

TURKCELL ILETISIM HIZMETLERI A S

Form 20-F/A

November 08, 2006

As filed with the Securities and Exchange Commission on November 8, 2006

# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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## FORM 20-F/A

Amendment No. 1

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

For the Fiscal Year Ended December 31, 2005

Commission File Number: 1-15092

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## 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)

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

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

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Ordinary Shares, Nominal Value TRY 1.000

1,854,887,341

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

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

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** x **No** o

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

**Large Accelerated Filer** x

**Accelerated Filer** o

**Non-Accelerated Filer** o

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

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

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**Explanatory Note**

This amendment to our Form 20-F report for the year ended December 31, 2005 is solely to amend the audit report of PricewaterhouseCoopers Accountants N.V. to cover the consolidated statements of income and comprehensive income and of changes in shareholders' equity and cash flows for the year ended December 31, 2003 of Fintur Holdings B.V.

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**ITEM 18. FINANCIAL STATEMENTS**

The consolidated financial statements of Turkcell Iletisim Hizmetleri Anonim Sirketi and its subsidiaries as of December 31, 2004 and 2005, and for each of the years in the three-year period ended December 31, 2005, with the Independent Registered Public Accounting Firm's Report thereon, are filed as part of this annual report, as follows:

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**ITEM 19. EXHIBITS**

<b>EXHIBIT NUMBER</b>	<b>DESCRIPTION</b>
12.1	Certification of Serkan Okandan, Acting Principal Executive Officer, pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
12.2	Certification of Serkan Okandan, Chief Financial Officer of Turkcell Iletisim Hizmetleri A.S., pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
13.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002.

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**Report of Independent Registered Public Accounting Firm**

To the Board of Directors of  
Turkcell Iletisim Hizmetleri Anonim Sirketi

We have audited the accompanying consolidated balance sheets of Turkcell Iletisim Hizmetleri Anonim Sirketi and its subsidiaries (the Company ) as of December 31, 2004 and 2005, and the related consolidated statements of income, changes in shareholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2005. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the consolidated financial statements of Fintur Holdings B.V. ( Fintur ), a 41.45 percent owned investee company. The Company's investment in Fintur at December 31, 2004 and 2005 was \$175,141 thousand and \$243,579 thousand, respectively, and its equity in the net income of Fintur was \$18,927 thousand, \$43,646 thousand and \$67,599 thousand for the years ended December 31, 2003, 2004 and 2005, respectively. The consolidated financial statements of Fintur were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Fintur, is based solely on the report of the other auditors.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Turkcell Iletisim Hizmetleri Anonim Sirketi and its subsidiaries as of December 31, 2004 and 2005, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America.

/s/ KPMG CEVDET SUNER DENETIM VE YEMINLI MALI MUSAVIRLIK A.S.

KPMG Cevdet Suner Denetim ve  
Yeminli Mali Musavirlik A.S.

April 5, 2006  
Istanbul, Turkey

***Report of independent accountants***

To the Shareholders and Board of Directors of  
Fintur Holdings B.V.

We have audited the consolidated balance sheets of Fintur Holdings B.V. ( Fintur or the Company ) and its subsidiaries as at 31 December 2005 and 2004 and the related consolidated statements of income and comprehensive income, of changes in shareholders' equity and of cash flows for each of the years in the three-year period ended 31 December 2005. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits.

We conducted our audits of these consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Fintur and its subsidiaries as at 31 December 2005 and 2004 and the results of their operations and their cash flows for each of the years in the three-year period ended 31 December 2005 in conformity with accounting principles generally accepted in the United States of America.

Rotterdam, 6 February 2006

PricewaterhouseCoopers Accountants N.V.

/s/ drs. R.A.J. Swaak RA

drs. R.A.J. Swaak RA



**TURKCELL ILETISIM HIZMETLERI ANONIM SIRKETI  
AND ITS SUBSIDIARIES**
**CONSOLIDATED BALANCE SHEETS  
AT DECEMBER 31, 2004 AND 2005  
(In thousands, except share data)**

	2004	2005
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents (Note 6)	\$ 763,821	795,091
Available for sale securities (Notes 3 and 7)		12,948
Held to maturity securities (Notes 3 and 7)	45,329	10,191
Trade receivables and accrued income, net (Note 8)	271,792	324,611
Due from related parties (Notes 3 and 9)	103,948	67,327
Inventories (Note 3)	13,007	9,198
Prepaid expenses	23,685	38,029
Other current assets, includes \$110,166 and \$34,105 of restricted cash as of December 31, 2004 and 2005, respectively (Note 10)	325,741	106,453
Deferred tax assets (Notes 3 and 20)	277,589	192,731
Total current assets	1,824,912	1,556,579
DUE FROM RELATED PARTIES (Notes 3 and 11)	65,971	80,906
PREPAID EXPENSES	6,482	13,879
INVESTMENTS (Note 12)	197,760	266,198
HELD TO MATURITY SECURITIES (Notes 3 and 7)	10,266	
FIXED ASSETS, net (Notes 3 and 13)	1,061,268	1,224,543
CONSTRUCTION IN PROGRESS (Note 14)	230,191	389,375
INTANGIBLES, net (Notes 3 and 15)	881,511	871,362
GOODWILL (Note 3)	1,349	
OTHER LONG TERM ASSETS (Note 3)	1,624	2,440
DEFERRED TAX ASSETS (Notes 3 and 20)	80,163	306
	\$ 4,361,497	4,405,588
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Short term borrowings (Note 16)	\$ 549,079	564,503
Trade payables (Note 17)	616,816	137,775
Due to related parties (Notes 3 and 18)	6,711	5,774
Taxes payable (Note 20)	99,939	60,864
Other current liabilities and accrued expenses, includes \$111,718 and 123,613 of deferred income as of December 31, 004 and 2005, respectively (Note 19)	523,475	564,188
Total current liabilities	1,796,020	1,333,104
LONG TERM BORROWINGS (Note 21)	266,447	82,848
TRADE PAYABLES (Note 17)	213,740	
LONG TERM LEASE OBLIGATIONS	3,284	9
RETIREMENT PAY LIABILITY (Note 3)	12,875	16,707
DEFERRED TAX LIABILITIES (Notes 3 and 20)	11,757	185,297
MINORITY INTEREST (Note 3)	64,044	62,427
OTHER LONG TERM LIABILITIES	7,813	7,623
<b>SHAREHOLDERS EQUITY</b>		
Common stock		
Par value TRY 1; authorized, issued and outstanding 1,854,887,341 shares in 2004 and 2005 (Note 22)	636,116	636,116
Additional paid in capital	178	178
Legal reserves	42,501	92,414
Accumulated other comprehensive income (Note 3)	2,244	5,549
Retained earnings	1,304,478	1,983,316
Total shareholders equity	1,985,517	2,717,573
COMMITMENTS AND CONTINGENCIES (Note 27)	\$ 4,361,497	4,405,588

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



**TURKCELL ILETISIM HIZMETLERI ANONIM SIRKETI  
AND ITS SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2003, 2004 AND 2005  
(In thousands, except share data)**

	<b>2003</b>		<b>2004</b>		<b>2005</b>
Revenues (Notes 3 and 23)	\$ 2,219,237		3,200,765		4,268,492
Direct cost of revenues (Note 3)	(1,613,150	)	(2,001,223	)	(2,390,977
Gross profit	606,087		1,199,542		1,877,515
General and administrative expenses (Note 24)	(137,222	)	(137,315	)	(152,025
Selling and marketing expenses (Note 25)	(294,611	)	(349,249	)	(488,659
Operating income	174,254		712,978		1,236,831
Income from related parties, net (Note 26)	3,738		1,919		1,145
Interest income	117,240		152,751		138,918
Interest expense (Note 3)	(483,622	)	(121,500	)	(147,367
Other income, net	6,190		7,113		5,183
Equity in net income of unconsolidated investees (Notes 3 and 12)	18,927		43,646		67,599
Minority interest in income of consolidated subsidiaries (Note 3)	3,558		7,466		24,335
Translation loss (Note 3)	(102,403	)	(11,192	)	(8,320
Income (loss) before taxes	(262,118	)	793,181		1,318,324
Income tax benefit (expense) (Notes 3 and 20)	477,285		(281,360	)	(407,397
Net income	\$ 215,167		511,821		910,927
Basic and diluted earnings per common share (Notes 3 and 22)	\$ 0.116000		0.275931		0.491096
Weighted average number of common shares outstanding (Notes 3 and 22)	1,854,887,341		1,854,887,341		1,854,887,341

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

**TURKCELL ILETISIM HIZMETLERI ANONIM SIRKETI  
AND ITS SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2003, 2004 AND 2005  
(In thousands)**

	2003	2004	2005
<b>Operating Activities:</b>			
Net income	\$ 215,167	511,821	910,927
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	421,474	424,153	467,699
Provision for retirement pay liability	4,177	2,041	3,832
Provision for inventories	(595)	) 36	(605 )
Provision for doubtful receivables	9,243	(2,004 )	15,294
Accrued income	4,903	(34,093 )	26,848
Accrued expense	865,177	(993,082 )	(181,223 )
Equity in net income of unconsolidated investees	(18,927)	) (43,646 )	(67,599 )
Translation Adjustment			1,666
Minority interest in income of consolidated subsidiaries	687	62,789	(1,605 )
Deferred taxes	(539,063)	) 193,068	338,286
Changes in assets and liabilities:			
Trade receivables	(51,692)	) (20,580 )	(55,059 )
Due from related parties	(38,794)	) (42,683 )	21,686
Inventories	(2,414)	) (3,821 )	4,414
Prepaid expenses	(12,059)	) (1,791 )	(21,741 )
Other current assets	(37,178)	) (222,182 )	181,471
Taxes payable	68,734	31,205	(39,075 )
Other long term assets	(3,646)	) 3,845	(1,029 )
Due to related parties	2,037	2,126	(937 )
Trade payables	21,782	783,037	(692,780 )
Other current liabilities	134,439	(50,897 )	232,800
Other long term liabilities	(2,144)	) 4,581	(193 )
Net cash provided by operating activities	1,041,308	603,923	1,143,077
<b>Investing Activities:</b>			
Additions to fixed assets	(93,248)	) (309,225 )	(641,978 )
Additions to intangibles	(79,653)	) (177,463 )	(136,634 )
Purchases of investment securities held to maturity	(1,993)	) (55,595 )	
Proceeds from sale of investment securities held to maturity			45,404
Purchases of investment securities available for sale			(12,148 )
Investments in investees	(23,970)	)	
Net cash used for investing activities	(198,864)	) (542,283 )	(745,356 )
<b>Financing Activities:</b>			
Proceeds from issuance of long and short term debt	4,929	382,023	354,849
Payment on long and short term debt	(677,101)	) (172,035 )	(523,024 )
Net increase/(decrease) in debt issuance expenses	24,158	802	(1,872 )
Dividends paid		(78,072 )	(182,176 )
Payment on lease obligations	(11,334)	) (13,217 )	(14,228 )
Increase in lease obligations	5,513		
Net cash provided by (used for) financing activities	(653,835)	) 119,501	(366,451 )
Net increase in cash and cash equivalents	188,609	181,141	31,270
Cash and cash equivalents at the beginning of period	394,071	582,680	763,821
Cash and cash equivalents at the end of period	\$ 582,680	763,821	795,091
Supplemental cash flow information:			
Interest paid	\$ 132,691	67,124	82,587
Interest received	77,453	120,972	80,236
Income taxes paid		66,620	99,921
Non-cash investing activities			
Lease obligations	5,513	8,706	1,003

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



**TURKCELL ILETISIM HIZMETLERI ANONIM SIRKETI  
AND ITS SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY AND COMPREHENSIVE INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2003, 2004 AND 2005  
(In thousands, except share data)**

	Common stock Shares (Note 2)	Amount	Additional paid in capital	Advances for common stock	Legal reserves	Comprehensive Income	Retained Earnings	Accumulated other Comprehensive income/(loss)	Total shareholders equity
<b>Balances at January 1, 2003</b>	1,854,887,341	\$ 636,116	178	119	5		698,058	(4,017 )	1,330,459
Comprehensive income:									
Net income						215,167	215,167		215,167
Other comprehensive income:									
Translation adjustment						1,771		1,771	1,771
Comprehensive income						216,938			216,938
Other				(119 )					(119 )
<b>Balances at December 31, 2003</b>	1,854,887,341	\$ 636,116	178		5		913,225	(2,246 )	1,547,278
Comprehensive income:									
Net income						511,821	511,821		511,821
Other comprehensive income:									
Translation adjustment						4,490		4,490	4,490
Comprehensive income						516,311			516,311
Transfer to legal reserves					42,496		(42,496 )		
Dividend paid							(78,072 )		(78,072 )
<b>Balances at December 31, 2004</b>	1,854,887,341	\$ 636,116	178		42,501		1,304,478	2,244	1,985,517
Comprehensive income:									
Net income						910,927	910,927		910,927
Other comprehensive income:									
Translation adjustment						2,505		2,505	2,505
Net unrealized capital gain on available-for-sale securities						800		800	800
Comprehensive income						914,232			914,232
Transfer to legal reserves					49,913		(49,913 )		
Dividend paid							(182,176 )		(182,176 )
<b>Balances at December 31, 2005</b>	1,854,887,341	\$ 636,116	178		92,414		1,983,316	5,549	2,717,573

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

**Turkcell Iletisim Hizmetleri Anonim Sirketi  
and Its Subsidiaries**

**Notes to Consolidated Financial Statements**

**As of December 31, 2004 and 2005 and for the years ended December 31, 2003, 2004 and 2005**

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



**(1) Business**

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

In April 1998, Turkcell signed a license agreement (the License ) with the Ministry of Transportation and Communications of Turkey (the Turkish Ministry ), under which it was granted a 25 year GSM license in exchange for a license fee of \$500,000. The License permits Turkcell to operate as a stand-alone GSM operator and frees it from some of the operating constraints in the Revenue Sharing Agreement, which was in effect prior to the License. Under the License, Turkcell collects all of the revenue generated from the operations of its GSM network and pays the Undersecretariat of Treasury (the Turkish Treasury ) an ongoing license fee equal to 15% of its gross revenue from Turkish GSM operations. Turkcell continues to build and operate its GSM network and is authorized to, among other things, set its own tariffs within certain limits, charge peak and off-peak rates, offer a variety of service and pricing packages, issue invoices directly to subscribers, collect payments and deal directly with subscribers.

On June 25, 2005, the Turkish government declared that GSM operators are required to pay 10% of their existing monthly ongoing license fee to the Ministry of Transportation as a universal service fund contribution in accordance with law no 5369. As a result, starting from June 30, 2005, Turkcell pays the 90% of the ongoing license fee to the Turkish Treasury and 10% to the Ministry of Transportation as universal service fund.

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

Two significant founding shareholders, TeliaSonera AB and the Cukurova Group own approximately 37.1% and 27.1% as of December 31, 2005, respectively, of the Company s share capital, and are ultimate counterparties to a number of transactions that are discussed in the related party footnote. On November 28, 2005, upon completion of a series of transactions, Alfa Telecom Turkey Limited ( Alfa ), an affiliate of Alfa Telecom, one of Russia s leading private telecommunications investors, acquired 13.2% indirect ownership in Turkcell.

Turkcell owns a 41.45% interest in Fintur Holdings B.V. ( Fintur ), which holds the majority of the Company s international GSM investments, with majority ownership in GSM operations in Azerbaijan, Georgia, Kazakhstan and Moldova. Fintur is accounted for under the equity method.

The Company also owns 100% of Kibris Mobile Telekomunikasyon Limited Sirketi ( Kibris Telekom ), a company that operates GSM network in Northern Cyprus.

In December 2003, the Company invested \$50,000 in Digital Cellular Communications ( DCC ), a Ukrainian telecommunications company with several telecommunications licenses including a GSM 1800 license. In order to facilitate the investment in DCC, the Company created a new wholly-owned company named Euroasia Telecommunications Holding B.V. ( Euroasia ) in the Netherlands in February 2004, and capitalized it with cash contributions of \$50,000. The owners of DCC contributed 99% of the shares of DCC to Euroasia in exchange for a 49% interest in Euroasia in May 2004. DCC held a nationwide

**Turkcell Iletisim Hizmetleri Anonim Sirketi  
and Its Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**As of December 31, 2004 and 2005 and for the years ended December 31, 2003, 2004 and 2005  
(Amounts in thousands of US Dollar unless otherwise stated except share amounts)**

**(1) Business (Continued)**

GSM1800 license through its then 99% owned subsidiary, LLC Astelit ( Astelit ). On February 1, 2005, Astelit commenced its operations with its GSM 1800 technology. In addition, Astelit acquired the GSM 900 license on November 10, 2005 and Astelit has the right to use this license starting from January 1, 2006. The Company has a 54% interest in consolidated subsidiaries, Euroasia, DCC and Astelit as of December 31, 2005.

