom on terms not available to other network operators in arms-length transactions. Although the legal merger of Is-Tim and Aycell was completed in February 2004, the process of merging the two businesses has not been fully completed yet. After this process, which includes completion of the merger of operational and technical aspects of the organization by combining Aria and Aycell's GSM networks, distribution channels, and other assets, is complete, Avea may be able to reduce its costs and increase its efficiency, thereby becoming a stronger competitor.

In addition to the foregoing competitors, we expect to face direct competition from, among others, value added service providers and from mobile virtual network operators, fixed line telephony providers and long-distance carriers. In May 2004, the Telecommunications Authority granted long-distance licenses, which will allow the licensees to provide both domestic and international long-distance telephony services. As of March 2005, 43 companies received their licenses but only 22 signed the interconnection agreement with Turk Telekom, of which only 5 became operative. The rest of the companies which received their licenses but did not sign an interconnection agreement with Turk Telecom, continue to oppose being subject to the interconnection rates set by the Telecommunications Authority, arguing that the rates are too high compared to the average benchmark rates in Europe. Although these licenses are unlikely to have an immediate effect on our operations, in the long term these licenses could have the effect of driving down prices and shifting traffic patterns for long distance calls in Turkey. Furthermore, interconnection and access regulations may lead to an increase in price differentials and in competition.

The Telecommunications Authority has announced that it may award Value Added Services ("VAS") operators licenses. Although it is unclear when or even if the Telecommunications Authority will issue such licenses, if such licenses issued, could reduce our influence in the VAS partnering market. The proposed licenses would permit VAS operators to provide their services to any GSM operator in the market and would lead to a change in pricing from the current revenue-sharing model to an interconnection fee model, which could have a negative impact on our revenues.

The Telecommunications Authority may distribute Mobile Virtual Network Operator ("MVNO") licenses in the future. MVNOs are virtual operators with little or no network infrastructure that use GSM operator infrastructure to offer basic mobile services (typically voice, SMS or other data services), usually at a lower cost to the end customer. In accordance with the Telecommunications Authority Regulation, we will be required to provide access and/or interconnection services to requesting MVNOs, which may place us at a competitive disadvantage against them. The Telecommunications

Authority has not announced a timetable for the issuance of MVNO licenses and it is unclear when or if the Telecommunications Authority will issue such licenses. Therefore issues surrounding the grant of the licenses remain unclear, including the number of licenses, the cost per license and the type of MVNO license (i.e. whether access will be mandated or left to a commercial agreement between the MVNO and the GSM operator).

The Telecommunications Authority is also in the process of preparing regulations regarding number portability. We believe that the introduction of number portability in the Turkish market may have a significant impact on the competitive environment in Turkey and may lead to an increase in churn rates. We do not know when or if the Telecommunications Authority will issue regulations regarding number portability and what terms will be included in any such regulation.

The Telecommunications Authority has not announced the launch date for third generation ("3G") licenses. Although the timing, number of licenses and cost per license are currently not known we believe that the issuance of 3G licenses and the introduction of 3G services in Turkey could lead to significant changes in the competitive environment in Turkey.

Increased competition, both from new entrants and existing operators that widen the scope of their current telecommunications activities, could:

- reduce our ability to acquire and retain high value subscribers;
- reduce our share of net subscriber additions;
- force us and our competitors to take measures that could raise subscriber acquisition costs and retention costs;
- force us to reduce tariffs to match price cuts of our competitors;
- force us to offer subscribers free airtime, free SMS, or other free services; and
- disrupt our distribution channels by leading to an increase in distributor churn if our existing or future competitors are successful in eroding brand loyalty among our distributors.

**The growth of our business is dependent upon the continued development of the Turkish mobile telecommunications market.**

The mobile telecommunications penetration rate in Turkey is relatively low in comparison to penetration rates in other EU countries. The development of our business will depend, in large part, on the future level of demand for mobile telecommunications in Turkey. Although we expect continued growth in the number of mobile telecommunications subscribers in Turkey, the size and usage patterns of our future subscriber base will be affected by a number of factors, many of which are outside our control. Such factors include, general economic conditions, the gross domestic product per capita of Turkey, the development of the GSM market and any rival technology for the provision of mobile telecommunications services, the price of handsets, the availability, quality and cost to the subscriber of competing mobile services and improvements in the quality and availability of fixed-line telephone services in Turkey. The economic crisis in Turkey in 2001 adversely impacted our operations and adversely affected us by decreasing the rate of subscriber growth and causing a significant decline in average monthly minutes of use per subscriber and average monthly revenue per user. Similarly, any possible future disruptions in the Turkish economy could lead to further declines in the rate of subscriber growth and decreases in average monthly revenue per user and/or average monthly minutes of use per subscriber. Given these factors, it is difficult to predict with any degree of certainty the future growth of either mobile telecommunications services in Turkey or the number of our subscribers.

**A large amount of our business is or may be subject to significant legal and regulatory restrictions.**

Turkey's Telecommunications Authority is empowered to regulate licensing, competition, ownership, frequency allocation and arrangements pertaining to interconnection and general operations of GSM networks. The Telecommunications Authority is responsible for issuing licenses and general permissions as well as concluding concessions or agreements with the operators. Therefore, actions of the Turkish government, the Telecommunications Authority or other regulatory authorities in Turkey (such as the Competition Board) have in the past, and could in the future, adversely affect our business. Such actions could include:

- changes in the laws, regulations or governmental policy, or their interpretation, including revisions to the interconnection and access regime or the imposition of price controls;
- changes in taxation, such as the increases in value added tax (VAT) in December 1999 from 15% to 17% and in May 2001 from 17% to 18%;
- the imposition of taxes on mobile telephone usage, such as the special communications tax of 25% imposed after the earthquakes in Turkey in December 1999, which was made permanent in 2004, or the imposition of consumption taxes or other taxes on subscribers or mobile operators;
- granting additional mobile telephone licenses or other telephony licenses to new entrants and existing operators;
- the establishment of limitations on our operations or restrictions on our ability to provide services to existing or new subscribers;
- investigations, enforcement actions or other assessments of the Competition Board, or other regulatory authorities;
- denial of discretionary benefits that we may seek in expanding our network; and
- the introduction of additional fees or charges by governmental authorities, such as the proposed fees for the universal services fund.

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

Any of these factors could have a materially adverse effect on our business, consolidated financial condition, results of operations or liquidity.

**The Telecommunications Authority designated us as an "operator holding significant market power" in the mobile call termination services market, which means we are required to provide interconnection services to competing networks at cost-based pricing.**

In 2004, the Telecommunications Authority designated Turkcell and Telsim as an "operator holding significant market power" in the GSM mobile call termination services market. On January 4, 2005, the Telecommunications Authority designated only Turkcell as an "operator holding significant market power", which reflects the fact that Telsim is no longer designated as such an operator. As a result of this designation we are required to provide interconnection services to any requesting operator at a price based on our cost while they are entitled to charge us more for interconnection to their network, which may put us at a competitive disadvantage to other operators.

The designation comes from the Access and Interconnection Regulation, promulgated by the Telecommunications Authority on May 23, 2003. The Regulation requires all operators in Turkey to enter into negotiations with any other operator who requests interconnection services. The Regulation imposes more stringent requirements on operators designated by the Telecommunications Authority as

"operators holding significant market power." Operators, other than those designated as holding significant market power, have the right to freely set the prices they charge other operators for interconnection services. However, operators designated as holding significant market power are required to provide interconnection services to any requesting operator at cost. If the parties are unable to reach an agreement, the Telecommunications Authority may intervene to establish the terms between the parties.

As disclosed in "Item 4B. Business Overview  Regulation of the Turkish Telecommunications Industry", in September 2004, the Telecommunications Authority published the "Standard Reference Interconnection Tariffs", which recommends call termination fees for operators holding significant market power in the GSM mobile call termination services market and Turk Telekom. In practice, these "Standard Reference Interconnection Tariffs" are not directly applicable to our current or future interconnection agreements. However, if the Telecommunications Authority decides in the future to set the termination fees for us and others with our market position it may use these tariffs as the basic tariffs to be applied to us. The call termination rates set forth in the "Standard Reference Interconnection Tariffs" are lower than the current termination rates set forth in our interconnection agreements and could be applied by the Telecommunications Authority in the event that new pricing terms for interconnections among operators are not agreed. As a result, the Telecommunications Authority may set standard rates for terminations made on our networks and set standard rates for terminations of our calls on other networks. However, we cannot predict the timing or impact of any such change.

Additionally, the Telecommunications Authority announced the creation of a working group that will designate all GSM operators in Turkey as "operators holding significant market power" in the GSM mobile call termination services market beginning from 2006, in accordance with EU regulations and the requirements of the EU Commission.

**We are required to renew our existing interconnection agreements, and we may not be able to do so on terms that are favorable to us.**

The Access and Interconnection Regulation required us to renew all of our existing interconnection agreements with the other telecommunications providers in Turkey. We amended our interconnection agreement with Turk Telekom on September 20, 2003 and with Telsim on October 13, 2003, and agreed on new call termination charges on domestic and international calls. We and Avea signed a protocol after the merger of Aycell and Is-Tim. According to the protocol, the interconnection agreement between Turkcell and Aycell dated July 19, 2001 has been cancelled. The parties have agreed that the interconnection agreement that we entered into with Is-Tim in March 2001 will govern the relationship between the merged entity and us. For more detailed information regarding the agreement, please see "Item 4B. Business Overview  Regulation of the Turkish Telecommunications Industry".

As part of the interconnection agreements entered into with other GSM operators, the pricing terms of the agreements were to be revised after June 30, 2004 with mobile operators and after December 31, 2004 with Turk Telekom, based on regulations promulgated by the Telecommunications Authority and taking into account cost structures and inflationary adjustments. As a result of this requirement, we have gone through a process of negotiating new pricing terms with each mobile operator and Turk Telekom. As of the date of this annual report we have been unable to agree to new terms with the other GSM operators and Turk Telekom. Telsim and Turk Telekom have approached the Telecommunications Authority for relief in accordance with the Access and Interconnection Regulation, which provides that if operators cannot agree on the interconnection agreement terms within three months, each of the negotiating parties has the right to apply to the Telecommunications Authority for reconciliation. The Telecommunications Authority has the authority to set the call termination fees to be applied by each operator with respect to any interconnection agreement. As a result, the

Telecommunications Authority may set standard rates for terminations made on our networks and standard rates for terminations on other networks. However, we cannot predict the timing or impact of any such change. We cannot ensure that the new pricing terms negotiated by us and the other operators, or imposed on us by the Telecommunications Authority during 2005 or for other subsequent periods will be favorable to us. The current termination charges are not as favorable to us as they have been previously as we are paying more and receiving less compared to previous periods. In addition, the impact of the new pricing terms or possible future changes and their long term impact is not clear as the revenue composition will be dependent on future changes in traffic, call patterns and consumer behavior, including the response of consumers to changes in retail end-user pricing.

**The Telecommunications Authority wants to set the maximum tariffs that we can charge our subscribers in its sole discretion in all respects.**

Our license agreement regulates our ability to determine our tariff for GSM services. The license agreement provides that, after consultation with us and consideration of tariffs applied abroad for similar services, the Telecommunications Authority sets the initial maximum tariffs. Thereafter, our license provides that the maximum tariffs shall be adjusted at least every six months. The license agreement provides a formula for adjusting the existing maximum tariffs based on, in the case of maximum tariffs established in Turkish Lira, the Turkish Consumer Price Index announced by the Ministry of Industry and Trade Industry of Turkey minus 3% of this index.

The Telecommunications Authority has informed us that it wants to amend the license agreement to allow it to set the maximum tariffs that we can charge our subscribers in its sole discretion in all respects. If the Telecommunications Authority succeeds in obtaining this authority to set maximum tariffs in its sole discretion rather than pursuant to the existing formula either through the amendment of our license agreement or regulatory action, the Telecommunications Authority could establish maximum tariffs which will not permit us to increase rates to a level sufficient for us to ensure adequate financial performance, which could have a material adverse effect on our business, consolidated financial condition, results of operations or liquidity. For more information on the Telecommunications Authority's adjustments to tariffs, see "Item 4B. Business Overview  Regulation of the Turkish Telecommunications Industry."

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

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

Our license contains a number of requirements, including requirements regarding: operation, quality and coverage of the GSM network; national security issues; maintenance of confidentiality; prohibitions on anticompetitive behavior; and compliance with international and national GSM standards.

We may incur penalties for delays in meeting quality requirements. Failure to meet any requirement in our license could also result in the limitation or revocation of our license. Our license is subject to interpretation, modification and termination by the Telecommunications Authority if we become bankrupt, if we fail to perform the obligations under our license, if we operate outside of our approved frequencies or if we fail to pay amounts required to be paid under our license. In addition, the Telecommunications Authority may terminate our license in cases of gross negligence. As a result, although we believe that we currently are in material compliance with all the requirements of our license, including the requirements regarding geographic and population coverage and minimum service quality standards, disagreement between us and regulators regarding such interpretations may arise that could, in turn, lead to the revocation of our license. In addition, Turkey's accession talks with the EU may require further modifications in the regulatory framework governing the Turkish telecommunications industry.

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

For a description of our license and the regulatory regime under which we operate in Turkey, see "Item 4B. Business Overview Regulation of the Turkish Telecommunications Industry."

In addition to the foregoing, our indirectly-owned subsidiary Astelit holds GSM license in Ukraine. If Astelit fails to comply with the terms and conditions of its license agreement it may incur significant penalties, which could have a material adverse effect on our international expansion strategy and our business and results of operations.

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

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

**We may not be able to obtain the financing we need to fund our current operations, capital expenditures and financing costs or to maintain and enhance our network.**

Building, enhancing, operating and maintaining a mobile telephone network like ours requires substantial capital investment and marketing investments over a period of years, which we have financed mostly through indebtedness. From the receipt of our license until December 31, 2004, we have invested approximately $4.4 billion on a consolidated basis in acquiring our license and assets for the development of our network. As of December 31, 2004, we had, on a consolidated basis, total indebtedness of $832.6 million.

We believe that we will be able to finance our current operations, capital expenditures and financing costs in Turkey and maintain and enhance our GSM network in Turkey in 2005 through our operating cash flow, our strong cash balance as of December 31, 2004 and certain new financings and debt restructurings that we completed in 2004. However, we may face additional financial burdens and risks arising from the acquisition of a potential 3G license and our existing international operations such as the development of GSM network in Ukraine and our potential future investment in Irancell in Iran as well as future international and domestic investment plans. These operations and potential future operations may require us to make investments, or provide payment guarantees or mandatory equity contributions, all of which could result in new financings. In addition, if there is a significant deterioration in the macroeconomic situation in Turkey, the mobile telecommunications services industry in Turkey, or other shocks or disruptions to our business, we may be required to seek additional financing. If we do need to seek additional financing, we may be unable to obtain such financing on terms favorable to us, or at all.

**We are exposed to foreign exchange rate risks that could significantly impact our ability to meet our obligations and finance our network construction.**

A substantial majority of our debt obligations and capital expenditures are, and are expected to continue to be, denominated in US dollars, Euros and Swedish Krona. By contrast, a significant portion of our revenues are, and will continue to be, denominated in New Turkish Lira. Although we have successfully operated in a hyper-inflationary environment with continuous devaluation of the New Turkish Lira since our inception, sudden increases in inflation or the devaluation rate have had an adverse effect on our consolidated financial condition or results of operations, or liquidity. A further increase in inflation or the devaluation rate may have an adverse impact on our future financial condition or results of operations.

We use analytical techniques such as market valuation and sensitivity and volatility analysis to manage and monitor foreign exchange risk. We keep some of our monetary assets in US dollars, Euros and Swedish Krona to reduce our foreign currency exposure. To manage our foreign exchange risk more efficiently, we have entered into forward transactions to buy US dollars, and in 2004 we purchased $175.0 million through these forward transactions. Meanwhile, we are committed to buy more foreign currency than the notional transaction amount if the spot rate falls below the forward level. As of May 31, 2005, the notional amount of forward US dollars purchases is $189.0 million and the amount can increase up to $378.0 million depending on the spot level at maturity. Some of these forward contracts knock-out at predetermined strike levels which will expose us to USD/TRY devaluation risk. We have entered into forward agreements on various dates with maturities ranging from one to six months, agreeing to purchase US dollars against New Turkish Lira at pre-determined levels. Forward purchases are decided according to significant outgoing US dollars payment dates in order to hedge against sudden foreign currency movements. Under the forward contracts with knock-out options, more favorable forward purchase rates are achieved in return for the risk of no purchase.

The maximum tariffs we may charge are adjusted periodically pursuant to a formula set forth in our license agreement. The license agreement regulates our ability to determine our tariff for GSM services. The Telecommunications Authority sets the initial maximum tariff and thereafter our license provides a formula for adjusting the maximum tariff every six months, which is based on the consumer price index. Although we believe the tariff structure in our license will, in most instances, permit adjustments designed to offset the devaluation of the New Turkish Lira against the US dollar, any such devaluation that we are unable to offset will require us to use a larger portion of our revenues to service our non-New Turkish Lira foreign currency obligations. Additionally, in the event that the Telecommunications Authority were to establish maximum tariffs at levels below those that would enable us to adjust our rates to offset devaluations, it could have a material adverse effect on our business, consolidated financial condition, results of operations or liquidity.

In addition to the foregoing risks, we also face risks associated with the appreciation of the New Turkish Lira against the US dollar. Because we keep a significant proportion of our monetary assets in US dollars, a significant increase in the value of the New Turkish Lira would reduce the effective value to us of such holdings. Additionally, our liabilities relating to the settlement agreements with the Turkish Treasury and Turk Telekom and to legal disputes are in New Turkish Lira. An appreciation of the New Turkish Lira relative to the US dollar would impact the value of our liabilities in terms of the US dollar and could have a material adverse effect on our results of operations.

We incurred currency translation losses of approximately $18.0 million, $102.4 million and $11.2 million for the years ended December 31, 2002, 2003 and 2004, respectively. Although we expect that the macroeconomic situation in Turkey will stabilize, we can make no assurance that our expectations will prove correct and we may incur translation losses in the future.

**We are also exposed to interest rate risk on our variable rate borrowings; an increase in Libor rates would increase our interest exposure through increased interest expense.**

As of December 31, 2004, approximately 40% of our outstanding debt was variable rate debt, an increase in the Libor rates will cause an increase in the amount of interest we are required to service. In order to hedge our interest rate risk, we continue to look for hedging alternatives such as interest rate swaps. We currently do not have any outstanding swap arrangements due to the cost of such arrangements in the market.

However, we have set the Libor rate for one year for some of our floating loans instead of the usual market practice of three or six months in order to partially hedge our interest rate risk against possible short term interest rate increases.

**Any damage to our brand could have a material adverse effect on our operations.**

Turkcell is one of Turkey's best known and well-respected brands. The brand has key attributes such as "prestige", "trustworthiness" and "empowerment through innovative technology". Any damage to the brand's perception in the minds of consumers could endanger our ability to acquire and retain higher profile customers and charge a premium for products and services. Furthermore, we may be unable to repair any damage to our brand's perception without significant expenditures or management resources, if at all.

**The Cukurova Group and TeliaSonera together currently hold a majority of our outstanding share capital which allows them together to exercise a controlling influence over us. This ownership may also have the effect of delaying, deferring or preventing a change of control of Turkcell.**

As of the date of this annual report, the Cukurova Group and TeliaSonera currently own, directly or indirectly, approximately 40.3% and 37.1%, respectively, of our share capital.

In addition, if the Cukurova Group and TeliaSonera act together they have the ability to exercise a controlling influence over matters requiring a simple majority vote of the shareholders at a general assembly, such as the right to vote against changes to our articles of association and the right to approve the annual accounts. TeliaSonera and the Cukurova Group hold a portion of their interests in us through Turkcell Holding, a holding company that holds 51% of our shares. To the extent that the interests of the Cukurova Group and TeliaSonera might differ from our interests or those of our other shareholders, we or our other shareholders could be disadvantaged by any actions that the Cukurova Group and TeliaSonera might seek to pursue.

The ownership of a substantial percentage of the outstanding ordinary shares by the Cukurova Group and TeliaSonera and the affiliation of these shareholders with members of the board of directors may have the effect of delaying, deferring or preventing a change in control of Turkcell, may discourage bids for our ordinary shares or ADSs and may adversely affect the market price of the ordinary shares or ADSs. Additionally, we benefit from our relationship with TeliaSonera and the Cukurova Group. If our relationship with either or both shareholders is impaired, or if either of our shareholders were to substantially change its shareholding in us, we may be adversely affected.

TeliaSonera and the Cukurova Group announced on March 25, 2005, that they had agreed on the Cukurova Group's transfer of approximately 53% Turkcell Holding A.S. B Class shares to TeliaSonera for a price of $3.1 billion. This proposed transfer was also approved in our Annual General Assembly by affirmative vote of 99.55% of our shareholders present in the General Assembly. The sale was subject to completion of due diligence, the finalization of necessary documentation, the receipt of necessary legal and regulatory approvals and compliance with all applicable laws and regulations.

If the sale were completed, TeliaSonera would directly and indirectly own approximately 64% of our shares including approximately 100% of the shares of Turkcell Holding and as a result, would have controlling power over us. However, the parties could not reach a final agreement. On May 23, 2005, TeliaSonera announced that although the parties agreed on all material terms to the final share purchase agreement in late March and that it had completed its due diligence, Cukurova has not signed the negotiated final share purchase agreement although the deadline of May 23 has passed. TeliaSonera believes that Cukurova is still required to complete the transaction and further stated that the agreement provided that the parties were required to act in good faith and use their reasonable best endeavors to conclude the due diligence and a final share purchase agreement. TeliaSonera believes that Cukurova has not acted accordingly and therefore, TeliaSonera has stated that it will pursue legal actions to protect its rights. Cukurova also released an announcement on May 23, in which it stated that in light of public demand for keeping the control of such a prestigious company within a Turkish company and in light of the public's objections over the tender offer exemption that TeliaSonera was intending to apply for to the Turkish Capital Markets Board, Cukurova would look for alternatives that would not necessitate a change of control in Turkcell. On June 7, 2005, TeliaSonera further announced that it had applied to the ICC International Court of Arbitration for the protection of its rights with regard to this deal and that TeliaSonera strongly believes that Cukurova Group is under the obligation to show its best efforts and to act in good faith for the completion of the transactions. In addition, on June 17, 2005, TeliaSonera announced that it has also filed a request for interim measures at a civil court in Geneva and asking the court to prohibit Cukurova from initiating or continuing any contacts with third parties other than TeliaSonera, with a view to sell or pledge shares in Turkcell Holding.

Upon the foregoing, on June 22, 2005, Cukurova announced that it has reached an agreement with the Russian Alfa Group on a financing package of $3.3 billion. In its announcement, Cukurova explained that the financing will consist of a loan amounting to approximately $1.7 billion with a 6-year maturity to be granted by the Alfa Group to the Cukurova Group, and the issuance of bonds by the Cukurova Group amounting to approximately $1.6 billion with a maturity year of 2011. Cukurova expressed that they anticipate that the bonds will be exchangeable into shares of a Cukurova group company after 18 months following their issuance. As a result of this exchange, the Alfa Group would hold an indirect shareholding of 13.2% in Turkcell, which would mean the entrance of a new significant shareholder. The financing agreement between the Alfa Group and the Cukurova Group is subject to completion of due diligence, the finalization of necessary documentation, the receipt of necessary legal and regulatory approvals and compliance with all applicable laws and regulations.

The foregoing disputes between the Cukurova Group and TeliaSonera could result in the failure of the two shareholders to have a cooperative relationship, which could adversely impact the ability of our principal shareholders to achieve the consensus necessary to approve important matters relating to our business and operations. Furthermore, if the Alfa Group were to acquire a significant stake in our shares, the introduction of a third major shareholder may further lead to a restructuring in the Company's board of directors to reflect the new shareholding structure.

Pursuant to an agreement between the Cukurova Group and the SDIF related to Yapi Kredi Bank ("YKB") whose major shareholder has been Cukurova Group (YKB holds directly and indirectly 13.1% of our shares), the Cukurova Group has agreed to transfer its shares in YKB to Koc Finansal Hizmetler A.S. ("Koc"). As a result of such transaction, the Turkcell shares owned by YKB (approximately 2.9% of the total) and the Turkcell Holding A.S. shares owned by YKB (approximately 20.0% of the total) shall be indirectly owned by Koc. However, according to the share transfer agreement between the Cukurova Group and Koc, the Cukurova Group shall have the option to purchase Turkcell Holding A.S. shares and Turkcell shares owned by YKB within one year of the closing of the share sale transaction. The outcome of this transaction may also have material impact on our overall shareholder structure, as Cukuorva Group's 40.3% direct and indirect holdings in Turkcell includes YKB's 13.1% direct and indirect shareholding in Turkcell.

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

We work through associated companies both within Turkey and internationally. Our international investments in associated companies could expose us to economic, political, social, financial and liquidity risks in Georgia, Azerbaijan, Kazakhstan, Moldova and Ukraine which were all part of the former Soviet Union until each republic gained its independence in 1991. Azerbaijan, Georgia, Kazakhstan, Moldova and Ukraine are generally considered by international investors to be emerging markets. Their legal systems, including telecommunications regulations, are relatively underdeveloped and their economies have only recently begun to open to market principles after years of functioning under the Soviet system of central planning. Market institutions and commercial practices are weak and undeveloped. There can be no assurance that political, legal, economic, social or other developments in these nations will not have an adverse impact on our investments and businesses in these countries. In addition, we have operated a GSM Network in Northern Cyprus since July 1999, which may expose us to a number of risks. See " Political developments in Turkey and its neighboring countries may have a material adverse effect on our business, consolidated financial condition, results of operations or liquidity in the future."

In addition to the foregoing international operations, we hope to establish operations in Iran through a majority-owned subsidiary, dependent on further negotiations with consortium partners and the new government of Iran. As discussed elsewhere in this annual report, recent decisions by the Iranian government may have a negative impact on our expansion plans in Iran and have raised questions about the future of our potential investment in Iran. See " Recent decisions by the Iranian government may have a negative impact on our expansion plans in Iran." Notwithstanding the foregoing, to the extent that we are successful in establishing and later conducting operations in the Iranian market in the future, the success of these operations will depend, in part, on economic and political stability in Iran in the future. Despite the increasing political stability in Iran and efforts by the previous Iranian government to implement reforms to encourage foreign investment, Iran is still exposed to internal and external risks. In particular, political uncertainty in Iran, specifically the uncertainty regarding the newly elected government and the economic and political policies that they will pursue, and armed conflict and the threat of armed conflict in neighboring countries are some of the principal risks associated with investment in Iranian companies. In addition to the foregoing political and economic risks, our planned operation in Iran will face additional risks resulting from the underdeveloped legal and regulatory regime in Iran.

Our international operations may not benefit us in the way we expect for the reasons cited above, as well as other reasons, including general macroeconomic conditions, poor management, legal, regulatory or political obstacles.

**Recent decisions by the Iranian government may have a negative impact on our expansion plans in Iran.**

The Irancell consortium, of which we are a member, and the Iranian government entered into a GSM license agreement in September 2004. Irancell will not become a licensed GSM operator until the license fee of €300 million is paid and all other issues with the Iranian government are resolved.

In April 2005, the Parliament of Iran amended the license agreement that had been agreed between Irancell and the government, which will, among other things, decrease our voting stock in Irancell from 51% to 49%. In May 2005 the Iran Guardian Council approved all of the amendments to the license agreement between Irancell and the government that were proposed by the Iranian Parliament. In addition, the proposal approved by the Guardian Council includes several additional material amendments to the terms of the license agreement. As a consequence of these developments, we plan to evaluate the potential elements of the new structure and extend discussions with local authorities as well as current and potential partners to ensure appropriate ownership structure and management controls in the local company as well as the amendments to the license agreement conditions. We can provide no assurance that we will be able to reach an agreement that is satisfactory to us, if at all.

As already announced, we have fully met all tender requirements. At this point, Turkcell has incurred operational and financial expenses of approximately $27 million, although no investments have been made in Iran. A €210 million guarantee that we had issued to the Iranian government matured in February 2005 and has not been further extended. We have notified HSBC plc that we will not request any extension of the payment guarantee beyond March 7, 2005 and stated that HSBC plc can release the payment guarantee. However, we have not been released from our payment guarantee which requires approval of the Iranian authorities. A total of €90 million paid by us as capital advances to Irancell during 2004 have been repaid by Iranian authorities on March 16 and March 17, 2005. Although we remain interested in commencing operations in Iran and continue working to ensure that we can do so, to the extent that we cannot resolve our issues with the Iranian government, we may be unable to commence operations in Iran.

**We have financial exposure relating to outstanding receivables from and guarantees on behalf of Digital Platform Iletisim Hizmetleri, A.S.**

Digital Platform Iletisim Hizmetleri, A.S. ("Digital Platform"), a direct-to-home digital broadcasting company that is owned by the Cukurova Group, holds the broadcasting rights for the Turkish Super Football League until May 2008.

Our receivables from Digital Platform, as of December 31, 2004, with which we have signed several agreements, is $73.2 million. In addition, we have an outstanding risk of approximately $25.1 million from corporate guarantees we have given on behalf of Digital Platform to various lenders. On January 3, 2005, the management of Digital Platform submitted an agreement proposing the rescheduling of its outstanding obligations owed to us. On January 14, 2005, our Board of Directors resolved to make the necessary amendments to the agreement proposed by Digital Platform in order to make the agreement consistent with our corporate requirements and authorized our management to come to an agreement with Digital Platform. We currently believe that it is unlikely that we will not recover our receivables. However, there can be no assurance that we will recover all or any of our receivables. For more information on our transactions with Digital Platform, see "Item 7B. Related Party Transactions Digital Platform Iletisim Hizmetleri A.S. (Digital Platform)."

**One of our shareholders has been seized by Turkish regulators.**

On June 18, 2002, the Banking Regulation and Supervision Agency of Turkey (the "BRSA") transferred the management and supervision of Pamukbank T.A.S. (Pamukbank), one of our shareholders whose majority shares are owned by the Cukurova Group, to the SDIF. On January 31, 2003, the BRSA announced that it reached an agreement with the Cukurova Group whereby the Cukurova Group agreed to purchase the Turkcell shares, together with Turkcell Holding A.S. shares, owned by Pamukbank and Pamuk Factoring, which merged with Halkbank in November 2004. On April 25, 2003, the shares were transferred to the Cukurova Group. The shares transferred to the Cukurova Group have been pledged to the SDIF. Upon payment of the Cukurova Group in accordance with the provisions of the agreement with the SDIF this pledge was removed from our share book.

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

The number of subscribers that can be accommodated on a mobile network is constrained by the amount of spectrum allocated to the operator of the network and is also affected by subscriber usage patterns and network infrastructure. Spectrum is a continuous range of frequencies within which the waves have certain specific characteristics. A number of techniques can be employed to increase the effective carrying capacity of a given allocation of spectrum. Beyond a certain point, however, it may become impracticable to apply these techniques in densely populated metropolitan areas for reasons of cost or technological limitations. Creating more capacity for mobile voice and data traffic as our subscriber base and service offerings increase without any additional spectrum is only possible by sacrificing network radio quality. We only have 10 MHz of spectrum in the 900 MHz band, which may not be sufficient to accommodate the growth of our subscriber base or the increasing use of higher bandwidth applications. In particular, we currently face a lack of available frequencies in certain areas, particularly metropolitan areas. We may request from the Telecommunications Authority additional spectrum in the 900 MHz band if it is available. However, there can be no assurance that the Telecommunications Authority will award some or all of the remaining GSM spectrum in the 900MHz band or some additional spectrum in the 1800 MHz band to us at reasonable cost or that it will not make such an award to one of our competitors or not make any such award at all. Achieving enough spectrum to ensure longer term provision of quality services may only be possible with 3G/UMTS infrastructure.

**The communications industry is subject to rapid and significant changes in technology that could reduce the appeal of our services or require us to increase our capital expenditures.**

In the last decade, the growth in the telecommunication industry has been fueled by internet, multimedia and cellular mobile technologies. New technologies in the mobile phone service area requiring high data throughput, like streaming and video services will be a likely avenue for growth in the future. Due to increasing competition we could finally come to the technical limitations of GSM, which will precipitate the need for increased capital expenditure due to the low or medium data speeds and capacity limitations of GSM.

GSM could also face competition from different technologies, especially in the wireless data field. As wireless data access, such as WLAN & WiMax, become the preferential technology of U.S. suppliers and as public WLAN applications become increasingly popular in Europe, reliance on GPRS traffic may be diminished. Due to this technology, many GSM operators, although not Turkcell actually operate in the Public WLAN hot-spot business to increase the variety of access types and regulate their incoming data traffic. We also face regulatory limitations in the area of Wi-Fi technology due to conditions imposed on us by our license agreement which could hinder its ability to enter this market. Specifically, our license agreement limits the types of services that we may provide, including public WLAN installations, and requires us to obtain permission from the Telecommunications Authority prior to providing such services.

Also, voice communication seems to be influenced by GSM/WLAN convergence which is presented as a new business model for the communications market. Under this model, as the user enters WLAN coverage at his home or office, his handset seamlessly switches over WLAN to use VoIP instead of GSM. We are also restricted from carrying any other traffic other than GSM due to the terms of our license agreement with the Turkish government. Turk Telekom and Avea may develop a joint model for such a business which could increase churn in subscribers away from us.

If the granting of 3G licenses is delayed further, the only solution for broadband services is to speed-up the EDGE coverage under our radio network. We have already launched commercial EDGE services, but in the case of long delays in the granting of 3G licenses, any inadequacy in EDGE coverage or quality problems in data rate may create dissatisfaction for heavy data users. Additionally, if we cannot obtain a 3G license, further frequency problems and possible damage to our image could occur. Furthermore, utilization of CDMA2000 technology in the IMT2000 band or for the 450 MHz band is another threat posed to us. CDMA2000-EV-DO coverage in 450MHz band has a large cost advantage over the 900 MHz band. This cost advantage reflects directly on the price of a subscriber's mobile data tariff.

We face competition from communications technologies that are under development and that will be developed in the future, such as wireless LAN or third generation mobile telecommunications. We cannot currently predict how emerging and future technological changes will affect our operations or the competitiveness of our services, nor can we predict that new technologies to support our planned services will be available when expected or that customer demand will develop as expected. Similarly, the technologies that we employ may become obsolete or subject to intense competition from new or alternative technologies in the future, which may require us to undertake significant additional capital expenditures to remain competitive or could cause us to lose market share.

**There can be no assurance that the other operators with whom we have entered into interconnection agreements can or will be able to perform their obligations under these agreements.**

Our ability to provide commercially viable telecommunications services depends upon our ability to interconnect with the networks operated by the other telecommunications operators in Turkey in order to complete calls between our subscribers and parties on the Turk Telekom fixed-line network or other mobile telecommunications networks in Turkey. If these other operators do not provide reliable, quality interconnections with sufficient capacity to us on a consistent basis, this could have a material adverse effect on our quality of service. See "Item 4B. Business Overview Regulation of the Turkish Telecommunications Industry Turk Telekom, Telsim, Aycell, Is-Tim, Milleni.com and Globalstar Interconnection Agreements Turk Telekom Interconnection Agreement" and " Agreements concluded with the Operators Licensed to Provide International Transit Traffic Services".

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

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

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

We currently purchase all of our GSM network equipment, including switching equipment, base station controllers and base transceiver stations, and our network software from one of a small number of suppliers. Although our GSM network utilizes standard equipment, which is produced by several suppliers, and we are not bound to purchase our equipment solely from any given supplier, there can be no assurance that we will be able to obtain equipment from one or more alternative suppliers at comparable prices or on a timely basis in the event that any supplier is for any reason unable or unwilling to satisfy our equipment requirements, especially if the growth in demand for network equipment exceeds the ability of suppliers of this equipment as a whole to meet such demands. In addition, equipment from alternative suppliers may not always be compatible with our existing equipment, and our employees may not be familiar with the technical specifications of equipment from alternative suppliers. The failure of any of our suppliers to supply equipment to us could have a material adverse effect on our business, consolidated financial condition, results of operations or liquidity.

**If management is unable to manage our operations effectively or maintain the quality of our service or if we are unable to retain key personnel, our business, consolidated financial condition or results of operations could be materially and adversely affected.**

Our success will be dependent upon, among other things, our ability to manage our operations and maintain the quality of our services. Our management faces a number of challenges, such as:

- dealing with the difficulties of managing our operations in an unstable macroeconomic environment;
- managing our operations in an increasingly competitive market;
- enhancing our management, financial and information systems and controls;
- expanding, training and managing our employee base; and
- increasing our service offerings and expanding our target markets.

In addition to the foregoing, our performance depends to a significant extent on the abilities and continued service of our key personnel. Competition for qualified telecommunications and information technology personnel in Turkey is intense. The loss of the services of these key personnel could adversely affect our financial condition or results of operations, particularly if a number of such persons joined a competitor.

**Our financial and operational flexibility is limited by the agreements related to our financing arrangements.**

The indenture governing the 12.75% bonds, due in August 2005, issued by Cellco, our special purpose vehicle restrict, among other things, our ability and the ability of some of our subsidiaries to:

- incur additional indebtedness;
- incur liens;
- make restricted payments;
- pay dividends other than qualified capital stock of the Company;
- purchase or redeem any capital stock of the Company;
- prepay subordinated debt;
- make investments other than permitted investments;
- enter into transactions with affiliates;
- merge or consolidate with any other person; and

sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of our assets.

We expect that we will repay the bonds when due in August 2005 from our cash flow with the cash generated from our operating activities.

## ITEM 4. INFORMATION ON THE COMPANY

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

Turkcell Iletisim Hizmetleri A.S., or Turkcell, a joint stock company organized and existing under the laws of the Republic of Turkey, was formed in 1993 and commenced operations in 1994. The address of our principal office is Turkcell Iletisim Hizmetleri A.S., Turkcell Plaza, Mesrutiyet Caddesi, No. 153, 34430 Tepebasi, Istanbul Turkey. Our telephone number is +90 (212) 313 10 00. Our website address is *www.turkcell.com.tr*. Our agent for service of process in the United States is CT Corporation, 111 8th Avenue 13th floor, New York, New York 10011.

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

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

In July 2000, we completed our initial public offering with the listing of our ordinary shares on the Istanbul Stock Exchange and our American Depositary Shares, or ADS's, on the New York Stock Exchange.

Our subscriber base has grown from 63,500 at year-end 1994 to approximately 23.4 million at the year-end 2004. As of March 31, 2005, our subscriber base was approximately 24.3 million. In 2004, we had total revenues of $3,200.8 million, our EBITDA totaled $1,338.8 million, and we reported net income of $511.8 million.

### 4B. Business Overview

Based on our estimates, and announcements of the Telecommunications Authority, we are the leading provider of mobile services in Turkey in terms of number of subscribers. We provide high-quality mobile voice and data services using our GSM network. We have developed one of the premier mobile brands in Turkey by differentiating ourselves from our competition based on quality of service. As part of our focus on subscriber service and subscriber growth, we have introduced a wide range of mobile services intended to attract and retain subscribers with various service needs.

Through a state-of-the-art GSM network, we provide comprehensive coverage of an area that as of December 31, 2004, included 100% of the population living in cities of 10,000 or more people, as well as 99.89% of the population living in cities of 5,000 or more people, 99.63% of the population living in cities of 3,000 or more people, as well as the 81 largest cities and the majority of the country's tourist areas and principal intercity highways. As of May 31, 2005, we provided service to our subscribers in 178 countries through roaming agreements with 456 operators.

Our principal founding shareholders are Sonera Holding, formerly known as Telecom Finland Ltd. and currently owned by TeliaSonera, and the Cukurova Group. The Cukurova Group is one of Turkey's leading financial and industrial conglomerates, with important financial services and media assets in Turkey. TeliaSonera was formed in December 2002 with the merger of Sonera Corporation, a Finnish telecommunications provider, and Telia, a telecommunications operator in Sweden. We have benefited from Sonera's expertise in constructing and operating our GSM network and developing our services. Notwithstanding the merger between Sonera and Telia, we expect to continue to benefit from our relationship with Sonera in the future. We have also benefited from Cukurova's knowledge of the local environment, particularly in relation to marketing and distribution. As of June 20, 2005, TeliaSonera and the Cukurova Group own, directly or indirectly, approximately 37.1% and 40.3%, respectively, of our outstanding share capital. For additional information about the Cukurova Group's potential sale of certain of its holdings in Turkcell, see "Risk Factors The Cukurova Group and TeliaSonera together currently hold a majority of our outstanding share capital which allows them together to exercise a controlling influence over us. This ownership may also have the effect of delaying, deferring or preventing a change of control of Turkcell."

**Industry**

***Overview***

GSM, currently one of four basic digital standards for mobile communications, was developed in 1987 in order to facilitate unification and integration of mobile communications within the EU.

As a digital standard, GSM offers a wide range of services that include voice, circuit switched data, packet data and fax, in addition to standard service offerings such as call barring, call forwarding, call waiting and roaming into areas serviced by other GSM carriers. A key component of the GSM network is the SIM card, which enables the user of a mobile phone to be identified. Because the identity of the subscriber is held on the card, any mobile phone can be used in conjunction with the SIM card. Without a valid SIM card, mobile phones do not function.

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

Today most GSM operators, in addition to the standard data service of 9.6 kilobits per second, have already begun to offer new technology standards such as High Speed Circuit Switched Data (HSCSD) and General Packet Radio Services (GPRS), which provide for network speeds of up to 57.6 Kbs and 160 Kbs, respectively, depending on radio network and mobile phone conditions. Enhanced Data rates for GSM Evolution, or EDGE, and Universal Mobile Telecommunications System, or UMTS, provide the means for making the networks suitable for high-speed wireless data services. We expect that EDGE and UMTS platforms will allow network speeds of up to 384 Kbs and 2 Mbs, respectively. Most of the countries in Western Europe have already been granted UMTS frequency band licenses to operators and commercial operations are emerging.

***The Turkish Mobile Market***

Turkey's population was estimated to be 72.3 million as of December 31, 2004. The Turkish population is young with an estimated average age of 27, which is lower than elsewhere in Western Europe, and the majority of the population lives in urban areas. In our opinion, these factors indicate growth potential for the mobile communications market in Turkey.

There are currently three mobile communications operators in Turkey: Turkcell, Telsim, and Avea (the company resulting from the merger of Is-Tim and Aycell) and a total of 34.7 million GSM lines as of December 31, 2004 according to the Telecommunications Authority.

Telsim, our principal competitor, received a 25-year license at the same time as we did on what we believe are identical terms, including the $500 million upfront license fee. Telsim was seized by the Security Deposit Insurance Fund (SDIF) in February 2004 as a result of the debts owed by its controlling shareholders, the Uzan family, to the Turkish Government. In July 2004, the Turkish Government enacted a law allowing the SDIF to sell a majority stake in companies owned by the SDIF, including Telsim, to foreign companies. In September 2004, the government officially announced the commencement of the sale process for Telsim. After the finalization of Telsim's legal sale proposal, the SDIF is expected to start the sale process. A draft directive regarding the sale of companies possessed by the SDIF (including Telsim) has been sent to a subcommission by the Turkish Parliament Planning and Budgeting Commission for detailed analysis and has been approved by the Turkish Parliament in March 2005. The sale of Telsim is expected to begin shortly after the draft directive has been approved by the President and published in the Official Gazette.

The government of Turkey issued two new GSM 1800 licenses in 2000. One of the licenses was awarded in April 2000 to Is-Tim, a company operating under the Aria brand name formed by Telecom Italia and Isbank, one of the largest private banks in Turkey. In February 2001, Is-Tim paid its license fee in full and began offering services on March 21, 2001.

The other new GSM 1800 license was awarded to Turk Telekom on September 18, 2000. Turk Telekom began offering GSM services on December 14, 2001, through its brand Aycell.

The Turkish government originally stated its intention to issue a third new GSM 1800 license. In the public tender for the third new license held in April and May 2000 no bids were received. It is unclear when or whether a new GSM 1800 license will be offered by the Turkish government.

In February 2004, Is-Tim and Aycell merged to form "TT&TIM," which is owned by Turk Telekom (40%), Telecom Italia Mobile (40%) and Isbank (20%) TT&TIM operates under the brand name of "Aria".

In November 2004, the Turkish Privatization Agency announced that 55% of Turk Telekom would be privatized through a "block sale". Applicants were required to apply for the "initial qualification phase" prior to January 2005. Out of the 16 applicants, 13 have qualified to enter the "data room" phase. The data room phase was completed on April 12, 2005 with 9 entrants. The final deadline for establishing consortiums to bid for Turk Telekom is June 10, 2005. The initial deadline for final proposals was set as May 31, 2005. This has since been extended to June 24, 2005, at the request of 5 of the potential remaining investors. In accordance with pronouncements from the Competition Board, we are limited to a minority stake in any consortium participating in the bidding process. We are participating in the tender process through our subsidiary Turktell Bilisim A.S. ("Turktell"), which is part of a consortium of bidders. On June 24, 2005, the consortium in which we are participating submitted a final proposal.

***Strategy***

Our vision is to enrich the private and professional lives of our subscribers by making life easier for them. In line with this vision, our mission is to ensure the satisfaction of our subscribers, shareholders and employees by creating synergy with our partners while remaining a leading and trusted company.

In order to achieve our vision and mission, we have adopted the following key strategic priorities:

- To provide differentiated services for different subscribers' needs and expectations
- To consider and prioritize the shareholders' expectations during the decision making processes and to encourage entrepreneurship
- To drive the market in our targeted business domains proactively
- To ensure continuous trust and loyalty in the community by demonstrating social corporate responsibility
- To conduct effective, cost sensitive operations and timely executions

We are pursuing our strategy through a variety of strategic initiatives. Some of the key initiatives include the following:

***Enhance Customer Focused and Customer Relationship Management (CRM) Approach***

Our business approach has been shaped by subscriber needs and expectations since our inception. However, changing economic conditions and increasing competition in the market have made our subscriber-oriented approach and the loyalty of our subscribers more important than ever. Therefore, our CRM program plays an important role in developing and applying the right approach to each segment of our subscriber base. This program was awarded the 2003 CRM Oscar by CRM Institute Turkey, which is an organization that works to increase awareness of CRM concepts and methodologies. Our CRM program is a holistic strategy program, which allows us to manage company-wide subscriber related projects and initiatives under the umbrella of an extensive change program. The goal of this program is to further improve our level of subscriber service by identifying our subscriber segments and developing programs to meet their needs. In line with this understanding we segment our subscribers based on their value and call behavior patterns. This approach not only helps us to be more efficient in terms of implementing segmented acquisition and retention programs but also to reinforce our product and service performance through a better understanding of subscriber needs. In line with our subscriber-focused business approach, we aim to provide the highest level of subscriber service. We believe that the subscriber service that we provide is superior to our competitors and has been instrumental in distinguishing us from competitors, expanding our subscriber base and promoting subscriber loyalty.

***Provide Superior Products and Services***

We provide a full range of products and services through our GSM network. We have made a substantial investment in the development of our network. Through our GSM network, we provide comprehensive coverage of an area that as of December 31, 2004, included 100% of the population living in cities of 10,000 or more people, as well as 99.89% of the population living in cities of 5,000 or more people, 99.63% of the population living in cities of 3,000 or more people as well as the 81 largest cities and the majority of the country's tourist areas and principal intercity highways. As of May 31, 2005, we provided service to our subscribers in 178 countries through roaming agreements with 456 operators. We believe that the quality of our network, measured in terms of network coverage and capacity, has been an important factor in our success to date. We intend to maintain our high quality network and to upgrade our networks to further facilitate the introduction of more sophisticated data services.

***Provide Value-Added Services and Innovative Data Services***

We intend to increase GSM usage among our existing subscribers and to foster the growth of new GSM subscribers in Turkey by offering our subscribers value-added services and by allowing our subscribers to access a wide range of services through our network. We currently offer such value-added services as voicemail, call waiting, caller ID, SMS, unified messaging, Java based games, WAP, HSCSD, GPRS and Multimedia Messaging Service, or MMS, which allows images and sounds to be attached to a basic text message. We launched Java based games in December 2002, mobile payment in April 2003 and mobile ticketing in September 2004.

Our current service portfolio fulfills the infotainment and personal communication needs of subscribers. In June 2003, we commercially launched our new multifunctional mobile service platform under the commercial name "Shubuo." Shubuo provides our subscribers with access to quality content while creating a new medium for subscriber brands to promote their goods and services. Under the Shubuo brand, we allow our subscribers to choose from several service packages each catering to different interest areas including news, finance, football, city life and music. Subscribers are able to choose from these services according to their interests and to buy individual packages for a monthly fee. As a result, they 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 enlarged our product portfolio with new value added services in 2004. Services such as Shazam (Ne Bu Calan), MMS-Postcard and M-Ticketing, other services to make tax payments and reservations in movie theaters and new SIM cards with improved features (64K+Simplus), were some of the new services that we introduced. We also continued to invest in infrastructure enabling services such as Push-to-Talk, Instant Messaging and Ringback Tone, which were launched in the first quarter of 2005. Another recent service introduction was EDGE (Enhanced Data rate for GSM Evolution) technology. We also announced that we plan to begin to offer BlackBerry services to mobile customers in Turkey during 2005 in addition to our current e-mail solutions.

We continuously extend our product range to be able to meet the needs and demands of our subscribers and enhance our network in order to introduce new services to enrich our subscribers' lives.

***Focus on Cost Control and Efficiency***

In 2004, we continued to focus on cost management and increased the efficiency of our operations without adversely impacting our ability to deliver high quality products and services to our subscribers. As a result of the extensive capital expenditures we have made since our formation, we have built a comprehensive, high quality network that covers 100% of the population living in cities of 10,000 or more people and 99.89% of the population living in cities of 5,000 or more people, 99.63% of the population living in cities of 3,000 or more people, as well as the 81 largest cities and the majority of the country's tourist areas and principal intercity highways. In 2005, network investments will continue in order to accommodate the increases in the subscriber base and the overall minutes of use. Efficiency improvement and cost optimization are taken into consideration in planning network investments. New technologies in telecommunications are being investigated in a search for alternative technologies that will result in cost savings without losing network quality and will extend network capabilities. In 2005, we are planning approximately $500 million of capital expenditures in our network in order to improve capacity, replace some of the phased out hardware, provide increased network functionality, and improve network efficiency in order to better serve our customers.

***Focus on Relations with Shareholders, Business Partners and Stakeholders***

We believe that in addition to providing a consistently high level of service to our subscribers we must also develop close relations with our shareholders, business partners and other stakeholders. Our main focus areas are maintaining our close relationships with our subscribers, business partners, suppliers and the community and considering and prioritizing the shareholders' expectations during the decision making processes and encouraging entrepreneurship. We believe that teamwork and creating synergies through partnerships and alliances will be important factors in our future success.

**Services**

We currently provide high-quality wireless and value-added mobile communications services to subscribers throughout Turkey. Subscribers can choose between our postpaid and prepaid services. Currently, postpaid subscribers sign a subscription contract, but are not bound to a minimum subscription period, and receive monthly bills for services. Prepaid subscribers, on the other hand, purchase prepaid airtime cards.

***Postpaid Voice Services***

Our postpaid voice services include network access, call forwarding, call holding, call waiting, call barring, caller ID presentation ("CLIP") and caller ID restriction ("CLIR"), dual numbering, twin card, high memory SIM card options, international roaming, Mobile Virtual Private Network ("MVPN") and services such as teleconferencing, voice mail, call alert, collect call service, unified messaging, SMS, MMS, WAP over GPRS, HSCSD and CSD, mobile internet, directory service, a financial information line, a general information line, bill query over SMS, SMS over web, bulk SMS, fleet management, m-commerce, m-payment and m-marketing services.

***Prepaid Voice Services***

During the first quarter of 1999, we introduced our prepaid mobile service. This service is marketed under the name "Hazir Kart" or "Ready to Go Card" and "Muhabbet Kart" or "Chat Card." The airtime scratch cards of Hazir Kart are sold through our exclusive and non-exclusive dealer networks, supermarket chains, gas stations, digital channels and other distribution points. Digital channels consist of our call center (Turkcell Number 8035, Garanti, YKB, Denizbank, Teknort), approximately 3,112 ATMs, 2,712 POS terminals, a pay channel called "Digiturk," WAP (YKB, Turkcell), kiosks (Tcell Metro, Gima, IDO), a retail chain (2,567 NCR tellers) (Migros, Gima, Endi), counter loading by SMS (Turkcell and Superonline) and the Internet (Turkcell Web, Superonline, Denizbank, Garanti, YKB). The physical scratch cards of Muhabbet Kart, which is an airtime refill card, are sold through newspaper kiosks, which are located throughout Turkey and owned by the Yapi Kredi Bank and SDIF. When prepaid subscribers first join our network, they must purchase a SIM card and a prepaid airtime card for up to 25 minutes of airtime. Additional airtime cards can be purchased in increments of up to 250 minutes. Prepaid subscribers are offered a package of services including network access, call forwarding, call holding, call waiting, call barring, caller ID presentation and caller ID restriction (CLIP and CLIR), high memory SIM card options, international roaming, MVPN and services such as teleconferencing, voice mail, call alert, collect call service, unified messaging, SMS, MMS, WAP over GPRS, HSCSD and CSD, mobile internet, directory service, a financial information line, a general information line, bill query over SMS, SMS over web, bulk SMS, fleet management, m-commerce, m-payment and m-marketing services.

There was rapid growth in our prepaid subscriber base in 2004. As of December 31, 2004, we had approximately 18.2 million prepaid subscribers, compared to approximately 14.2 million at December 31, 2003. The number of prepaid subscribers increased to 19.1 million and postpaid subscribers increased to 5.2 million at the end of the first quarter of 2005.

***Other Services***

*International Roaming*

Today, our coverage extends to many countries in Europe, Asia, Africa and North and South America. As of December 31, 2004, we offered our subscribers international roaming in 174 destinations around the world, pursuant to commercial roaming agreements with 431 operators. As of May 31, 2005, we offered our subscribers international roaming in 178 destinations around the world, pursuant to commercial roaming agreements with 456 operators.

Since July 2002, we have been providing roaming services for the prepaid subscribers of foreign mobile operators visiting Turkey. We were the first operator to provide such a service in Turkey. This service, called "passive CAMEL", can only be enabled if both operators have installed CAMEL system on their networks. As of December 31, 2004, we offered prepaid roaming to the prepaid subscribers of 72 operators in 37 destinations. As of May 31, 2005, we offered prepaid roaming to the prepaid subscribers of 78 operators in 41 destinations. Since October 2004, we have offered roaming services for Turkcell prepaid subscribers going abroad. This service, called "active CAMEL", can only be enabled if both operators have installed the CAMEL system on their networks. As of December 31, 2004, we offered prepaid roaming to Turkcell prepaid subscribers through 3 operators in 3 destinations. As of May 31, 2005, we offered prepaid roaming to Turkcell prepaid subscribers through 47 operators in 31 destinations. We believe that we are among the top 5 operators worldwide in terms of number of Passive CAMEL partners.

Since October 2002, we have offered GPRS roaming. As of May 31, 2005, we had 186 GPRS roaming partners in 76 destinations. We have signed 204 GPRS roaming addendums, or extended service agreements, to enrich the GPRS roaming availability. We believe that we are among the top 5 operators worldwide in terms of the GPRS partners.

International Roaming is increasingly becoming an important service due to an increase in inbound and outbound tourism in Turkey.