On April 4, 2006, Astelit announced the merger of DCC with Astelit in order to optimize the internal business processes of both companies. The decision for the merger of DCC with Astelit was approved during the Shareholders Meeting which took place on April 3, 2006 in Kiev.

Turkcell and Ericsson Telekomunikasyon AS ( Ericsson Turkey ) have established a company named East Asian Consortium BV ( Eastasia ), with a share capital of EUR 91,000, to invest in the Iranian GSM business. However, as of December 31, 2005, the Company has no operations in Iran. On February 22, 2006, Turkcell purchased Eastasia shares held by Ericsson Turkey and Turkcell ownership in Eastasia has increased to 100%.

In addition, as of December 31, 2005, the Company was involved in various activities, including call centers and database management, directory assistance, operating a central betting system, fixed line long distance call services and internet services through various consolidated subsidiaries: Global Bilgi Pazarlama Danisma ve Cagri Servisi Hizmetleri AS ( Global ), Corbuss Kurumsal Telekom Servis Hizmetleri AS ( Corbuss ), Turktell Bilisim Servisleri AS ( Turktell ), Hayat Boyu Egitim AS ( Hayat ), Iyi Eglenceler Eglence ve Turizm AS ( Iyi Eglenceler ), Interaktif Cocuk Programlari Yapimciligi ve Yayinciligi AS ( Digikids ), Mapco Internet ve Iletisim Hizmetleri Pazarlama AS ( Mapco ), Inteltek Internet Teknoloji Yatirim ve Danismanlik Ticaret AS ( Inteltek ), Libero Interaktif Hizmetler AS ( Libero ), Tellcom Iletisim Hizmetleri AS ( Tellcom ) (December 31, 2004: Bilisim Telekomunikasyon Hizmetleri AS ) and Turktell Uluslararası Yatirim Holding AS ( Turktell Uluslararası ). The subsidiaries are owned 100%, 99%, 100%, 100%, 100%, 60%, 100%, 55%, 55%, 100% and 100%, respectively, by Turkcell or its subsidiaries.

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

The Company maintains books of account and prepares statutory financial statements in local currencies and in accordance with local commercial practice and tax regulations applicable in each subsidiary's respective country of residence. The accompanying consolidated financial statements are based on these statutory records, with adjustments and reclassifications for the purpose of fair presentation in accordance with accounting principles generally accepted in the United States of America ( US GAAP ).

**Turkcell Iletisim Hizmetleri Anonim Sirketi  
and Its Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**As of December 31, 2004 and 2005 and for the years ended December 31, 2003, 2004 and 2005**

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

**(3) Summary of Significant Accounting Policies:**

Significant accounting policies followed in the preparation of the consolidated financial statements referred to above are set out below:

**(a) Revenue and expense recognition**

**Revenues:**

Communication fees include all types of postpaid revenues from incoming and outgoing calls, additional services and prepaid revenues. Communication fees are recognized at the time the services are rendered.

With respect to prepaid revenues, Turkcell generally collects cash in advance by selling scratch cards to distributors. In such cases, Turkcell does not recognize revenue until the subscribers use the telecommunications services.

Commission fees mainly comprised of net takings earned to a maximum of 12% of gross takings, as a head agent of fixed odds betting games and 4.3% commission recognized based on the para-mutual and fixed odds betting games operated on Central Betting System. Commission revenues are recognized at the time all the services related with the games are fully rendered. Under the head agency agreement, Inteltek is obliged to undertake any excess payout, which is presented on net basis with the commission fees.

Monthly fixed fees represent a fixed amount charged to postpaid subscribers on a monthly basis without regard to the level of usage. Fixed fees are recognized on a monthly basis when billed.

Subsequent to the acquisition of the License, simcard and prepaid simcard sales are recognized upon initial entry of a new subscriber into the GSM system only to the extent of direct costs. Excess simcard and prepaid simcard sales, if any, are deferred and amortized over the estimated effective subscriber life.

Call center revenues are recognized at the time the services are rendered.

**Expenses:**

Direct costs of revenues mainly include ongoing license fee and universal service fund, interconnection expenses, transmission fees, base station rents, billing costs, depreciation and amortization charges and technical, repair and maintenance expenses directly related to services rendered.

Direct cost of simcard and prepaid simcard sales include activation fees paid to dealers, certain subscriber acquisition costs, cost of simcard sales and simcard subsidies. Selling and marketing and general and administrative costs are charged to expenses as they are incurred.

**(b) Principles of consolidation**

As of December 31, 2005, the consolidated financial statements include the financial statements of Turkcell and sixteen majority owned subsidiaries (2004: seventeen) and of Cellco Finance N.V. ( Cellco ), consolidated under the guidance of FASB Interpretation No. 46 Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51 , as revised in December 2003 ( FIN 46 (R) ). The Company s

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**(3) Summary of Significant Accounting Policies: (Continued)**

investment in Fintur is accounted for under the equity method of accounting (Note 12). All significant intracompany balances and transactions have been eliminated in consolidation. Minority interest in net assets and net income of the consolidated subsidiaries are separately classified in the consolidated balance sheets and consolidated statements of income.

**(c) Principles of translation of the financial statements into US Dollar**

Turkcell and its subsidiaries record transactions in their local currencies, which represent their functional currency. Transactions denominated in foreign currencies are recorded at the exchange rates prevailing at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are converted into New Turkish Lira at the exchange rates ruling at balance sheet date, with the resulting exchange differences recognized in the determination of net income.

Financial statements of Turkcell, Kibris Telekom, Global, Corbuss, Turktell, Hayat, Iyi Eglenceler, Digikids, Mapco, Inteltek, Libero, Tellcom and Turktell Uluslararası 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 (2004: Turkcell, Kibris Telekom, Kibrisonline, Global, Corbuss, Turktell, Hayat, Iyi Eglenceler, Digikids, Mapco, Inteltek, Libero, Tellcom and Turktell Uluslararası). Accordingly, revenues, costs, capital and non-monetary assets and liabilities are translated at historical exchange rates while monetary assets and liabilities are translated at the exchange rates prevailing at balance sheet dates. All foreign exchange adjustments resulting from translation of the financial statements into US Dollar are included in the determination of net income, as translation loss .

On November 22, 2005, the American Institute of Certified Public Accountants ( AICPA ) US Securities and Exchange Commission ( SEC ) Regulations Committee's International Practices Task Force ( IPTF ) concluded that Turkey ceased to be a highly inflationary country starting from January 1, 2006. TRY will be treated as a more stable currency and the financial statements of Turkcell and those of its 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. This change in hyperinflationary status of Turkey will have effects on non-monetary assets and liabilities and income statement accounts. At this point, it is premature to its estimate its potential outcome.

The financial statements of majority owned subsidiaries DCC, Euroasia, Astelit and Eastasia, and equity investee, Fintur, have been translated into US Dollars in accordance with the relevant provisions of SFAS No. 52. All foreign exchange adjustments resulting from translation of the financial statements of DCC, Euroasia, Astelit, Eastasia and Fintur into US Dollar are included in a separate section of shareholder's equity titled Accumulated other comprehensive income .

**(d) Held to maturity and available for sale securities**

Held to maturity and available for sale securities at December 31, 2005, consist of government bonds and foreign investment equity funds. The Company classifies its marketable securities in one of the three

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**(3) Summary of Significant Accounting Policies: (Continued)**

categories: trading, available for sale, or held to maturity. Trading securities are bought and held principally for the purpose of selling them in the near term. Held-to-maturity securities are debt securities in which the Company has the positive intent and ability to hold the security until maturity. All securities not classified as either trading securities or held to maturity securities are classified as available for sale securities.

Trading and available-for-sale securities are recorded at their fair values. Held-to-maturity debt securities are recorded at amortized cost, adjusted for the amortization or accretion of premiums or discounts. Unrealized holding gains and losses on trading securities are included in the determination of net income. Unrealized holding gains and losses, net of the related tax effect, on available-for-sale securities are excluded from earnings and are reported as a separate component of other comprehensive income until realized. Realized gains and losses from the sale of available-for-sale securities are determined on a specific-identification basis.

Premiums and discounts are amortized or accreted over the life of the related held-to-maturity security as an adjustment to yield using the effective-interest method. Dividend and interest income are recognized when earned.

**(e) Fixed assets and intangibles**

Fixed assets and intangibles are stated at historical cost less accumulated depreciation and amortization. Leases of plant and equipment under which the Company assumes substantially all the risks and the rewards incidental to ownership are classified as finance leases. Other leases are classified as operating leases.

Finance leases are recognized in the balance sheet by recording an asset and liability equal to the present value of minimum lease payments at the inception of the lease. Capitalized finance leases are depreciated over the estimated useful life of the asset or the lease term where appropriate. Lease liabilities are reduced by repayments of principal, while the interest charge component of the lease payment is charged to statement of income. Depreciation and amortization is provided using straight-line method at rates established based on the estimated economic lives of the related assets. The annual rates used approximate the estimated economic lives of the related assets and are as follows:

Building	2.0% - 4.0%
Machinery and equipment	12.0% - 20.0%
Furniture, fixture and equipment	20.0% - 25.0%
Motor vehicles	20.0% - 25.0%
Leasehold improvements	20.0% - 36.0%
Intangibles	4.0% - 50.0%

Major renewals and betterments are capitalized and depreciated/amortized over the remaining useful lives of the related assets. Maintenance, repairs and minor renewals are expensed as incurred.

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**(3) Summary of Significant Accounting Policies: (Continued)**

When assets are otherwise disposed of, the costs and the related accumulated depreciation or amortization is removed from the accounts and resulting gain or loss is reflected in net income.

**(f) Inventories**

Inventories are stated at the lower of cost or market. Cost is determined using the weighted average method and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. At December 31, 2004 and 2005, inventories consisted of simcards and scratch cards (finished goods) totaling to \$13,007 and \$9,198, respectively.

**(g) 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. The Company's deferred tax assets and liabilities have been remeasured into US Dollar in accordance with the provisions of SFAS No. 109, Accounting for Income Taxes, and the transaction gains and losses that result from such remeasurement have been included within the translation loss in the consolidated financial statements.

**(h) Use of estimates**

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

**(i) Transactions with related parties**

For reporting purposes, investee companies and their shareholders, significant shareholders of Turkcell and subsidiaries and the companies that such shareholders have relationships with are considered to be related parties.

**(j) Impairment of long-lived assets**

In accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, long-lived assets, such as property, plant, and equipment, and purchased intangibles subject to amortization and cost method investments, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset

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**(3) Summary of Significant Accounting Policies: (Continued)**

exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale are presented separately in the appropriate asset and liability sections of the balance sheet.

**(k) Earnings per share**

In accordance with SFAS No. 128, *Earnings per Share*, basic earnings per share are computed by dividing net earnings by the weighted average number of common shares outstanding. Diluted earnings per share do not differ from basic earnings per share for all periods presented, as the Company has no common stock equivalents.

**(l) Comprehensive income**

Comprehensive income generally encompasses all changes in shareholders' equity (except those arising from transactions with owners) and includes net income, net unrealized capital gains or losses on available for sale securities and foreign currency translation adjustments. The Company's comprehensive income differs from net income applicable to common shareholders by the amount of the foreign currency translation adjustment and net unrealized capital gain on available for sale securities charged to comprehensive income for the period. Comprehensive income for the years ended December 31, 2003, 2004 and 2005 was \$216,938, \$516,311 and \$914,232, respectively.

**(m) Derivative instruments and hedging activities**

The Company accounts for derivatives and hedging activities in accordance with FASB Statement No. 133, *Accounting for Derivative Instruments and Certain Hedging Activities*, which requires that all derivative instruments be recorded on the balance sheet at their respective fair values.

The Company holds derivative financial instruments for both hedging and trading purposes and recognizes these derivative instruments as either assets or liabilities in the consolidated balance sheet and measures these instruments at fair value. As of December 31, 2005, the Company did not have any freestanding or embedded derivatives in material amounts. As of December 31, 2005, the Company entered into forward contracts amounting to \$56,000 to minimize currency risk.

**(n) Accounting for computer software**

The Company capitalizes only external costs incurred to obtain internal-use computer software from third parties, and external costs of specified upgrades and enhancements to internal-use computer software if it is probable that those expenditures will result in additional functionality.

**(o) Business combinations and goodwill and other intangible assets**

Goodwill represents the excess of costs over fair value of assets of businesses acquired. The Company adopted the provisions of SFAS No. 142, *Goodwill and Other Intangible Assets*, as of January 1, 2002. Pursuant to SFAS No. 142, goodwill and intangible assets acquired in a purchase business combination and

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**(3) Summary of Significant Accounting Policies: (Continued)**

determined to have an indefinite useful life are not amortized, but instead tested for impairment at least annually in accordance with the provisions of this statement. An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value. The impairment determination of goodwill is made at the reporting unit level and consists of two steps. First, the Company determines the fair value of the reporting unit and compares it to its carrying amount. If the carrying amount of the reporting unit exceeds its fair value, the second step of the goodwill impairment test is performed to measure the amount of impairment loss. An impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. SFAS No. 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 144 (Note 15). As of December 31, 2005, the Company provided impairment for its goodwill amounting to \$1,349 with respect to acquisition of the remaining 30% shares of Mapco in June 2003.

**(p) Retirement pay liability**

Under the terms of the existing labor law in Turkey, the Company is required to make lump-sum payments to employees who have completed one year of service and whose employment is terminated without cause, or who retire, are called up for military service or die. Such payments are calculated on the basis of 30 days' pay at the rate of pay applicable at the date of retirement or termination with a maximum payout of approximately \$1,300 per year of employment. The liability for this retirement pay obligation is recorded in the accompanying consolidated financial statements at its present value using an annual discount rate of 5.5%.

Turkcell initiated a defined contribution retirement plan for all eligible employees during 2005. The assets of the plan are held separately from the financials of Turkcell. Turkcell is required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Turkcell with respect to the retirement plan is to make the specified contributions. The cost of this program is being funded currently. Obligations for contributions to defined contribution plans are recognized as an expense in the statement of income as incurred. Turkcell incurred \$829 in relation to defined contribution retirement plan for the year ending December 31, 2005.

**(q) Deferred financing cost**

Certain financing costs associated with the borrowings of funds are deferred. \$5,289 of deferred financing costs are recorded in other current assets and \$3 in long-term assets at December 31, 2005 (2004: \$3,204 and \$217, respectively). These assets are amortized over the terms of the related borrowings as an adjustment to interest expense in the accompanying consolidated statements of income (Note 10).



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**(4) New Accounting Standards Issued**

In March 2005, the FASB issued FIN 47, *Accounting for Conditional Asset Retirement Obligations* an interpretation of SFAS No. 143 ( *FIN 47* ). FIN 47 clarifies the term conditional asset retirement obligation as used in SFAS No. 143, *Accounting for Asset Retirement Obligations* . An entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. The fair value of a liability for the conditional asset retirement obligation should be recognized when incurred generally upon acquisition, construction, or development and/or through the normal operation of the asset. FIN 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. FIN 47 is effective no later than the end of fiscal years ending after December 15, 2005. Retrospective application for interim financial information is permitted but is not required. The adoption of FIN 47 is not expected to have a material effect on the Company's consolidated financial statements.

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

On July 12, 2005, FASB staff issued FSP No. *Accounting Principles Board Opinions ( APB ) 18-1 Accounting by an Investor for Its Proportionate Share of Accumulated Other Comprehensive Income of an Investee Accounted for under the Equity Method in Accordance with APB Opinion No. 18 upon a Loss of Significant Influence* . The Board directed the FASB staff to issue this FSP to provide guidance on how an investor should account for its proportionate share of an investee's equity adjustments for other comprehensive income (OCI) upon a loss of significant influence. The Board believes that an investor's proportionate share of an investee's equity adjustments for OCI should be offset against the carrying value of the investment at the time significant influence is lost. To the extent that the offset results in a carrying value of the investment that is less than zero, an investor should (a) reduce the carrying value of the investment to zero and (b) record the remaining balance in income. The guidance in this FSP is effective as of the first reporting period beginning after July 12, 2005. The adoption of this FSP is not expected to have a material effect on the Company's financial statements.