In order to balance international SMS traffic, we started to sign international SMS Interworking Agreements with other mobile operators in April 2002. As of December 31, 2004, we had signed 114 International SMS Interworking Agreements. As of May 31, 2005, we had signed 124 International SMS Interworking Agreements. Currently, our subscribers can send SMS to 450 mobile operators located in 176 destinations.

*Value-Added Services*

We offer a variety of value-added services to our mobile subscribers. The importance of such non-voice services increased in recent years as subscribers have become familiar with SMS, or Short Messaging Service, the means by which many of the services are provided.

Our value-added services include SMS, SMS via operator, SMS-based information services, data services, mobile positioning system, and fax data services. SMS communication services and some SMS-based content services are available for both our postpaid and prepaid subscribers.

We restructured our value added services business early in 2003. Our existing services are now distributed among three different business groups: Turkcell Operator services, Lifestyle services, and Carrier services, each described further below. Our goal with the restructuring was to increase subscriber value while addressing the needs of various third parties. As of May 31, 2005, we offered 74 distinct categories of services within Turkcell Operator group, 394 services within our lifestyle services group, and 102 services within our carrier services group.

***Turkcell Operator Services***

Turkcell operator services are provided under the Turkcell brand. In addition to offering a variety of services such as call forwarding, call holding, call waiting, caller ID, international roaming, teleconferencing, voice mail, and directory service, we offer a number of additional services, such as:

*Prepaid Unit Transfer service.* Allows unit transfer among both postpaid and prepaid subscribers.

*Collect Call service.* Allows a call that is paid by the called party.

*Units in Advance service*. Allows subscribers to use 10 prepaid units in advance after their debit units are used up.

*Invoice info service.* Enables subscribers to obtain information regarding their phone bills.

*Banking service.* Enables subscribers to check the current balance of their bank accounts and to obtain other banking information.

*Mobile Positioning service.* Enables subscribers to learn the locations of the nearest hospital, police station, Yapi Kredi Bank, Pamukbank and Turkcell dealers.

*Tourist info.* Provides emergency information for tourists.

*Who Called Alert.* Sends a short message informing a user of who called when his or her mobile was turned off, when, and how many times.

*Maxi Design.* Enables subscribers to create their own MMSs from various multimedia content via the web.

*MMS PostCard*. Enables subscribers to send the pictures they took with their mobile phone as postcards.

*Voice Message service.* Allows subscribers to send voice messages to one another on a specified date and time, delivered via a voice call to the receiving party.

*Mobile Mail.* Enables subscribers to send e-mails from their mobile phones.

*WebSMS.* Enables subscribers to send SMS from our website.

*Voicemail Announcement Service*. Enables picking popular songs and poems as voicemail personal announcements.

*Unified messaging.* Enables subscribers to leave, listen to, divert, save, and alert messages using both the Internet and mobile phones.

*BiletCell M-Ticketing.* Enables subscribers to search for movie times and buy movie tickets via mobile phones.

*Push-to-talk*. Enables the subscribers to communicate to a person or group by pushing a button on the telephone.

*Instant Messaging Service Turkcell Messenger*. Enables subscribers to send instant messages to each other just like in MSN Messenger and Yahoo Messenger.

*SIM+64*. New, advanced simcard which provides shortcut menus for easy access to more than 20 Turkcell services, easy access to more than 150 Shubuo services, easy access to mobile banking (SIM card banking) and the ability to update the menus with new products and services over the air.

*What's The Song? Ne Bu Calan? (Shazam)*. Enables subscribers to learn the name of the song they are listening to and the artist via IVR and SMS.

*EkipMobil.* Enables the tracking of mobile phones via GSM network and displays the locations of mobiles on digital maps available on the internet.

*GPRSCell.* 2.5G mobile data service which enables subscribers to access the Internet.

*CellBroadcast 888.* The e-government project enables municipalities to deliver local info via Cell Broadcast channel 888.

*GrupMesajCell.* Enables companies to send information and enquiries to their customers who have mobile phones using the Turkcell SMS infrastructure.

Teleconference over Mobile  enables teleconferencing over mobile terminals.

*Vendomat Services  (Vending Machines)*. Enables subscribers to buy goods from vending machines via IVR calls.

*ALO Markam*. Enables access to call centers via company's brand names.

*GSM POS*. GSM data based Point of Sales (POS) service offered to banks so that merchants can offer real time mobile POS services.

*HSCSD*. High Speed Circuit Data Service which enables mobile users to reach internet and corporate intranets at high data speeds.

*Ringback Tone-CalarkenDinlet*. A personalized ringback tone service, which allows Turkcell subscribers to play personalized ringback tones to all or specific callers to express their individuality and to entertain their callers.

*Blackberry*. BlackBerry provides always on, push-based, mobile access to email and other communications and information. It enables subscribers to access email, mobile phone, SMS, calendar, contacts, documents and Internet browser applications and features on an integrated platform.

*EDGE*. Provides our subscribers with faster Internet access through their GSM handsets as well as laptops.

***Lifestyle Services***

MAPCO, a 100% subsidiary of Turkcell, works with a number of partners to develop new services and products in line with customer expectations, business trends and new possibilities. MAPCO driven and marketed services include Java ticker applications, MMS composer service and mobile streaming. One of MAPCO's strengths is its access to a large number of content suppliers.

In June 2003, MAPCO commercially launched a new multifunctional mobile service platform under the brand 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, we allow our subscribers to choose from several service packages, each catering to different interest areas including news, finance, football, city life and music. Subscribers are able to choose from these services according to their interests and to buy individual packages for a monthly fee. As a result, they 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. The content of these packages, and much more, is also sold individually as pull services.

The most successful services in Shubuo are Chat Plaza, Logo-Melody, Lottery Games, News and Horoscope services. We expect that Java games and MMS based services will be popular services in the future. MAPCO is continuously trying out new ways to inform subscribers about the new services to increase awareness and encourage usage.

Shubuo offers 84 subscription-based packages in conjunction with leading brands in related sectors, including:

*News Package.* Enables subscribers to receive news information on their mobile phones.

*Tribune Package.* Enables subscribers to receive game results, team and players' statistics, news from the locker room and recent flash news.

*Finance Package.* Enables subscribers to receive updates about various investment instruments and expert comments.

*Pop Music Package.* Enables subscribers to receive recent news about famous people, and information on top songs.

*City Life Package.* Enables subscribers to receive news about nightlife, DJ performances, new entertainment venues such as bars and clubs, cocktail recipes, as well as discount coupons.

*Flirt Package.* Enables subscribers to receive various fortune-telling services and chat services.

*Healthy Living Package*. Enables subscribers to receive various tips on healthy living, as well as different diet programs and menus.

*Cinema Package*. Enables subscribers to receive news on new releases and coming attractions, including information about theaters and showtimes.

Shubuo also offers 83 services including:

*National lottery drawings.* Enables subscribers to retrieve the results of the latest lottery drawing.

*Horoscope.* Enables subscribers to read their horoscopes using their mobile phones.

*Drugstore.* Enables subscribers to find after-hours drugstores throughout Turkey.

*Weather service.* Enables subscribers to learn the weather in selected cities.

*Chat Plaza.* Enables subscribers to interact in chat groups using their mobile phones.

*Logo and melody downloading.* Enables subscribers to download melodies and various logos to their mobile phones.

*Horse Race.* Enables subscribers to retrieve the results of horse races.

*Dictionary.* Provides a translator between English, German and Turkish.

*Diet.* Offers various diet menus.

*Financial Info.* Provides currency exchange rates, stock exchange information and other financial indicators.

*TV Guide.* Provides information about TV program schedules.

*City info.* Provides emergency information and information on movies, restaurants, bars, concerts, activities, etc.

*Biorhythm.* Provides information on the daily biorhythm.

*WAP and Java games.* Provides various games available on mobile phones.

*Goal MMS.* Provides updates of soccer games at 9-second intervals and video streaming format.

*Fun Message.* Sends the subscriber a fun picture (via MMS) or logo (via SMS) after the subscriber sends a request to a specific number.

***Carrier Services***

Carrier services provide news, finance, entertainment, and other services similar to those offered by MAPCO. The main difference between the two is that third parties are responsible for most aspects of Carrier services, such as content development and marketing, and they create their own brand. Subcontractors develop the services on a Turkcell platform. We share the revenue generated from these services with the subcontractors based on a revenue sharing business model.

The number of active carried services are 102 as of May 31, 2005. Important milestones in 2004 included the growth of java games.

Some carrier services include:

*Mobile Friend SMS and IVR.* Enables subscribers to interact in chat groups using their mobile phones.

*Game SMS.* Provides several SMS games such as word puzzles and trivia.

*Logizmo logo and ring tone service.* Enables subscribers to download melodies and various logos to their mobile phones.

*Oynax java games.* Provides subscribers a number of java games, which are developed on a java platform, such as puzzle, quiz, basketball & football, car race, shooting and adventure games.

*Various contests*: People vote for contestants in various game shows and reality programs via SMS and IVR.

*Data Services*

We launched a WAP-based data service, WAP-CSD, for our postpaid subscribers in March 2000 and for our prepaid subscribers in November 2000. Currently, we offer mobile access to data services, including location-based information such as restaurant and cinema guides and news services such as financial information. In March 2000, we began to offer High Speed Circuit Switched Data, or HSCSD, which will offer a data rate of up to 28.8 Kbs. In March 2001, we launched GPRS in Turkey, which allows users to remain connected to the network for data communications.

We offer corporate subscribers VPN (a solution which provides virtual dedicated network for corporate customers) access over GPRS networks that allow them to access their intranet remotely. It is getting increasingly popular for corporate subscribers to run their applications, such as SFA (Sales Force Automation) or FFA (Field Force Automation), over GPRS networks.

*Interactive Voice Response*

Interactive Voice Response is a system that provides calling subscribers a menu of options, which can be selected to receive recorded information.

***SMS***

SMS, or Short Message Service, enables mobile telephone users to send and receive written messages on their handsets. During 2004, average outgoing SMS usage per subscriber was approximately 17 SMS messages per month compared to approximately 16.1 SMS messages per month in 2003.

***MMS***

MMS, or Multimedia Messaging Service, is an evolution of SMS, which allows images and sounds to be added to a basic text message in a variety of combinations. Through their MMS enabled phones, our subscribers are able to combine images, video, text, graphics, and voice data into a single message that offers a greatly enhanced user experience.

The pricing of the service is a set price per message, regardless of the amount of data. Therefore, our subscribers will know exactly how much it costs to send a message. Our subscribers should have particular phone settings to use this service. Settings can be done by a single SMS or through Call Center.

We use content providers that offer rich MM content to subscribers via our website.

***Future Services: Third Generation Mobile***

The "first generation" of mobile telecommunications, based on analog technology, provided simple voice telephony. The "second generation" of European mobile telecommunications, based on the digital GSM standard, provides additional data facilities, ranging from short messaging services to narrow band data. Since its adoption, GSM became the most popular global mobile communications system with more than 1.2 billion subscribers worldwide. We currently offer GSM and General Packet

Radio Service (GPRS) countrywide and we offer EDGE in certain markets in Turkey. GPRS and EDGE are often referred to as "Generation 2.5" or "2.5G," because they permit even greater opportunities for improved data and voice services, provide the platform for the introduction of mobile Internet services, and pave the way for third-generation (3G) networks. With 2.5G, users can surf on the mobile Internet via GPRS and EDGE and choose from a wider array of entertainment and business applications. Third generation mobile telecommunications, which offers full interactive multimedia capabilities at data rates of up to 2 Mbs, are expected to bring mobile networks significantly closer to the capabilities of fixed-line networks and allow for the introduction of high volume-based data services such as video telephony. Improvements in coding and data compression technology will provide better speech quality and more reliable data transmission. UMTS is the EU's implementation of third generation mobile telecommunications.

Ultimately, the range of services offered over third generation networks will be determined by the needs of the market over time. However, we anticipate that key new product offerings will be facilitated as a result of greater bandwidth and enhanced network intelligence. Bandwidth is the range of frequencies occupied by a radio signal or the range of frequencies over which a radio receiver operates. In the near term, HSDPA (High Speed Downlink Packet Access) could be the most important technology to increase the capabilities and competitiveness of UMTS. Most of the vendors have declared that their UMTS products will be ready to deploy HSDPA by replacing the system software only. HSDPA will allow high speed data transmission up to 14 Mbps, and will be the next step towards UMTS in the near term.

Multimedia services will feature prominently in third generation networks, and may include, in addition to conventional mobile voice and data services:

- high speed Internet and intranet access;
- video telephony and conferencing;
- rich voice services, which allow mobile users to talk while viewing a shared document on the screens of their mobile devices.
- entertainment, information and high precision location services; and
- direct instant access to home or office IT system.

A licensing process for third generation services in Turkey has not yet been established by the Turkish government, and our ability to implement these services will be dependent on clearing regulatory and licensing hurdles. However, we believe that these services will be important for our business when they are introduced in the coming years and we intend to participate in the licensing process when it commences. UMTS License granting preliminary work is already included in the 2005 work plan of the Turkish Telecommunications Authority. We expect that third generation ("3G") licenses may be distributed in 2006. As a result, 3G operators may be operational in 2006 or 2007. The timing, number of licenses and cost per license are currently not known.

**Tariffs**

Our charges for voice, messaging, and data consist of monthly fees, usage prices, bundles, and volume discount schemes. Our license agreement regulates our ability to set our tariff for GSM services (such as voice, SMS, and circuit switched data). Our license agreement provides that, after consultation with us and consideration of tariffs applied abroad for similar services, the Telecommunications Authority sets the initial maximum tariffs. Thereafter, the maximum price levels are adjusted at least every six months based on increases in the Turkish Consumer Price Index announced by the Prime Ministry State Institute of Statistics of Turkey. The increase applied to the price cap is 97% of the increase in the index. For more information on how our maximum price levels are established see also " Regulation of the Turkish Telecommunications Industry."

Each subscriber pays a voice tariff. Voice tariffs vary based on type of subscriber (whether corporate or individual), time and destination of call, and call volume. Although current price levels for domestic calls in our tariffs are more than twice as expensive as fixed-line call prices, some of our discounted rates for on-net and PSTN calls match or are slightly below the rates of long-distance fixed-line calls. After we set PSTN call prices equal to on-net call prices, reducing PSTN rates by more than half, our domestic call prices in our postpaid and prepaid tariffs have become more competitive. Variations in our voice tariffs are summarized below under "Postpaid Tariffs" and "Prepaid Tariffs."

***Postpaid Tariffs***

Although we offer a number of postpaid tariffs, as of May 31, 2005, approximately 78% of our postpaid subscribers subscribed are in the Bizbizecell Super On Net tariff and 8% to the standard tariff. TurkcelliciGrup, a corporate tariff with a structure similar to Bizbizecell, is our third largest tariff with 4% of the total postpaid subscriber base.

The tariffs mentioned above are listed below as of May 31, 2005 (the US dollar amounts in the table are based on the May 31, 2005 exchange rate of TRY 1.3656 = $1.00). (The prices below include 18% VAT but exclude the 25% Special Communications Tax).

| | **Bizbizecell** | **Standardcell** | **BizimSirketcell** |
|---|---|---|---|
| | **$** | **$** | **$** |
| Monthly Fee | 0.70 | 0.55 | 0.70 |
| Calls Out (per minute): | | | |
| Turkcell to Turkcell | 0.19 | 0.24 | 0.18/0.16 |
| Turkcell to PSTN | 0.19 | 0.25 | 0.18 |
| Turkcell to OMO | 0.44 | 0.37 | 0.42 |
| SMS (per message) | 0.10 | 0.10 | 0.10 |

In addition to the tariffs mentioned above, we offer the following tariffs to the mass market: Kampuscell (a community tariff for university students and high school students), BirFiyat (In November 2004, we revised the Professional Tariff which is a flat rate tariff for high users and we changed the name as "BirFiyat"), Kademelicell (daily volume tariff), Hero Tariff (a special tariff for member of Security General Directorate and war veterans), Support Tariff (a special tariff for disabled subscribers).

Most recently we terminated "Gececell" (offers discount price at night time) and "1cebe3cep" tariffs (offers discount price to the 3 chosen Turkcell subscribers) in January 2005, and later we changed the names of corporate tariffs in order to differentiate them from consumer tariffs in May 2005.

Bizbizecell, Kademelicell, Standardcell and BirFiyat tariffs are both offered to the mass market and corporate subscribers. The tariffs which offer discounted on-net prices for MVPN calls of corporate subscribers are TurkcelliciGrup, SirketiciAvantaj and HeryneEsit.

In 2004, "Group 1" which is designed for communities or companies with 150,000-300,000 members was followed by "Group2" and "Group 3" which are designed for communities or companies with 500 or more members and 600,000 or more members, respectively. These community tariffs allow members of a community to speak with each other for a set number of minutes each month for a flat fee.

In March 2004, we started a campaign for subscribers of certain tariffs which continued for six months: calls to PSTN are discounted by half in Bizbizecell, Kademelicell, TurkcelliciGrup, Kampuscell, Hero and Group 2 on Mondays through Saturdays from 18:00 to 06:00 and on Sundays all day. In August 2004, after evaluation of the campaign results, we set PSTN call prices equal to on-net prices permanently, reducing PSTN prices by more than half. In Bizbizecell the largest tariff, PSTN prices decreased from 0.47 USD to 0.17 USD. Additionally, we also made minor downward price adjustments for calls to other mobile operators.

In June 2004, we launched discount options for both individual and corporate subscribers. They could choose an option while retaining their existing tariff plan and receive a 50% discount on calls to selected numbers or they could make on-net calls at 50% discounted prices during weekends or after 23:00 hours, with a monthly fee.

Subscribers can also sign up for bulk SMS and minute packages (bundles) on top of their tariff plan. Once the bulk usage is exhausted, the rates in the subscribers' existing tariff package apply. We offer different bulk SMS packages for corporate and individual subscribers so that they can send SMS at a discount of approximately 50%.

***Prepaid Tariffs***

We offer two tariffs for our mass market subscribers (BirFiyat, which was formerly known as our "Standardcell" tariff, and Bizbizecell), a community tariff for university students (Kampuscell) and one package to our corporate prepaid subscribers (Toplukontorcell). The flat "BirFiyat" tariff charges the same price for all domestic calls. Bizbizecell, which was launched in March 2001, encourages existing subscribers to make calls within our network and encourages new subscribers to choose Turkcell by providing a 60% discount on-netcalls compared to off-network charges. As of December 2004, TopluKontorcell offers 19 different bulk counter packages aimed at corporate users. The counters in a TopluKontorcell package can be distributed among a predetermined number of lines; for instance, the smallest package can be distributed among up to three.

In January 2004, we launched the prepaid version of Kampuscell (a community tariff for university students). Prepaid Kampuscell subscribers can call and send SMS to other Kampuscell subscribers on a discounted rate compared with Bizbizecell. In April 2005, Kampuscell tariff became available also for high school students.

In March 2004, we launched a discount campaign in Bizbize and Kampus, in which calls to PSTN were discounted by more than 50% on Mondays through Saturdays from 18:00 to 06:00 and on Sundays all day. This campaign lasted for six months.

In August 2004, after evaluation of the campaign results, we set PSTN call prices equal to on-net prices permanently, reducing PSTN prices by more than half in Bizbizecell from 10 units to 4 units per minute.

The following table sets forth our prepaid tariffs charged as of May 31, 2005 (the US dollar amounts in the table are based on the May 31, 2005 exchange rate of TRY 1.3656 = $1.00). These tariffs include VAT of 18% but exclude the 25% special communications tax and are based on the 100 counter card price level.

| | **Bizbizecell** | **BirFiyat** | **KampusCELL(1)** | **TopluKontorCELL(2)** |
|---|---|---|---|---|
| | **($)** | **($)** | **($)** | **($)** |
| Calls Out (per minute): | | | | |
| Turkcell to Turkcell | 0.25 | 0.38 | 0.19/0.06* | 0.17 |
| Turkcell to PSTN | 0.25 | 0.38 | 0.19 | 0.17 |
| Turkcell to OMO | 0.63 | 0.38 | 0.51 | 0.43 |
| SMS (per message) | 0.13 | 0.13 | 0.13/0.06* | 0.09 |

(1) This tariff is offered to a specific group of subscribers.

(2) Based on our smallest counter package (900 counters).

* Discounted on-net price is for calls and SMS to other Kampuscell subscribers.

The level of prepaid usage prices vary by the volume of counters purchased by the subscriber. Mass market subscribers can choose from one of four scratch cards (100, 250, 500, 1000) and get a discount on cards with counters of 250 and up. The discount has been in place since March 2001.

The following table sets current discount levels and scratch card prices charged as of May 31, 2005 (the US dollar amounts in the table are based on the May 31, 2005 exchange rate of TRY 1.3656 = $1.00). These prices include VAT of 18% but exclude the 25% special communications tax.

| **Scratch Cards** | **Price ($)** | **Discount[(3)] (%)** |
|---|---|---|
| 100 Counter-Card | 7.7 | |
| 250 Counter-Card | 16.8 | 12 |
| 500 Counter-Card | 31.5 | 18 |
| 1000 Counter-Card | 56.4 | 27 |

Current discount levels are compared to 100 counter-card prices.

***Data Tariffs***

The following tariffs for data calls are in effect as of May 31, 2005 (the US dollar amounts in the table are based on the May 31, 2005 exchange rate of TRY 1.3656 = $1.00). These tariffs include VAT of 18% but exclude the 25% special communications tax. Since the usage of the 100 counter top-up is still 45% of the total, prepaid prices below are based on the 100 counter top-up price level.

| | **Postpaid ($)** | **Prepaid ($)** |
|---|---|---|
| Standard, Fax, HSCSD per minute prices peak | 0.16 | |
| DataSimCELL data price per minute | 0.16 | |
| DataSimCELL data per minute (>100 lines) | 0.12 | |
| PosCELL Monthly Fee | 0.37 | |
| PosCELL data per minute | 0.18 | |
| WAPCell per 90 seconds | 0.05 | 0.06 |
| GPRSCELL for Wap per KB | 0.005 | 0.006 |
| GPRS for Web per kb | | |
| 0-5 MB | 0.0013 | |
| 5-10 MB | 0.0011 | |
| 10-25 MB | 0.0007 | 0.0011 |
| 25-50 MB | 0.0005 | |
| 50 MB and over | 0.0004 | |

***Roaming Tariffs***

When one of our subscribers makes a call outside Turkey, we charge the subscriber the local or international rate charged by the local operator where the call is placed, as applicable, plus a surcharge. The surcharge rate has been increased from 28% to 32% as of March 31, 2005. In addition, the tax assessment for international roaming service was also changed on this date. Before March 31, 2005, Value Added Tax (VAT) and Special Communication Tax (SCT) were assessed on the roaming tariff of the foreign operator plus our surcharge. As of March 31, 2005, VAT and SCT were assessed only on our roaming service surcharge (which approximates 32% of roaming tariff). This new tax application has decreased the total roaming price (taxes included price) paid by our subscribers. We retain the surcharge (after paying Treasury share) and remit the remainder of the call charge to the foreign operator.

When a Turkcell subscriber receives a call while outside of Turkey, we charge our subscriber our international call rate. If the host operator charges for the incoming call, we also bill the subscriber for the host operator's incoming call charge plus our 32% surcharge. The incoming call charge is remitted to the host operator and we keep the surcharge.

We do not charge foreign operators' subscribers roaming on our network when they receive calls while in Turkey. When a roaming subscriber makes an outgoing call within our coverage area, that subscriber's operator pays out inter-operator tariff (IOT) for the specific call type.

**Churn**

Churn is calculated as the total number of subscriber 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, postpaid 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 pended from service (but are still considered subscribers) and receive a suspension warning, which in some cases results in payment and reinstatement of service. Prepaid subscribers who do not reload units during 210 days are disconnected and cannot reuse their numbers again.

During the year ended December 31, 2003, we disconnected 2.7 million subscribers including approximately 170,000 subscribers for nonpayment of bills, and our annual churn rate was 14.5%. For the year ended December 31, 2004, we disconnected approximately 2.0 million subscribers including approximately 123,000 for nonpayment of bills and our annual churn rate was 9.1%. We have a bad debt provision in our consolidated financial statements for such non-payments and disconnections amounting to $135.9 million and $133.9 million as of December 31, 2003 and December 31, 2004, respectively, which we believe is adequate.

Prior to 2003, the majority of disconnections were due to non-payment of bills. However, starting from 2003, the majority of disconnections were related to prepaid subscribers' disconnections as a result of the increased number of such subscribers in our subscriber base. We expect the churn rate to increase as a result of the increase in competition in the GSM mobile market in 2005, but it is expected to be kept below 2003 levels.

**Network**

***Coverage***

Our GSM network is designed to provide high-quality coverage to the majority of the population of Turkey throughout the areas in which they live, work and travel. The build-out of our network is now substantially complete, with coverage at December 31, 2004 of 100% of the Turkish population living in cities of 10,000 or more people. As of December 31, 2004, our network covers 99.89% of the Turkish population living in cities of 5000 or more and 99.63% of the Turkish population living in cities of 3000 or more. Coverage also includes substantially all of the Mediterranean and Aegean coastline. We meet the coverage requirements of our license.

We have continued developing our network in order to improve quality and expand capacity. In urban areas, we have increased coverage and capacity by placing network infrastructure in building sites (such as shopping malls, business complexes and entertainment centers). The highest coverage density has been achieved in the major urban areas, especially Istanbul.

We have also expanded our GSM network to add capacity to existing service areas and to offer service to new areas, including improvement of the existing urban, suburban, and intercity road coverage.

***Network Infrastructure***

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

Our network consists of stand-alone home location registers or SHLRs, base station controllers or BSCs, combined mobile switch centers/visitor location registers or MSC/VLRs, service control points or SCPs, and base transceiver stations or BTSs. BTSs are the fixed transmitter and receiver equipment in each cell, or coverage area of a single antenna, of a mobile communications network that communicates by radio signal with mobile telephones in the cell. Each BTS is connected to a BSC via leased lines and/or radio-relay links called "minilinks." The base station controllers monitor and control the base transmitter stations. It is possible to cascade the BTSs to each other, thereby realizing considerable cost savings in transmission.

As of March 31, 2005, our network had the following characteristics:

- 26 Gateway mobile switching centers, or GMSCs, to direct the incoming and outgoing traffic to and from a fixed-line network as well as other mobile networks;
- 12 Tandem Exchanges to route mobile traffic within our network;
- an aggregate of 105 MSCs and 137 BSCs to originate/terminate calls from/to end users and to collect billing information for the calls;
- 1 GMSC/VLR switching center configured to perform both GMSC and VLR functions;
- 23 SHLRs to maintain user data in the system and to manage security for the user and the handset data; and
- 8652 active radio station sites.

***Capacity***

We believe that we have sufficient bandwidth to serve our current and projected subscriber base and that we currently meet the capacity requirements of our license. To enhance the network capacity where congestion is a possibility, we intend to construct additional network sub-infrastructure, or implement technological advances that will permit bandwidths to be used more efficiently. A number of techniques are employed to increase the effective carrying capacity of a given allocation of spectrum. Beyond a certain point, however, it may become impracticable to apply these techniques in densely populated metropolitan areas for reasons of cost or technological limitations. The amount of spectrum currently allocated to our network may not be sufficient to accommodate the growth of our subscriber base. We may need to request from the Telecommunications Authority additional spectrum in the 900 MHz band or the 1800 MHz band. Core network capacity is continuously being enhanced by adding new nodes, processor upgrades and expansions to existing equipment in order to accommodate further increases in our subscriber base and the accompanying call handling and traffic capacity demands. In 2005, we are planning approximately $500 million of capital expenditures in our network in order to improve capacity, replace some of the phased out hardware, provide increased network functionality, and improve network efficiency in order to better serve our customers.

We have started to implement EDGE technology in our network. EDGE is an evolution of the GSM technology which allows consumers to use cellular handsets, PC cards and other wireless devices at faster data rates up to 200 kbps or approximately four times faster than GSM and GPRS data rates. Actual data rates vary depending on the access network load at the connection time and the terminal device features used by customer. We implemented EDGE in September 2004 by upgrading existing BTS sites primarily in large hotels, airports, shopping centers and other areas experiencing high data traffic. As of March 31, 2005, the number of EDGE-enabled cells in our access network was 2499 and by the end of 2005, we aim to complete EDGE activation in 40% of our total network.

***Network Maintenance***

We have entered into several System Service Agreements with Ericsson Turkey. Under these agreements, Ericsson Turkey has agreed to service our GSM network, including hardware repair and replacement, software and system support services, consultation services and emergency services. Our subcontractors perform corrective and preventative maintenance of our radio network in the field, although Ericsson repairs all the network equipment.

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

In addition, we have a Business Continuity Plan to respond to any catastrophic situations, such as earthquakes, with a minimal impact on the network, and to restore all services in the shortest amount of time possible. This plan consists of organizational procedures, roles and responsibilities, telephone chains, to-do lists, dissemination of information regarding the situation, redundancy scenarios and various precautionary measures to distribute the risks geographically in order to lower the overall impact.

***Transmission Lines***

Radio network transmission is either provided as leased lines from Turk Telekom or microwave radio links that we own and operate. As of December 31, 2004, approximately 25% of our BTS transmission is provided by microwave radio links and 75% is provided by the leased lines.

To expand our network coverage, we also install BTS units in private sites where leased lines are not readily available. Where these sites are used, we employ a High bit rate Digital Subscriber Line, or HDSL, link for distances of up to 2 km (from the BTS site to the nearest Turk Telekom location or another Turkcell site) or radio link equipment for longer distance BTS connections.

All of our switching equipment that forms part of our core network, including MSCs, Gateway MSCs, Tandem switches, HLRs and BSCs is located within buildings we own. Transmission between these sites is achieved through a leased Synchronous Digital Hierarchy ("SDH") ring backbone network. As a result, we are better able to increase our capacity and establish new connections required for network expansion and architectural changes can be completed quickly.

Interconnections with other GSM networks and the PSTN network are realized with leased lines. Until December 31, 2003, we were required under Turkish law and regulations to lease all of our transmission lines from Turk Telekom primarily to the extent that Turk Telekom could satisfy our requirements. Turk Telekom's monopoly ended at December 31, 2003. However, Turk Telekom is still the only operator that owns a nationwide fiber transmission network in Turkey.

***Site Leasing***

Once a new coverage area has been identified, our technical staff determines the optimal base station location and the required coverage characteristics. The area is then surveyed to identify BTS sites. In urban areas, typical sites are building faces and rooftops. In rural areas, masts and towers are usually constructed. Our technical staff also identifies the best means of connecting the base station to the network. Once a preferred site has been identified and the exact equipment configuration for that site decided, we begin the process of site leasing and obtaining necessary regulatory permits.

***Dropped Calls***

Dropped calls are calls that are terminated involuntarily and are measured by using the ratio of total dropped calls during the most congested hour of network traffic during the relevant time period to the traffic intensity in that congested hour. Using this industry standard for dropped calls, our monthly dropped call rate has decreased from 1.44 per erlang for December 2002 to 1.27 per erlang for December 2003. As of December, 2004, our dropped call rate has further decreased to 1.05 per erlang.

***Services and Platforms***

We currently maintain an Intelligent Network which offers services such as Mobile Virtual Private Network and prepaid services. As at March 31, 2005, our Intelligent Network consists of the following:

- 34 Service Control Points to control our services.

- 33 Service Data Points to maintain user-specific accounts.

- Prepaid hardware and software capable of handling approximately 21.1 million subscribers. It is possible to increase this capacity by installing new nodes or upgrading our processors.

- Mobile Virtual Private Network system, which offers subscriptions to medium/large companies on a cost-effective tariff. This consists of three Service Control Points with subscriber capacity of 800,000.

- Short Message Service Center, or SMSC, consisting of four nodes with a total capacity of 5,600 messages per second.

- Prepaid administrative system (Large4) used for prepaid subscriber administration; 9 interactive voice recordings or IVRs with 2400 voice trunk for prepaid recharge and account checking functions; and two separate service management application systems for service administration of prepaid and Mobile Virtual Private Network Services Control Points.

- The Turkcell Voice Mail System is based on five nodes, which can accommodate up to 1.9 million subscribers. When a new voicemail message is received, it sends an SMS to the mailbox owner.

- The Turkcell Uni-message platform, which provides the ability to access voice, fax, and e-mail messages from anywhere. It is possible to get new messages from the web, via e-mail or by fax machine. It also notifies subscribers about the new messages with SMS or e-mail. It can handle up to 100,000 subscribers.

- Our Call Alert Service, which provides information to the called party about callers, calling time(s) and number of calls. Information is sent with SMS messages. The System can handle 60 calls simultaneously.

In 2001, we fully launched GPRS services, and as of March 31, 2005, our available capacity can handle up to 1.5 million simultaneous attached users. The other significant features of the services platforms are as follows:

Mobile positioning system infrastructure, which has been operational since September 2001 and provides location-based services such as car fleet management, tracking, and yellow pages.

WAP gateway, providing both SMS circuit switched data and GPRS connection types (bearers) to Internet content, banking applications, and information services.

Cell broadcast center infrastructure, which is to provide location-based information like cell information and advertisements. At December 31, 2004, our capacity allows for two messages per second.

Our Over The Air (OTA) platform, which has the capacity to support five million active subscribers and supports SIM Tool Kit (STK) based services, which enable the operators to configure SIM card contents remotely.

GSM Point of Service (GSM PoS) infrastructure is used to handle credit card PoS applications through the GSM network. As of December 31, 2004, the capacity was 120 simultaneous transactions.

Welcome Platform is used for information services for both international roamers in Turkey.

USSD Gateways are servers to facilitate user interactive operator services such as reverse charging and m-payment. At the end of 2004, the capacity was approximately 1,000 messages per second.

Call Back Platforms enable enhanced voice services such as reverse charging. At the end of 2004, the capacity was 6,720 voice trunk.

Ringback Tone Platform enables personalized ringback tone service, which allows our customers to play personalized ringback tones to all or specific callers. It was launched at the beginning of 2005 and it has a capacity of 4800 voice trunks as of May 2005.

We provide secure and controlled access to our network for the content and service providers to give messaging and data services and we work on improving our relevant infrastructure for coming technologies.

**Sales and Marketing**

We have developed a two-pronged sales and marketing strategy. First, we seek to concentrate on the primary point of mobile sales, the equipment dealer. Second, we seek to promote brand awareness in the market in general.

***Sales of Mobile Services in Turkey***

In Turkey, independent equipment dealers serve as the primary point of mobile service sales. Subscribers generally must purchase a mobile phone from a dealer to commence services. We do not sell mobile phones and do not expect to do so in Turkey. Mobile phones are imported into Turkey by third party importers. Mobile phones need an activated SIM card to operate. We sell SIM Cards and starterpack directly to mobile phone importers which distribute the SIM cards, along with handsets, to dealers at different prices which are listed below as of April 30, 2005 (the US dollar amounts in the table are based on the May 31, 2005 exchange rate of TRY 1.3656 = $1.00) The prices below include 18% VAT but exclude the 25% Special Communications Tax.

| Type of Simcard / Starterpack | Price |
|---|---|
| | $ |
| 8K Simcard | 3.66 |
| 32K Simcard | 5.13 |
| 64K Simcard | 7.32 |
| 8K starter packs, with 100 counter initial airtime | 21.90 |
| 8K starter packs with 250 counter initial airtime | 25.81 |
| 32K starter packs with 100 counter initial airtime | 22.82 |

Some dealers only sell the mobile phone of a particular manufacturer, while other dealers carry a number of mobile phone brands. Similarly, dealers may either sell mobile phone handsets which utilize a specific GSM operator's service exclusively or offer prospective subscribers a choice of operators.

At the dealer's shop, the subscriber chooses a mobile phone and a GSM network provider. Our exclusive dealers activate a subscriber's service directly through an online system. Subscription forms are then sent to Hobim, an outsourced company, for control and verification. For more information on our contract with Hobim, see "Item 7B. Related Party Transactions Hobim Bilgi Islem Hizmetleri A.S. (Hobim)."

We deal primarily with six importers and distributors in Turkey, which account for the bulk of Turkish mobile phone sales.

***Turkcell Sales Efforts***

We sell postpaid and prepaid services to subscribers through our distribution network, which is composed of distributors, exclusive and nonexclusive dealers and TurkcellExtra shops. We also sell prepaid scratch cards through newspaper kiosks operated by the Birlesik Basim Dagitim. As of May 31, 2005, we had a nationwide network of approximately 6 exclusive mobile phone dealers who sell only Turkcell services through a total of approximately 778 exclusive dealerships. Our exclusive dealers have an online connection to our subscription services department. This connection streamlines the activation process for our subscribers. These exclusive dealers accounted for 69% of our new subscribers in 2004. There are approximately 8,170 subdealers who act as Turkcell Activation Points throughout Turkey, where our basic services are offered. These subdealers operate both out of their own shops and through our exclusive dealers.

Our exclusive dealers also administer TurkcellExtra shops. Most of our 205 TurkcellExtra shops are in popular shopping malls and on main streets. TurkcellExtra shops create a relaxed, user-friendly environment where both existing and potential subscribers have access to new products and services. Each TurkcellExtra shop has at least one Turkcell service consultant, who is trained to present our services including data related services.

To a lesser extent, our services are also sold through non-exclusive dealers. Our prepaid Muhabbet Kart services are sold exclusively through approximately 12,815 newspaper kiosks. We pay all our dealers an activation fee for each new subscriber that they obtain. Our exclusive dealers receive additional fees based on their performance. We also have approximately 34,607 sales points for physical scratch cards. Of these sale points, approximately 12,844 points are digital scratch card points such as ATMs, POSs, kiosks, Call Centers, Internet, Web, WAP, retail chain (NCR tellers), SMS, Digital TV and USSD

As of May 31, 2005, the number of POS terminals reached 4,532 points, including 998 Turkcell Exclusive Dealers, 1,612 subbranches of Turkcell exclusive dealers, 312 authorized subdealers, 200 post offices, 286 Retail Chains (Gizerler, Groseri), 148 gas stations (Shell, BP) and 64 newspaper dealers.

These terminals enable subscribers to purchase refill cards and to pay invoices by credit card and cash. We have also started to sell digital counters through 1,462 Yapi Kredi Bankasi ATMs, 493 Halkbank ATMs, 1,040 Garanti Bankasi ATMs and 385 HSBC ATMs, 67 Asya Finans ATMs and 245 Denizbank ATM's as of May 31, 2005.

We maintain a direct sales force composed of two groups: the Channel Management group and the Corporate Group. Channel Management consists of four groups: Field Sales and TurkcellExtra Customer Services; Channel Operations; Channel Performance and Planning and Contract Management.

Channel Management develop strong relationships with and promote brand loyalty among dealers through a variety of support and incentive programs such as those that educate dealers about the technical aspects of our products and services and provide sales training to increase sales and enhance customer relations.

The Corporate Group addresses large enterprises through direct account managers and small and medium enterprises (SMEs) with indirect sales channels through a corporate focused dealer organization. The main focus of our Corporate Group is to provide large enterprises and SMEs with mobile services to meet their communication requirements and support these solutions with retention and acquisition programs and tariffs. The Corporate Segment Management Team works closely with solution partners and application providers to integrate mobility into enterprises' operations through tailor-made total solutions packages.

***Advertising***

Our advertising efforts are primarily geared towards promoting the quality, reliability and novelty of our services. In the early stages of our operations, these efforts concentrated on raising awareness of the benefits of mobile communications, with specific emphasis given to voice transmission. More recently, together with the introduction of more sophisticated products like GPRS and the increased demand for SMS-based services, our advertising focus has shifted toward promoting the Turkcell brand as Turkey's premier mobile communications provider. Our innovative new products and services are promoted as providing greater freedom, more convenience and a better quality of life. Our advertising efforts are segmented along key subscriber segments, with specific campaigns targeting specific subscriber needs. In order to ensure that each message reaches its targeted audience effectively, we advertise through television, cinema, radio, outdoor, print and electronic media as well as direct marketing and field activities like the Turkcell "Road Show" and "Field Force" programs.

**Subscriber Services**

A key part of our strategy is to provide premier subscriber services by working, thinking and acting in a subscriber-focused manner. To achieve this objective we provide our subscriber services through our Customer Relations Division, which is a part of our Marketing and Sales Department. Our goal is to develop and sustain a continuous relationship with the subscriber through tailored subscriber service and excellent value.

Our Customer Relations Division consist of five units:

- Contact Center Management Unit
- Customer Billing Operations and Logistics Unit
- Customer Process Management and System Support Unit
- Training and Development Unit
- Customer Performance and Quality Management Unit

***Contact Center Management Unit***

Our Contract Center Management Unit monitors performance and coordinates the service and development programs of our Call Center, Solution Center and Self Service Channels.

Our Call Center offers 24 hours per day, 7 days per week service through sites in Istanbul and Izmir. Since July 1, 2000, the operation has been run by Global Bilgi Pazarlama Danisma ve Cagri Servisi Hizmetleri A.S. ("Global"), one of our wholly-owned subsidiaries. Global provides segmented contact center services based on our subscriber strategies. In addition to the basic call center activities, Global also handles retention and acquisition programs.

Our Customer Solution Center has been run by Global since November 2003. This operation handles billing, technical, subscription and e-mail queries coming through our frontline subscriber interfaces such as the Call Center, dealers and Turkcell Extra shops. The Solution Center receives around 130,000 queries per month, driving the major changes and improvements in our subscriber processes and systems.

Our Self Service Channels Unit's main goals are to improve the subscriber experience through self-service channels, to maximize the value of the client relationship, to decrease the service cost per subscriber and to provide seamless multi- channel integration.

***Customer Billing Operations and Logistics Unit***

Customer Billing Operations deals with the control and accuracy of billing data printing, enveloping, mailing and archiving operations of all customer documents.

The unit was reorganized in December 2004 into two teams as: Controlling and Outsourcing. The Controlling Team is responsible for three main areas of the billing process. These areas are tariffing entry, where the postpaid and prepaid billing systems are updated with new price levels; charging control, where the accuracy of the tariff, service and campaign prices are controlled before the billing process; and invoice control where the billing data is transferred to Hobim Bilgi Islem Hizmetleri A.S (the printing company responsible for printing, delivering to the Postal Service and archiving) is controlled. The Outsourcing Team deals with the control and accuracy of printing, enveloping, logistics and archiving operations included in billing process and coordinates the relationship between internal customers and vendors and forms solutions to various issues.

***Customer Process Management and System Support Unit***

The Customer Process Management and System Support unit consists primarily of two groups:

- Customer Process Management and System Support Group; and
- Customer Data Management and Project Management Group.

The main objectives of Customer Process Management and System Support group are to analyze, define, monitor and improve all customer related processes and develop new applications, execute user acceptance tests and improve the systems used by Customer Relations and Channel Management Units and face to face channels.

The main objectives of the Customer Data Management and Project Management group are to collect, update and analyze subscriber data, to determine methods and strategies to obtain new subscribers' data and to present, lead and manage projects related to customer relations and create new projects to improve service quality and productivity.

***Training and Development Unit***

The Training and Development Unit designs and delivers service and product, work process, software, mobile technology and orientation training for personnel working at Turkcell Extra Shops, authorized dealers, fairs and conventions while designing and providing for training personnel at outsource companies such as the Contact Center. The unit ensures that information about our products delivered to our service centers is correct, up to date and delivered in a timely manner.

***Customer Performance and Quality Management Unit***

The Customer Performance and Quality Management Unit consists of two teams: the Quality Performance Monitoring team and the Reporting team.

The Quality and Performance Monitoring team was established in July 2004, with the main objective of measuring and improving customer service quality. The main role of the Reporting team is to extract, monitor, analyze and report customer related data.

**International Operations**

A component of our strategy has been to become a regional GSM operator. International expansion and particularly continued strong operations in countries in which we are currently present is important for us. We believe these operations will provide additional value to us in the future and will continue to serve an important role in our goal to be the dominant GSM operator in the region.

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

Our international endeavors will resume in 2005. As we have stated previously, our intention is to work on building a fundamentally sound business in the Ukraine while following up on issues regarding possible investment in Iran. Particularly, given the delays we have faced in Iran, we may also continue to selectively evaluation other international opportunities in the region as they may arise.

***Ukraine Life:)***

On December 17, 2003, our board of directors announced their decision to establish a new company with the current shareholders of CJSC Digital Cellular Communications ("DCC"). DCC owns a network based on the TDMA800 standard, while holding a nationwide GSM1800 license through its 99% owned subsidiary Limited Liability Company Astelit ("Astelit"). The closure of the partnership agreement with the shareholders of DCC took place on April 2, 2004, thereby marking the start of DCC's GSM operations in Ukraine.

In accordance with the partnership agreement, a limited liability company, namely Euroasia Telecommunications Holdings B.V. ("Euroasia") was established in the Netherlands. Turktell Bilisim Servisleri A.S. ("Turktell"), of which we own 99.99%, obtained 51% of Euroasia in return for a capital contribution of $50 million. Simultaneously, the Ukrainian shareholders contributed 99% of the shares of DCC as an in-kind contribution into Euroasia. On December 17, 2004, Turktell transferred all of its shares to Turktell Uluslararasi Yatirim Holding A.S. ("Turktell Uluslararasi").

Agreements have been signed with Nokia Corporation ("Nokia") and Ericsson AB ("Ericsson") to provide equipment for the first two years of the network roll out. The amounts of the contracts are €125 million and $89 million respectively. Contracts have been financed by Ericsson Credit AB and ABN Amro N.V. and guaranteed by Turkcell for 55% of the amounts financed plus 55% of interest and costs in case of non-payment by Astelit. Additionally, Astelit entered into a third equipment supplier contract with Sysdate Pty Ltd ("Sysdate") for $12.4 million, $7.2 million of which was financed through a vendor financing agreement signed with Sysdate and ABN Amro N.V. We have provided a guarantee for $7.2 million plus interest and costs in case of non-payment by Astelit. With these three guarantees in place, we have substantially fulfilled our obligation to provide funding to the Ukrainian operation for a maximum of $150 million. In return for these guarantees, we pledged minority shares of Euroasia. On April 28, 2005, Astelit provided a mandate to ING Bank N.V. and Standard Bank London Limited to arrange a financing of $280 million with a maturity of six years to re-finance Astelit's existing vendor loans, additional capital expenditures and working capital requirements. The financing will be in the form of a syndicated loan and it is expected to be finalized in the third quarter of 2005.

Based on the shareholders loan agreement signed on January 6, 2005, the shareholders of Euroasia committed to arrange $50.0 million of financing to Euroasia in proportion to their respective shareholding in Euroasia, first as a shareholder loan then converted to equity through an April 1, 2005 shareholders' resolution. The proceeds shall be used by Euroasia to fund its consolidated subsidiary, Astelit. Turktell Uluslararasi has fulfilled its commitment amounting to $25.5 million. However, Eurocorp Invest Limited ("Eurocorp"), which is one of the minority shareholders of Euroasia, could not fulfill its commitment, as a result, in accordance with the shareholder loan agreement, Eurocorp has agreed to sell its 1.4% interest in Euroasia to Turktell Uluslararasi for a consideration of $2.0 million. On May 19, 2005, the transaction was completed. Our effective interest in Euroasia has increased to 52.4%. According to the share sale and purchase agreement dated June 2, 2005, Eurocorp has committed to sell its remaining 4.9% interest in Euroasia to Turktell Uluslararasi and other minority shareholder with a cash consideration of $4.0 million and $3.3 million respectively. Based on the agreement, Turktell Uluslararasi will make related payments in three installments in three years. On June 15, 2005, required payments for the first installments amounting to $2.8 million and $2.3 million have been made by Turktell Uluslararasi and the other minority shareholder, respectively. The Company's effective interest in Euroasia has increased to 54.2%.

Our indirectly owned subsidiary, Astelit, began its operations in the Ukrainian market on February 1, 2005, with its new brand "life:)"

Currently, life:) is operating in 43 major cities and plans, by the end of 2005, to increase its coverage to 106 cities and the majority of the country's tourist areas and principal intercity highways by the end of 2005, which corresponds to coverage of approximately 82% of the population living in cities with 5,000 or more inhabitants. This implies coverage of approximately 58% of the overall population in Ukraine.

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

***Fintur***

In order to facilitate the diversification of our telecommunications business and the development of additional telecommunications services using advanced technologies, such as Digital television and Internet services, we formed Fintur Holdings B.V. ("Fintur") in 2000 to hold many of our non-GSM and international GSM investments. Fintur, was owned jointly with some of our principal shareholders. Prior to the subsequent restructuring in 2002, we owned 25% of Fintur. The remaining equity of Fintur was owned by Sonera Holding B.V., Cukurova Holding A.S., Cukurova Investments N.V., Yapi ve Kredi

Bankasi A.S. and Yapi Kredi Holding B.V. Fintur currently holds our entire interest in our international GSM investments other than our Northern Cyprus and Ukraine operations.

The paid-in capital of Fintur was increased from $360.0 million to $497.5 million in March 2001. Fintur's board proposed to its shareholders on June 8, 2001, to increase its authorized paid-in capital by €75.0 million. We and Sonera Holding B.V., both Fintur shareholders, paid $17.3 million and $23.3 million, respectively, as advance capital payments, although no new shares were issued by Fintur. In April 2003, Fintur shareholders decided that the advance payment should be considered as additional paid in capital of the current issued and outstanding shares in Fintur. At December 16, 2004, Fintur executed a capital reduction by decreasing nominal value per share from EUR 1.00 par value to EUR 0.38 par value. The decrease in nominal value resulted in a decrease in issued capital from EUR 540.0 million to EUR 205.2 million. In Fintur's standalone Dutch GAAP financial statements, the effect of such reduction was booked to accumulated deficit, which nearly eliminated the accumulated deficit as of December 31, 2004. Fintur will be able to distribute dividends from its 2005 profit depending on the continued positive results of its subsidiaries and limited favorable fluctuations in the exchange rate between EUR and USD.

During 2002, Fintur restructured its two business divisions, the international GSM businesses and the technology businesses. Under the restructuring agreement, we bought 16.45% of Fintur's international GSM businesses from the Cukurova Group, increasing our stake in Fintur to 41.45%. Simultaneously, Fintur sold its entire interest in its technology businesses to the Cukurova Group. We paid a total of $70.7 million to the Cukurova Group. We believe that the reorganization of Fintur will enable us to focus on our core mobile business and provide opportunities for future growth since these GSM operations are located in countries with low mobile penetration rates.

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

*Azercell*

Fintur indirectly owns 51% of Azercell Telekom B.M., or Azercell, which offers GSM services on both a prepaid and a postpaid basis in Azerbaijan. As of December 31, 2004, Azercell had approximately 68,861 postpaid and 1,221,667 prepaid subscribers. Azercell provides service covering all cities of Azerbaijan, encompassing approximately 98% of the country's population. Azercell currently has roaming agreements with 220 operators in 90 countries. Azercell has a majority interest in Azeronline Ltd. ("Azeronline"), the leading Internet Service Provider ("ISP") in Azerbaijan. Azeronline was established as a limited liability enterprise in December 1999 and is owned 51% by Azercell. As of March 31, 2005 Azercell had 1,370,057 subscribers.

*Geocell*

Fintur indirectly owns 83.2% of Geocell Ltd., or Geocell, which operates a GSM network and offers mobile telephony services in Georgia. As of December 31, 2004, Geocell had approximately 480,811 subscribers, of which approximately 10,912 were postpaid, approximately 52,975 were paid-in-advance subscribers that had postpaid services but pay in advance and approximately 416,924 are prepaid. The Geocell network currently covers approximately 93% of Georgia's population. Geocell has entered into roaming agreements with 260 operators in 109 countries. As of March 31, 2005, Geocell had 521,384 subscribers.

*GSM Kazakhstan*

Fintur owns 51% of GSM Kazakhstan, along with Kazakhtelekom, the Kazakhstan monopoly fixed-line operator, which owns 49%. GSM Kazakhstan offers mobile telephony services in Kazakhstan and had approximately 1,795,662 subscribers as of December 31, 2004, of which approximately 30,485 were postpaid, approximately 401,941 were paid-in-advance subscribers and approximately 1,363,236 are prepaid. GSM Kazakhstan has a nationwide GSM license, which was granted on June 8, 1998, for a term of 15 years. GSM Kazakhstan currently has roaming agreements with 210 operators in 93 countries. As of March 31, 2005, GSM Kazakhstan had 1,988,181 subscribers.

*Moldcell*

At December 31, 2004, Fintur directly and indirectly owned 100% of Moldcell S.A., or Moldcell, which offers GSM services in Moldova. Moldcell was incorporated in Moldova in October 1999 as a joint venture between us and Accent Electronic SA, a Moldovan entity. Subsequently, we transferred our interests in Moldcell to Fintur. In March 2003, all of Accent Electronic's shares were purchased by Fintur. Moldcell received a license to operate a GSM network in Moldova on November 5, 1999. The license is valid for 15 years. Moldcell commenced GSM operations in April 2000. As of December 31, 2004, Moldcell had 299,714 subscribers of which approximately 12,239 were postpaid, approximately 24,026 were paid-in-advance subscribers and approximately 263,449 were prepaid. As of March 31, 2005, Moldcell had 323,946 subscribers, of which approximately 12,239, approximately 24,026 were paid-in-advance subscribers and approximately 263,449 are prepaid.

***Other***

*Kibris Telekom*

On March 25, 1999, we established Kibris Mobile Telekomunikasyon Limited Sirketi, or Kuzey Kibris Turkcell (Kibris Telekom), a 100% owned subsidiary of Turkcell, to operate a GSM network in Northern Cyprus, and it entered into a revenue sharing agreement with the government of the Turkish Republic of Northern Cyprus. Kibris Telekom began its operations in July 1999, more than four years after the incumbent mobile operator. As of December 31, 2004, Kibris Telekom had 139,826 subscribers. The agreement between Kibris Telekom and the government of Northern Cyprus requires an equal sharing of revenues between the parties. The agreement also provides that if the collected revenues are less than 95% of accrued revenues, the government's share is calculated on the amount of collected revenues rather than accrued revenues. The agreement terminates automatically at the end of ten years and six months from March 25, 1999. As of March 31, 2005, Kibris Telekom had 152,873 subscribers.

*Kibrisonline*

Kibrisonline was established as a limited liability enterprise on July 10, 2000, and commenced its operations on January 10, 2001. In addition to providing Internet access, Kibrisonline also provides content and e-commerce capabilities to individual and corporate clients. As of December 31, 2004, Kibris Telekom holds a 60% interest in Kibrisonline and the remaining 40% is owned by the local partner Airtech Limited. On April 22, 2005, Kibris Telekom decided to transfer its shares in Kibrisonline. On May 27, 2005, Kibris Telekom and Digitech Iletisim Limited ("Digitech") signed a share transfer agreement. According to this agreement all Kibrisonline shares with a par value of one TRY each, owned by Kibris Telekom have been transferred to Digitech with a consideration of TRY 25,000 (equivalent to $0.02 million at December 31, 2004).

**Other Domestic Operations**

We continuously monitor new business opportunities which we believe have positive return potential and/or are critical for sustaining our competitive advantage in our core business. Our domestic subsidiaries recorded combined revenue of $88.8 million, $42.2 million and $29.2 million in 2004, 2003 and 2002, which resulted in $30.4 million, $9.1 million and $8.5 million of consolidated revenues after intercompany eliminations respectively.