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**(5) Fair Value of Financial Instruments:**

The Company's financial instruments consist of cash and cash equivalents, available for sale securities, held to maturity securities, trade receivables and accrued income, due from related parties, other current assets, other long term assets, investments, short and long term borrowings, trade payables, due to related parties, other current liabilities and accrued expenses and other long term liabilities.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

*(a) Cash and cash equivalents*

The carrying amounts approximate fair value because of the short maturity of those instruments.

*(b) Available for sale securities*

The fair values of foreign investment equity funds and government bonds classified as available for sale securities are based on both quoted market and over the counter market prices at December 31, 2005.

*(c) Held to maturity securities*

The fair values of government bonds classified as held-to-maturity investments are based on quoted market prices at December 31, 2005.

*(d) Trade receivable, accrued income and due from related parties*

The carrying amount approximates fair value because of the short maturity of those financial assets.

*(e) Other current assets*

The carrying amount approximates fair value because of the short maturity of those financial assets. Forward contracts are presented under other current assets and current market pricing models are used to estimate their fair values.

*(f) Trade payables and due to related parties*

The carrying amount approximates fair value because of the short maturity of those financial liabilities.

*(g) Short and long term borrowings*

(i) Cellco: As of December 31, 2004, the estimation of fair value is based on quoted market prices. This facility was fully repaid on August 1, 2005.

(ii) Borrowings from Akbank, Garanti, Murabaha Syndicated facility, West LB, ABN Amro NV and Ericsson Credit AB: The carrying amount approximates fair value because the interest rate varies based on the London, Euro or TRY interbank offered rates.



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**(5) Fair Value of Financial Instruments: (Continued)**

(iii) Other short term bank loans and overdrafts: The carrying amount approximates fair value because of the short term maturity of those instruments.

The estimated fair values of the Company's financial instruments at December 31, 2004 and 2005 are as follows:

	December 31, 2004		December 31, 2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial assets</b>				
Cash and cash equivalents	\$ 763,821	763,821	795,091	795,091
Available for sale securities			12,948	12,948
Held to maturity securities	45,329	46,129	10,191	10,763
Trade receivables and accrued income	271,792	271,792	324,611	324,611
Due from related parties	103,948	103,948	67,327	67,327
Other current assets	164,750	164,750	70,942	70,942
Due from related parties-long term	65,971	65,971	80,906	80,906
Held to maturity securities-long term	10,266	10,696		
Other long term assets	1,172	1,172	2,440	2,440
<b>Financial liabilities</b>				
Short term borrowings				
Current portion of long term borrowings	548,356	562,593	457,355	457,355
Other short term bank loans and overdrafts	723	723	107,148	107,148
Trade payables	616,816	616,816	137,775	137,775
Due to related parties	6,711	6,711	5,774	5,774
Long term borrowings	266,447	266,447	82,848	82,848
Long term trade payables	213,740	213,740		

**(6) Cash and Cash Equivalents**

Cash and cash equivalents of \$763,821 and \$795,091 at December 31, 2004 and 2005, respectively, consist of cash on hand, overnight repurchase agreements, demand deposits at banks and time deposits at banks.

At December 31, 2005, cash and cash equivalents amounting to \$23,662 (2004: \$408,984 of which \$361,348 from Yapi Kredi Bankasi AS ( Yapi Kredi )) were deposited in the banks, which are owned and/or controlled by Cukurova Group, a significant shareholder of the Company. Since Cukurova Group transferred its shares in Yapi Kredi to Koc Group on October 28, 2005, Yapi Kredi is not a related party as of December 31, 2005.

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**(7) Available for Sale and Held to Maturity Securities**

The amortized cost, gross unrealized holding gains and fair value of available for sale and held to maturity debt securities by major security type and class of security at December 31, 2005 and 2004 were as follows:

	Amortized Cost	Gross Unrealized Holding Gains	Fair Value
At December 31, 2005			
<b>Debt securities</b>			
Available for sale securities:			
Government bonds	\$ 1,306	28	1,261
	1,306	28	1,261
Held to maturity securities:			
Government bonds	\$ 10,191	572	10,763
	10,191	572	10,763
<b>Equity securities</b>			
Available for sale securities:			
Foreign investment equity funds	\$ *	772	11,687
		772	11,687
At December 31, 2004			
<b>Debt securities</b>			
Held to maturity:			
Government bonds	\$ 55,595	1,230	56,825
	55,595	1,230	56,825

\* Amortized cost is not available for foreign investment equity funds as of December 31, 2005. This equity security is recorded at fair value and unrealized capital gains amounting to \$772 with respect to this security is recorded at other comprehensive income for the period.

The Company have not realized any gains or losses on available for sale securities for the years ended December 31, 2003, 2004 and 2005.

Maturities of debt securities classified as available-for-sale and held-to-maturity are due after one year through five years as of December 31, 2005.

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**(8) Trade Receivables and Accrued Income, net**

At December 31, 2004 and 2005, the breakdown of trade receivables and accrued income is as follows:

	<b>December 31, 2004</b>	<b>December 31, 2005</b>
Receivables from subscribers	\$ 258,560	294,418
Accounts and checks receivable	77,027	79,709
Receivables from Turk Telekom	335,587	16,518
	70,120	390,645
Accrued service income	70,120	83,175
Allowance for doubtful receivables	(133,915 )	(149,209 )
	\$ 271,792	324,611

Receivables from Turk Telekom as of December 31, 2005 represent net amounts that are due from Turk Telekom under the Interconnection Agreement (Note 27). The Interconnection Agreement provides that Turk Telekom will pay Turkcell for Turk Telekom's fixed-line subscribers calls to GSM subscribers. As of December 31, 2004, Turkcell has net payables to Turk Telekom due to the settlement agreement signed between Turkcell and Turk Telekom with respect to interconnection and infrastructure usage dispute.

The accrued service income represents revenues accrued for subscriber calls (air-time), which have not been billed. Due to the volume of subscribers, there are different billing cycles; accordingly, an accrual is made at each period end to accrue revenues for services rendered but not yet billed.

Letter of guarantees received with respect to the accounts and cheques receivable are amounting to \$46,838 and \$48,066 as of December 31, 2004 and 2005, respectively.

Movements in the allowance for doubtful receivables are as follows:

	<b>December 31, 2004</b>	<b>December 31, 2005</b>
Beginning balance	\$ 135,920	133,915
Provision for doubtful receivables	14,572	24,379
Write offs	(22,890 )	(9,122 )
Effect of change in exchange rate	6,313	37
Ending balance	\$ 133,915	149,209

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**(9) Due from Related Parties**

As of December 31, 2004 and 2005, the balance comprised:

	<b>December 31, 2004</b>	<b>December 31, 2005</b>
KVK Teknoloji Urunleri AS ( KVK Teknoloji )	\$ 37,019	31,128
Digital Platform Iletisim Hizmetleri AS ( Digital Platform )	8,995	10,316
ADD Production Medya AS ( ADD )	5,724	7,066
A-Tel Pazarlama ve Servis Hizmetleri AS ( A-Tel )	24,549	7,055
Baytur Insaat Taahhut AS ( Baytur )		5,892
Parman Ertabat	20,982	
Other	6,679	5,870
	<b>\$ 103,948</b>	<b>67,327</b>

Substantially all of the significant due from related party balances are from Cukurova Group companies.

Due from KVK Teknoloji, a company whose majority shares are owned by Cukurova Group, mainly resulted from simcard and prepaid card sales to this company (Note 26).

Due from Digital Platform, a company whose majority shares are owned by Cukurova Group, mainly resulted from receivables from call center revenues, financial support for borrowing repayments and advances given for current and planned sponsorships (Notes 11 and 26).

Due from ADD, a company whose majority shares are owned by Cukurova Group, mainly resulted from balances paid in advance in order to benefit from the expertise and bargaining power of ADD with third parties in media purchasing (Note 26).

Due from A-Tel, a 50-50 joint venture of Yapi Kredi and Savings Deposit Insurance Fund ( SDIF ), mainly resulted from simcard and prepaid card sales to this company. On September 28, 2005, Cukurova Group transferred its Yapi Kredi shares to Koc Group following which A-Tel ceased to be considered a related party (Note 26).

Due from Baytur, a company whose majority shares are owned by Cukurova Group, mainly resulted from advances given to Baytur for the construction of a residence project (Note 26).

Due from Parman Ertabat, a co-investor in Irancell, resulted from the payment of capital contribution by Turkcell to Irancell s share capital on behalf of Parman Ertabat. This receivable was collected in March 2005.

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**(10) Other Current Assets**

At December 31, 2004 and 2005, the balance comprised:

	<b>December 31, 2004</b>	<b>December 31, 2005</b>
Restricted cash	\$ 110,166	34,105
Value added tax ( VAT ) receivable	149,777	28,165
Interest income accrual	1,142	13,392
Advances to suppliers	3,381	7,571
Deferred financing costs	3,204	5,289
Prepaid taxes	273	3,562
Promotional materials	2,932	2,465
Receivable from personnel	2,295	1,930
Expenses to be invoiced for Iran GSM tender	6,578	
Telecommunications Authority income accrual (Note 19)	39,903	
Other	6,090	9,974
	<b>\$ 325,741</b>	<b>106,453</b>

As of December 31, 2004, restricted cash represented the capital contribution for Irancell deposited in an escrow account in Iran. This cash was released to Turkcell and paid back in March 2005. As of December 31, 2005 restricted cash represents amounts deposited at banks as guarantees in connection with Euroasia Shareholders Loan and Murabaha Syndicated Facility. \$30,605 of the total amount was released on January 5, 2006 and the remaining restricted cash will be released on August 29, 2006.

As of December 31, 2004, in accordance with the settlement agreements signed with Turk Telekom regarding infrastructure and interconnection disputes, Turk Telekom issued invoices amounting to TRY 1,946,601 (equivalent to \$1,450,739 at December 31, 2005). Turkcell had the right to deduct VAT charged to Turkcell on Turk Telekom invoices from its VAT payable amount. VAT receivable represents the net balance of VAT on such invoices and VAT receivables and payables arising in the ordinary course of business. As of December 31, 2005, the amount represents the VAT receivable of consolidated subsidiaries, mainly Astelit.



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**(11) Due from Related Parties Long Term**

	<b>December 31, 2004</b>	<b>December 31, 2005</b>
Digital Platform	\$ 64,199	78,275
Other	1,772	2,631
	<b>\$ 65,971</b>	<b>80,906</b>

On December 23, 2005, a Restructuring Framework Agreement was signed between Digital Platform and Turkcell. The agreement includes the restructuring of Turkcell's receivables from Digital Platform amounting to \$88,591 as of December 31, 2005 in exchange for sponsorship and the advertisement services that Turkcell will receive on Digital Platform's infrastructure. Under the agreement, Digital Platform commits to pay amounts due to Turkcell through July 15, 2011 along with the interest in cash and advertisement services. \$88,591 represents present value of future cash flows and services discounted using imputed interest rate. As of December 31, 2005, \$78,275 of the balance is classified as long term due from related parties in accordance with the revised repayment schedule.

**(12) Investments**

At December 31, 2004 and 2005, investments in associated companies were as follows:

	<b>December 31, 2004</b>	<b>December 31, 2005</b>
Fintur	\$ 175,141	243,579
Aks Televizyon Reklamcilik ve Filmcilik Sanayi ve Ticaret AS ( Aks TV )	15,750	15,750
T Medya Yatirim Sanayi ve Ticaret AS ( T Medya )	6,869	6,869
	<b>\$ 197,760</b>	<b>266,198</b>

At December 31, 2004 and 2005, the Company's ownership interest in Fintur is 41.45%. Fintur is accounted for under the equity method.

In 2003, the Company acquired a 6.24% interest in Aks TV and a 8.23% interest in T-Medya (2004: Basin Yatirim Sanayi ve Ticaret AS ( Basin Yatirim )), media companies owned by the Cukurova Group. On June 24, 2005, at T Medya's General Assembly Meeting, it has been decided to increase the share capital of T Medya. However, the Company did not participate in the capital contribution; accordingly the ownership of the Company in T Medya decreased to 5.91%. Subsequent to the first share capital increase, the Company decided to participate in the second share capital increase and on January 2, 2006, the Company paid TRY 2,700 (equivalent to \$2,012 at December 31, 2005) in cash as capital contribution to T Medya and the Company's ownership interest in T Medya increased to 8.23%.

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**(12) Investments (Continued)**

Aggregate summarized information of Fintur as of December 31, 2004 and December 31, 2005 and for the years ended December 31, 2003, 2004 and 2005 is as follows:

	<b>December 31, 2004</b>	<b>December 31, 2005</b>
Current assets	\$ 146,258	250,718
Non-current assets	652,447	858,209
	<b>\$ 798,705</b>	<b>1,108,927</b>
Current liabilities	\$ 237,064	261,384
Non-current liabilities	256,029	376,799
Shareholders' equity	305,612	470,744
	<b>\$ 798,705</b>	<b>1,108,927</b>

	<b>Year ended December 31, 2003</b>	<b>Year ended December 31, 2004</b>	<b>Year ended December 31, 2005</b>
Revenues	\$ 339,150	556,902	853,571
Direct cost of revenues	(163,834 )	(234,401 )	(352,628 )
Income before taxes	58,738	138,276	213,439
Net income	45,662	105,297	163,085

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**(13) Fixed Assets, net**

As of December 31, 2004 and 2005, the analysis of fixed assets is as follows:

	Useful Lives	December 31 2004	December 31, 2005
<b>Operational fixed assets:</b>			
Base terminal stations	8 years	\$ 1,014,085	1,197,797
Mobile switching center/Base station controller	8 years	869,981	906,119
Minilinks	8 years	219,739	365,665
Supplementary system	8 years	37,440	42,610
GSM services equipment	8 years	91,575	97,583
Betting equipment	7-8 years	14,458	14,636
Call center equipment	5 years	12,110	22,677
Other	5-8 years		4,147
		2,259,388	2,651,234
Accumulated depreciation		(1,361,927 )	(1,598,146 )
Operational fixed assets, net		897,461	1,053,088
<b>Non-operational fixed assets:</b>			
Land		899	677
Buildings	25-50 years	179,226	182,736
Furniture, fixture and equipment	4-5 years	165,301	180,483
Motor vehicles	4-5 years	8,710	9,905
Leasehold improvements	3-5 years	52,448	58,428
		406,584	432,229
Accumulated depreciation		(242,777 )	(260,774 )
Non-operational fixed assets, net		163,807	171,455
		\$ 1,061,268	1,224,543

At December 31, 2004 and 2005, total fixed assets acquired under finance leases amounted to \$81,497 and \$82,465, respectively. Depreciation of these assets under finance leases amounted to \$3,678, \$4,167 and \$4,570 for the years ended December 31, 2003, 2004 and 2005, respectively, and is included in depreciation expense.

Depreciation expenses for the years ended December 31, 2003, 2004 and 2005 are \$309,425, \$304,233 and \$324,478, respectively.

As of December 31, 2005, fixed assets of the Company amounting to \$18,744 are pledged as collateral to the banks that have loans to the Company.

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**(14) Construction in Progress**

At December 31, 2004 and 2005, construction in progress consisted of expenditures in GSM and non-operational items and is as follows:

	<b>December 31, 2004</b>	<b>December 31, 2005</b>
Turkcell-GSM network	\$ 138,303	319,802
Astelit-GSM network	67,077	43,589
Turkcell-Other projects	6,915	13,821
Non-operational items	9,239	10,070
Kibris Telekom-GSM network	451	2,093
Other	8,206	
	<b>\$ 230,191</b>	<b>389,375</b>

**(15) Intangibles, net**

As of December 31, 2004 and 2005, intangibles consisted of the following:

	<b>Useful Lives</b>	<b>December 31, 2004</b>	<b>December 31, 2005</b>
Computer software	3-8 years	\$ 860,253	980,864
GSM and other telecommunications licenses	4-25 years	572,181	582,483
Transmission lines	10 years	19,531	19,891
Central betting system operating right	4-5 years	2,641	2,912
Customer base	2 years	1,132	1,193
		1,455,738	1,587,343
Accumulated amortization		(574,227 )	(715,981 )
		<b>\$ 881,511</b>	<b>871,362</b>

As of December 31, 2004 and 2005, amortized intangible assets and related amortization are as follows:

	<b>December 31, 2005 Gross carrying Amount</b>	<b>Accumulated Amortization</b>
Computer software	\$ 980,864	535,492
GSM and other telecommunications licenses	582,483	167,523
Transmission lines	19,891	10,735
Central betting system operating rights	2,912	1,229
Customer base	1,193	1,002
	<b>\$ 1,587,343</b>	<b>715,981</b>

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**(15) Intangibles, net (Continued)**

	<b>December 31, 2004</b>	<b>Accumulated</b>
	<b>Gross carrying</b>	<b>Amortization</b>
	<b>Amount</b>	
Computer software	\$ 860,253	431,242
GSM and other telecommunications licenses	572,181	133,879
Transmission lines	19,531	8,291
Central betting system operating rights	2,641	463
Customer base	1,132	352
	\$ 1,455,738	574,227

**Aggregate amortization expense**

Aggregate amortization expense for the years ended December 31, 2003, 2004 and 2005 are \$112,049, \$119,920 and \$143,221, respectively.