***Global***

On October 1, 1999, we established Global in order to provide telemarketing, telesales, directory assistance and call center services especially for us. 2004 has been a year of transition from call center to contact center where Global started to manage customer contacts at every channel except face-to-face interaction. As of December 31, 2004, Global employed 2,769 employees of which around 80% provide us with customer care and retention services while the remaining workforce serves customers of other clients. We own 99.89% of Global.

***Turktell***

On June 13, 2000, we established Turktell Bilisim Servisleri A.S., or Turktell, a 100.00% owned subsidiary, as a holding company for our ventures in Turkey and a venture capital company for new projects for our group companies.

***Turktell Uluslararasi***

In April 2004, we established Turktell Uluslararasi with a capital amount of $53 million as a holding company for GSM operations abroad. We own 100.0% of Turktell Uluslararasi.

***Inteltek Internet Teknoloji Yatirim ve Danismanlik Ticaret A.S.***

Inteltek Internet Teknoloji Yatirim ve Danismanlik Ticaret A.S. ("Inteltek"), established on April 6, 2001, was incorporated to explore business opportunities in the gaming business. Turktell has a 55% interest in Inteltek, the Greek gaming company, Intralot has a 25% interest and Teknoloji Holding holds the remaining 20% interest. Genclik ve Spor Genel Mudurlugu granted Inteltek the right to establish and operate a central betting system, and authorized it as the head agent to establish an agent network to provide pari-mutuel and fixed odds betting games on sporting events based on the agreements signed in July 2002 and October 2003. The company has become fully operational during 2004.

***Libero Interaktif Hizmetler A.S.***

Libero Interaktiv Hizmetler A.S. ("Libero") was established on September 2, 2003, to provide remote betting services to the general public over the age of 18 through fixed internet, mobile phones, interactive TV and IVR. Shareholder structure of Libero is same as Inteltek. On March 26, 2004, Libero signed an agreement with Genclik ve Spor Genel Mudurlugu to offer football related remote betting services and started its operations in August 2004.

***Mapco Internet ve Iletisim Altyapi Hizmetleri A.S.***

Mapco Internet ve Iletisim Altyapi Hizmetleri A.S. ("Mapco") was incorporated to provide Internet services through any means of wireless communication. Since June 2003, Mapco has been developing, managing and marketing lifestyle value added services for Turkcell customers under the Shubuo brand. Our direct and indirect participation in Mapco is 100%.

***Bilisim Telekomunikasyon Hizmetleri A.S.***

Bilisim Telekomunikasyon Hizmetleri A.S. ("Bilisim Telekom") A.S. was established on June 9, 2004, to provide alternative telecommunication services other than GSM. After its incorporation, Bilisim Telekom has obtained a Long Distance Telephony Services ("LDTS") right which allows the company to provide long distance call origination and termination for consumers and corporates as well as wholesale voice carrying services. Currently, the company carries some of Turkcell's international traffic, previously carried by Turk Telekom. Bilisim Telekom has also been awarded an ISP license. We own 100% of the company.

**Regulation of the Turkish Telecommunications Industry**

***Overview***

All telecommunications activity in Turkey is currently regulated by the Ministry of Transportation and the Telecommunications Authority. The Telegram and Telephone Law No. 406, dated February 4, 1924, known as the Telecommunications Law, as amended in 1994, 1995, 1996, 2000, 2001 and 2004, is the principal law governing telecommunications activity in Turkey. The Wireless Law No. 2813, as amended, and Ministry of Transportation Law No. 3348, as amended, also include provisions relating to telecommunications in Turkey.

Before 1994, the Post and Telephone and Telegram Administration, or PTT, operated the telecommunications industry in Turkey under a monopoly as a state economic enterprise. The 1994 amendments to the Telecommunications Law split the PTT into two separate bodies: the Directorate of Postal and Telegram Services, providing postal and telegram services, and Turk Telekom, providing telecommunications services. Amendments made in 2000 and 2001 to the Telecommunications Law are intended to modernize and reform the legal and institutional framework relating to the provision of telecommunications infrastructure and service in Turkey.

The principal changes introduced in 2000 include:

- changing the legal status of Turk Telekom from a State Economic Enterprise to a private company so that Turk Telekom will be similar to an autonomous company after privatization, with government influence minimized to its capacity as a shareholder and as a policy maker;

- establishing an independent regulator, the Telecommunications Authority, as a separate legal entity having administrative and financial autonomy;

- changing the status of certain of Turk Telekom's employees from civil servants to private employees; and

- providing a clear and transparent telecommunications framework, including an authorization agreement for Turk Telekom.

With these changes introduced in 2000, Turk Telekom's legal relationship with the government has been radically restructured and the government's interference and influence over Turk Telekom's operations and investments has been removed by taking Turk Telekom out of the scope of the legal regime governing State Economic Enterprises. These changes are intended to enable Turk Telekom to operate as a private company at all levels of operation.

With the 2001 changes described in Amending Law No. 4673, or the Amending Law, except for the provision of the "golden share" discussed below, all shares of Turk Telekom can be sold to private investors. The golden share, which gives the Turkish government the right to veto issues related to national security and defense, will be exercised by the Turkish Treasury via one seat on Turk Telekom's board.

In 2004, changes described in Amending Law No. 5189, that foreign individuals or entities cannot own, directly or indirectly, more than 45% of the total share capital of Turk Telekom or hold management control. The privatization procedure of Turk Telekom has been started with a 55% block share of Turk Telekom subject to the privatization.

Under the Telecommunications Law, Turk Telekom was the monopoly provider of national and international voice telephone services including the establishment and management of all infrastructure (excluding the telecommunications infrastructure required to be established by the business enterprises in the concession agreements or telecommunications licenses or general permits related to the telecommunication services and personal telecommunications premises) until December 31, 2003, subject to some limitations. Upon the expiration of Turk Telekom's monopoly, other companies may be authorized to provide telecommunications services and operate infrastructure upon the Telecommunications Authority's approval. Value-added telecommunications services, including GSM services, may be provided by capital companies incorporated in Turkey that duly conclude a concession agreement or obtain a telecommunications license or general permission under the provisions of the Telecommunications Law and the Regulation on Authorization of Telecommunication's Services and Infrastructure. Some services can only be carried out by an operator through a concession agreement to be concluded with the Telecommunications Authority. Although Turk Telekom's monopoly expired on December 31, 2003, Turk Telekom still maintains a de facto monopoly because there have been no license agreements concluded with the Telecommunications Authority and no other operators have been authorized to provide services within Turk Telekom's monopoly area (other than the authorization of long distance call services).

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

The Telecommunications Authority amended the Regulation on the Telecommunication Services on April 13, 2004 for the authorization of Long Distance Call Services. On May 17, 2004, 27 new operators obtained telecommunications licenses to provide long distance call services from the Telecommunications Authority. According to the terms of the regulation and license application procedure Turk Telekom is responsible to provide carrier selection and access to the new operators' networks. Interconnection agreements with the new operators licensed to provide long distance call services and Turk Telekom have been signed and become operational in 2005.

As per the changes introduced by the Amending Law, the authority to grant licenses and set fees in the telecommunications sector has been transferred to the Telecommunications Authority. However, the Council of Ministers shall, upon the proposal of the Ministry of Transportation, approve any plans providing for the authorization of telecommunications services, which are subject to concession agreements, or infrastructure for the same type of services by third parties. Such services include value-added telecommunications services, to be carried out by a limited number of operators, including the allocation of scarce resources such as frequency, orbit position and numbering services necessitating particular rights and obligations specific to each operator. Other value-added telecommunications services may be carried out by private sector companies through obtaining a telecommunications license or general permission from the Telecommunications Authority without executing any concession agreement. Under the current legal regime, mobile telecommunications services are provided on the basis of concession agreements granting a license for the construction and operation of a GSM system. The Telecommunications Authority is authorized to enact regulations to set out the necessary qualifications required from operators, including terms and detailed conditions relating to the issuance of licenses, or general permissions and the conditions for execution of concession agreements.

The Telecommunications Authority was established as an independent telecommunications regulator with financial and administrative independence by amendments to the Telecommunications Law in 2000. The Telecommunications Authority was formed on March 23, 2000, and its duties and activities are regulated under the Regulation on Structure, Duties and Working Procedures and Principles of Telecommunications Authority, or the Regulation, that became effective on February 17, 2001, to be valid as of August 15, 2000, and amended in January and April 2002. Pursuant to the Regulation, the Telecommunications Authority's executive board, whose tenure shall be five years, is composed of five persons, one president and four members, all to be appointed by the Council of Ministers from among the nominees provided by the Ministry of Transportation, the telecommunications industry, the Ministry of Industry and Trade, and the Association of Exchanges and Business Chambers. The responsibilities of the Telecommunications Authority include, among others:

- to prepare and submit to the Ministry of Transportation the necessary plans in the fields of telecommunications within the framework of the principles set out in the Telecommunications Law, to supervise the activities of the other relevant public entities and establishments and private law persons in these fields;
- to monitor and ensure compliance by operators, including Turk Telekom, with their concessions, licenses and permission terms and conditions and, if necessary, to impose fines up to 3% of the previous year's turnover of the operator, in case of violation of rules;
- to transfer the premises upon compensation and to terminate the license agreements, concession or permission in case of gross negligence;
- to plan, allocate and register frequencies, where necessary, in cooperation with international organizations;
- to issue regulations and enact other administrative acts;
- to determine general criteria relating to tariffs and other contractual conditions applicable to users of telecommunications services and for interconnection between telecommunications networks;
- to review and evaluate, and approve, if necessary, tariffs and inspect their implementation;
- to publish standard interconnection reference tariffs;
- to determine rules and procedures relating to technical issues and criteria applicable to tariffs;
- to provide an opinion to the Ministry of Transportation regarding international agreements relating to the Turkish telecommunications sector;
- to scrutinize activities in contradiction of fair competition and to provide opinions to the Competition Board concerning investigations, including mergers and acquisitions, of companies standing in the telecommunications sector;
- to take measures regarding the agreements on standard reference tariffs, network interconnections and roaming to prevent unfair competition while providing telecommunications services and operating infrastructure and, if necessary, apply to the Competition Board;
- to take measures to prevent unauthorized transmissions and interferences and to take precautions to protect consumer rights; and
- to initiate conciliation or mediation procedures between parties who cannot agree on interconnection agreements.

The Amending Law passed in May 2001 has broadened the responsibilities of the Telecommunications Authority. Pursuant to the Amending Law, responsibilities formerly exercised by the Ministry of Transportation regarding concluding concession agreements, issuing telecommunications licenses or general authorizations have been transferred to the Telecommunications Authority.

Among other things, the 2002 amendments to the Regulation modified the working principles and procedures of the Telecommunications Authority. As a result, the Telecommunications Authority is authorized to solicit the opinions of market participants via its website when it drafts legislation, requiring operators and other parties to submit their comments and opinions on draft legislation within a specified time. With respect to examination and investigation, the Telecommunications Authority is entitled to conduct a pre-examination to determine whether or not any further investigation is necessary and the principles for the conduct of such investigation thereafter. A decision rendered by the Telecommunications Authority as a result of the investigation can be subject to judicial review, although appeal to a court does not hinder execution of the decision unless the court issues an injunction.

The Telecommunications Law sets out, among other things, legal principles and broad policy lines. The general principles and broad policy lines set out in the Telecommunications Law include, without limitation:

- equal treatment of consumers and other telecommunications service providers under similar conditions and accessibility of services by everyone under equal conditions;
- promotion of affordable access by every person to telecommunications services;
- compliance with clearly articulated service quality standards; and
- reflection of the costs of investments and operations and a reasonable profit, to the extent possible, in the tariffs for services provided, including tariffs for interconnection and leased lines.

Further, the Telecommunications Law specifies general rules and principles relating to interconnection. Turk Telekom and other operators to be determined by the Telecommunications Authority are required to satisfy requests of other operators concerning interconnections of such other operators' networks to their networks. Interconnection, including tariffs demanded for such connection, is required to be on objective, equal, transparent and non-discriminatory terms and on conditions to be agreed upon between the parties and on the basis of cost and reasonable profit. Agreements to be entered into for interconnection between the operators will be publicly available at the Telecommunications Authority, provided that necessary precautions will be taken by the Telecommunications Authority to protect commercial secrets of the parties.

The Electronic Signature law was published on January 15, 2004 and became effective on July 15, 2004. The purpose of the Electronic Signature Law is to establish electronic signature's technical and legal structure and general principles for its usage. The Electronic Signature Law has amended other Turkish laws and regulations regarding the status of hand signature. As a result of this law an electronic signature has the same legal effect as the hand signature except legal transactions that should be witnessed by a public authority. Furthermore on January 6, 2005 the Telecommunications Authority published a Regulation on Principles and Procedures of The Electronic Signature Law. The purpose of the regulation is to determine the authorization, duties, rights and working principles of the Electronic Certificate Service Providers and their relations with the Telecommunications Authority and their consumers. In addition to this regulation, the Telecommunications Authority published a Regulation on Technical Process and Criteria of the Electronic Signature on January 6, 2005, to set out the technical duties and process that Electronic Certificate Service Providers should fulfill.

In line with the obligation of the operators to satisfy national roaming requests of other operators, the Telecommunications Authority published a Regulation on Principles and Procedures of National Roaming Agreements on March 8, 2002. As a general principle, mobile telecommunications and data operators or operators of other services and infrastructure are entitled to enter into national roaming agreements, provided that those agreements are not contrary to applicable law, general authorizations, telecommunications licenses and the regulations issued by the Telecommunications Authority. However, such mobile telecommunications and data operators or operators of other services and infrastructure are obliged to satisfy reasonable, economically proportionate and technically possible national roaming requests of other operators in the same field in order to facilitate use of the requesting operator's customer equipment on their telecommunications system. In case the parties do not conclude a national roaming agreement, the Telecommunications Authority shall apply principles and procedures defined in the Regulation. Moreover, should an operator fail to fulfill its national roaming obligations under the Regulation, or should it interrupt such service without justification, the Telecommunications Authority may impose an administrative fine of between 1% and 3% of the operator's turnover for the preceding year.

The Regulation establishes the following principles governing national roaming agreements:

- promotion of practices enabling access by every person to telecommunications services and infrastructure at affordable prices, and providing new offerings in the market and a wider range of telecommunications services to customers;
- non-discrimination among subscribers, users and operators having equal qualifications, and accessibility of services by every similarly situated customer, unless otherwise required by objective reasons;
- application of principles of qualitative and quantitative continuity, reliability, productivity, clarity, transparency and efficient use of sources, unless otherwise required by law or necessitated by objective reasons;
- establishment and protection of free competition in the provision of telecommunications services and operation of infrastructure;
- compatibility of telecommunications systems in accordance with international norms, and maintenance of the integrity of the public telecommunications network;
- reflection in the prices charged for telecommunications services of the investment and operation costs, relevant share of general costs, depreciation, and a reasonable profit, to the extent possible;
- establishing a transparent, clear and non-discriminatory balance among the legitimate interests of the parties;
- ensuring that no discrimination between the subscribers of the operator who requested the national roaming (Requesting Operator) and the operator from whom national roaming is requested (Requested Operator) is applied as to service quality; and
- ensuring that no attempt is made by the Requested Operator through the service provided to acquire the Requesting Operator's subscribers.

Under the Telecommunications Law, the legal basis of price regulation is set out by way of general rules and principles, leaving the detailed rules and enforcement to the Telecommunications Authority pursuant to the Telecommunications Law. The operators are entitled to freely determine the tariffs in accordance with the relevant legislation, regulations of the Telecommunications Authority and the provisions of the concession agreements, licenses and general permissions, as applicable. In some cases set out in the Telecommunications Law, the Telecommunications Authority is authorized to determine the methods of calculation and caps of tariffs, including line rentals, through regulations. In making that determination, the Telecommunications Authority will take into account the terms and conditions of the concession agreements, licenses and general permissions in compliance with the guidelines set out in the Telecommunications Law. These guidelines require, among other things, that tariffs should be fair and should not involve any undue discrimination without justified reasons against persons under the same circumstances. They also require that international agreements to which Turkey is a party and the recommendations of international institutions should be taken into consideration in the determination of tariffs.

The Telecommunications Authority passed the "Tariff Regulation" on August 28, 2001, which sets out the principles and procedures to be applied for the approval and the audit of the tariff to be applied to the telecommunications services if it is determined that a business enterprise: (i) is a legal or a de facto monopoly; or (ii) is in a dominant position in the relevant service or geographic market; or (iii) has significant market power. In case it is determined by the Telecommunications Authority that the business activities are within the scope of such Regulation, the tariffs should be submitted to the Telecommunications Authority for approval. The tariffs would be based on the cost of efficient service provision method and should not include extreme prices incurred as a result of efficient market power of the business enterprise or any price discounts intended to restrain competition in the market. Also, such tariff should not result in discrimination among users who benefit from the same or similar telecommunications services. The Telecommunications Authority applies these principles to both the cost of efficient service provision and price cap methods while granting the approval or auditing the tariffs. The Telecommunications Authority published a communiqué on June 3, 2003 defining "dominant position" as any position enjoyed in a related telecommunications market by one or more enterprises by virtue of which those competitors and consumers are able to determine economic parameters such as the amount of production or distribution, price and supply. In determining which operators possess dominant position, the Telecommunications Authority will take into consideration the following criteria: market share; vertical integrity; the power to influence market conditions; entrance to relevant market; difficulty to control and replace the network; technologic superiority; lack of competition in the relevant market; the quantity of unused capacity and the power to access financial resources. On June 9, 2004, the Telecommunications Authority designated us an "operator holding dominant position" in the GSM Mobile Telecommunications Services Market.

The Telecommunications Authority issued the regulation on Consumer Rights in Telecommunications Sector on December 22, 2004. The Regulation sets forth the principles applied to the relationship between telecom operators like Turkcell and their subscribers. The regulation sets forth consumer and subscriber rights, and in accordance with said rights, specifies the Telecommunications Authority's rights and the operator's duties and specifically deals with termination of subscription. Under the Regulation, subscribers desiring to terminate their subscription agreement must notify a fully authorized retailer of their operator in writing or the operator through the Internet, or by calling the operator's customer services unit. The GSM operator deactivates the subscriber's line on the date of notification. If notification of termination is performed through the Internet or via the GSM operator's customer services unit, the subscriber is obliged to notify the fully authorized retailer in writing within 10 days. Notifications duly performed are concluded within seven days of the notification, and termination of subscription is confirmed in writing to the subscriber within that same period. Subscribers terminating their subscription agreement should be informed about the regulation compelling the operators to provide the subscriber's new telephone number (received from a new operator) to a calling party with an announcement within 60 days after the termination of subscription. According to this regulation the GSM operator will be required to announce the consumer's new number within 60 days. According to the Regulation, operators are obliged to announce their new tariffs and any alteration in prices via Internet, SMS or any other media before their implementation.

Further, the Telecommunications Authority published a Regulation on processing personal information and protecting confidentiality in the telecommunications industry on February 6, 2004. The purpose of the Regulation is to establish general principles to secure personal information and protect confidentiality.

The Regulation establishes the following principles: an operator's technical or administrative precautions to secure its services and its network must be approved by the Telecommunications Authority; operators must warn their consumers about risks and give them information to prevent such risks; except pursuant to a legal obligation or court decision, an operator may not listen to, observe, record, preserve, or disconnect voice telecommunications without the permission of those communicating; and operators may not observe, record or preserve data traffic concerning telecommunications except for their services. If some services required to be provided under the

Regulation are technically impossible or unreasonably expensive, the operators may receive the Telecommunications Authority's permission not to provide those services.

The Telecommunications Authority published a Numbering Directive on February 26, 2004. The purpose of the Directive is to establish general principles of the planning national network's number, to dedicate numbers according to the national plan, to provide efficient use of dedicated numbers, and to determine provisions for withdrawing dedicated numbers. The Directive establishes the following principles: application of principles of qualitative and quantitative continuity, reliability, productivity, clarify, transparency, non-discrimination and efficient use of sources, unless otherwise required by law or necessitated by objective reasons; giving priority to national security, urgent cases and public order requirements; compliance with the regulations of the associated international organizations; promoting useless application and applications serving the public interest; protection of consumers' rights; and promoting applications ensuring a competitive market and continuity.

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

General Principles of Application Of The Regulation concerning "Co-Location and Facility Sharing": Except interconnections and access to the local network all demand on switching, orientation and positioning of control elements will be out of the communiqué scope. Co-Layout and Facility Sharing prices will be determined on cost basis. Any land, facility and the facilities under the usage of Co-Location responsible should be considered in the scope of Co-Location and Facility Sharing to increase competition, to use restricted sources efficiently and to support public good. The costs should be certificated by the Co-Location responsible. Efficient competition should be incited between the operators. To not corrupt parties operational and investment plans, an efficient communication between parties shall be provided.

The Telecommunications Authority may grant licenses to capital companies to operate value-added telecommunications services, including mobile telephone services, paging, data network, intelligent network, cable television, pay phones, satellite systems and directory publishing. The Council of Ministers must approve minimum license fees proposed by the Telecommunications Authority pursuant to the Amending Law.

The Telecommunications Authority issued the Regulation on Administrative Fines to be imposed on the Operators on August 1, 2002, setting out applicable rules in case the operators do not comply with the provisions of the legislation, concession agreements, telecommunications license or general authorization. The Regulation authorizes the Telecommunications Authority to impose fines in case an operator submits incorrect or misleading documents; fails to submit documents as requested by the Telecommunications Authority; does not timely submit such documents; does not permit inspection or audit to be made by the Telecommunications Authority; uses unpermitted equipment or equipment not complying with standards; alters technical features of equipment; or does not pay fees arising from its use of license and frequencies or does not comply with the provisions of concession agreements, telecommunications licenses and general authorizations or the legislation (e.g., if the operator applies cross subvention among the services provided, does not inform the Telecommunications Authority of tariff amendments, violates interconnection or roaming obligations, does not provide the required minimum service, etc.). Applicable administrative fines for the prohibited acts range from 0.1% up to 3% of the operator's turnover for the preceding year. Further, the Telecommunications Authority abolished the Regulation on Administrative Fines to be imposed on the Operators (published on August 1, 2002) by publishing the Regulation on Administrative Fines, Sanctions and Precautions to be imposed on the Operators on September 5, 2004. According to the amended Regulation the

Telecommunications Authority still maintains the right to impose fines in the event an operator submits incorrect or misleading documents; fails to submit documents as requested by the Telecommunications Authority; does not timely submit such documents; does not permit inspection or audit to be made by the Telecommunications Authority; uses unpermitted equipment or equipment not complying with standards; alters technical features of equipment; or does not pay fees arising from its use of license and frequencies or does not comply with the provisions of concession agreements, telecommunications licenses and general authorizations or the legislation. In addition, the amended Regulation authorizes the Telecommunications Authority to impose sanctions and warning as well as administrative fines and according to the amended Regulation, the Telecommunications Authority is authorized to impose fines and sanctions to the operators.

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

As part of Turkey's commitments to the EU and as a requirement of the Turkish Constitution, on December 7, 1994, the Turkish Parliament enacted Law No. 4054 on the Protection of Competition (the "Competition Law").

The Competition Law envisages the establishment of the Competition Board, which was established in March 1997 and began to function effectively through the end of 1997. The Competition Board, consisting of 11 members who are appointed for a term of six years, is an autonomous authority and has administrative and financial independence. It is independent in carrying out its tasks to ensure the enforcement of the Competition Law and to provide an effective functioning competition in the markets for goods and services.

The Competition Board, among others, is entitled to carry out investigations, evaluate requests for exemptions, monitor the market, assess mergers and acquisitions, submit views to the Ministry of Industry and Trade and perform other tasks stipulated by the Competition Law. Pursuant to the Amending Law passed in May 2001, the Telecommunications Authority is entitled to apply to the Competition Board in case it determines that agreements regarding standard reference tariffs, network interconnection and roaming violate provisions of the Competition Law.

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

The Competition Board is empowered to start investigation of any violation of the Competition Law either on its own initiative or following a request by the Ministry of Industry and Trade. Furthermore, any individual or legal entity having a legitimate interest may file a complaint with the Competition Board. Upon determination of any violation, the Competition Board may take necessary measures for the termination of the violation and may impose administrative fines on those who are liable for such prohibited practices.

The Competition Board has the power:

- to review the applications for exemption and negative clearances;
- to consent to mergers and acquisitions requests;
- to issue implementation regulations;
- to opine on the modifications to be made in competition legislation; and
- to impose penalty payments.

The Telecommunications Authority and the Competition Board entered into a Protocol on Cooperation in September 2002 to cooperate on legal actions and attitudes regarding measures, detections, regulations and inspections that affect competition conditions and the extension of competition in the telecommunications sector within the boundaries of the Republic of Turkey. By such means, they aim to handle issues more effectively while establishing and maintaining a free and sound competition environment in the telecommunications sector, to prevent controversial and/or misleading statements by delivering the complaints or statements of the operators to one or both of them, and to provide harmonization in the interpretations of the related legislations and concepts and to enable mutual cooperation and information transfer. They agreed that a Coordination Committee be established and have quarterly meetings. Additionally, they agreed to submit reports to each other regarding the inspections rendered by any of the parties in the telecommunications sector; furthermore, each of them to whom such inspection report is submitted is to provide its written opinion on the issue within 30 days. They also agreed to cooperate in matters of mergers and acquisitions, negative clearance and exemption applications, declarations of dominant position in the market and concession agreement specifications in relation to the telecommunications market.

***GSM Licensing in Turkey***

Under the Telecommunications Law as at the end of 2000, the Ministry of Transportation was entitled to grant licenses and general authorizations or conclude concession agreements with private capital companies for value-added telecommunications services, including GSM systems. This authority was transferred to the Telecommunications Authority in May 2001 pursuant to the changes to the Telecommunications Law.

In accordance with the Amending Law, the Telecommunications Authority and the operators who as of the Amending Law either held a license or operated under concession agreements were entitled to renegotiate their agreements within one month following the effective date of the Amending Law, which was passed on May 23, 2001, in accordance with the Telecommunications Law and the regulations of the Telecommunications Authority. The Telecommunications Authority was required to consult with the Turkish Treasury with respect to the Turkish Treasury's share of the ongoing license fee provisions. If no agreement was reached at the end of this one-month period, the operators were required to renew their agreement with the Telecommunications Authority within one month following the end of the first one month period, provided that rights and liabilities included in the present agreements were preserved. The renewed license or concession agreements were subject to prior review by the Danistay before execution. If no renewal was made, the Telecommunications Authority might have exercised its rights pursuant to the Telecommunications Law, which include the imposition of penalties up to 3% of an operator's annual turnover or takeover of an operator's facilities. As a result of the renegotiations with the Telecommunications Authority, we have signed the renewed concession agreement regarding our license on February 13, 2002. The major provisions of the renewed agreement are identical to those in the concession agreement we had signed with the Ministry of Transportation in 1998. However, unlike the first concession agreement dated 1998, the renewed agreement provides that a monthly payment of 15% over our gross revenue to be paid to the Treasury shall be subject to the legal interest rate. In case such payments are not duly paid twice in any given year, a penalty sum in an amount equal to triple the last monthly payment shall be payable to the Treasury. We are also obliged to pay annual contributions to the Telecommunications Authority's expenses in an amount equal to 0.35% of our net revenues. Finally, an article concerning the protection of users' ("subscribers') rights and another new article concerning arbitration for settlement of disputes are included in the renewed concession agreement.

Under the Telecommunications Law, on August 26, 2004 the Telecommunications Authority issued the "Regulation Relating to the Authorization of Telecommunication's Services and Infrastructure" which replaced the Telecommunications Services Regulation, together with nine annexes, one containing specific provisions relating to GSM services and the others relating to, among other things, Internet services, GMPCS mobile telecommunications services and wireless services, long distance call services, (the "Authorization Regulation"). Further, on February 5, 2005 Telecommunications Authority appended the annex -10 specifying provisions relating to the "Cable Services".