**Estimated amortization expense**

For the year ended December 31, 2006	\$ 150,730
For the year ended December 31, 2007	140,874
For the year ended December 31, 2008	100,206
For the year ended December 31, 2009	63,087
For the year ended December 31, 2010	\$ 47,278

**(16) Short Term Borrowings**

At December 31, 2004 and 2005, short-term borrowings comprised the following:

	<b>December 31,</b>	<b>December 31,</b>
	<b>2004</b>	<b>2005</b>
Current portion of long term borrowings (Note 21)	\$ 548,356	457,355
Other short term bank loans and overdrafts	723	107,148
	\$ 549,079	564,503

Short term bank loans of Euroasia amounting to \$103,638 as of December 31, 2005 have been fully repaid as of January 24, 2006.

**(17) Trade Payables**

As of December 31, 2004, trade payable balance mainly consists of payables to Turk Telekom regarding the settlements signed on December 24, 2004 with respect to the disputes on Turk Telekom interconnection fee and Turk Telekom infrastructure usage totaling to \$490,256 and \$32,649, respectively. As per the settlement agreement signed with respect to the dispute on Turk Telekom interconnection fee, Turkcell has used the early payment option at the settlement agreement and fully repaid the outstanding balance amounting to \$213,787 on December 30, 2005, which would mature in 2006. As a result of this



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**(17) Trade Payables (Continued)**

payment, as of December 31, 2005, Turkcell does not have any payable to Turk Telekom related to settlement agreements.

The Company has payables to Ericsson Turkey, Ericsson Radio Systems AB ( Ericsson Sweden ) and Ericsson AB arising from fixed asset purchases, site preparation and other services amounting to \$37,142 (December 31, 2004: \$15,138). Balances due to other suppliers arising in the ordinary course of business are amounting to \$100,633 (December 31, 2004: \$78,773).

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

Turkcell also entered into a GSM service agreement with Ericsson Sweden under which Ericsson Sweden supplies Turkcell with the following system services: trouble report handling service, hardware service, consultation service and emergency service. This agreement expired on December 31, 1998 but contains successive one-year automatic renewals up until December 31, 2005 unless terminated by either party in writing no later than nine months prior to the expiration of the then current term. This clause of the agreement is valid until December 31, 2005. Turkcell and Ericsson Sweden have signed a supplementary agreement which came into effect on January 1, 2005 and extended the agreement until December 31, 2006.

**(18) Due to Related Parties**

As of December 31, 2004 and 2005, due to related parties comprised:

	December 31, 2004	December 31, 2005
Hobim Bilgi Islem Hizmetleri AS ( Hobim )	\$ 1,908	2,127
Telia Sonera International Carrier AB ( Telia Sonera )		1,326
Betting Organization Operation and Promotion Company SA ( Betting SA )	413	1,266
Baytur Insaat Taahhut A.S ( Baytur )	2,629	
Other	1,761	1,055
	\$ 6,711	5,774

Due to Hobim, a company whose majority shares are owned by Cukurova Group, resulted from the invoice printing services rendered by this company (Note 26).

Due to Telia Sonera which is one of the shareholders of the Company resulted from services terminated in the network of Telia Sonera.

Due to Betting SA whose majority shares are owned by one of the shareholders of Inteltek resulted from the consultancy services received for the operations of Inteltek (Note 26).

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**(19) Other Current Liabilities and Accrued Expenses**

At December 31, 2004 and 2005, the balance comprised:

	December 31, 2004	December 31, 2005
Taxes and withholdings	\$ 26,246	170,613
Deferred income	111,718	123,613
License fee accrual the Turkish Treasury and Ministry of Transportation (Notes 1 and 27)	246,857	109,764
Selling and marketing expense accruals	26,941	31,078
Personnel bonus accrual	15,752	18,458
Transmission fee accrual	10,037	16,729
Interconnection accrual	564	14,886
Telecommunications Authority share accrual	11,242	12,968
Roaming expense accrual	5,908	12,580
Accrued interest on borrowings	25,043	8,352
Payout payables to fixed odds betting players	1,745	7,596
Lease obligations short term portion	13,797	2,896
Other expense accruals	27,625	34,655
	\$ 523,475	564,188

Taxes and withholdings include VAT payable, special communications tax, frequency usage fees payable to Telecommunications Authority and personnel income taxes.

Deferred income mainly results from the counters sold but not used by prepaid subscribers as of December 31, 2004 and 2005.

In accordance with the license agreement, Turkcell pays 90% of the ongoing license fee, which equals to the 15% of its gross revenue, to the Turkish Treasury and 10% as universal service fund to the Ministry of Transportation (Note 1 and 27).

**(20) Taxes on Income**

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

	Year Ended December 31,		
	2003	2004	2005
Current tax charge	\$ (61,045 )	(94,296 )	(69,707 )
Deferred tax benefit (expense)	538,330	(187,064 )	(337,690 )
Income tax benefit (expense)	\$ 477,285	(281,360 )	(407,397 )

Income tax benefit (expense) attributable to income from continuing operations was \$477,285, \$(281,360) and \$(407,397) for the years ended December 31, 2003, 2004 and 2005, respectively. These



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**(20) Taxes on Income (Continued)**

amounts are different from the amount computed by applying the Turkish income tax rate of 30% (2004: 33% and 2003: 30%) to pretax income from continuing operations as a result of the following:

	Year Ended December 31,		
	2003	2004	2005
Computed expected tax benefit (expense)	77,387	(263,398 )	(400,332 )
Non taxable translation loss	(147,542 )	(75,214 )	(58,570 )
Investment tax credit	62,949	42,532	61,560
Change in valuation allowance	441,159	(6,338 )	217
Effect of change in tax laws	22,782	5,207	
Disallowed financial expenses	(8,577 )		
Nondeductible items	(18,693 )	(8,066 )	(12,788 )
Nontaxable items	38,477	21,898	
Other	9,343	2,019	2,516
Income tax benefit (expense)	477,285	(281,360 )	(407,397 )

For the years ended December 31, 2003 and 2004 substantially all income from continuing operations and related tax benefit (expense) was domestic. For the year ended December 31, 2005, substantially all income other than Euroasia's income (loss) from continuing operations and related tax benefit (expense) was domestic. For the year ended December 31, 2005, Euroasia (established in Netherlands and has operations in Ukraine) has loss from continuing operations amounting to \$108,827 and related tax benefit of \$8,395.

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**(20) Taxes on Income (Continued)**

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at December 31, 2004 and December 31, 2005 are presented below:

	December 31, 2004	December 31, 2005
<b>Deferred tax assets:</b>		
Accrued expenses	\$ 336,491	76,418
Other, principally accounts and other receivables (principally due to allowance for doubtful accounts)	20,562	17,805
Net operating loss carry forwards	21,086	29,368
Tax credit carry forwards (Investment tax credit)	313,120	294,301
Gross deferred tax assets	691,259	417,892
Less: Valuation allowances	(17,177 )	(16,960 )
Deferred tax assets	674,082	400,932
<b>Deferred tax liabilities:</b>		
Fixed assets and intangibles, principally due to financial leases, differences in depreciation and amortization, and capitalization of interest and foreign exchange loss for tax purposes	(325,884 )	(366,231 )
Investment	(2,203 )	(26,961 )
Total deferred tax liabilities	(328,087 )	(393,192 )
Net deferred tax assets	\$ 345,995	7,740

At December 31, 2005, net operating loss carry forwards are as follows:

Year	Amount	Expiration Date
2001	\$ 1,711	2006
2002	1,435	2007
2003	9,677	2008
2004	35,287	2009
2005	64,102	2010 thereafter

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 of TRY denominated fixed assets and intangibles into the US Dollar.

The Turkish Treasury approved investment incentive certificates for a program of capital expenditures by Turkcell and its subsidiaries in GSM and call center operations. Such incentives entitle the Company to a 100% exemption from customs duty on imported machinery and equipment and an investment tax

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**(20) Taxes on Income (Continued)**

benefit of 100% on qualifying expenditures. The investment tax benefit takes the form of deductions for corporation tax purposes, but such deductions are subject to withholding tax at the rate of 19.8% (for expenditures made after April 24, 2003, the investment tax benefit equals 40% of qualifying expenditures but it is not subject to any withholding tax). As of December 31, 2005, investment incentive certificates provide for tax benefits on cumulative purchases of up to approximately \$4,460,633 (December 31, 2004: \$4,459,855) in qualifying expenditures, as defined in the certificates. As of December 31, 2005, the Company had incurred cumulative qualifying expenditures of approximately \$2,874,780 (December 31, 2004: \$3,064,469), resulting in tax credit carryforwards under the certificates of approximately \$294,301 (December 31, 2004: \$313,120) which can be carried forward indefinitely. Approximately \$505,203 of qualifying expenditures through December 31, 2005 (December 31, 2004: \$677,433) under such certificates are indexed against future inflation.

The Company establishes valuation allowances in accordance with the provisions of SFAS No. 109. The Company continually reviews the adequacy of the valuation allowance based on changing conditions in the market place in which the Company operates and its projections of future taxable income, among other factors. The Company forecasts taxable income in 2006 and onwards and has generated taxable income for several 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 the European Union. On October 3, 2005, the member states of European Union decided to start membership discussions with Turkey, a decision that 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 were signed in the fourth quarter of 2004. Management believes that these developments provide management a better visibility about the near term future. As a result, as of December 31, 2005, management concluded that it was more likely than not that the deferred tax assets of \$7,740 were realizable. Turkish tax legislation does not allow companies to file tax returns on a consolidated basis. Therefore, management believes a valuation allowance should continue to be provided on a portion of the deferred tax assets, resulting from certain consolidated subsidiaries where the likelihood of realizing these deferred tax assets is not more likely than not. Accordingly, a valuation allowance of approximately \$16,960 is recorded as of December 31, 2005 (December 31, 2004: \$17,177) for such amounts. For balance sheet presentation purposes, the valuation allowance at December 31, 2004 and December 31, 2005 has been allocated between current and non-current deferred tax assets on a pro-rata basis in accordance with the provisions of SFAS No. 109. Management believes that it is more likely than not the net deferred tax asset of approximately \$7,740 as of December 31, 2005, will be realized through reversal of taxable temporary differences as well as future taxable income exclusive of reversing taxable temporary differences. The Company will continue to evaluate the realizability of its deferred tax assets including net operating loss and tax credit carryforwards and the related impact on the valuation allowance.

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**(20) Taxes on Income (Continued)**

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

Further, in accordance with the Law No. 5024, effective from January 1, 2004, taxable income is determined based on the financial statements restated for the effects of inflation if the cumulative three-year inflation rate exceeds 100% and annual inflation rate in the current period exceeds 10%. Accordingly, taxable income for the period ended December 31, 2004 has been determined based on such restated financial statements. However, on April 19, 2005, the Ministry of Finance declared that since the cumulative three-year inflation rate does not exceed 100% and the annual inflation rate in the current period does not exceed 10%, financial statements as of and for the three month period ended March 31, 2005 would not be subject to the restatement for the determination of taxable income. Financial statements as of December 31, 2005 are not subject to the restatement for the determination of taxable income. It is not certain yet that whether financial statements for the year 2006 will be restated for the determination of taxable income or not. The change in tax law is not expected to have a material impact on future taxable income.

The corporation tax rate is 30% for the fiscal year ended December 31, 2005. However, the Prime Minister of Turkey has announced in December 2005 that the corporation tax rate will be reduced to 20% starting from January 1, 2006. The issue is still being debated by the government as of April 13, 2006 and as no change in tax rate has been enacted by December 31, 2005, the current tax rate of 30% has been consistently used.

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**(21) Long Term Borrowings**

At December 31, 2004 and 2005, long-term borrowings comprised:

	<b>Interest rate (%)</b>	<b>Contractual maturity</b>	<b>December 31, 2004</b>	<b>December 31, 2005</b>
ABN Amro NV-1	Euribor + 2.80% - 7.00%	January 2006	\$ 26,712	147,889
Ericsson Credit AB	Libor + 5.00%	January 2006	37,170	121,931
Turkiye Garanti Bankasi AS ( Garanti Bankasi )-2	Libor + 3.40%	March 2007	100,000	75,000
Akbank TAS ( Akbank )-2	Libor + 3.50%	February 2007	100,000	66,500
Garanti Bankasi-1	Libor + 3.75%	April 2006	50,000	50,000
West LB	Tryibor - 0.15%	August 2008		37,263
Murabaha syndicated facility	Libor + 4.50%	June 2006	100,000	34,375
ABN Amro NV-2	Libor + 3.00%	May 2006	3,372	7,214
Cellco 12.75% senior notes, due 2005	12.75%	August 2005	335,000	
Akbank-1	Libor + 5.25%	June 2005	62,500	
Other			49	31
			814,803	540,203
Less: Current portion of long term borrowings (Note 16)			(548,356 )	(457,355 )
			\$ 266,447	82,848

For the years ended December 31, 2004 and 2005, the average borrowings outstanding were \$801,385 and \$687,130, respectively.

**ABN Amro NV 1**

Astelit signed a vendor financing agreement with Nokia Corporation ( Nokia ) on July 12, 2004 at the amount of EUR 125,000 (equivalent to \$147,889 as of December 31, 2005) for the purpose of establishing a GSM infrastructure in Ukraine, which in turn assigned the guaranteed portion of the loan to ABN Amro NV in August 2004. Under this agreement, Nokia committed to provide equipments and services and ABN Amro NV and Nokia committed to provide credit facilities available to Astelit in respect of equipment and service purchases from Nokia. On January 30, 2006, the outstanding balance amounting to \$147,889 was fully repaid.

As of December 31, 2005, the vendor financing agreement contained certain customary covenants that limit the ability of Astelit to, among other things, pledge equipment acquired under this vendor financing agreement, change its business from telecommunications or invest in other businesses, sell certain fixed assets, merge with other companies except DCC, declare or pay dividends, and repurchase or repay any of its share capital.

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**(21) Long Term Borrowings (Continued)**

**Ericsson Credit AB**

For the purpose of establishing a GSM network in Ukraine, Astelit entered vendor financing agreement with Ericsson Credit AB ( Ericsson ) in June 2004 at the amount of \$89,042.

In August 2005, the facility with Ericsson was increased to approximately \$134,000 of which \$121,931 had been borrowed by Astelit. On January 30, 2006, the outstanding balance amounting to \$121,931 has been fully repaid.

The vendor financing agreement contains certain customary covenants that limit the ability of Astelit to, among other things, pledge equipments acquired under this vendor financing agreement, change its business from telecommunications or invest in other businesses, sell certain fixed assets, merge with other companies except DCC, declare or pay dividends, and repurchase or repay any of its share capital.

**Garanti Bankasi 2**

On March 8, 2004, Turkcell opened a new working capital facility of \$100,000 with Garanti Bank which will be repaid in three equal installments on June 8, 2006, December 8, 2006 and March 8, 2007.

**Akbank 2**

On February 11, 2004, Turkcell opened a new working capital facility of \$100,000 from Akbank. The outstanding amount of the borrowing is payable in two equal installments on February 13, 2006 and February 12, 2007.

**Garanti Bankasi 1**

On November 22, 2000, Turkcell signed a loan agreement with Garanti Bankasi amounting to \$150,000 for expenditures on the GSM network in Turkey. The outstanding balance as of December 31, 2005 is \$50,000. \$25,000 has been paid on January 23, 2006 and the remaining portion will be paid on April 21, 2006.

**West LB AG**

On August 26, 2005, Turkcell signed a new TRY-denominated loan agreement with West LB AG, London, in order to decrease borrowing costs and foreign exchange risk. As a result of this agreement, Turkcell obtained unsecured loan of TRY 50,000 (equivalent to 37,263 as of December 31, 2005), repayable semiannually in six equal installments starting from February 27, 2006, with an interest rate of six month TRYibor (TRY Libor) minus 0.15 basis points.

**Murabaha syndicated facility**

Turkcell signed a Murabaha syndicated facility, with HSBC Bank AS and the Islamic Development Bank, amounting to \$100,000 on January 16, 2004. Initial drawdown was made on March 3, 2004 and the last drawdown was made on June 16, 2004. The facility has a maturity of two years from each drawdown.

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**(21) Long Term Borrowings (Continued)**

Each withdrawal will be repaid in five equal installments starting from one year after the initial withdrawal. The availability period was 180 days from the date of agreement and the grace period was one year from each drawdown. The facility is unsecured and used for certain qualified equipment purchases.

**ABN Amro NV 2**

For the purpose of establishing the GSM network in Ukraine, on November 2, 2004, Astelit entered into a vendor financing agreement with Sysdate and ABN Amro NV, under which ABN Amro NV finances Astelit's purchases of GSM 1800 billing equipment, software and services from Sysdate. \$7,214 has been paid on January 24, 2006.

The vendor financing agreement contains certain customary covenants that limit the ability of Astelit to, among other things, pledge equipment acquired under this vendor financing agreement, change its business from telecommunications or invest in other businesses, sell certain fixed assets, merge with other companies except DCC, declare or pay dividends, and repurchase or repay any of its share capital.

As of December 31, 2005, the Company is not subject any financial covenants or ratios with respect to its borrowings. There are no unused commitments under the above mentioned facilities.

On December 30, 2005, Astelit, together with ING Bank N.V. ( ING Bank ) and Standard Bank London Ltd. ( Standard Bank ), finalized a syndicated long term project financing of \$390,000. Agreement amounts, interest rate per annum and contractual maturity applicable to each facility is as follows:

<b>Facility Name</b>	<b>Interest Rate (%)</b>	<b>Contractual Maturity</b>	<b>Amount</b>
EKN Facility	Libor + 1.50%	December 2011	\$ 152,500
Finnvera Facility	Libor + 1.50%	December 2011	117,500
Commercial Facility	Libor + 4.50%	December 2011	90,000
Standby Facility	Libor + 4.50%	December 2011	30,000
			390,000

Under these agreements, subsequent to December 31, 2005, \$278,205 has been utilized by Astelit.

These financing agreements contain a number of restrictive debt covenants applicable to Astelit and Euroasia, which may be summarized as follows:

- Astelit has to comply with certain financial ratios during the period of financing;
- Astelit may not pledge any of its assets (including its rights under the supply contracts and its rights under the material insurance contracts);
- Euroasia may not pledge shares owned in Astelit to other parties;
- Euroasia may not pledge any loans issued to Astelit;





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**(21) Long Term Borrowings (Continued)**

- The are restrictions on disposal of assets by Astelit;
- Astelit can not attract financing from parties other than Euroasia and Lenders, without the consent of the Lenders;
- There are restrictions on finance leasing and supplier financing arrangements;
- Astelit may not conduct any other business apart from the operation of telecommunications services, and business ancillary thereto;
- Astelit may not merge with other companies;
- There are restrictions on acquisitions of subsidiaries;
- There are restrictions on issuance of guarantees by Astelit;
- Astelit can not issue any shares for purposes other than receiving financial support from current shareholders;
- Payment of dividends may only occur once Astelit complies with certain financial ratios.

As part of the project financing package, a long-term junior facility of up to \$150,000 was also finalized. The interest rate per annum applicable to the junior facility is LIBOR + 2.25%. The junior facility is fully guaranteed by Turkcell as the existing guarantees on the vendor loans have been released with the proceeds of the project financing and the guarantee is started to be effective on February 8, 2006. The drawdown of the first tranche of the junior facility was executed by Euroasia amounting to \$126,000 on January 23, 2006.

The proceeds from these facilities will be used to refinance Astelit's existing vendor loans and local bank loans, additional capital expenditures and working capital requirements. There are unused commitments related to the syndicated long term project financing amounting to \$390,000 and junior facility loan amounting to \$150,000 as of December 31, 2005.

The future maturities of long-term borrowings as of December 31, 2005 are as follows:

<b>Years</b>	
2006	\$ 457,355
2007	70,428
2008	12,420
	\$ 540,203

**(22) Common Stock**

At December 31, 2005, common stock represented 1,854,887,341 (December 31, 2004: 1,854,887,341) authorized, issued and fully paid shares with a par value of TRY 1 each. In accordance with the Law No 5083 with respect to the TRY, on May 9, 2005, par value of each share is registered to be one TRY.



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**(22) Common Stock (Continued)**

In connection with the redenomination of the Turkish Lira and as per the related amendments of Turkish Commercial Code, in order to increase the nominal value of the shares to TRY 1, 1,000 units of shares, each having a nominal value of TRY 0.001 shall be merged and each unit of share having a nominal value of TRY 1 shall be issued to represent such shares. Turkcell is currently in the process of merging 1,000 existing ordinary shares, each having a nominal value of TRY 0.001 to one ordinary share having a nominal value of TRY 1 each. After the share merger which appears as a provisional article in the Articles of Association to convert the value of each share with a nominal value of TRY 0.001 to TRY 1, all shares will have a value of TRY 1. Although the merger process has not been finalized the practical application is to state each share having a nominal value of TRY 1 which is consented by Capital Markets Board of Turkey ( CMB ). Basic and diluted weighted average number of shares and net income per share as of December 31, 2003 and 2004 are retrospectively changed to reflect each share having a nominal value of TRY 1.

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

	<b>December 31, 2003</b>	<b>2004</b>	<b>2005</b>
<b>Numerator:</b>			
Net income	\$ 215,167	511,821	910,927
<b>Denominator:</b>			
Basic and diluted weighted average shares	1,854,887,341	1,854,887,341	1,854,887,341
Basic and diluted net income per share	\$ 0.116000	0.275931	0.491096

On April 5, 2005, the board of directors decided that Turkcell's statutory capital would be increased from TRY 1,474,639 to TRY 1,854,887 by adding TRY 234,092 out of the total dividend for 2004 and the statutory capital inflation adjustment (included in the financial statements prepared in accordance with the accounting standards promulgated by the statutory tax laws) amounting to TRY 146,156 for 2004. The increase of TRY 380,248 has been distributed to the Company's shareholders in the form of a stock split. The capital increase was accounted for as a stock split in the Company's accompanying consolidated financial statements. As a result of the aforesaid transactions, the Company issued new shares with a total nominal value of TRY 380,248. On July 6, 2005, the Capital Market Board (the CMB) approved the capital increase.

On May 23, 2005, the bonus share certificates have been registered by Turkish Capital Market Board and the Istanbul Stock Exchange and started to be distributed to the shareholders of Turkcell.

The increase in statutory capital had no impact on the account balances in the consolidated statements of shareholders' equity. All share amounts and per share figures reflected in the Company's historical financial statements have been retroactively restated for the stock splits discussed above.

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**(22) Common Stock (Continued)**

The total effects of restatements in number of shares are as follows:

	<b>December 31, 2004</b>	<b>December 31, 2005</b>
Historical number of shares	500,000,000	500,000,000
After bonus share distribution statutory capital inflation adjustment 2003-2004	1,502,637,135	1,502,637,135
After bonus share distribution dividend for the year 2003-2004	1,854,887,341	1,854,887,341

On November 28, 2005, Alfa Telecom announced that Alfa Telecom Turkey Limited ( Alfa ), an affiliate of Alfa Telecom, one of Russia's leading private telecommunications investors, completed a series of transactions resulting in Alfa's acquisition of a 49% interest in Cukurova Telecom Holdings Limited, which has a 27% beneficial interest in Turkcell. This transaction leads to 13.2% indirect ownership of Alfa in Turkcell.

As a result of these share transfers, as of December 31, 2005, direct and indirect ownership of Cukurova Group decreased to 27.05%.

On March 22, 2006, the Board of Directors of Turkcell decided to make a proposal to the General Assembly for distribution of a total net cash dividend of TRY 509,075 (which constitutes 50% of distributable income per statutory accounts) and dividend in the form of bonus shares amounting of TRY 345,113 for the year ended December 31, 2005. The distribution of dividends is subject to approval at the General Assembly Meeting, which will be held on April 28, 2006.

The net distributable income, after deducting legal reserves, amounts to TRY 1,018,150 (equivalent to \$758,794 at December 31, 2005). Accordingly, the recommended dividend distribution will be as follows:

	<b>Amount per share (TRY in full)</b>	<b>Total (TRY)</b>	<b>\$ equivalent December 31, 2005</b>
Dividend cash	0.274450	509,075	379,397
Dividend bonus shares		345,113	257,202

Accordingly, the rate of bonus share certificate to be issued for each share having a nominal value of TRY 1 is recommended as 18.610559%.

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**(22) Common Stock (Continued)**

On February 21, 2005, the Board of Directors decided to increase the statutory capital ceiling of Turkcell from TRY 1,500,000 to TRY 2,200,000. Turkcell's application for the statutory ceiling as TRY 2,200,000 has been approved by the Capital Markets Board of Turkey and the Ministry of Trade of Turkey.

**(23) Revenues:**

For the years ended December 31, 2003, 2004 and 2005, revenues consisted of the following:

	<b>2003</b>	<b>2004</b>	<b>2005</b>
Communication fees	\$ 2,143,640	3,088,079	4,056,496
Commission fees on betting business	36	20,301	108,034
Monthly fixed fees	41,062	51,929	54,258
Simcard sales	24,402	28,308	32,579
Call center revenues	7,447	8,196	10,109
Other	2,650	3,952	7,016
	<b>\$ 2,219,237</b>	<b>3,200,765</b>	<b>4,268,492</b>

**(24) General and Administrative Expenses:**

General and administrative expenses mainly consisted of payroll, legal and bad debt provision, consulting, insurance, travel, project, rent, training, repair and maintenance expenses.

**(25) Selling and Marketing Expenses:**

Selling and marketing expenses mainly consisted of advertising expenses, promotional expenses, personnel expenses, subscriber acquisition expenses and frequency usage fees.

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**Notes to Consolidated Financial Statements (Continued)**

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**(26) Related Party Transactions:**

For the years ended December 31, 2003, 2004 and 2005, significant transactions with the related parties were as follows:

	2003	2004	2005
<b>Sales to KVK Teknoloji</b>			
Simcard and prepaid card sales	173,519	292,468	462,011
<b>Sales to A-Tel</b>			
Simcard and prepaid card sales	160,907	215,342	201,006
<b>Sales to Digital Platform</b>			
Call center revenues and interest charges	5,300	6,688	11,105
<b>Income from Yapi Kredi(*)</b>			
Interest	32,032	46,022	6,982
<b>Sales to Millenicom Telekomunikasyon AS</b>			
Telecommunication services			2,926
<b>Sales to Superonline</b>			
Call center revenues	1,216	1,459	1,613
<b>Sales to Geocell</b>			
GSM equipment	2,361	350	113
<b>Sales to Milleni.com</b>			
Telecommunications Services	10,070	4,493	
<b>Charges from ADD</b>			
Advertisement services	83,419	93,081	124,415
<b>Charges from Hobim</b>			
Invoicing service	7,436	9,491	10,041
<b>Charges from Baytur</b>			
Residence project		4,406	9,610
<b>Charges from Betting SA</b>			
Consultancy services		1,431	9,179
<b>Charges from Milleni.com</b>			
Telecommunications services	9,646	6,115	9,120
<b>Charges from KVK Teknoloji</b>			
Dealer activation fees and others	7,567	1,386	1,418
<b>Charges from Millenicom Telekomunikasyon AS</b>			
Telecommunication services			1,147
<b>Charges from A-Tel</b>			
Dealer activation fees and others	682	581	601
<b>Charges from Asli Gazetecilik</b>			
Advertisement services	6,191		
<b>Charges from Digital Platform</b>			
Reimbursement of the costs of its free subscriptions to Turkcell subscribers and advertisement services	788		

\* Since Cukurova Group transferred its shares in Yapi Kredi to Koc Group on October 28, 2005, Yapi Kredi is not a related party as of December 31, 2005.

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**(26) Related Party Transactions: (Continued)**

Turkcell has agreements or protocols with several of its shareholders, unconsolidated subsidiaries and affiliates of the shareholders. The Company's management believes that all such agreements or protocols are on terms that are at least as advantageous to the Company as would be available in transactions with third parties and the transactions are consummated at their fair values.

Substantially all of the significant related party transactions are with the Cukurova Group companies. Sales to Cukurova Group companies by considering major transactions for the year ended December 31, 2003, 2004 and 2005 amounting to \$385,405, \$566,822 and, \$685,756 respectively. Aggregate charges from Cukurova Group companies by considering major transactions for the year ended December 31, 2003, 2004 and 2005 amount to \$115,729, \$115,060 and \$156,352 respectively.

The significant agreements are as follows:

***Agreements with KVK Teknoloji:***

KVK Teknoloji incorporated on October 23, 2002, one of Turkcell's principal SIM card distributors, is a Turkish company, which is affiliated with some of the Turkcell's shareholders. In addition to sales of SIM cards and scratch cards, Turkcell has entered into several agreements with KVK Teknoloji, in the form of advertisement support protocols, each lasting for different periods pursuant to which KVK Teknoloji must place advertisements for Turkcell's services in newspapers. The objective of these agreements is to promote and increase handset sales with Turkcell's prepaid and postpaid brand SIM cards, thereby supporting the protection of Turkcell's market share in the prevailing market conditions. The prices of the contracts were determined according to the cost of advertising for KVK Teknoloji and the total advertisement benefit received, reflected in Turkcell's market share in new subscriber acquisitions. Distributors' campaign projects and market share also contributed to the budget allocation.

***Agreements with A-Tel:***

A-Tel is involved in the marketing, selling and distributing Turkcell's prepaid systems. A-Tel is a 50-50 joint venture of Yapi Kredi and SDIF. A-Tel acts as the only dealer of Turkcell for Muhabbet Kart (a prepaid card), and receives dealer activation fees and simcard subsidies for the sale of Muhabbet Kart. In addition to the sales of simcards and scratch cards through an extensive network of newspaper kiosks located throughout Turkey, Turkcell has entered into several agreements with A-Tel for sales campaigns and for subscriber activations.

***Agreements with Digital Platform:***

Digital Platform, a direct-to-home digital broadcasting company under the Digiturk brand name, is a subsidiary of one of Turkcell's principal shareholders, the Cukurova Group. Digital Platform reacquired the broadcasting rights for Turkish Super Football League by the tender held on July 15, 2004, until May 31, 2008. On December 23, 2005, Restructuring Framework Agreement was signed between Digital Platform and Turkcell. The agreement includes the restructuring of Turkcell's receivables from Digital Platform amounting to \$88,591 as of December 31, 2005 in exchange for sponsorship and advertisement

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**(26) Related Party Transactions: (Continued)**

services that Turkcell will receive on Digital Platform's infrastructure. Under the agreement, Digital Platform commits to pay amounts due to Turkcell through July 15, 2011 along with the interest in cash and advertisement services. According to the Restructuring Framework Agreement and in the context and as an integral part of the agreement, Turkcell committed to purchase sponsorship and advertisement from Digital Platform amounting to \$99,785 excluding VAT through July 15, 2011. Turkcell also has an agreement related to the corporate group SMS services that Turkcell offers to Digital Platform, and an agreement for call center services provided by Turkcell's subsidiary Global.

***Agreements with Yapi Kredi:***

Yapi Kredi, one of the largest commercial banks in Turkey, was one of the significant Turkcell's shareholders. Since Cukurova Group transferred its Yapi Kredi shares to Koc Group on September 28, 2005, Yapi Kredi is not a related party as of December 31, 2005. Following this transaction, ownership relationship of the Company with Yapi Kredi has been terminated. Turkcell had an agreement with Yapi Kredi providing for Yapi Kredi to issue a co-brand Turkcell credit card, which expired in 2003. Turkcell also receives services from Yapi Kredi as one of its major collection channels for its postpaid subscribers. Apart from the collection accounts, Turkcell also invests cash into time deposits and repo transactions at Yapi Kredi, from which it earns interest income.

***Agreements with Millenicom Telekomunikasyon Hizmetleri AS:***

European Telecommunications Holding AG (ETH), a subsidiary of Cukurova Group, holds the majority shares of Millenicom Telekomunikasyon Hizmetleri AS (Millenicom Telekomunikasyon). Millenicom Telekomunikasyon is rendering and receiving call termination and international traffic carriage services to the and from the Company.