Under the Telecommunications Law, a license for value added telecommunications services may be granted for a period not to exceed 49 years. The Telecommunications Services Regulation designated the period to 25 years for telecommunications services not rendered under general authorization, such as GSM services. A GSM licensee is subject to the Telecommunications Authority's right to suspend or terminate operations by the licensee on the grounds of security, public benefit, national defense or to comply with any international treaties. Under the Telecommunications Law, suspension or takeover of the facilities under these circumstances is subject to the payment of compensation to the operator. The Telecommunications Authority may inspect and regulate the licensee and nullify its license if the licensee materially fails to comply with the terms of its license. For example, the Amending Law provides that the Telecommunications Authority's right to nullify a concession, license or general permission may be exercised by the Telecommunications Authority in the case of gross negligence of the operator.

The Authorization Regulation governs the terms of license agreements and provides that the Telecommunications Authority may supervise the activities of licensed operators of valued-added services, approve the transfer of licenses to third parties, ensure continuation of services in the event of cancellation of a license and approve the investment plans submitted by licensees.

The Telecommunications Authority is authorized to require the operator to modify tariffs if and to the extent necessary to promote fair competition or the public interest. In addition, the Telecommunications Authority may terminate our license in cases of gross negligence. Pursuant to the Authorization Regulation, concessions, licenses or general authorizations shall specify the termination events, such as an operator's failure to comply, either partially or in its entirety, with the terms of its licenses or with relevant legislation, and include liquidated damages.

Upon the expiry of a license, including termination, the facilities and immovables of the licensee relating to the value-added services will be transferred by the licensee in accordance with the license agreement.

Under the Authorization Regulation, the licensee is responsible for installing telecommunications equipment in conformance with international signalization systems and numbering plans. Further, the licensee is obligated to make those investments which are necessary to offer the licensed service. These obligations include design of the service, the making of financial investments and the installation and operation of the facility required for the service. Licensees are allowed to determine the prices for services, subject to the regulations of the Telecommunications Authority. Copies of the tariffs are required to be made available to the public and to customers.

Pursuant to the License Regulations, operators are obliged, upon request by customers, to keep confidential all personal data of customers. Necessary precautions have to be taken by the operators to abide by customers' requests that their personal data do not appear in customer directories or inquiry services.

Authorization Regulation amended the regulation on February 4, 2002, "Regulation on the Method and Principles Relating to the Issuance of Second Type Telecommunications Licenses and General Permits" ("Regulation") and define License Agreements, First Type Telecommunications Licenses, Second Type Telecommunications Licenses, General Permits and finally specify the general principles that a company applying for an authorization to provide Telecommunication Services must observe. The new Authorization Regulation issued by the Telecommunications Authority on August 26, 2004, in line with Law No. 406, foresees four types of authorization to provide telecommunications services and establish and operate infrastructure: i) Duty Agreement (only between Turk Telekom and the Authority); ii) Concession Agreement; iii) Telecommunications License; and iv) General Authorization.

Operators should sign a Concession Agreement with the Telecommunications Authority to provide telecommunications services or infrastructure which are to be provided by a limited number of operators on a national basis. On the other hand, telecommunications services or infrastructure that are to be provided by a limited number of operators on a regional or local basis, could be provided by the operators acquiring a first type Telecommunications License. According to the Authorization Regulation, operators who are authorized via a Concession Agreement or first type Telecommunications License cannot be authorized by any other authorization type. In accordance with the said Regulation Turkcell as an operator authorized via Concession Agreement cannot be authorized by any other authorization type.

Second Type Telecommunications Licenses could be granted for the services listed in Article 18 of Law No. 406 if they are not required to be provided by a limited number of operators.

Lastly, General Authorizations are issued for the telecommunications services and infrastructure which are not listed in Article 18 of Law No. 406 and if they are not required to be provided by a limited number of operators.

The Licenses, which may be granted under the Regulation, shall have a maximum term of 25 years.

The Regulation includes annexes, where license conditions for different types of telecommunications services and infrastructure (such as GSM mobile telephone services, GMPCS, Satellite Platform Services, Telephone Messaging Services, Internet Service Provision, Long Distance Telephone Services, Cable Platform Services and Fixed Wireless Broadband Access Services) are set. By the end of February 2005, there were 11 types of services subject to authorization.

Under the Authorization Regulation, companies applying for a first type telecommunication license or to conclude a license agreement should meet the following criteria:

- The company shall be a joint stock company and shares should be registered.
- The company should be established in accordance with the laws of Turkey.
- The scope of the company as outlined in its articles of association should include telecommunications and the telecommunications activity which is applied for.
- Those who form the company and the shareholders holding at least 5% of the shares of the company should not have been convicted to imprisonment due to;
  - crimes committed against the government or the crimes set out in the Struggle with Terrorism Act,
  - crimes against the Banking Law, Capital Market Law, debit, malversation, bribe, robbery, forgery, collusion, fraudulent bankruptcy, betrayal of trust, smuggling, tax fraud, corruption in a official tender or purchase and sale process, money laundering.

And finally, the company should fulfill any other terms of tender.

Under the Authorization Regulation, operators should obtain second type of Second Type Telecommunications License from the Telecommunications Authority to provide telecommunications services or/and to establish or operate network that are not requiring carried out by a limited number of operators and services listed on article 18 of the Telecommunication Law. On the other hand, telecommunications services or/and establishing or operating network that are not requiring carried out by a limited number of operators and not listed on the article 18 of the Telecommunication Law could be provided by the operators acquiring a second type Telecommunication License granted by the Telecommunications Authority. to regulate the principles of the value added telecommunications services that are not requiring the allocation of scarce resources.

According to Authorization Regulation, a company applying for a second type telecommunications license ("License") or a general permit ("Permit") should meet the following criteria:

The company shall be either a joint stock company or a limited liability company.

The company should be established in accordance with the laws of Turkey.

The scope of the company as outlined in its articles of association should include telecommunications and the telecommunications activity which is applied for.

Those who form the company and the shareholders holding at least 5% of the shares of the company should not have been convicted and imprisoned due to crimes committed against the government or the crimes set out in the Struggle with Terrorism Act.

crimes against the Banking Law, Capital Market Law, debit, malversation, bribe, robbery, forgery, collusion, fraudulent bankruptcy, betrayal of trust, smuggling, tax fraud, corruption in a official tender or purchase and sale process, money laundering.

The company should fulfill any other specific provisions of the annex relating to relevant type of services

The License, which may be granted under the Regulation, shall have a maximum term of 25 years. Permits may be granted for a term of one year.

During the term of the relevant License or Permit, the License or Permit holder, among other things, is obliged to do the following:

Submit an investment plan for the coming year to the Telecommunications Authority each year, and notify the Telecommunications Authority of any revisions thereof.

Obtain the approval of the Telecommunications Authority for the uniform subscription agreements prepared for each type of service.

Keep separate accounts for each License or Permit held.

Conduct the activities permitted under the License or the Permit within a separate entity if such License or Permit holder company is determined by the Competition Board to be in a dominant position in another sector.

Provide the Telecommunications Authority with internally audited final income statements and balance sheets within two months following the end of each financial year.

Submit to the Telecommunications Authority the financial audit reports and financial statements and other documentation as may be requested within one month following the end of the financial audit.

Provide the Telecommunications Authority with all documents related to agreements with third parties and information on equipment stocks as may be requested.

Connect or allow for the connection of any terminal equipment to its own system the connection of which to the telecommunication network is directly or indirectly approved by the Telecommunications Authority, provided that the technical compatibility is obtained.

The License or Permit holder may assign its rights and obligations under the License or the Permit with the written consent of the Telecommunications Authority.

A notification should be made to the Telecommunications Authority within one month in case more than 20% of its shares of the License or Permit holder are transferred. Share transfers resulting in a change of control of the License or Permit holder should be performed with the written consent of the Telecommunications Authority.

The Telecommunications Authority is authorized to amend or cancel the provisions and conditions of the License or the Permit.

***The License Agreement***

*General*

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

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

*Terms*

Under the license agreement, we hold a licensed concession to provide telecommunications services in accordance with GSM-PAN European Mobile Telephone System standards in the 900 MHz frequency band. Our license covers 50 channels in the 892.2-959 MHz band and allocates telephone numbers between the 530 and 539 area codes in the national numbering plan. Our license also permits us to establish customer service centers, sign contracts with subscribers and market our services to subscribers. Our license was issued with an effective date of April 27, 1998, for an initial term of 25 years. At the end of the initial term, we must renew our license subject to the approval of the Telecommunications Authority, but under current Turkish law, our term cannot exceed 49 years. We shall apply to the Telecommunications Authority between 24 months and 6 months before the end of our license. Our license is not exclusive and is not transferable without approval of the Telecommunications Authority.

We paid a license fee of $500 million to the Turkish Treasury upon effectiveness of our license. As security for the performance of our obligations, we were also required to deliver cash or a bank guarantee equal to 1% of our license fee. On an ongoing basis, we must pay 15% of our monthly gross revenue, which is defined in the license agreement as subscription fees, monthly fixed fees and communication fees including taxes, charges and duties to the Turkish Treasury. We have settled with the Ministry of Transportation concerning the calculation of ongoing license fee payments. See "Item 8A. Consolidated Statements and Other Financial Information Legal Proceedings."

In addition, our license agreement requires that we obtain permission from the Telecommunications Authority for a transfer of our shares representing 10% or more of our share capital within five years starting from the date of our license, which is April 27, 1998. Furthermore, under the Telecommunication Services Regulation, the Telecommunications Authority must approve any transfer of 49% or more of our shares by any of our original shareholders. This restriction does not apply where the transferee, on the date of the license's issuance, was either a subsidiary, an affiliate or a group company.

*License Conditions*

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

*Coverage*

Our license requires that we meet coverage and technical criteria. We must attain geographical coverage of 50% of the population of Turkey (living in cities or towns of 10,000 or more inhabitants) within three years of our license's effective date and at least 90% of the population of Turkey (living in cities or towns of 10,000 or more inhabitants) within five years of the effective date of our license. This coverage requirement excludes coverage met through national roaming and installation sharing arrangements with other GSM systems and operators. Upon the request of the Telecommunications Authority, we may also be required, throughout the term of our license, to cover at most two additional areas each year. Except in the event of force majeure, we must pay a late performance penalty of 0.2% of the investment in the related coverage area per day for any delay of more than six months in fulfilling a coverage area obligation. As of today, we have met and surpassed all coverage obligations.

*Service Offerings*

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

*Service Quality*

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

*Tariffs*

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

In accordance with the license agreement, the Telecommunications Authority had undertaken to procure that the minimum charge per minute that Turk Telekom may charge its customers for any call from its network to our network may not be less than the basic charge that is charged by us to our customers. This procedure is under dispute in the case initiated before the Danistay by Turk Telekom against the Telecommunications Authority. For further information about this case, please see "Item 3D. Risk Factors" and "Item 8A. Consolidated Statements and Other Financial Information  Legal Proceedings."

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

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

The standard tariffs and the maximum rates have been established in New Turkish Lira and the Telecommunications Authority's schedule of standard tariffs and maximum rates are premised on the TRY/US$ Exchange Rate in effect on the date they were approved by the Telecommunications Authority.

We believe that the existing initial standard tariffs and the existing initial maximum rates have been established at levels that enable us to offer competitive pricing and service packages consistent with our overall marketing strategy and business plan.

*Relationship with the Telecommunications Authority*

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

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

*License Suspension and Termination*

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

Our license may be terminated under our license agreement:

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

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

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

- if we fail to pay our ongoing license fee.

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

If our license is terminated for our failure to perform our obligations under our license, the performance guarantee given by us in an amount equal to 1% of the license fee may be called. The license agreement makes no provision for the payment of consideration to us for delivery of the system on such termination.

In the event of a termination of our license, our right to use allocated frequencies and to operate the GSM system ceases. Upon the expiration of the license agreement, initially scheduled to occur in 2023, without renewal, we must transfer to the Telecommunications Authority, or an institution designated by the Telecommunications Authority, without consideration, the network management center, the gateway exchanges and the central subscription system, which are the central management units of the GSM network. These units include related technical equipment, immovables and all other installations and assets used in the operation of the system. We may apply to the Telecommunications Authority between 24 and 6 months before the end of the 25-year license term for the renewal of the license. The Telecommunications Authority may renew the license, taking into account the legislation then currently in effect.

*Applicable Law and Dispute Resolution*

Under our license agreement, any dispute arising from or under our license shall be brought before the License Coordination Committee. If the dispute is not settled within 30 days before the License Coordination Committee, it shall be referred to the parties. If the dispute is not resolved by the parties within 15 days, then it shall be settled by an arbitral tribunal in accordance with

International Chamber of Commerce (ICC) Rules. The governing law of any arbitration is Turkish law and any such arbitration shall be conducted in English. Disputes relating to national security or public policy shall not be subject to arbitration proceedings.

***Access and Interconnection Regulation***

The Access and Interconnection Regulation (the "Regulation") became effective when it was issued by the Telecommunications Authority on May 23, 2003. The Regulation sets forth the rights and obligations of the operators in the telecommunications sector in Turkey and establishes rules and procedures pertaining to their performance of such obligations. The Regulation primarily sets forth applicable principles, details of access and interconnection obligations, financial provisions, and policies and procedures regarding negotiations and contracts for access and interconnection.

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

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

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

While all operators will be obliged to enter into negotiations for interconnection agreements with any requesting operator, Turkcell, as operator holding significant market power, as well as Turk Telekom, are obliged to provide interconnection. These operators may limit access or interconnection to other operators only if it is objectively proven that network operation security or network integrity or data protection cannot be maintained or that interconnection or access is technologically unfeasible; in any case, the approval of the Telecommunications Authority is also required. The Telecommunications

Authority may also limit the interconnection obligation of an operator upon the operator's request, provided that there are technical and commercial alternatives to the interconnection or that required resources for such interconnection are unavailable. While operators not deemed to hold significant market power are free to set their access and interconnection tariffs, operators holding significant market power are required to determine their access and interconnection tariffs on a cost basis. Specifically, the Regulation provides that the tariffs will be the marginal cost of procuring efficient services, including an "appropriate return" on capital employed for procurement of services, plus a portion of overall costs attributable to such service.

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

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

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

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

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

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

In September 2004, the Telecommunications Authority published "Standard Reference Interconnection Tariffs, to recommend call termination fees of the operators holding significant market power on "GSM Mobil Call Termination Services Market" and Turk Telekom. In accordance with the recommendation as of January 1, 2005, call termination fees of the operators holding significant market power on "GSM Mobil Call Termination Services Market" is 0.148 TRY and as of January 2005.

***The Ukraine License Agreement***

Our subsidiary, Astelit, operates under an "Activity License" issued by the State Committee of Communication of Ukraine (Telecommunications Authority until 2005) (the "SCCI") on March 18, 2002, with an initial term of six years. This license grants us the right to build, maintain and use (i.e. provide telecom services) a cellular radio telecommunications network compliant to the DCS-1800 standard until June 8, 2008. The Activity License is supplemented by a non-transferable "Frequency License", issued by the same authority. We pay $74,455 per month for the allocated frequencies under our Frequency License. Another Ukrainian subsidiary of ours, DCC, also maintains several licenses, including a license for local telephone network construction, maintenance and use compliant to the D-AMPS standard, a number of D-AMPS frequency licenses (complimentary to activity licenses), a long-distance (national) and international carrier license and radio link frequency licenses.

The terms of our licenses require us to make certain notifications to Ukrainian government agencies and also to maintain certain levels of service for our customers. If we violate the provisions of our licenses, our license or operations could be suspended or terminated for a limited or unlimited period. In addition to maintaining licenses, Astelit and DCC have each concluded interconnection agreements with other Ukrainian telecommunications companies including Ukrtelecom, UMC, Kyivstar and Goldentelecom. These agreements set forth generally the rates for interconnection services, as well as standards, equipment to be used, settlements procedure, dispute resolution and amendment procedures.

***Turk Telekom, Telsim, Aycell, Is-Tim, Milleni.com and Globalstar Interconnection Agreements***

*Turk Telekom Interconnection Agreement*

*General*

We and Turk Telekom entered into an interconnection agreement dated April 24, 1998. The Turk Telekom interconnection agreement is intended to implement and supplement the framework for the provision of GSM services provided for in the License Regulations and our license agreement. On September 20, 2003, we signed an agreement with Turk Telekom amending certain sections of the April 24, 1998 agreement.

Under the Turk Telekom interconnection agreement, Turk Telekom agrees to permit us to utilize Turk Telekom's buildings, premises and other infrastructure and to lease the means of communications transmission between our GSM exchanges, base stations and base station control stations. Turk Telekom undertakes in its interconnection agreement with us, among other things, to permit interconnection of its network with our network to enable calls to be transmitted to, and received from, the GSM system operated by us through its existing digital fixed telephone switches. We retain the right, however, to establish our own transmission network at our own expense in the event that such transmission network is not made available to us by Turk Telekom, subject to the consent of the Telecommunications Authority. We are also free to establish interconnection arrangements with other licensed networks in Turkey in accordance with applicable law.

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

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

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

*Standards*

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

The Turk Telekom interconnection agreement provides that the parties will agree to maintain service quality standards and requires each party to assume responsibility for the safe operation of its network. The Turk Telekom interconnection agreement provides for a general standard of care that requires each party to exercise the skill and care appropriate to a competent telecommunications operator in performing its interconnection obligations. Neither party has any obligation in excess of that standard.

Each party is responsible for ensuring that its network does not endanger the safety or health of employees, contractors, agents or customers of the other party or damage, interfere with or cause any deterioration in the operation of the other party's network. Each party bears the cost of providing, installing, testing and maintaining all equipment on its network.

*Operational Issues*

The Turk Telekom interconnection agreement outlines the applicable interconnection principles and provides the technical basis and rationale for technical specifications and manuals to be agreed to by the parties. The interconnection agreement:

- sets forth agreements between the parties relating to the location of exchanges;
- creates obligations regarding network alterations;
- establishes routing principles to govern how call traffic will be routed within a network and between the networks of the parties, including interconnection routing rules;
- provides for arrangements concerning capacity and expansion of capacity through new points of interconnection;
- mandates arrangements concerning the use of numbering to transmit calls in accordance with national and international practices;
- provides for periodic technical review meetings between the parties;
- permits each party to engage in testing of interconnection exchanges;

addresses the consequences of transmission failures;

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

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

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

establishes procedures to deal with network faults; and

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

The Turk Telekom interconnection agreement establishes procedures whereby we will notify Turk Telekom of our network transmission needs and Turk Telekom will determine how and to what extent Turk Telekom can provide the required services. In the event that Turk Telekom cannot adequately provide such services, we may, subject to the consent of the Telecommunications Authority, establish our own transmission lines. In order to facilitate the provision of service, the parties will from time to time provide to each other forecasts of anticipated traffic over their respective networks. In addition, each party agrees to provide to the other party information which is necessary to enable performance of their interconnection obligations, the provision of services or utilization of equipment and/or buildings as contemplated in the Turk Telekom interconnection agreement.

*Payments*

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

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

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

*Call Tariffs*

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

As of May 31, 2005, Turk Telekom pays us TRY 0.201675 (approximately $0.147682 at May 31, 2005) per minute, for traffic originating on Turk Telekom's network and terminating on our network.

As of May 31, 2005, we pay to Turk Telekom a net amount of TRY 0.050419 (approximately $0.036921 at May 31, 2005) per minute for local traffic and a net amount of TRY 0.070586 (approximately $0.051689 at May 31, 2005) per minute for metropolitan and long-distance traffic switched from us to Turk Telekom.

For SMS services from Turk Telekom's network to our network, Turk Telekom will pay us a net amount of TRY 0.029243 approximately $0.021414 per SMS after deducting VAT and other taxes. For SMS services from our network to Turk Telekom's network, we will pay Turk Telekom a net amount of TRY 0.015126 approximately $0.011076 per SMS after deducting VAT and other taxes.

Calls from one of our subscribers to another one of our subscribers are not subject to a payment to Turk Telekom.

For international calls from our network, we pay Turk Telekom 70% of the net amount of the normal per-minute call charge, as outlined in Turk Telekom's current tariffs. Turk Telekom pays to us for incoming international calls that are terminated on our network 45% of the international settlement charge (terminal rate) that is transferred by the international carrier operator to Turk Telekom.

We route local traffic to other Turkish operators using Turk Telekom's interconnect switch, for which we pay the net amount determined for local traffic by Turk Telekom. Currently we pay 0.036921 cents for local calls and 0.051689 cents for non-calls. The switch is an element of a telephone network that connects telephone calls to telephone users on the same or other networks. Turk Telekom does not pay any charge to the network that receives the call and reserves the right to refuse to switch the transit traffic should such charges be imposed.

We do not pay any charges to Turk Telekom for calls to special service numbers which are called free of charge according to Turk Telekom tariffs. For calls to special service numbers that are not free of charge, every service charge is determined separately by the parties. The tariff includes VAT.

*Rental Rates*

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

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

*Charges for Energy at Switching Centers*

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

*Miscellaneous*

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

- our license is materially changed (whether by amendment or replacement);
- a material change occurs in the laws or regulations governing telecommunications in Turkey;
- the Turk Telekom interconnection agreement expressly provides for a review or makes express provision for a review or the parties agree in writing that there should be such a review;
- a material change occurs which affects or could affect the commercial or technical basis of the Turk Telekom interconnection agreement; or
- there is a general review pursuant to the Turk Telekom interconnection agreement.

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

*Telsim Interconnection Agreement*

*General*

We and Telsim entered into an interconnection agreement dated October 4, 1999, which became effective on the date of the Ministry of Transportation's approval. This agreement was amended October 13, 2003 and terminated at June 30, 2004. Under the Telsim interconnection agreement, each party agreed, among other things, to permit the interconnection of its network with our 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.

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

*Standards*

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

*Operational Issues*

The Telsim interconnection agreement provides that each of us and Telsim will assume responsibility for the safe operation of its own network. Each party is responsible for ensuring that its network does not endanger the safety or health of employees, contractors, agents or customers of the other party or damage, interfere with or cause any deterioration in the operation of the other party's network.

The Telsim interconnection agreement outlines the applicable interconnection principles and provides the technical basis and rationale for technical specifications and the manuals to be agreed to by the parties. The Telsim interconnection agreement:

- sets forth agreements between the parties relating to the location of exchanges;
- creates obligations regarding network alterations;
- establishes routing principles to govern how call traffic will be routed within a network and between the networks of the parties, including interconnection routing rules;
- provides for arrangements concerning capacity and expansion of capacity through new points of interconnection;
- mandates arrangements concerning the use of numbering to transmit calls in accordance with national and international practices;
- provides for periodic technical review meetings between the parties;
- permits each party to engage in testing of interconnection exchanges;
- addresses the consequences of transmission failures;
- creates an obligation to cooperate to maximize overall quality of transmission of calls in accordance with international standards;
- deals with emergency calls, calling line identification and malicious call identification;
- ensures the ability of a party to have access to the other party's premises where relevant equipment may be located (subject to appropriate protections);
- establishes procedures to deal with network faults; and
- addresses issues relating to the construction and installation of antennas, towers and other elements of system infrastructure.

The Telsim interconnection agreement provides that the parties will from time to time provide to each other forecasts of anticipated traffic over their respective networks. In addition, each party agrees to provide to the other party information necessary to enable performance of their interconnection obligations, the provision of services or utilization of equipment or buildings as contemplated in the Telsim interconnection agreement.

*Payments*

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

*Call Tariffs*

In accordance with the agreement concluded between Turkcell and Telsim on November 21, 2003, the call tariffs are set in Turkish Lira and will be revised by the parties every three months based on the consumer price index. During periods of sharp devaluation of the Turkish Lira, the devaluation rate will also be taken into consideration in such revisions. The pricing terms of the Telsim interconnection agreement will be applicable until the end of 2004 when both parties will revise them based on conditions reached at that time. All the rates are net of all applicable taxes. According to a supplemental agreement with Telsim on November 21, 2003, which was agreed after the intervention of the Telecommunications Authority these prices are applicable until June 30, 2004 and should be renewed within two months of such date.

As of May 31, 2005, we pay Telsim a net amount of TRY 0.195312 (approximately $0.143023 at May 31, 2005) per minute for traffic switched from us to Telsim. Telsim pays us a net amount of TRY 0.195312 (approximately $0.143023 at May 31, 2005) per minute for traffic switched from Telsim to us. For SMS services from Telsim to our network, Telsim pays us a net amount of TRY 0.027316 approximately $0.020003 per SMS and we pay Telsim a net amount of TRY 0.027316 approximately $0.020003 per SMS sent from our network to Telsim's. Both parties charge each other TRY 0.214843 approximately $0.157325 per minute for accessing each other's directory inquiry services.

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

- its license is materially changed (whether by amendment or replacement);
- a material change occurs in the law or regulations governing telecommunications in Turkey;
- the interconnection agreement expressly provides for a review or makes express provision for a review or the parties agree in writing that there should be such a review;
- a material change occurs that affects or could affect the commercial or technical basis of the interconnection agreement; or
- there is a general review pursuant to the interconnection agreement.

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

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

The Telsim interconnection agreement will terminate:

- automatically upon expiry of the parties' respective license periods or on termination of the respective license agreements by the Ministry of Transportation; or
- save for events of force majeure, upon one month's termination notice by the parties, due to failure to fulfill the obligations in the interconnection agreement for a period in excess of three months.

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

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

*Aycell Interconnection Agreement*

*General*

We and Aycell entered into an interconnection agreement that became effective on July 19, 2001. Under the Aycell interconnection agreement, each party agreed, among other things, to permit the interconnection of its network with 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.

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

We and Avea signed a protocol after the merger of Aycell and Is-Tim. According to the protocol, the interconnection agreement between Turkcell and Aycell dated July 19, 2001 has been canceled. The parties have agreed that the interconnection agreement that we entered into with Is-Tim in March 2001 will govern the relationship between TT&TIM and us.

*AVEA Iletisim Hizmetleri A.S. Interconnection Agreement*

*General*

We and Is-Tim entered into an interconnection agreement that became effective on March 9, 2001, after approval by the Ministry of Transportation. Under the Is-Tim interconnection agreement, each party agreed, among other things, to permit the interconnection of its network with 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.

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

*Standards*

The Is-Tim interconnection agreement also requires the parties to comply with relevant international standards, including standards adopted by the GSM Memorandum of Understanding, the Telecommunications Standards Bureau of the International Telecommunications Union and the European Telecommunications Standards Institute. In the absence of applicable international standards, the interconnection agreement provides that both parties will establish written standards to govern between them.

The Is-Tim interconnection agreement provides that we and Is-Tim will each assume responsibility for the safe operation of our own networks. Each party is responsible for ensuring that its network does not endanger the safety or health of employees, contractors, agents or customers of the other party or damage, interfere with or cause any deterioration in the operation of the other party's network.

*Operational Issues*

The Is-Tim interconnection agreement outlines the applicable interconnection principles and provides the technical basis and rationale for technical specifications and the manuals to be agreed to by the parties. The Is-Tim interconnection agreement:

- sets forth agreements between the parties relating to the location of exchanges;
- creates obligations regarding network alterations;
- establishes routing principles to govern how call traffic will be routed within a network and between the networks of the parties, including interconnection routing rules;
- provides for arrangements concerning capacity and expansion of capacity through new points of interconnection;
- mandates arrangements concerning the use of numbering to transmit calls in accordance with national and international practices;
- provides for periodic technical review meetings between the parties;
- permits each party to engage in testing of interconnection exchanges;
- addresses the consequences of transmission failures;
- creates an obligation to cooperate to maximize overall quality of transmission of calls in accordance with international standards;
- deals with emergency calls, calling line identification and malicious call identification;
- assures the ability of a party to have access to the other party's premises where relevant equipment may be located (subject to appropriate protections);

- establishes procedures to deal with network faults; and

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

The Is-Tim interconnection agreement provides that the parties will from time to time provide to each other forecasts of anticipated traffic over their respective networks. In addition, each party agrees to provide to the other party information which is necessary to enable performance of their interconnection obligations, the provision of services or utilization of equipment or buildings as contemplated in the interconnection agreement.