***Agreements with Superonline:***

Superonline was a subsidiary of one of Turkcell's principal shareholders, the Cukurova Group, through Yapi Kredi and other Cukurova Group companies. Following the transfer of Yapi Kredi shares to Koc Group on September 28, 2005 by Cukurova Group, interest of Cukurova Group in Superonline decreased to 3.3%. However, Cukurova Group has an option right to buy the shares of Superonline from Yapi Kredi. Turkcell and Superonline have entered into an agreement to provide mutual services to each other. According to the agreement, Superonline provides dealer automation services, web hosting services, internet access services, high speed circuit switched data services, wireless application protocol services and unified messaging services. Against the services provided by Superonline, Turkcell provides space to Superonline on base station sites to install servers and equipments to increase the performance of the system infrastructure of Superonline.

Global has also agreed to provide call center services to Superonline to provide technical assistance to Superonline subscribers and to facilitate the subscription of new users. The price charged for this service



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**(26) Related Party Transactions: (Continued)**

has been determined by service level, and computed by commission rates within one percent to eight percent.

***Agreements with Geocell:***

Geocell, one of the cellular phone operators in Georgia, is a subsidiary of Fintur. On December 12, 2001, Turkcell signed an agreement for the sale of a set of renovated but usable GSM equipment to Geocell. The objective of the agreement is to make use of certain GSM equipment that are no longer used in Turkcell's network. The prices were determined following the examination of fair values of the equipment in consideration.

***Agreements with Milleni.com:***

Milleni.com, one of the active players in the international carrier market, was a Fintur subsidiary in Germany prior to the Fintur restructuring in 2002. Currently, the Cukurova Group, one of Turkcell's principal shareholders, owns Milleni.com. On February 21, 2005, Telcom and Milleni.com has signed an agreement to provide telecommunications services to each other whereby Milleni.com may convey calls to Telcom's switch and Telcom may convey calls to Milleni.com's switch, in both cases, for onward transmission to their destinations. The prices vary according to the destinations.

***Agreements with ADD:***

ADD, a media planning and marketing company, is a Turkish company owned by one of the Company's principal shareholders, the Cukurova Group. The Company entered into a media purchasing agreement with ADD on January 23, 2002, which expired on December 31, 2002 and further extended to December 31, 2003. In 2004 and 2005, the agreement was revised again with similar terms. The purpose of this agreement is to benefit from the expertise and bargaining power of ADD against third parties, regarding the formation of media purchasing strategies for both postpaid and prepaid brands. The contract prices were determined according to prevailing market conditions. Additionally, ADD is a party of the sponsorship and advertisement agreements which are integral part of Restructuring Framework Agreement signed between Turkcell and Digital Platform.

***Agreements with Hobim:***

Hobim, one of the leading data processing and application service provider companies in Turkey, is owned by the Cukurova Group. Turkcell has entered into invoice printing and archiving agreements with Hobim under which Hobim provides Turkcell with scratch card printing services, monthly invoice printing services, manages archiving of invoices and subscription of documents for an indefinite period of time. Prices of the agreements are determined as per unit cost plus profit margin.

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**(26) Related Party Transactions: (Continued)**

***Agreements with Baytur:***

The principal shareholder of Baytur, a construction company, is Cukurova Group. Baytur committed to complete construction of 484 apartments within the scope of an agreement signed among Turkcell, Baytur and the land owner, which is a governmental organization, on October 19, 2004. The agreement amount is \$39,650 and the project is planned to be completed in 2008. Turkcell paid \$2,000 and \$16,550 to Baytur within the scope of this contract in 2004 and 2005, respectively.

***Agreements with Betting SA:***

Betting SA, owned by one of the major shareholders of Inteltek, is incorporated under the laws of Greece. The Company signed a service agreement with Betting SA on March 11, 2004 to get consultancy services including; monitoring operations, providing continuous evaluation of betting, maximizing game revenues of fixed odds betting, operating fixed odds betting games in the most efficient manner, with integrity and securely. In consideration of such services, Betting SA receives an amount equal to 0.95% of the gross revenues of the fixed odds betting games.

***Transactions with key management personnel:***

As of December 31, 2004 and 2005, none of the Turkcell's directors and executive officers has outstanding personal loans from the Company.

**(27) Commitment and Contingencies**

As of December 31, 2004 and 2005, commitments and contingent liabilities comprised the following:

	<b>December 31, 2004</b>	<b>December 31, 2005</b>
Bank Letters of Guarantee	<b>\$ 257,607</b>	<b>41,319</b>
Guarantees		
Digital Platform	<b>25,066</b>	<b>5,419</b>
<i>BNP Brussels (Buyer Credit)</i>	19,634	4,015
<i>BNP Hungary (Buyer Credit)</i>	4,845	1,404
<i>BNP Brussels (Financial Loan)</i>	470	
<i>Websterbank USA</i>	117	
Irancell Consortium	<b>285,842</b>	
<i>Iranian Authorities Payment Guarantee</i>	285,842	
Purchase Commitments	<b>269,210</b>	<b>175,553</b>
Digital Platform		99,785
Ericsson AB	46,964	48,732
Baytur	39,650	21,100
Sysdate	9,045	5,936
Nokia	147,052	
Asli Gazetecilik	17,500	
ADD Production Medya AS ( ADD )	8,000	
ABN Amro Finansal Kiralama AS ( ABN Amro Leasing )	999	

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**(27) Commitment and Contingencies (Continued)**

**Guarantees**

As of December 31, 2005, the Company is contingently liable in respect of bank letters of guarantee obtained from Yapi Kredi and given to customs authorities, private companies and other public organizations amounting to TRY 53,900 (equivalent to \$40,170 at December 31, 2005) (December 31, 2004: \$41,522). In addition, as of December 31, 2005, the Company is contingently liable in respect of bank letters of guarantee obtained from other banks and given to private companies and other public organizations amounting to \$1,149 (December 31, 2004: \$767).

As of December 31, 2004, the Company was contingently liable to the Turkish Treasury in relation to the Turk Telekom settlement agreement, amounting to TRY 288,978 (equivalent to \$215,318 at December 31, 2004). As of December 31, 2005, payments related to the bank letter of guarantee have been completed and contingent liability has been released.

Guarantees on behalf of Digital Platform are related to loans for set-top boxes, head-end and uplink imports and working capital financing used from the respective banks. In February 2006, all related loans have been repaid by Digital Platform and the corporate guarantees have been released.

As a condition of the GSM license bid in Iran, Turkcell had provided a guarantee of EUR 210,000 (equivalent to \$285,842 at December 31, 2004) to the Iranian Authorities, which was released on July 26, 2005.

**Purchase Obligations**

According to the Sponsorship and Advertising Agreements signed in the context and as an integral part of the Restructuring Framework Agreement, Turkcell committed to purchase sponsorship and advertisement from Digital Platform amounting to \$99,785 excluding VAT through July 15, 2011.

Purchase obligations in relation to GSM equipment arise from GSM equipment supply and service contracts signed by Astelit. During 2004, Astelit has entered into a \$89,042 supply financing agreement with Ericsson AB, EUR 125,397 supply financing agreement (equivalent to \$148,359 as of December 31, 2005) with Nokia and \$12,445 supply financing agreement with Sysdate. On August 28, 2005 and November 2, 2005, Astelit has signed addendum agreements with Ericsson Credit AB and Ericsson AB increasing the amount of supply and service agreements to \$174,036 and increasing the financing agreements to \$134,042. As of December 31, 2005, Astelit has fully utilized its commitment under Nokia's agreement and utilized \$125,304 and \$6,509 of its commitments from Ericsson AB and Sysdate, respectively.

On February 10, 2006, Astelit signed additional vendor financing agreements with Nokia to purchase GSM equipments and to receive services amounting approximately to \$75,000.

With respect to the sponsorships agreement signed between ADD and Turkcell on June 21, 2004, relating to the sponsorship of Besiktas Jimnastik Klubu (BJK), a football club in Istanbul, Turkcell has paid \$7,000 to ADD on June 23, 2004 for 2004-2005 and 2005-2006 Football League Seasons. In respect to the agreement, Turkcell had also committed to pay \$8,000 to ADD in two equal installments on July 1,

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**(27) Commitment and Contingencies (Continued)**

2006 and July 1, 2007 with respect to 2006-2007 and 2007-2008 Football League Seasons. Upon the termination between parties, Turkcell's commitment amounting to \$8,000 was released with the mutual agreement of the parties.

The principal shareholder of Baytur, a construction company, is the Cukurova Group. Baytur committed to complete construction of 484 apartments within the scope of an agreement signed among Turkcell, Baytur and the land owner, which is a governmental organization, on October 19, 2004. The contract amount is \$39,650 and the project is planned to be completed in 2008. Turkcell paid \$18,550 to Baytur within the scope of this agreement as of December 31, 2005.

**License Agreements**

***Turkcell:***

On April 27, 1998, Turkcell signed the License Agreement with the Turkish Ministry. In accordance with the License Agreement, Turkcell was granted a 25 year GSM license for a license fee of \$500,000. The License Agreement permits Turkcell to operate as a stand-alone GSM operator. Under the License, Turkcell collects all of the revenue generated from the operations of its GSM network and pays the Turkish Treasury an ongoing license fee equal to 15% of its gross revenues. On June 25, 2005, the Turkish government declared that GSM operators are required to pay 10% portion of their existing monthly ongoing license fee to the Ministry of Transportation as universal service fund in accordance with the Law No. 5369. As a result, starting from June 30, 2005, Turkcell pays the 90% of the ongoing license fee to the Turkish Treasury and 10% to the Ministry of Transportation as universal service fund. Turkcell is authorized to, among other things, set its own tariffs within certain limits, charge peak and off-peak rates, offer a variety of service and pricing packages, issue invoices directly to subscribers, collect payments and deal directly with subscribers.

In February 2002, the Company renewed its License with the Telecommunications Authority, and became subject to a number of new requirements, including those regarding the build-out, operation, quality and coverage of Turkcell's GSM network, prohibitions on anti-competitive behavior and compliance with national and international GSM standards. Turkcell may incur significant penalties for delays in meeting these coverage requirements. Failure to meet any requirement in the renewed License, or the occurrence of extraordinary unforeseen circumstances, can also result in revocation of the renewed License, including the surrender of the GSM network without compensation, or limitation of Turkcell's rights thereunder, or could otherwise adversely affect Turkcell's regulatory status. Certain conditions of the renewed License Agreement include the following:

**Coverage:** Turkcell had to attain geographical coverage of 50% and 90% of the population of Turkey with certain exceptions within three years and five years, respectively, of the License's effective date. Turkcell has completed its related liabilities with respect to coverage as of December 31, 2005.

**Service offerings:** Turkcell must provide certain services in addition to general GSM services, including free emergency calls and technical assistance for subscribers, free call forwarding to police and other public emergency services, receiver-optional short messages, video text access, fax capability, calling

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**(27) Commitment and Contingencies (Continued)**

and connected number identification and restrictions, call forwarding, call waiting, call hold, multi-party and third-party conference calls, billing information and barring of a range of outgoing and incoming calls.

**Service quality:** In general, Turkcell must meet all the technical standards determined and updated by the European Telecommunications Standards Institute and Secretariat of the GSM MoU. Service quality requirements include that call blockage cannot exceed 5% and unsuccessful calls cannot exceed 2%.

**Tariffs:** Telecommunications Authority sets the initial maximum tariffs in TRY and US Dollar. Thereafter, the revised License provides that the Telecommunications Authority will adjust the maximum tariffs at most every six months or, if necessary, more frequently. Turkcell is free to set its own tariffs up to the maximum tariffs.

**Rights of the Telecommunications Authority, Suspension and Termination:** The revised License is not transferable without the approval of the Telecommunications Authority. In addition, the License Agreement gives the Telecommunications Authority certain monitoring rights and access to Turkcell's technical and financial information and allows for inspection rights, and gives certain rights to suspend operations under certain circumstances. Also, Turkcell is obliged to submit financial statements, contracts and investment plans to the Telecommunications Authority.

The Telecommunications Authority may suspend Turkcell's operations for a limited or an unlimited period if necessary for the purpose of public security and national defense. During period of suspension, the Telecommunications Authority may operate Turkcell's GSM network. Turkcell is entitled to any revenues collected during such period and the Licensee's term will be extended by the period of any suspension. The revised License may also be terminated upon a bankruptcy ruling against Turkcell or for other license violations, such as operating outside of its allocated frequency ranges, and the penalties for such violations can include fines, loss of frequency rights, revocation of the license and confiscation of the network management center, the gateway exchanges and central subscription system, including related technical equipment, immovables and installations essential for the operation of the network.

Based on the enacted law on July 3, 2005 with respect to the regulation of privatization, gross revenue description based for the calculation of treasury share has been changed. According to this new regulation, accrued interest charged for the late payments, taxes such as indirect taxes, and accrued amounts accounted for reporting purposes excluded from the description of gross revenue. Turkcell has submitted to Telecommunications Board for the revision of the related articles of Amended Agreement and completed necessary procedures. Danistay approved the agreement on March 10, 2006. Calculation of gross revenue for treasury share according the new regulation is valid after March 10, 2006.

***Astelit:***

Astelit owns three GSM frequency licenses and one GSM activity license. GSM frequency licenses are valid until June 8, 2008, March 3, 2019 and July 26, 2019, respectively. Astelit GSM Activity license will expire on June 8, 2008. On November 10, 2005, Astelit signed a license agreement which is granting a

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**(27) Commitment and Contingencies (Continued)**

GSM 900 frequency. The right to use the GSM 900 license starts from January 1, 2006 and will expire in November 2020.

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

***DCC:***

DCC owns four licenses; three on for local telephone network construction, maintenance and use compliant to D-AMPS standard and one on long distance and international traffic carriage business. DCC licenses for local telephone network construction, maintenance and use compliant to D-AMPS standard will expire on July 8, 2005, October 30, 2017, and December 15, 2018, respectively. DCC Long distance and international carrier services license was issued on June 17, 1998 and will expire on June 17, 2013.

The Ukrainian Telecommunications Authority may suspend DCC operations for a limited or an unlimited period if necessary because of expiration of licenses, upon mutual consent, or in case of violation of terms of radio frequencies use. If such a violation is determined, Ukrainian Telecommunications Authority notifies DCC of provisions violated and sets deadline for recovery. If the deadline is not met, licenses may be terminated.

**Interconnection Agreements**

Turkcell has entered into interconnection agreements with a number of operators in Turkey and overseas including Turk Telekom, Telsim Mobil Telekomunikasyon Hizmetleri AS ( Telsim ), Aycell Haberlesme ve Pazarlama Hizmetleri AS ( Aycell ), Is-Tim Telekomunikasyon Hizmetleri AS (Is-Tim), Milleni.com and Globalstar Avrasya Uydu Ses ve Data Iletisim AS ( Globalstar ). The Access and Interconnection Regulation (the Regulation ) became effective when it was issued by the Telecommunications Authority on May 23, 2003.

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 all telecommunications operators 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 on the same terms and qualifications provided to their shareholders, subsidiaries and affiliates.

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**(27) Commitment and Contingencies (Continued)**

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. Turkcell entered into a new interconnection agreement with Globalstar on September 9, 2003, and as a result of intervention by the Telecommunications Authority, the Company entered into supplemental agreements with Turk Telekom on November 10, 2003, Telsim on November 21, 2003, and Globalstar on December 11, 2003, with amended tariffs and tariff adoption procedures. After the merger of Is-Tim and Aycell, a new company was formed with the name TT&TIM Iletisim Hizmetleri A.S. ( TT&TIM ). The interconnection agreement with Is-Tim was renewed with TT&TIM and the interconnection agreement with Aycell was cancelled. On October 15, 2004, TT&TIM changed its name to AVEA Iletisim Hizmetleri A.S. ( AVEA ). On the other hand, the business relationship on interconnection between Milleni.com and Turkcell has been bilaterally terminated as of June 21, 2004.

On February 21, 2005, Tellcom and Milleni.com have signed an agreement to provide telecommunications services to each other whereby Milleni.com may convey calls to Turkcell's switch and Turkcell may convey calls to Milleni.com's switch, in both cases, for onward transmission to their destinations.

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. 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 a typical interconnection agreement, each party agrees, among other things to permit the interconnection of its network with Turkcell'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. Typical interconnection agreements also establish understandings between the parties relating to a number of key operational areas, including call traffic management, quality and performance standards, interconnection interfaces and other technical, operational and procedural aspects of interconnection. Turkcell's interconnection agreements usually provide that each party will assume responsibility for the safe operation of its own network. Each party is also typically 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.

Interconnection agreements also specify the amount of the payments that each party will make to the other for traffic originated on one network but switched to the other. These payments vary by contract, and in some cases, may require the Company to pay the counterparty less, the same amount, or a greater amount per minute, for traffic originating on Turkcell's network but switching to the counterparty's network, then it receives for a similar call originating on another network and switched to Turkcell's network.

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**(27) Commitment and Contingencies (Continued)**

There are no minimum payment obligations under the interconnection agreements; however, failure to carry the counterparty's traffic may expose the Company to financial and other penalties or loss of interconnection privileges for its own traffic.

Turkcell and other operators have entered into interconnection agreements which set out the terms and conditions regarding the price terms as well as periodical revision of such terms. However, revisions of the pricing terms of the interconnection agreements have been pending as Turkcell has not been able to agree on the pricing terms with other operators through discussions. As per the Access and Interconnection Regulation, the issue has been escalated to the Telecommunications Authority by Turk Telekom and Telsim. Meanwhile, the Telecommunications Authority issued reference interconnection rates during the fourth quarter of 2004, which indicate pricing terms. Consequently, on August 10, 2005, the Telecommunications Authority issued a temporary interconnection price schedule for the interconnection between Turk Telekom and Turkcell which are in line with the reference tariff structure defined by the Telecommunications Authority during the fourth quarter of 2004. The Telecommunications Authority is expected to issue a final price structure. In a case that the new prices determined by the Telecommunication Authority are lower than the temporary prices, the financial situation, and/or operating results and cash flows could be negatively affected.

**Legal Proceedings**

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

***Dispute on VAT on Ongoing License Fee***

On December 28, 2001, the board of accounting experts of the Ministry of Finance issued an opinion stating that Turkcell should pay VAT on the ongoing license fee paid to the Turkish Treasury. Accordingly, the Tax Office delivered to Turkcell a notice on January 31, 2002, asserting deficiencies in VAT declarations requesting payments of approximately TRY 91,374 (equivalent to \$68,098 as of December 31, 2005) for VAT, which would be offset by a VAT recoverable and would not result in a cash outflow from Turkcell and a total of approximately TRY 145,271 (equivalent to \$108,266 as of December 31, 2005) for penalty. Turkcell applied on March 1, 2003 to benefit from the Tax Amnesty Law entered into force in February 2003 for the amounts covering the period between April 1998 and November 2001. Turkcell's application was accepted and, accordingly, it received amnesty in respect to VAT on the ongoing license fee. Turkcell and the Tax Office agreed that Turkcell would make payments for the VAT amounts amounting to TRY 45,688 (equivalent to \$34,050 as of December 31, 2005) covering the period between April 1998 and November 2001 by nine equal installments between March 31, 2003 and June 30, 2004. By completing the payments in 2003, Turkcell received a discount of TRY 4,553 (equivalent to \$3,393 as of December 31, 2005).

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



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**(27) Commitment and Contingencies (Continued)**

February 2004 onwards. The Tax Office has appealed this decision. Based on its management and legal counsel's opinion, Turkcell has not provided any accrual related with this dispute in its consolidated financial statements as of and for the year ended December 31, 2005.

***Dispute on Turk Telekom Transmission Lines Leases***

Effective from July 1, 2000, Turk Telekom annulled the discount of 60% that it provided to Turkcell based on its regular ratio, which had been provided for several years, and, at the same time, Turk Telekom started to provide a discount of 25% being subject to certain conditions. Turkcell filed a lawsuit against Turk Telekom for the application of the agreed 60% discount. However, on July 30, 2001, Turkcell had been notified that the court of appeal upheld the decision made by the commercial court allowing Turk Telekom to terminate the 60% discount. Accordingly, Turkcell paid and continues to pay transmission fees to Turk Telekom based on the 25% discount. Although Turk Telekom did not charge any interest on late payments at the time of such payments, Turkcell recorded an accrual amounting to TRY 3,022 (\$2,252 as of December 31, 2005) for possible interest charges as of December 31, 2000. On May 9, 2002, Turk Telekom requested an interest amounting to TRY 30,068 (equivalent to \$22,409 as of December 31, 2005). Turkcell did not agree with the Turk Telekom's interest calculation and, accordingly, obtained an injunction from the commercial court to prevent Turk Telekom from collecting any amounts relating to this interest charge. Also, Turkcell initiated a lawsuit against Turk Telekom on the legality of such interest. The case is still pending. As of December 31, 2005, Turkcell recorded a provision of TRY 13,296 (equivalent to \$9,909 as of December 31, 2005) because its management and legal counsel believe that this is the most likely outcome in accordance with the relevant provisions of the Interconnection Agreement.

***Dispute on National Roaming Agreement***

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

In addition, on November 26, 2001, Turkcell initiated an arbitration suit in the ICC against the Turkish Ministry and the Telecommunications Authority. On November 25, 2003, the ICC rendered a decision stating that the case is not under its jurisdiction. In January 2004, Turkcell appealed the decision before the Ankara 13th Court of First Instance. On April 6, 2004, the court dismissed the appeal. Turkcell has appealed this decision. On December 6, 2005, the Supreme Court accepted the appeal of Turkcell and

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**(27) Commitment and Contingencies (Continued)**

annulled the decision of the Ankara 13th Court of First Instance. Telecommunications Authority appealed for correction of this decision. Furthermore, Turkcell had previously initiated an action before the Ankara Ninth Administrative Court on November 13, 2001 to annul the above-mentioned proposed solution of the Telecommunications Authority. On April 18, 2002, the court decided that the issue is not under its jurisdiction and transferred the case to Danistay. On September 13, 2003, Danistay rejected Turkcell's request of injunction. Danistay decided not to conclude on the annulment of the issue under this case since the above mentioned request of Turkcell with respect to this issue had been annulled beforehand.

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

In a letter dated March 14, 2002, the Telecommunications Authority subjected Is-Tim's request for national roaming to the condition that it be reasonable, economically proportional, and technically possible. Nevertheless the Telecommunications Authority declared that Turkcell is under an obligation to enter a national roaming agreement with Is-Tim within a 30 day period. On April 8, 2002, Turkcell obtained a precautionary injunction from the court against the application of the new regulation issued by the Telecommunications Authority requiring it to agree on national roaming within 30 days and providing for penalties in case Turkcell did not agree. Turkcell initiated proceedings against application of the new regulation before the ICC on April 11, 2002, requesting certification of the fact that it is not required to enter into an agreement within 30 days and that it is under no obligation to pay any penalties whatsoever if it does not agree within 30 days. While the ICC proceedings are being pursued Turkcell has initiated a lawsuit before the Danistay, concerning the annulment of these regulations. On January 23, 2004, the ICC rendered a decision stating that the case is not under its jurisdiction. In March 2004, Turkcell appealed the decision before the Ankara 21st Court of First Instance. On December 14, 2004 the court rejected Turkcell's request of annulment of the ICC's decision. Turkcell has appealed this decision. Based on the second request for the injunction of the decision, on May 12, 2005 Turkcell received a notification from Danistay that the decisions and actions regarding the notification of Telecommunications Authority dated March 14, 2004 has been ceased until the case is finalized, but rejected Turkcell's request for an injunction to cease application of the procedures and policies under the new regulation with respect to national roaming. Telecommunications Authority appealed the decision. The appeal has been rejected by General Assembly of Administrative Courts of Danistay.

On June 9, 2003, the Turkish Competition Board (the Competition Board) decided that Turkcell abused its dominant position by refusing to enter into a national roaming agreement with Is-Tim, and fined Turkcell by approximately TRY 21,822 (equivalent to \$16,263 at December 31, 2005). On June 7, 2004, the Competition Board's written decision was communicated to Turkcell. Turkcell initiated a lawsuit requesting the cancellation of the Competition Board's decision. On November 3, 2004, Danistay issued an

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**(27) Commitment and Contingencies (Continued)**

injunction to cease the decisions and actions subject to the lawsuit until the case is finalized. The Competition Board objected to the decision of Danistay. The case is transferred to General Assembly of Administrative Courts of Danistay and subsequently, the objection request of the Competition Board has been rejected.

On December 10, 2004, Tax Office requested approximately TRY 21,822 (equivalent to \$16,263 at December 31, 2005) regarding the Competition Board decision. On December 30, 2004, Turkcell initiated a lawsuit before the Administrative Court against the Tax Office and the Competition Board s requesting injunction and cancellation of the payment order. Turkcell obtained an injunction from the Administrative Court. Telecommunications Authority and Tax Office appealed this decision. Both the Telecommunications Authority and Tax Office appeals have been rejected. On November 25, 2005, the Administrative Court decided the cancellation of the aforementioned payment order. Both the Competition Board and Tax Office have appealed the decision. Based on its management and legal counsel s opinion, Turkcell has not recorded any accrual for Competition Board s decision.

The Telecommunications Authority decided that Turkcell has not complied with its responsibility under Turkish regulations to provide national roaming and fined Turkcell by approximately TRY 21,822 (equivalent to \$16,263 at December 31, 2005). On April 7, 2004, Turkcell made the related payment. On May 27, 2004, Turkcell commenced a lawsuit against Telecommunications Authority s decision. On December 1, 2004, the Danistay issued an injunction to cease the decisions and actions subject to the lawsuit until the case is finalized, but rejected Turkcell s request for an injunction to cease application of the procedures and policies under the new regulation with respect to national roaming. On January 3, 2005 Telecommunications Authority paid back TRY 21,822 (equivalent to \$16,263 at December 31, 2005) with respect to the aforesaid injunction of Danistay. Telecommunications Authority appealed the Danistay s decision with respect to the injunction. The appeal has been rejected by General Assembly of Administrative Courts of Danistay. On December 13, 2005, Danistay decided the cancellation of the administrative fine but rejected Turkcell s request for cancellation of the regulation on procedures and policies with respect to national roaming. Based on its management and legal counsel s opinion, Turkcell recorded income amounting to TRY 21,822 (equivalent to \$16,263 at December 31, 2005) in its consolidated financial statements as of and for the year ended December 31, 2004.

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

***Investigation of the Turkish Competition Board***

The Competition Board commenced an investigation of business dealings between Turkcell and KVK Teknoloji, in October 1999. The Competition Board decided that Turkcell disrupted the competitive environment through an abuse of dominant position in the Turkish mobile market and infringements of certain provisions of the Law on the Protection of Competition. As a result, Turkcell was fined by approximately TRY 6,973 (equivalent to \$5,197 as of December 31, 2005) and was enjoined to cease these infringements. The Competition Board s written decision was communicated to Turkcell on June 29, 2003

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**(27) Commitment and Contingencies (Continued)**

and Turkcell initiated a lawsuit before Danistay for the injunction and cancellation of the decision. On November 15, 2005, Danistay cancelled the Competition Board's decision on the ground that Competition Board infringed the procedural rules governing the investigation process. Turkcell has accrued TRY 6,973 (equivalent to \$5,197 as of December 31, 2005) on its consolidated financial statements as of December 31, 2005.

After the cancellation of the Competition Board's decision the Competition Board has given the same decision again on December 29, 2005. On March 6, 2006, Turkcell initiated a lawsuit before Danistay for the injunction and cancellation of the decision. The case is still pending.

***Dispute on Collection of Frequency Usage Fees***

On May 21, 1998, Turkcell entered into a protocol with the Wireless Communications General Directorate (the Directorate) regarding the application of the governing provisions of the Wireless Law No. 2813 to the administration of its GSM mobile phone network. Under this protocol, Turkcell is to collect frequency usage fees, which are calculated by the Directorate, from the taxpayers using mobile phones on behalf of the Directorate, and to pay the levied tax to the Directorate. In 2001, the Directorate's power, including all of its rights and obligations, was transferred to the Telecommunications Authority. On March 22, 2002, as a consequence of the impossibility in fact and at law of collecting such tax from its prepaid subscribers, Turkcell applied to the Ankara 17th Court of First Instance and obtained an injunction in respect of the collection of the frequency usage fees. Immediately after this decision, on March 27, 2002, Turkcell filed a lawsuit against the Telecommunications Authority requesting cancellation of the protocols obligating it to collect the frequency usage fees from the prepaid subscribers and to pay it to the Telecommunications Authority. On July 10, 2002, the court decided in favor of Turkcell. On March 31, 2003, the Supreme Court notified Turkcell that it has accepted Telecommunications Authority's appeal and annulled the decision of the lower court. The lower court revised its decision in line with the Supreme Court's decision. On April 20, 2004, Turkcell paid TRY 145,644 (equivalent to \$108,544 at December 31, 2005) for the frequency usage fees of 2002 including interest through that date with reservation. The court rejected Turkcell's request and decided that there should be no further judgement on this issue since the frequency usage fees of 2002 are paid. Both Turkcell and Telecommunications Authority have appealed this decision. Supreme Court will review this lawsuit.

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

In May 2003, Turkcell was informed that the Telecommunications Authority had initiated an investigation against Turkcell claiming that Turkcell has violated Turkish laws by carrying some of its international voice traffic through an operator other than Turk Telekom. Turkcell is disputing whether Turk Telekom should be the sole carrier of international voice traffic. On March 5, 2004, the Telecommunications Authority fined Turkcell by approximately TRY 31,731 (equivalent to \$23,648 at December 31, 2005). On April 9, 2004, Turkcell made the respective payment. On June 2, 2004, Turkcell commenced a lawsuit against the decision of the Telecommunications Authority.

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**(27) Commitment and Contingencies (Continued)**

On November 5, 2004, the Danistay issued an injunction to cease the decisions and actions subject to the lawsuit until the case is finalized, but rejected Turkcell's request for an injunction to cease application of related items of Telecommunications Authority's regulation with respect to execution of administrative fines to operators. Telecommunications Authority appealed to this decision and the case is sent to General Assembly of Administrative Courts of Danistay and General Assembly of Administrative Courts of Danistay rejected Telecommunications Authority's above mentioned appeal.

With respect to the Danistay's injunction on January 26, 2005, Telecommunications Authority paid TRY 18,000 (equivalent to \$13,415 at December 31, 2005) back to Turkcell and the remaining balance amounting to TRY 13,730 (equivalent to \$10,233 at December 31, 2005) was deducted from Turkcell's payables. Telecommunications Authority appealed this decision. Based on its management and legal counsel's opinion, Turkcell has recorded income amounting to TRY 31,731 (equivalent to \$23,648 at December 31, 2005) in the consolidated financial statements as of and for the year ended December 31, 2004.

On March 2, 2005, Turk Telekom notified Turkcell that, Turkcell has damaged Turk Telekom because of the interconnection agreement signed with Milleni.com. Accordingly, Turk Telekom requested Turkcell to pay TRY 219,148 (equivalent to \$163,324 as of December 31, 2005) of principal and TRY 178,364 (equivalent to \$132,928 as of December 31, 2005) of interest, which make a sum of TRY 397,515 (equivalent to \$296,255 as of December 31, 2005) until March 7, 2005.

In addition, on August 5, 2005, Turk Telekom applied to the Ankara 7<sup>th</sup> Commercial Court of First Instance and filed a lawsuit against Turkcell to obtain an injunction and to block all deposits and receivables of Turkcell to collect its damage amounting TRY 450,932 (equivalent to \$336,065 as of December 31, 2005) including principal and interest because of the interconnection agreement signed with Milleni.com. Ankara 7<sup>th</sup> Commercial Court of First Instance rejected the injunction request of Turk Telekom. The case is still pending. However, on December 13, 2005, Danistay rejected the request of Turk Telekom regarding the cancellation of the interconnection agreement between Milleni.com and Turkcell.

Management and legal counsel believe that the aforementioned request has no legal basis. At this point, regarding this litigation it is premature to estimate its potential outcome, if any. Accordingly, the Company has not provided any accruals with respect to this matter in its consolidated financial statements as of December 31, 2005.