*Payments*

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

*Call Tariffs*

Interconnection tariffs are calculated on a cost basis for operators holding significant market power as explained above. The negotiations to renew our interconnection agreement with Is-Tim have ceased because of the merger between Aycell and Is-Tim (for further information see "Item 4B. Business Overview Industry The Turkish Mobile Market"). Effective on May 31, 2005, we pay Avea a net amount of TRY 0.269987 approximately $0.197706 per minute for traffic switched from us to Avea and Avea pays us a net amount of TRY 0.206461 approximately $0.151187 per minute for traffic switched from Avea to us.

*Miscellaneous*

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

- its license is materially changed (whether by amendment or replacement);
- a material change occurs in the law or regulations governing telecommunications in Turkey;
- the interconnection agreement expressly provides for a review or makes express provision for a review or the parties agree in writing that there should be such a review;
- a material change occurs which affects or could affect the commercial or technical basis of the interconnection agreement; or
- there is a general review pursuant to the interconnection agreement.

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

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

The Is-Tim interconnection agreement will terminate:

- automatically upon expiry of the parties' respective license periods or on termination of the respective license agreements by the Ministry of Transportation; or save for events of force majeure, upon one month's termination notice by the parties, due to failure to fulfill the obligations in the interconnection agreement for a period in excess of three months.

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

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

*Telecommunications Services Agreement with Milleni.com*

*General*

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

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

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

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

*Standards*

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

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

With respect to forecasting of traffic, the parties have adopted the certain criteria, including minimum requirements for such forecasts, extra capacity to be made available and notifications thereof. Neither of the parties shall be obliged to provide the relevant telecommunications services to the other if the volume or profile of traffic exceeds to a material extent or materially different from that specified in the forecast or the preceding quarter from the other party's system, as the case may be.

*Operational Issues*

The Milleni.com telecommunications services agreement outlines the applicable interconnection principles and provides the technical basis and rationale for technical specifications and manuals to be agreed to by the parties. The interconnection agreement:

- sets forth principles of operations and maintenance procedures in the operation manuals;
- establishes minimum standard for the switched service interconnect;
- provides for maintenance or provisioning activity to be carried out by one of the parties on the equipment provided, owned or operated by the other party; and
- creates an obligation to comply with all reasonable requests for access to each other's site to maintain equipment or services to the agreed level.

As a warranty from one party to the other, both of the parties are liable to maintain overall network quality and the quality of the service provided shall be consistent with other common carrier standards, government regulations and sound business practices. The parties do not make any other warranties within the scope of the agreement.

The Milleni.com telecommunications services agreement also establishes principles of provision of information and confidentiality of certain information provided.

*Call Tariffs*

Milleni.com charges us at various prices identified within the scope of the agreement for the calls destined to numerous networks around the globe. Either of the parties may modify its rates upon one-month advanced written notice, at its sole discretion.

*Payments*

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

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

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

*Miscellaneous*

The Milleni.com telecommunications services agreement provided that either of the parties might suspend services or terminate the agreement by serving the other party with a written notice taking immediate effect if:

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

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

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

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

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

Either of the parties had to terminate the agreement for any reason if force majeure events arise or upon a 60 day written notice. Termination or expiry of the agreement should have not affected accrued rights and obligations of the parties and indemnification and confidentiality provisions shall remain in force.

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

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

*Globalstar Interconnection Agreement*

*General*

We and Globalstar entered into an interconnection agreement that became effective on September 10, 2003. Under the Globalstar interconnection agreement, each party agreed, among other things, to permit the interconnection of its network with the other's network to enable calls to be transmitted to, and received from, the GSM system operated by us and the GMPSC system operated by Globalstar in accordance with technical specifications set out in the interconnection agreement.

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

*Standards*

The Globalstar interconnection agreement also requires the parties to comply with relevant international standards, including standards adopted by the GSM Memorandum of Understanding, the Telecommunications Standards Bureau of the International Telecommunications Union and the European Telecommunications Standards Institute. In the absence of applicable international standards, the interconnection agreement provides that both parties will establish written standards to govern between them.

*Operational Issues*

The Globalstar interconnection agreement outlines the applicable interconnection principles and provides the technical basis and rationale for technical specifications and the manuals to be agreed to by the parties. The Globalstar interconnection agreement:

- sets forth agreements between the parties relating to the location of exchanges;
- creates obligations regarding network alterations;
- establishes routing principles to govern how call traffic will be routed within a network and between the networks of the parties, including interconnection routing rules;
- provides for arrangements concerning capacity and expansion of capacity through new points of interconnection;
- mandates arrangements concerning the use of numbering to transmit calls in accordance with national and international practices;
- provides for periodic technical review meetings between the parties;
- permits each party to engage in testing of interconnection exchanges;
- addresses the consequences of transmission failures;
- creates an obligation to cooperate to maximize overall quality of transmission of calls in accordance with international standards;
- deals with emergency calls, calling line identification and malicious call identification;
- ensures the ability of a party to have access to the other party's premises where relevant equipment may be located (subject to appropriate protections);
- establishes procedures to deal with network faults; and
- addresses issues relating to the construction and installation of antennas, towers and other elements of system infrastructure.

The Globalstar interconnection agreement provides that the parties will from time to time provide to each other forecasts of anticipated traffic over their respective networks. In addition, each party agrees to provide to the other party information necessary to enable performance of their interconnection obligations, the provision of services or utilization of equipment or buildings as contemplated in the interconnection agreement.

*Payments*

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

*Call Tariffs*

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

- for traffic between 0 and 500,000 minutes, $0.40 per minute;
- for traffic between 500,000 and 1,000,000 minutes, $0.31 per minute;
- for traffic between 1,000,000 and 2,000,000 minutes, $0.25 per minute; and
- for traffic greater than 2,000,000, $0.20 per minute.

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

*Miscellaneous*

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

The Globalstar interconnection agreement will terminate:

- automatically upon expiry of the parties' respective license periods or on termination of the respective license agreements by the Ministry of Transportation;
- in case of breach of the agreement;
- by one of the parties serving a thirty-day termination notice to the other party;
- by a court decision providing cancellation of the agreement; or
- by the approval of the Telecommunications Authority to cancel the agreement.

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

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

Turkcell, as an operator holding significant market power entered into Call Termination Agreements with 3 operators licensed to provide Long Distance Call Services that became effective in January 2005. Under the Call Termination Agreements, Turkcell agreed, among other things, to terminate voice calls carried by the operators and rising from a national fixed telecommunication's network or/and any international telecommunication's network in accordance with technical specifications set out in the agreement and the operators agreed to pay us a net amount of TRY 0.201675 (approximately $0.147682) per minute for local traffic in the same connection area, a net amount of TRY 0.211759 (approximately $0.155066) per minute for long-distance traffic and TRY

0.201675 (approximately $0.147682) per minute for the International traffic switched from the operators to us.

We and Bilisim Telekom, which is also licensed to provide Long Distance Call Services, entered in to an International Traffic Carrying Services Agreement on December 2004. Under the Agreement, we may carry calls to Bilisim Telekom's switch for onward transmission to their destinations and Bilisim Telekom's should provide the termination of these calls on the relevant network. Bilisim Telekom charges us at various prices identified within the scope of the agreement for the calls destined to numerous networks around the globe. Bilisim Telekom may modify its rates upon fifteen days advanced written notice and these rates will be applicable upon our approval.

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

We and Bilisim Telekom, which is also licensed to provide Long Distance Call Services, entered in to an International Traffic Carrying Services Agreement on December 2004. Under the Agreement, we may carry calls to Bilisim Telekom's switch for onward transmission to their destinations and Bilisim Telekom's should provide the termination of these calls on the relevant network. Bilisim Telekom charges us at various prices identified within the scope of the agreement for the calls directed to numerous networks around the globe. Bilisim Telekom may modify its rates upon fifteen days advanced written notice and these rates will be applicable upon our approval.

We are continuing to negotiate with other operators holding licenses to provide Long Distance Call Services on the terms of the license agreements and we are expected to sign International Traffic Carrying Services Agreement in 2005.

***Prospective Legislations and Regulations***

Below, is a brief overview of some of the major proposed legislative and regulatory initiatives in Turkey that, if implemented, could have a significant impact on our operations.

***Regulations***

*Number Portability*

Number portability allows subscribers to change their telephone operator or physical location or the type of the service without changing their telephone numbers.

In order to assess operator concerns about number portability, the Telecommunications Authority has sent a questionnaire to the operators regarding technical, marketing and regulatory issues of the Number Portability application.

*Defining the Relevant Markets*

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

*Authorization of Value Added Telecommunication Services Operators*

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

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

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

*Authorization of Mobile Virtual Network Operators (MVNO's)*

According to proposed regulation, Mobile Virtual Network Operators shall provide their services by using the infrastructure of GSM operators. The Telecommunications Authority has published a draft annex to Authorization Regulation specifying provisions relating to MVNO's. We have objected to the draft Regulation on the grounds that obligating us to share our infrastructure with the MVNO's would infringe on our rights in accordance with our license agreement. The Telecommunications Authority has postponed working on the MVNO's authorization until the authorization of the 3G licenses.

*Authorization of Directory Services Operators*

The Telecommunications Authority has published a draft annex to Authorization Regulation specifying provisions relating to Authorization of Directory Services Operators.

In accordance with the draft regulation, the Telecommunications Authority will grant licenses to provide Directory Services. Directory Services Operators, shall provide their services without infringing the provisions of the relevant law and regulation related to the protection of the confidentiality by accessing to the database on the subscribers' information's of the other authorized Telecom operators (including GSM operators and Turk Telekom). Likewise, to provide authorized services Directory Services Operators should sign an interconnection agreement as a result of the commercial negotiation with the authorized operators. The draft regulation does not contain any provision forcing us to sign an interconnection agreement with the Directory Services Operators.

*Authorization of the Infrastructure Services Operators*

The Telecommunications Authority has published a draft annex to the Authorization Regulation specifying provisions relating to the Authorization of the Infrastructure Services Operators.

The draft regulation sets out the principles and procedures related to building and operating transmission network in order to provide telecommunication services to other operators and end users.

In accordance with the draft regulation, the Telecommunications Authority will grant the operators by Second Type Telecommunications Licenses to provide Infrastructure Services. Operators should be authorized to provide their services within a specific geographical area and for a 25 years term. On the other hand, authorized operators within a specific area could be also authorized to provide Infrastructure Services within other geographical area.

***Legislations***

*Electronic Communications Law*

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

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

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

*Draft Legislation on Universal Services and Amending The Telegram and Telephone Law No. 406 and the Ministry of Transportation Law No. 3348*

The draft legislation designates Universal Services as;

- Fixed-line telephony services
- Public pay telephones
- Directory enquiry services and directories
- Emergency calls services
- Internet Services
- Communication Services provided by the Coast Secure and Ship Rescue Services General Directorate

In accordance with the draft legislation all authorized Telecom Operators are obliged to provide Universal Services and the General Directorate of Communication is authorized to designate operators holding obligation to provide Universal Services on a national and/or geographical area basis trough the demanding operators.

The draft legislation does not impose any new financial obligations for the GSM operators. However, under the draft legislation a fund to finance the net cost of universal services obligations will be established and the Ministry of Transportation and Ministry of Finance will publish a regulation designating the sharing principles of the fund between the operators.

In accordance with the mentioned draft legislation we would be designated as an operator obliged to provide Universal Services and in such case we may participate to the fund sharing procedure.

*Draft Legislation Amending the The Wireless Law No. 2813*

The aim of the draft legislation is to establish a central database (CEIR) within the Telecommunications Authority containing information on serial number (IMEI) ranges of millions of handsets that have been approved for use on GSM networks. These approved handsets make up what is called the White List. There is also a CEIR Black List, which contains millions of handsets that should be denied service on a GSM network because they have been reported as lost, stolen or otherwise unsuitable for use.

Operators should deploy an Equipment Identity Register (EIR) in their network and use it to keep their own list of blocked lost or stolen phones. EIRs that are registered users of the CEIR dial-in directly or over a secure connection to share their latest lists of blacklisted handsets with other operators. The GSM operators should establish the EIR system in five mounts after the effective date of the Draft legislation.

GSM operator would be prohibited from providing telecommunication services to the handsets which have been reported as lost, contraband or stolen. GSM operators providing services to the prohibited handsets would be subject to the TRY 20.000 administrative fines per handset and the operators repeating the commission would pay twice as much.

### 4C. Organizational Structure

The following chart lists each of our key subsidiaries (including our ownership interest in Fintur), its country of incorporation and our proportionate ownership interest as of May 31, 2005.

In order to facilitate the diversification of our telecommunications business and the development of additional telecommunications services using advanced technologies, such as Digital television and Internet services, we formed Fintur in 2000 to hold many of our non-GSM and international GSM investments. Fintur was owned jointly with some of our principal shareholders and prior to the restructuring in 2002, we owned 25% of Fintur. The remaining equity of Fintur was owned by Sonera Holding B.V. and members of the Cukurova Group. On May 9, 2005, the Cukurova Group announced that it will purchase Fintur, Digital Platform and Superonline shares owned by Yapi Kredi.

During 2002, Fintur restructured its two business divisions, the international GSM businesses and the technology businesses. Under the restructuring agreement, we bought 16.45% of Fintur's international GSM businesses from the Cukurova Group, increasing our stake in the business to 41.45%. Simultaneously, Fintur sold its entire interest in its technology businesses to the Cukurova Group. We paid a total of $70.7 million to the Cukurova Group. We believe that the reorganization of Fintur will enable us to focus on our core mobile business and provide opportunities for future growth since these GSM operations are located in countries with low mobile penetration rates.

As a result of the restructuring, Fintur no longer has an interest in its former technology businesses, specifically: Superonline, Digital Platform, European Telecommunications Holding E.T.H. A.G., Mobicom Bilgi Iletisim Hizmetleri A.S., Verinet Uydu Haberlesme Sanayi ve Ticaret A.S., and Topaz Telekomunikasyon Yayincilik Reklamcilik Sanayi ve Ticaret A.S.

The following chart sets forth the ownership structure of Fintur and its direct and indirect ownership of its principal subsidiaries as of May 31, 2005.

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

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

*Property*

We own five properties in Gaziantep, Tekirdag, Kocaeli, and two properties in Bursa. We also rent two properties in Davutpasa and Maltepe.

We have buildings in Istanbul-Beyoglu (headquarter), Istanbul Maltepe, Istanbul Gunesli I, Istanbul Gunesli II, Ankara I, Ankara II, Adana, Diyarbakir, Samsun, Davutpasa and Izmir. The ownership of the Izmir building will be transferred to us in 2005.

In addition to the foregoing properties, we maintain two rented office buildings and a warehouse in Istanbul.

*Switches*

We have switches in Bursa, Konya, Antalya, Mahmutbey (Istanbul), Aydin, Erzurum, Balikesir, Bodrum, Denizli, Mugla, Izmit and Trabzon.

*Base stations*

We leased over 8,636 base stations as of May 31, 2005.

*Customer service center*

We had previously rented 18 customer service centers in eight different cities in Turkey. All of these customer service centers were closed by February 2005.

## ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

### Overview

Positive macroeconomic developments in Turkey, coupled with strong consumer sentiment, helped boost operational results. Revenues increased to $3,201 million in 2004 from $2,219 million in 2003. In addition, our net income increased to $512 million in 2004 from $215 million in 2003.

The Turkish economy has gone through a political and economic stabilization period starting from 2002 following the worst of the financial turmoil in 2001. The stabilization period started with the IMF stand-by program implemented in 2002 and continued with a new IMF program implemented in 2005 with three years maturity. The IMF programs aimed at decreasing the likelihood of the Turkish economy suffering a future crisis by encouraging sustained non-inflationary growth through a floating exchange regime, using inflation targeting to combat chronic inflation, strengthening the financial structure of Turkey, implementing reforms in taxation, the banking sector, ensuring debt sustainability and accelerating privatization efforts. The IMF hoped that the implementation of banking reform and enactment of other reforms would improve the liquidity position of the private sector and stimulate growth.

The Turkish economy is now among the fastest growing economies in the world. The Turkish economy is driven by robust private consumption, investment and exports. Tight macroeconomic policies, based on a high primary surplus and on strict monetary conditions which kept inflation on a steep downward path, have improved confidence. The convergence to the European Union ("EU"), and the close co-operation with the IMF have contributed critically to the momentum of policies. Inflation was down to single digits, for the year ended December 31, 2004, for the first time in thirty years. In December 2004, EU leaders agreed to start membership talks with Turkey in October 3, 2005.

The major economic problem that Turkey may face in and after 2005 is primarily the current account deficit which accounted for 5% of gross domestic products ("GDP") at the end of 2004. So far, foreign direct investment inflows remained weak into Turkey, and the fiscal deficits have been funded almost entirely by additional foreign debt whose sustainability could raise concerns. Although Turkey has made good progress in restoring debt sustainability with high primary surplus, lower borrowing costs, appreciation of New Turkish Lira ("TRY") against major currencies and high growth in GDP, nevertheless the government's large debt portfolio, which primarily consists of short term and foreign currency debts, reaching to approximately 74% of GDP, implying particularly high rates of rollover in domestic and international markets, remains a big vulnerability. Given the strength of the economy and the risk of a further widening of the current balance deficit, the government's aim should be finding additional revenue sources from stronger growth for debt reduction. At this point, structural reforms, such as overhauling the tax system, become crucial.

Turkey's debt dynamics have improved, but remained vulnerable to higher US dollar interest rates and a more stable US dollar. GDP growth in 2004 reached a record of 9.9% due partially to a deferred durable goods demand. The central bank of Turkey expects GDP growth to slow to 5% in 2005. In mid 2004 TRY depreciated to some extent due to a sell-off in emerging markets. This sell-off has turned into a appreciating TRY trend with the introduction of EU membership talks and favorable international liquidity. Turkey's widening current account deficit is a possible indication of a sharp devaluation of TRY against foreign currencies while current account deficit is funded by foreign debt and mostly short term speculative capital flows. However, political tension, even that arising from non-economic issues, has a major impact on financial markets. Negotiations on resolving the Cyprus issue will continue to affect Turkish financial markets. Turkey might face significant obstacles before it is theoretically able to join the EU. Even if the planned accession talks with the EU start on October 3, 2005, the process is likely to be long and challenging and EU membership seems unlikely prior to 2015, if at all. Some EU members continue to state their doubts as to whether Turkey should be allowed to join the EU. Some countries have stated that they may hold public referendums at the end of the negotiation process. Our financial condition, future operations and cash flows could be adversely affected by continued economic difficulties which stem from political issues.

In accordance with the Law No 5083, effective on January 30, 2004, beginning from January 1, 2005, TRY is the new currency of Turkey. The sub unit of TRY is New Kurus. (1 TRY=100 New Turkish Kurus). In translating Turkish Lira ("TL") values to TRY, one million TL will be equal to one TRY. New monetary unit of Republic of Turkey is simplified by removing six zeros from TL. Accordingly, the currency of the Republic of Turkey will be referred to as TRY throughout the document.

We have achieved 23% growth in our subscriber base in an increasingly competitive environment bringing our market share up to 67% for the year ended December 31, 2004 according to the figures announced by the Telecommunications Authority. The 23% increase in our subscriber base was supported by the favorable economic environment and low subscriber churn rate, which is driven by our segmented churn prevention activities and mass loyalty programs. New tariff schemes will continue to be introduced to ensure satisfaction of different customer groups, while encouraging usage. Despite having achieved optimized levels of efficiency in our cost base, we will continue to remain focused on the bottom-line, going forward.

**Critical Accounting Policies**

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with US GAAP. The preparation of these consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. On an ongoing basis, we evaluate our estimates, including those related to fixed assets and intangibles, bad debts, income taxes, and contingencies and litigation. Our estimates are based on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

A summary of our significant accounting policies are set forth in note 3 to our consolidated financial statements. We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

***Fixed assets***

Almost all of our operational fixed assets are depreciated over an 8-year term representing our best estimate of the operational assets useful lives. If the technology rapidly changed and caused the estimated useful lives to decrease by 1 year to an average life of 7 years, annual depreciation expense on our operational fixed assets would increase by $32 million. However, if the estimated useful lives of our fixed assets would be increased to 9 years, annual depreciation expense on our operational fixed assets would decrease by $29 million.

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

When events or circumstances arise that would require us to test our long-lived assets for impairment, we first evaluate whether the undiscounted expected cash flows of the related assets exceed the book value of these assets. If the book value of the assets is greater than the undiscounted future cash flows, then an impairment exists, and that impairment measured by the excess of book value over fair value. Fair value is usually measured by discounting cash flows. On an ongoing basis we review indicators of such events or circumstances, which include;
1) significant adverse changes in the legal or business climate that could affect the value of long-lived assets, 2) plans to dispose of a

long-lived asset before the end of its previously estimated useful life, and 3) a significant decrease in the market price of a long-lived asset. We are also alert to technological change or a decrease in the number of subscribers, which could cause impairment of our long-lived assets.

In assessing the recoverability of our fixed assets and intangibles we make judgments and assumptions regarding estimated future cash flows and other factors. Our estimates of future cash flows are subject to a significant number of variables including, the number of subscribers, average revenue per subscriber, inflation, devaluation, competition and other economical factors. To the extent the actual cash flows are less than the estimated cash flows; additional impairment charges may be required. In addition, our discount rate is also based on a number of factors such as the risk free rate of interest, which may change over time.

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

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

Our bad debt expense as a percentage of revenues decreased by approximately 33% to 0.4% of revenues in 2004 from 0.6% in 2003. If our bad debt expense rises back to a level of 0.6% of revenues, an additional provision for bad debts of approximately $5 million would be required.

***Liabilities arising from litigation***

We are involved in various claims and legal actions arising in the ordinary course of business. We make provisions for liabilities arising from litigation in accordance with SFAS No. 5, which requires us to provide for liabilities arising from litigation when the liabilities become probable and estimable. Our current estimated liability related to some of our pending litigations is based on claims for which our management can estimate the amount and range of loss. We continuously evaluate our pending litigation to determine if any developments in the status of litigation require an accrual to be made. Due to the complexity of the law and the limited history of privatization in Turkey, it is often difficult to accurately estimate the ultimate outcome of the litigation. These variables and others can affect the timing of when and the amount we provide an accrual for certain litigation. Accordingly, the timing of when we provide for certain legal claims is subject to estimates made by us and our legal council, which are subject to change as the status of the legal cases develop over time. Such revision in our estimates of the potential liability could materially impact and has materially impacted in the past our consolidated financial condition, results of operations or liquidity.

***Income taxes***

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Our deferred tax assets and liabilities have been remeasured into US dollars in accordance with the provisions of SFAS No. 109 and the transaction gains and losses that result from such remeasurement have been included within the translation loss in the consolidated financial statements.

Non-taxable translation gain (loss) results from translation of TRY 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 TRY denominated fixed assets and intangibles into the US dollar.

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 2005 and onwards and have generated taxable income for past two years. Currently, economic and political situation in Turkey became more stable and there are positive expectations about the near term future. Further, there are positive developments regarding the Turkey's membership to EU. In the fourth quarter of 2004, the member states of EU decided that the membership discussions with Turkey will start on October 3, 2005. Such decision is expected to have certain political and economic benefits for Turkey in near future. Furthermore, the settlement agreements with Turk Telekom and the Turkish Treasury have been signed in the fourth quarter of 2004. We believe that these developments provide us better visibility about the near term future. As a result, as of December 31, 2004, our assessment of the realizability of the deferred tax assets and the related valuation allowance requirements is consistent with that made at December 31, 2003. We concluded that it was more likely than not that the deferred tax assets of $346.0 million were realizable. Turkish tax legislation does not allow companies to file tax returns on a consolidated basis. Therefore, we believe a valuation allowance should continue to be provided on a portion of the deferred tax assets, resulting from certain consolidated subsidiaries, as we are unable to conclude that the likelihood of realizing these deferred tax assets is more likely than not. Accordingly, a valuation allowance of approximately $17.2 million was recorded as of December 31, 2004 (December 31, 2003: $11.0 million) for such amounts. The valuation allowance at December 31, 2003 and December 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 $346.0 million as of December 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. If our assumptions are incorrect or the market conditions become unfavorable, additional valuation allowance could be required.

***Hyperinflation in Turkey***

The FASB staff believes the determination of a hyperinflationary economy must begin by calculating the cumulative inflation rate for the three years that precede the beginning of the reporting period, including interim reporting periods. If that calculation results in a cumulative inflation rate in excess of 100%, the economy should be considered highly inflationary in all instances. However, if that calculation results in the cumulative rate being less than 100%, the FASB staff believes that historical inflation rate trends (increasing or decreasing) and other pertinent economic factors should be considered to determine whether such information suggests that classification of the economy as highly inflationary is appropriate. The AICPA SEC Regulations Committee's International Practices Task Force ("IPTF") concluded at the November 24, 2004 meeting that Turkey will continue to be highly inflationary in 2005. Accordingly, the financial statements of Turkcell and subsidiaries located in Turkey to be prepared in accordance with US GAAP will be translated into the US dollars, the reporting currency, in accordance with the relevant provisions of SFAS No. 52 "Foreign Currency Translation" as applied to entities in highly inflationary economies.

We expect that IPTF will conclude that Turkey will not be a hyperinflationary country starting from 2006. If the hyperinflationary status of Turkey has been discontinued, TRY will be treated as a more stable currency and our financial statements and those of our subsidiaries located in Turkey and Northern Cyprus to be prepared in accordance with US GAAP will be translated into the US Dollars in accordance with SFAS No. 52 and the resulting cumulative translation adjustment will be recognized in the shareholder's equity.

## 5A. Operating Results

The financial information contained in the following discussion and analysis has been prepared and is presented on a consolidated basis in accordance with US GAAP in US dollars. The following discussion and analysis should be read in conjunction with the consolidated balance sheets as of December 31, 2003 and 2004 and the related consolidated statements of operations, changes in shareholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2004 and the related notes.

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."

### Overview

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

Under the license, we pay ongoing license fees to the Turkish Treasury equal to 15% of our gross revenues, which includes monthly fixed fees and communication fees including taxes, charges and duties paid to the Turkish Treasury. Since June 2004, SIM card sales, outgoing roaming revenues and late payment interest charge have been included in the definition of gross revenue and included in the monthly ongoing license fees computations. Under our interconnection agreement with Turk Telekom, we pay Turk Telekom an interconnection fee per call based on the type and length of call for calls originating on our network and terminating on Turk Telekom's fixed-line network, as well as fees for other services. We also collect an interconnection fee from Turk Telekom for calls originating on the fixed-line network and terminating on our network. We also have interconnection agreements with Telsim Mobil Telekomunikasyon Hizmetleri A.S. ("Telsim"), Aycell Haberlesme ve Pazarlama Hizmetleri A.S ("Aycell"), Is-Tim Telekomunikasyon Hizmetleri A.S. ("Is-Tim"), Milleni.com GMBH ("Milleni.com") and Globalstar Avrasya Uydu Ses ve Data Iletisim A.S. ("Globalstar") pursuant to which we have agreed, among other things to pay interconnection fees to the other parties for calls originating on our network and terminating on theirs and they have agreed to pay interconnection fees for calls originating on their networks and terminating on ours. After the merger of Is-Tim and Aycell, a new company was formed with the name TT&TIM Iletisim Hizmetleri A.S. ("TT&TIM"). Our interconnection agreement with Is-Tim was renewed with TT&TIM and the interconnection agreement with Aycell was cancelled.

We commenced construction of our GSM network in 1993. As of December 31, 2004, we have made capital expenditures amounting to approximately $4.4 billion including the cost of our license. The build-out of our network is now substantially complete, with coverage at December 31, 2004 of 100% of the Turkish population living in cities of 10,000 or more people. As of December 31, 2004, our network covers 99.89% of the Turkish population living in cities of 5,000 or more and 99.63% of the Turkish population living in cities of 3,000 or more. Coverage also includes substantially all of the Mediterranean and Aegean coastline. We meet the coverage requirements of our license.

Our subscriber base has expanded from 63,500 at year-end 1994 to approximately 15.7 million at year-end 2002, 19.0 million at year-end 2003 and 23.4 million at year-end 2004. Based on announcement of the Telecommunications Authority, there are around 34.7 million subscribers in Turkish GSM market as of the year ended December 31, 2004. The penetration rate in the Turkish GSM market was approximately 50% for the year end of 2004 and is expected to continue to grow. Based on expected intensifying competition particularly during the second half of 2005, we believe the GSM market should continue to grow, though at a lower pace and the penetration rate should reach about 65% by the 2007 year end. Based on improving macro economic indicators such as GNP per capita, stable political environment and high consumer sentiment, we may expect penetration rates in Turkey as high as some of the European peers. Increasing competition may induce higher than expected growth and penetration in the longer term. We expect to achieve a continued growth in our subscriber base in 2005 but at a slower pace compared to that of 2004.

Our prepaid mobile service increases our market penetration and limits 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 December 31, 2004, 18.3 million subscribers have commenced usage of the prepaid service. Average selling and marketing expenses per prepaid subscriber are generally less than that for postpaid subscribers and average minutes of use per prepaid subscriber and average revenue per prepaid subscriber tend to be lower than for postpaid subscribers. Our average monthly minutes of use per subscriber has increased from 56.2 minutes in 2002 to 58.5 minutes in 2003 and increased to 64.9 minutes in 2004. We believe that the favorable effect of the improvement in macroeconomic environment and consumer sentiment along with our segmented volume based campaigns and mass loyalty programs were the main drivers of the increase in usage during 2004. Our average revenue per user decreased from $11.7 in 2002 to $10.6 in 2003 and increased to $12.3 in 2004. The increase was mainly due to improved consumer sentiment and its impact on usage levels, tariff increases and the appreciation of TRY against US dollars. We expect the aggressive price competition to continue in 2005. However, we expect that the blended minutes of usage will improve slightly in 2005 compared to 2004 due to the positive macroeconomic indicators and consumer sentiment, our strong customer relations management activities and the continuing impact of volume based campaigns. However, we expect average revenue per subscriber to be similar to 2004 in 2005. Improvement in usage, favorable US dollar / TRY parity and increasing VAS and data revenue are positive factors while expected decrease in incoming interconnection rates, price discount initiatives which started especially in the second half of 2004 and dilutive impact of prepaid subscribers are expected to impact average revenue per subscriber negatively in 2005. See "Item 5D. Trend Information."

Churn is calculated as the total number of subscriber 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 as subscribers) and receive a suspension warning, which in some cases results in payment and continuity of service. During the year ended December 31, 2003, we disconnected approximately

170,993 subscribers for nonpayment of bills and our annual churn rate was 14.5%. For the year ended December 31, 2004, we disconnected approximately 123,038 additional subscribers for nonpayment of bills and our annual churn rate was 9.1%. We have a bad debt provision in our consolidated financial statements for such non-payments and disconnections amounting to $135.9 million and $133.9 million as of December 31, 2003 and December 31, 2004, respectively, which we believe it is adequate. Prior to 2003, the majority of disconnections were due to non-payment of bills. However, starting from 2003, the majority of disconnections were related to prepaid subscribers' disconnections as a result of the increased number of such subscribers in our subscriber base. We expect the churn rate to increase as a result of the increase in competition in the GSM mobile market in 2005, but it is expected to be kept below 2003 levels.

**International and Other Domestic Operations**

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

The operations in Iran has not commenced yet. On April 25, 2005, the Iranian Parliament approved a revised proposal, which suggests reduction of our stake in Irancell to 49%, and submitted to the Guardian Council for their consent. In May 2005, the Guardian Council has given their consent. The consent will be approved by the Iranian President. Our management is assessing the impact of this change to the license agreement including the reduction of our stake in Irancell which results in a voting ownership of less than 50% for us and calls into question the expected control structure of Irancell. This unilateral change by the Iranian Parliament conflicts with the license agreement's terms and conditions and the agreements signed between current shareholders of Irancell. Our management believes that these developments call into question the future of our investment in Iran.

On April 22, 2005, Kibris Mobile Telekomunikasyon Limited Sirketi ("Kibris Telekom") decided to transfer all of its shares in Kibrisonline Limited Sirketi ("Kibrisonline"). On May 27, 2005, Kibris Telekom and Digitech Iletisim Limited ("Digitech") signed a share transfer agreement. According to this agreement all Kibrisonline shares with a par value of each one TRY owned by Kibris Telekom has been transferred to Digitech with a consideration of TRY 25,000 (equivalent to $0.019 million at December 31, 2004).

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

**Revenues**

Our revenues are mainly derived from communication fees, monthly fixed fees, sales of SIM cards, commission fees on betting business and call center revenues. Communication fees consist of charges for calls that originate or terminate on our GSM network, including international roaming, and are based on minutes of actual usage of service. Per-minute communication fees vary according to the subscriber's service package. Monthly fixed fees are charged to each postpaid subscriber in a specified monthly amount that varies according to the subscriber's service package, regardless of actual use of our GSM network services. SIM card revenues are receipts from the sale of SIM cards, which we sell to handset importers and which are needed to operate a handset used by a subscriber. Commission fees on betting business relate to operating a central betting system and head agency fees. Such fees are recognized at the time the services related to the betting games are rendered. Call center revenues consist of revenues for call center services provided by our call center subsidiary to affiliated and third party companies. In March 2001, we launched General Packet Radio Services ("GPRS") in Turkey, which allows users to remain connected to the network at all times for the receipt of data transmissions, enabling bearer capability for WAP, SMS and internet applications. GPRS charges are based on the amount of data downloaded by subscribers.

In June 2003, we commercially launched our 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, if any, are deferred and recognized over the estimated effective subscription contract life. In connection with postpaid and prepaid subscribers, we currently incur costs for activation fees to dealers and other promotional expenses, which historically offset all or substantially all of the subscription fees. We charge a usage fee for certain services we offer, such as SMS, voicemail and data and facsimile transmission. Our revenues depend on the number of subscribers, call volume and tariff pricing.

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

In accordance with the Telecommunications Law, we set our tariffs independently, subject to maximum tariffs defined by the Telecommunications Authority, which are based on among other things, prices abroad for comparable GSM services, the Turkish consumer price index and the US consumer price index. We also notify the Telecommunications Authority at least seven days before the amendment of any tariff. We raise tariffs to offset Turkish inflation and devaluation of TRY. We have taken actions to increase revenues, including raising tariffs in February, April and June 2002, March and December 2003 and May and November 2004. We also launched a variety of new tariff packages to set tariffs according to customer satisfaction and to attract new subscribers. We will continue to monitor the market and the competitive, regulatory and macroeconomic environment. We aim to strike the right balance between achieving our revenue goals and maintaining our "better value for money" image in the market and will continuously offer products, services and tariffs options that are in line with the needs and expectations of our subscribers.

Although the Amending Law No. 4673, or "the Amending Law", has no specific regulations 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 implemented the cost based interconnect tariff for the telecommunications sector. See "Item 4B. Business Overview Regulation of the Turkish Telecommunications Industry."

Per the Amended Agreement, effective from September 20, 2003 onwards, we charged Turk Telekom a net amount of TRY 0.2100 (equivalent to $0.16 at December 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 would charge TRY 0.1788 (equivalent to $0.13 at December 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 to September 22, 2003, 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 Is-Tim that became effective on March 9, 2001, after the Ministry of Transportation's approval. Under this agreement, we charged Is-Tim a net amount of $0.20 per minute for traffic switched from Is-Tim to us. We also entered into an interconnection agreement with Aycell on July 19, 2001. We charged Aycell a net amount of $0.20 per minute for traffic switched from Aycell to us. After the merger of Is-Tim and Aycell, a new company was formed with the name TT&TIM. Our interconnection agreement with Is-Tim was renewed with TT&TIM and the interconnection agreement with Aycell was cancelled. After the merger, we started to negotiate on new interconnection agreement with TT&TIM, which changed its name to AVEA on October 15, 2004. In addition to the price focus of our competitors in our market, lower termination charges applied in the wholesale market, based on pricing terms of the current interconnection agreements, have also been a factor leading to pricing pressures since September 2003. We believe the reference tariff structure defined by the Telecommunications Authority during the fourth quarter of 2004, if applied, will lead to further reductions in termination rates, as pricing terms of the interconnection agreements among operators have not been established through negotiations. We entered into an interconnection agreement with Milleni.com in April 2001. Under the interconnection agreement with Milleni.com, we charged Milleni.com a net amount of €0.10 per minute for our network terminated traffic. The business relationship on interconnection between Milleni.Com and us has been bilaterally terminated as of June 21, 2004. However, on February 21, 2005, Bilisim Telekom (one of our subsidiaries) and Milleni.com have signed an agreement to provide telecommunications services to each other whereby Milleni.com may convey calls to our switch and we may convey calls to Milleni.com's switch for onward transmission to their destinations. Under the interconnection agreement with Globalstar, effective from September 10, 2003, we charged Globalstar a net amount of $0.20 per minute for our network terminated traffic. After the supplemental agreement signed with Globalstar on December 11, 2003, we charge Globalstar a net amount of $0.175 per minute for our network terminated traffic. In addition, we charge Globalstar a net amount of $0.03 per SMS.

The following table shows the amounts we charge Turk Telekom, Telsim and AVEA as of December 31, 2004 and May 31, 2005 both in TRY and equivalent US dollars at December 31, 2004.

| | December 31, 2004 | | May 31, 2005 | |
|---|---|---|---|---|
| | TRY | USD | TRY | USD |
| Turk Telekom | 0.2191 | 0.16 | 0.2017 | 0.15 |
| Telsim | 0.1843 | 0.14 | 0.1953 | 0.15 |
| AVEA | 0.1948 | 0.15 | 0.2065 | 0.15 |

During 2001, we were approached by Is-Tim, 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 Is-Tim and we commenced litigation proceedings to prevent the imposition of an agreement by the Telecommunications Authority. The introduction of national roaming in Turkey could have a negative impact on our revenues. For a description of the dispute regarding the national roaming agreement and the risks related to this dispute, see "Item 8A. Consolidated Statements and Other Financial Information Legal Proceedings Dispute on National Roaming Agreement."

We expect our revenues to increase at a slower pace compared to 2004, mainly derived from increase in subscriber base and appreciation of TRY, together with the improvement in the macroeconomic indicators and improving usage despite lower interconnection rates in 2005, dilutive impact of increasing prepaid subscribers and price discount initiatives which started in the second half of 2004.

**Operating Costs**

***Direct Costs of Revenues***

Direct costs of revenues include mainly ongoing license fees, transmission fees, base station rents, billing costs, depreciation and amortization charges, repair and maintenance expenses directly related to services rendered, roaming charges paid to foreign GSM operators for calls made by our subscribers while outside Turkey, interconnection fees paid to Turk Telekom, Telsim, AVEA, Milleni.com and Globalstar and wages, salaries and personnel expenses for technical personnel. Direct cost 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 Proceedings."

Under the Amended Agreement, we paid Turk Telekom interconnection fees of TRY 0.0500 (equivalent to $0.04 at December 31, 2004) per minute for local calls from our network to the Turk Telekom fixed-line network and TRY 0.0700 (equivalent to $0.05 at December 31, 2004) per minute for non-local calls from our network to the Turk Telekom fixed-line network. On the basis of the Amended Agreement signed with Turk Telekom, we modify the interconnection fees according to the consumer price index and foreign currency exchange rate on quarter basis. For international calls originating on our network, we pay Turk Telekom the normal one-unit call charge as outlined in Turk Telekom tariffs in force without any discount. 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.

Pursuant to the Amended Agreement signed with Telsim, effective from October 9, 2003, we paid Telsim a net amount of TRY 0.2100 (equivalent to $0.16 at December 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 us determined the new pricing terms, which resulted in an amendment in the agreement. Per the Telecommunications Authority resolution, we paid TRY 0.1788 (equivalent to $0.13 at December 31, 2004) per minute for calls originating on our network and terminating on Telsim's network effective from September 23, 2003. On the basis of the Amended Agreement signed with Telsim, we modify the interconnection tariffs according to the consumer price index and exchange rates on quarter basis. On October 11, 2003, the Telecommunications Authority resolved that we would pay TRY 0.2338 (equivalent to $0.17 at December 31, 2004) per minute for traffic originating on our network and terminating on Aria's or Aycell's network effective from September 23, 2003.

We entered into an interconnection agreement with Is-Tim that became effective on March 9, 2001, after the Ministry of Transportation's approval. Under the Is-Tim interconnection agreement, each party agreed, among other things, to permit the interconnection of its network to 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 Is-Tim a net amount of $0.20 per minute for traffic switched from us to Is-Tim. After the merger of Is-Tim and Aycell, a new company was formed with the name TT&TIM. Our interconnection agreement with Is-Tim was renewed with TT&TIM.

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 the merger of Is-Tim and Aycell under the company name of TT&TIM, interconnection agreement with Aycell was cancelled. After the merger, we started to negotiate a new interconnection agreement with TT&TIM, which changed its name to AVEA on October 15, 2004.

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

The following table shows the amounts we pay Turk Telekom, Telsim and AVEA as of December 31, 2004 and May 31, 2005 both in TRY and equivalent US dollars at December 31, 2004.

| | December 31, 2004 | | May 31, 2005 | |
|---|---|---|---|---|
| | **TRY** | **USD** | **TRY** | **USD** |
| Turk Telekom | | | | |
| Local Calls | 0.0548 | 0.04 | 0.0504 | 0.04 |
| Non-Local Calls | 0.0767 | 0.06 | 0.0706 | 0.05 |
| Telsim | 0.1843 | 0.14 | 0.1953 | 0.15 |
| AVEA | 0.2548 | 0.19 | 0.2700 | 0.20 |

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

***General and Administrative***

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

***Selling and Marketing***

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

The average acquisition cost was approximately $26 per new subscriber for 2002, $27 per new subscriber for 2003 and $22 per new subscriber for 2004. 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 a reduction of revenue in our consolidated statements of operations. We believe that the average acquisition cost may increase in 2005 as a result of an increasingly competitive environment. Although our sales and marketing expenses may increase in terms of amount, we plan to keep our selling and marketing expenses stable as a percentage of our revenue under the foreseeable competition level in 2005.

**Results of Operations**

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

| | For the years ended December 31, | | |
|---|---|---|---|
| | 2002 | 2003 | 2004 |
| Revenues | 1,973.9 | 2,219.2 | 3,200.8 |
| Direct cost of revenues | (1,366.9) | (1,613.2) | (2,001.2) |
| **Gross profit** | **607.0** | **606.0** | **1,199.6** |
| General and administrative expenses | (104.5) | (137.2) | (137.3) |
| Selling and marketing expenses | (223.5) | (294.6) | (349.2) |
| **Operating income** | **279.0** | **174.2** | **713.1** |
| Income (expense) from related parties, net | (0.2) | 3.7 | 1.9 |
| Interest income (expense), net | (206.9) | (366.3) | 31.3 |
| Other income, net | 13.6 | 6.2 | 7.1 |
| Equity in net income (loss) of unconsolidated investees | (20.4) | 18.9 | 43.6 |
| Minority interest in income of consolidated subsidiaries | 0.3 | 3.6 | 7.5 |
| Translation loss | (18.0) | (102.4) | (11.3) |
| **Income (loss) before taxes** | **47.4** | **(262.1)** | **793.2** |
| Income tax benefit (expense) | | 477.3 | (281.4) |
| **Net income** | **47.4** | **215.2** | **511.8** |

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

| | Years ended December 31, | | |
|---|---|---|---|
| | 2002 | 2003 | 2004 |
| **Statements of Operations (% of revenue)** | | | |
| Revenues | | | |
| Communication fees | 96.8 | 96.6 | 96.5 |
| Monthly fixed fees | 2.1 | 1.9 | 1.6 |
| SIM card sales | 0.7 | 1.1 | 0.9 |
| Commission fees on betting business | | | 0.6 |
| Call center revenues | 0.4 | 0.3 | 0.3 |
| Other | 0.0 | 0.1 | 0.1 |
| Total revenues | 100.0 | 100.0 | 100.0 |
| Direct cost of revenues | (69.3) | (72.7) | (62.5) |
| Gross margin | 30.7 | 27.3 | 37.5 |
| General and administrative expenses | (5.3) | (6.2) | (4.3) |
| Selling and marketing expenses | (11.3) | (13.3) | (10.9) |
| Operating income | 14.1 | 7.8 | 22.3 |

**Year Ended December 31, 2004 Compared to Year Ended December 31, 2003**

We had 23.4 million subscribers, including 18.3 million prepaid subscribers, as of December 31, 2004, compared to 19.0 million subscribers, including 14.2 million prepaid subscribers, as of December 31, 2003. During 2004, we added approximately 4.4 million net new subscribers.

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***Revenues***

Total revenues for the year ended December 31, 2004 increased 44% to $3,200.8 million from $2,219.2 million in 2003. The increase in revenues is mainly due to the growth in the number of subscribers, increased usage, tariff increase in 2004, appreciation of TRY against US dollars and larger provisions against revenues in 2003 ($387 million) as compared with 2004 ($227 million) in relation to legal disputes with Turk Telekom, which were resolved at the end of 2004. See "Item 8A. Consolidated Statements and Other Financial Information  Legal Proceedings."

Revenues from communication fees for the year ended December 31, 2004 increased 44% to $3,088.1 million from $2,143.6 million in 2003 mainly due to the increase in tariffs, the growth of our subscriber base, appreciation of TRY against US dollars and larger provisions against revenues in 2003 as compared with 2004 in relation to legal disputes. Communication fees include SMS revenues, which amounted to $356.3 million and $245.5 million for the years ended December 31, 2004 and 2003, respectively.

Although the monthly fixed fee charged to customers in TRY remained the same, revenue from monthly fixed fees for the year ended December 31, 2004 increased 26% to $51.9 million from $41.1 million for the year ended December 31, 2003 mainly due to the commencement of operations in Ukraine.

SIM card revenues for the year ended December 31, 2004 increased 16% to $28.3 million from $24.4 million for the year ended December 31, 2003.

Inteltek commenced its operations of fixed odds betting games in April 2004, pursuant to the agreement signed with Genclik ve Spor Genel Mudurlugu on October 2, 2003 and started to generate commission revenue from betting business. Commission revenue from betting business amounted to $20.3 million as of December 31, 2004.

***Direct cost of revenues***

Direct cost of revenues increased 24% to $2,001.2 million for the year ended December 31, 2004 from $1,613.2 million in 2003 mainly due to the increase in revenue-based costs such as ongoing license fees paid to the Turkish Treasury and additional legal provisions related to the disputes with Turk Telekom and the Turkish Treasury.

Ongoing license fees paid to the Turkish Treasury increased 54% to $739.0 million for the year ended December 31, 2004 from $480.7 million in 2003 due to accruals provided for settlement of disputes over license fees and other charges, the increase in revenues and the appreciation of TRY against US dollars. Interconnection costs increased 8% to $275.2 million for the year ended December 31, 2004 from $255.0 million in 2003.

Transmission costs, site costs, information technology and network maintenance expenses increased approximately 52% to $185.6 million for the year ended December 31, 2004 from $121.8 million in 2003 mainly due to the settlement related to the Turk Telekom infrastructure dispute, appreciation of TRY against US dollars and the reversal of an accrual in the second quarter of 2003 of $10.2 million. In accordance with the settlement agreement signed with Turk Telekom on infrastructure dispute, we recorded $60.3 million expense for the year ended December 31, 2004. In addition, uncapitalizable antenna site costs and expenses increased 46% to $134.2 million for the year ended December 31, 2004 from $91.7 million for the year of 2003, mainly due to the increase in radio network operations, the increase in rent expenses which resulted from the renewal of rent agreements, the increase in transmission lines' unit prices which are charged by Turk Telekom since July 2004 and appreciation of TRY against US dollars.

Roaming expenses increased 39% to $52.2 million for the year ended December 31, 2004 from $37.5 million in 2003, mainly due to the increase in roaming revenue generated from the calls made by our subscribers while outside Turkey, reflecting the better economic climate during 2004 and the fact that we added 68 new roaming operators.

Depreciation and amortization expenses increased slightly 1% to $424.2 million for the year ended December 31, 2004 from $421.5 million in 2003. The amortization expense for our GSM and other telecommunication licenses was $20.7 million for 2004 and $20 million for 2003.

Wages, salaries and personnel expenses for technical personnel increased 41% to $95.7 million for the year ended December 31, 2004 from $68.1 million in 2003, mainly due to increase in headcount, periodic increase in salaries and appreciation of TRY against US dollars.

The cost of SIM cards sold decreased 7% to $40.6 million for the year ended December 31, 2004 from $43.6 million in 2003.

Billing costs increased 13% to $27.1 million for the year ended December 31, 2004 from $24.0 million for the year ended December 31, 2003 mainly due to appreciation of TRY against US dollars and increase in postage fees.

As a percentage of revenue, direct cost of revenues was 63% for the year ended December 31, 2004 compared to 73% in 2003. The main reasons of this decrease are the additional accruals provided for settlement of disputes over license fees and other charges recorded in 2003, which were higher than the accruals recorded in 2004, related to the ongoing legal disputes with the Telecommunications Authority, Turk Telekom and the Turkish Treasury and the reversal of Milleni.com and national roaming disputes expense accrual in 2004 which were provided in the fourth quarter of 2003.

Gross profit increased to $1,199.6 million for the year ended December 31, 2004 from $606.0 million in 2003 mainly due to increase in communication fee, additional legal provisions provided in 2003, which were higher than the provisions recorded in 2004, and income accrual provided in 2004 related to the Milleni.com and national roaming disputes.

***General and administrative expenses***

General and administrative expenses remained almost the same in 2004, which was $137.3 million for the year ended December 31, 2004 compared to $137.2 million for the year ended December 31, 2003. Despite the increases in bad debt expenses, consultancy expenses, wages, salaries and personnel expenses, and expenses incurred related with the early extinguishment of Cellco debt and Iran GSM license in 2004, we had incurred $19.2 million expense related with the class action lawsuit and $18.1 million related with the early extinguishment of our 15% Senior Subordinated Notes in 2003.

Wages, salaries and personnel expenses for non-technical and non-marketing employees increased 64% to $38.1 million for the year ended December 31, 2004 from $23.2 million in 2003 mainly due to increase in headcount, periodic increase in salaries and appreciation of TRY against US dollars.

Consulting expenses increased 100% to $18.6 million for the year ended December 31, 2004 from $9.3 million in 2003 mainly due to the consultancy services related with the acquisition of DCC and consultancy services rendered by third parties for legal settlement issues.

Bad debt expenses increased 6% to $14.1 million for year ended December 31, 2004 from $13.3 million in 2003 mainly due to appreciation of TRY against US dollars. We provided an allowance of $133.9 and $135.9 million for doubtful receivables for the years ended December 31, 2004 and 2003, respectively, identified based upon past experience in our consolidated financial statements.

In the first quarter of 2004, we made a payment to BNP Paribas relating to the GSM license tender on behalf of the Irancell Consortium (the "Consortium"). 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 Authorities). In the first quarter of 2004, we paid such consultancy fees and charged $8.9 million to general and administrative expenses.

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

***Selling and marketing expenses***

Selling and marketing expenses increased 19% to $349.2 million for the year ended December 31, 2004 from $294.6 million in 2003, mainly due to increased sponsorships and appreciation of TRY against US dollars. As a percentage of revenues, selling and marketing expenses were 11% for the year ended December 31, 2004 compared to 13% in 2003. Total postpaid advertising, market research, product management, public relations and call center expenses increased 59% to $84.6 million for the year ended December 31, 2004 from $53.3 million in 2003 mainly due to the increased corporate and social sponsorships.

Total prepaid advertising, market research, product management, public relations expenses and prepaid subscribers' frequency usage fee expenses increased 2% to $159.8 million for the year ended December 31, 2004 from $157.4 million in 2003. Frequency usage fee expenses decreased 3% to $103.1 million for the year ended December 31, 2004 from $106.6 million in 2003. Although the number of prepaid subscribers and related frequency usage fees increased in 2004, the frequency usage fee expenses decreased in 2004 when compared to 2003 due to the fine charged to us by the Telecommunications Authority in 2003 amounting to $45.5 million. For more information related to these disputes, see "Item 8A. Consolidated Statements and Other Financial Information  Legal Proceedings."

Activation fees increased 19% to $32.5 million for the year ended December 31, 2004 from $27.3 million in 2003. Of the total dealer activation fees for the years ended December 31, 2004 and December 31, 2003, $21.9 million and $20.6 million were for prepaid activations, respectively.

Wages, salaries and personnel expenses for selling and marketing employees increased 24% to $37.8 million for the year ended December 31, 2004 from $30.4 million in 2003, mainly resulted from increase in headcount, periodic increase in salaries and appreciation of TRY against US dollars.

***Operating income***

Operating income increased 309% to $713.1 million for the year ended December 31, 2004 from $174.2 million in 2003, mainly due to increase in revenues accompanied with improved cost efficiency levels.

***Interest income (expense), net***

Net interest income was $31.3 million for the year ended December 31, 2004 compared to $366.3 net interest expense for the year ended December 31, 2003. The change between periods was mainly due to the effect of interest on certain legal accruals and settlements and principal payments of loans made during 2003 and 2004 amounting to $673.5 million and $93.4 million, respectively and increase in average time deposited cash balance. Interest expense related to legal provisions was $31.8 million for the year December 31, 2004 and $341.6 for the year ended December 31, 2003. In addition, interest expense on loans related to the principal payments decreased to $67.1 million for the year

December 31, 2004 from $112.5 million for the year ended December 31, 2003. For more detailed information related to these disputes see "Item 8A. Consolidated Statements and Other Financial Information Legal Proceedings."

***Equity in net income of unconsolidated investees***

Equity in net income of unconsolidated investees was $43.6 million for the year ended December 31, 2004 compared to $18.9 million for the year ended December 31, 2003. The increase in equity in net income of unconsolidated investees is due to an increase in Fintur's net income to $105.3 million for the year ended December 31, 2004 from $45.7 million for the year ended December 31, 2003.

***Translation loss***

Translation loss decreased significantly to $11.3 million for the year ended December 31, 2004, compared to $102.4 million in 2003. The decrease in translation loss experienced in 2004 stemmed from the 4% appreciation of the TRY against the US dollar compared to the 17% appreciation of the TRY against the US dollar in 2003. As we have recorded a significant amount of payables and accruals for legal disputes in our balance sheet, and nearly all of the accruals are in terms of TRY, the appreciation of TRY resulted in a translation loss in 2003.

***Income tax benefit (expense)***

Income tax expense was $281.4 million for the year ended December 31, 2004 compared to income tax benefit of $477.3 million for the year ended December 31, 2003. In 2004, the effective tax rate exceeded the statutory rate as a result of certain nondeductible translation losses, partially offset by investment tax credits. The payments in 2004 related to legal disputes are tax deductible in 2004. The Ministry of Finance confirmed that Turkcell's payments made to Turk Telekom and the Treasury, based on settlement agreements, are tax deductible whenever they are paid. Therefore, deferred tax assets declined based on the payments made in connection with the settlements and deducted from our corporate tax base in 2004. In 2003, a large tax benefit was recorded since management determined that it was more likely than not that certain deferred tax assets were realizable and released $539.0 million of valuation reserve. We believe that our performance over the last several years and certain political and economic developments provides us a better visibility about the near term future. As a result, our management's assessment of the realizability of the deferred tax asse