***Dispute on Taxation on Investment Tax Credit***

On July 14, 2003, the Tax Office claimed that Turkcell should have paid withholding tax and fund on investment tax credit used for 1999. The notice stated that, based on calculation made by the Tax Office, Turkcell should pay TRY 1,796 (equivalent to \$1,339 at December 31, 2005). The Tax Office also imposed a penalty fee of TRY 4,259 (equivalent to \$3,174 at December 31, 2005). Management decided not to pay such amounts and initiated a juridical process based on the decision of the general counsel of Danistay in relation with withholding tax and fund on investment tax credit for 1999. On September 10, 2003, Turkcell initiated a lawsuit in the Tax Court related with this dispute. On May 12, 2004, the Tax Court decided in

**Turkcell Iletisim Hizmetleri Anonim Sirketi  
and Its Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**As of December 31, 2004 and 2005 and for the years ended December 31, 2003, 2004 and 2005**

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

**(27) Commitment and Contingencies (Continued)**

favor of Turkcell. The Tax Office appealed this decision. On June 15, 2005, Danistay rejected the Tax Office's appeal. On September 7, 2005, the Tax Office has applied for correction of this decision. On December 22, 2005, Danistay rejected the tax office request of correction of decision. The case has been finalized with this decision.

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

On October 23, 2003, the Telecommunications Authority fined Turkcell, claiming that Turkcell has made inadequate annual frequency usage fee payments by notifying its subscriber numbers less than the actual. The Telecommunications Authority requested TRY 16,005 (equivalent to \$11,928 as of December 31, 2005) for principal, an interest charge of TRY 10,761 (equivalent to \$8,020 as of December 31, 2005) and a penalty of TRY 63,463 (equivalent to \$47,297 as of December 31, 2005). Management and legal counsel believe that the Telecommunications Authority's decision is due to a misinterpretation of the applicable regulations. On February 20, 2004, Turkcell initiated the legal proceedings for the annulment of the decision. On April 16, 2004, Turkcell paid TRY 103,740 (equivalent to \$77,314 as of December 31, 2005) including interest through that date regarding the Telecommunication Authority's claim. The Court rejected the case. Turkcell appealed this decision and requested the injunction of the decision of the lower court.. However, Danistay rejected Turkcell's request of injunction. On October 12, 2005, the Tax Office sent a payment order amounting to TRY 63,463 (equivalent to \$47,297 as of December 31, 2005) which was paid by Turkcell previously. On November 8, 2005 Turkcell initiated a lawsuit before the Administrative Court against the Tax Office requesting an injunction and cancellation of the payment order.

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

On September 18, 2003, the Ministry of Finance issued a report stating that by applying discounts for prepaid card sales for the period between June - December 2002, Turkcell calculated the special transaction tax on post-discounted amount. Pursuant to this report, the Tax Office delivered to Turkcell a notice, asserting deficiencies in special transaction tax declarations and requesting a special transaction tax payment amounting to TRY 6,993 (equivalent to \$5,212 at December 31, 2005) and a tax penalty of TRY 9,875 (equivalent to \$7,360 at December 31, 2005). On November 20, 2003, Turkcell initiated a lawsuit in the Tax Court related with this dispute. On May 31, 2004, the Tax Court decided in favor of Turkcell. The Tax Office has appealed this decision on September 6, 2004. The case is still pending. Management and legal counsel believe that Turkcell will prevail in this matter.

**Turkcell Iletisim Hizmetleri Anonim Sirketi  
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**Notes to Consolidated Financial Statements (Continued)**

**As of December 31, 2004 and 2005 and for the years ended December 31, 2003, 2004 and 2005  
(Amounts in thousands of US Dollar unless otherwise stated except share amounts)**

**(27) Commitment and Contingencies (Continued)**

*Disputes on annulment of fixed odd betting tender related to establishment and operation of risk management center head agency*

Reklam Departmanı Basın Yayın Proje Yapım Danışmanlık ve Ticaret Limited Sirketi ( Reklam Departmanı ) commenced a lawsuit against the Spor Toto Teskilat Müdürlüğü in the Ankara Fourth Administrative Court. In the lawsuit, Reklam Departmanı claimed for the annulment of fixed odd betting tender related to the establishment and operation of risk management center and acting as head agency. The Company is not a party to the lawsuit but Inteltek's operations may be affected by the court's decision. Accordingly, the Company joined the case. On February 21, 2005, Ankara Fourth Administrative Court rejected the case. Reklam Departmanı appealed the case and Danıştay accepted the request of Reklam Departmanı with respect to the appeal. On February 17, 2006, Inteltek has applied for the correction of this decision. The case is still pending. Legal counsel and management believe that it is not practicable to issue an opinion on the conclusion of the case. The Company has not provided any accruals with respect to this matter in its consolidated financial statements as of December 31, 2005.

With respect to the same tender Gtech Avrasya Teknik Hizmet ve Musavirlik AS ( Gtech ) commenced a lawsuit against Public Tender Authority and Gençlik ve Spor Genel Müdürlüğü in the Ankara Fourth Administrative Court. The Company is not a party to the lawsuit but Inteltek's operations may be affected by the court's decision. Accordingly, the Company joined the case. On February 21, 2005, Ankara Fourth Administrative Court rejected the case. Gtech appealed the case and Danıştay accepted the request of Gtech regarding the appeal. The decision of Danıştay was communicated to Inteltek on January 26, 2006 and Inteltek has applied for the correction of decision on February 9, 2006. The case is still pending. Legal counsel believes that it is not practicable to issue an opinion on the conclusion of the case. The Company has not provided any accruals with respect to this matter in its consolidated financial statements as of December 31, 2005.

*Dispute with Spor Toto Teskilat Müdürlüğü*

On April 15, 2005, Spor Toto Teskilat Müdürlüğü, regulatory authority of sports betting in Turkey, notified Inteltek that Inteltek is obliged to pay TRY 1,434 (equivalent to \$1,069 at December 31, 2005) including 5% interest charge, with the claim of the inadequacy of the system software, failure to spot dealer sales on a live basis and lack of control mechanisms and cause for the non-collection of a certain portion of turnover from dealers. On November 2, 2005, Spor Toto Teskilat Müdürlüğü sent a second letter to Inteltek that Inteltek is obliged to pay TRY 1,711 (equivalent to \$1,275 at December 31, 2005) of uncollected turnover from agents including 5% interest charge regarding the same issue. Inteltek management has replied this notification letter and rejected to pay the requested amount.

On November 9, 2005, Spor Toto Teskilat Müdürlüğü sent another notification letter to Inteltek that Inteltek is obliged to pay TRY 3,292 (equivalent to \$2,453 at December 31, 2005) due to the difference in the reconciliation methods. Spor Toto Teskilat Müdürlüğü claims that the reconciliation periods should be six-month independent periods whereas Inteltek management believes that those periods should be cumulative as stated in the agreement. Inteltek did not pay the requested amount.

**Turkcell Iletisim Hizmetleri Anonim Sirketi  
and Its Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**As of December 31, 2004 and 2005 and for the years ended December 31, 2003, 2004 and 2005**

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

**(27) Commitment and Contingencies (Continued)**

Spor Toto commenced declaratory action in Ankara 22th Civil Court of First Instance on January 23, 2006 to clarify whether the collection risk belongs to Inteltek or Spor Toto and whether the reconciliation method should be based on individual six-month period basis or as cumulative method. Inteltek accrued TRY 3,292 (equivalent to \$2,453 at December 31, 2005) for this amount in the accompanying consolidated financial statements as of December 31, 2005 due to the probability of negative outcome of the declaratory action.

***Dispute on call termination fee***

Telsim has initiated a lawsuit claiming that, Turkcell has not applied the reference interconnection rates determined by the Telecommunications Authority, and has charged interconnection fees exceeding the ceiling rates approved by Telecommunications Authority and requested an injunction to be applicable starting from August 1, 2005, to cease this practice and requested a payment of its damages totaling to TRY 26,108 (equivalent to \$19,457 as of December 31, 2005) including principal, interest and penalty on late payment. On September 6, 2005, the Court rejected Telsim's injunction request. On April 6, 2006, Istanbul 10th Commercial Court of First Instance rejected the case. Turkcell is still charging interconnection fees under the existing Interconnection Agreement with Telsim. As it is stated in the existing Interconnection Agreement with Telsim, Telsim referred the matter to the Telecommunications Authority. The resolution procedure has not been finalized yet. The management and legal counsel of Turkcell believe that it is premature to estimate the legal outcome at this point. Therefore, the Company has not recorded any accrual with respect to this matter in its consolidated financial statements as of December 31, 2005.

***Invalidity of the Board Resolution***

On June 23, 2005, the Board of Directors of Turkcell has decided to allow Alfa Group to conduct a due diligence in Turkcell and to entitle the management. On July 1, 2005, Sonera filed a suit with an injunction request against Turkcell in Beyoglu 2nd Commercial Court of First Instance for the purpose of determination of the invalidity of the resolution dated June 23, 2005. On July 4, 2005, Beyoglu 2nd Commercial Court of First Instance rejected Sonera's injunction request. On December 28, 2005, Beyoglu 2nd Commercial Court of First Instance rejected the injunction request of Sonera. Sonera has appealed this decision on February 24, 2006.

***Dispute with Iranian Ministry in connection with the GSM tender process***

Turkcell believes the Iranian Ministry has not properly implemented the laws and regulations passed by the Iranian Parliament in connection with the GSM tender process, which was won by the Consortium. As a result, Turkcell has filed an injunction order in Iranian courts seeking to compel the Ministry to implement the laws and regulations passed by the Iranian Parliament in connection with the GSM tender process, and such claim was rejected in April 2006.



**Turkcell Iletisim Hizmetleri Anonim Sirketi  
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**Notes to Consolidated Financial Statements (Continued)**

**As of December 31, 2004 and 2005 and for the years ended December 31, 2003, 2004 and 2005**

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

**(27) Commitment and Contingencies (Continued)**

*Dispute with the Telecommunications Authority with respect to temporary set call termination fees*

The interconnection agreement with Turk Telekom provided for a renegotiation of pricing terms on call termination fees after December 31, 2004, and in the event that the parties could not agree on new terms by February 28, 2005, for referral to the Telecommunications Authority for resolution. As the parties were unable to agree on new terms, Turk Telekom referred the matter to the Telecommunications Authority, which has set temporary call termination fees for calls terminating on each operator's network starting from August 10, 2005. On October 7, 2005 Turkcell filed a lawsuit against the Telecommunications Authority for the injunction and cancellation of this decision, which has set temporary call termination fees for calls terminating on each operator's network starting from August 10, 2005. The case is still pending. At this point in the litigation it is premature to estimate the legal outcome. As of April 13, 2006, the final termination fees have not been set yet.

As mentioned above, Telecommunications Authority has set temporary call termination fees for calls terminating on each operator's network starting from August 10, 2005. However, Turk Telekom does not apply these termination fees for the international calls. That's why, on December 22, 2005, Turkcell filed a lawsuit against Turk Telekom to cease this practice and requested collection of its damages totaling to TRY 11,970 (equivalent to \$8,921 at December 31, 2005) including principal, interest and penalty on late payment covering the period from August 2005 till October 2005.

These temporary prices are not as favorable to Turkcell as they have been previously, and the Telecommunications Authority may impose further reductions in call termination fees. At this point, the Company is unable to estimate the timing and impact of the possible changes to its fees, however, new pricing terms, could be lower and these could have an adverse affect on Turkcell's financial position, results of operations and cash flows.

*Dispute with Avea*

On February 28, 2006, Avea Iletisim Hizmetleri A.S. (Avea) has initiated a lawsuit against Turkcell claiming that although there is an agreement between Turkcell and Avea stating that both parties would not charge any SMS interconnection termination fees, Turkcell has charged SMS interconnection fees for the messages terminating on its own network and also assumed liabilities for the messages terminating in Avea's network and made interconnection payments to Avea after deducting the net balance of those SMS charges and accruals. Avea requested provisions of Interconnection Agreement regarding SMS pricing to be applied and requested collection of its losses amounting to TRY 12,275 (equivalent to \$9,148 at December 31, 2005) for the period between February 2005 and December 2005 with its accrued interest till payment. Based on its management and legal counsel's opinion, the Company has the right to charge SMS interconnection terminating fees with respect to SMS interconnection services provided to Avea. SMS interconnection fees charged to Avea, is the same with the SMS interconnection fees charged to other GSM operators in Turkey. Therefore, both the management and legal counsel believe that the Company's claim on this issue has a fair basis. The case is still pending.

**Turkcell Iletisim Hizmetleri Anonim Sirketi  
and Its Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**As of December 31, 2004 and 2005 and for the years ended December 31, 2003, 2004 and 2005  
(Amounts in thousands of US Dollar unless otherwise stated except share amounts)**

**(27) Commitment and Contingencies (Continued)**

*Dispute on value added taxation with respect to roaming services*

On March 6, 2006, the Tax Office claimed that Turkcell should have paid value added tax ( VAT ) on the invoices issued by foreign GSM operators for the international calls originated by Turkcell subscribers and terminating on those foreign GSM operators networks during the year 2000. It has been notified that, based on the calculation made by the Tax Office, Turkcell should pay TRY 3,654 (equivalent to \$2,723 at December 31, 2005) for VAT and also a penalty fee of TRY 16,137 (equivalent to \$12,026 at December 31, 2005). Management decided not to pay such amounts and initiated a judicial process.

**Operating Leases**

The Company entered into various operating lease agreements. At December 31, 2004 and 2005, there were no commitments and contingent liabilities in material amounts arising from those agreements. For the years ended December 31, 2003, 2004 and 2005, total rent expenses for operating leases were \$104,751, \$124,162 and \$136,573, respectively.

**(28) Concentrations:**

In 2004, the Company's operations were substantially all inside Turkey. However, as explained in Note 1, the Company has investments in Kibris Telekom (Northern Cyprus), Euroasia (the Netherlands) with operations in Ukraine and Fintur (the Netherlands) with operations in Azerbaijan, Kazakhstan, Georgia and Moldova. At December 31, 2005, net assets of Kibris Telekom, Euroasia and Fintur were \$25,927, \$46,292 and \$470,744, respectively (2004: Kibris Telekom \$16,223, Euroasia \$88,762 and Fintur \$305,612).

Revenues earned from and charges incurred by Turk Telekom in accordance with the Interconnection Agreement are \$259,659 and \$132,793, respectively, for the year ended December 31, 2005 (2004: \$77,237 and \$101,281). As of December 31, 2005 the Company incurred transmission and infrastructure costs by Turk Telekom totaling to \$72,656 and \$26,911, respectively (2004: \$95,817 and \$24,616). The net receivable from Turk Telekom is \$16,518 at December 31, 2005. According to the settlement agreement signed with Turk Telekom on December 24, 2004, after netting the receivables, Turkcell committed to pay TRY 997.6 million (equivalent to \$743,512 as of December 31, 2005) after the deduction of Turk Telekom's collections through November 30, 2004. Turkcell management further decided to make an early payment for the amount it owed to Turk Telekom for the year 2006 amounting to approximately TRY 286,860 (equivalent to \$213,787 as of December 31, 2005) pursuant to the early payment option of the agreement and outstanding amount due under this settlement was fully paid off during 2005.

The Company makes a substantial portion of its purchases of goods and services related to GSM investments from Ericsson Turkey (a subsidiary of Ericsson Radio Communication Ltd, one of the former shareholders of the Company), Ericsson Sweden, Ericsson AB and Nokia. Total purchases and charges from Ericsson Turkey, Ericsson Sweden and Ericsson AB were \$128,812 in 2003, \$556,903 in 2004 and \$982,004 in 2005 and outstanding balance due to these companies were \$18,772 and \$37,142 at

**Turkcell Iletisim Hizmetleri Anonim Sirketi  
and Its Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**As of December 31, 2004 and 2005 and for the years ended December 31, 2003, 2004 and 2005**

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

**(28) Concentrations: (Continued)**

December 31, 2004 and 2005, respectively. The total purchases and charges from Nokia were \$20,588 and \$130,453 in 2004 and 2005, respectively.

**(29) Subsequent Events**

(a) On October 20, 2005, Cukurova Group offered Turkcell to sell the A-Tel Option Contract, under which the holder has the right to purchase 50% shares of A-Tel for a consideration of \$150 million. Turkcell conducted tax, legal and financial due diligence review at A-Tel. On March 22, 2006, the Board of Directors of Turkcell resolved to accept the proposal and the purchase 50% of A-Tel shares by Turkcell for a consideration of \$150,000 based on the findings of the due diligence conducted at A-Tel.

(b) On March 22, 2006, Board of Directors of Turkcell decided to conduct the required studies for the pre-qualification stage and submit a prequalification application in accordance with the relevant provisions of the Request for Proposals dated February 19, 2006, for the tender of the third GSM license in Arab Republic of Egypt. In this respect, Turkcell signed a Memorandum of Understanding with Amwal El Khaleej and Banque Misr in order to form a consortium to apply for the pre-qualification of the third GSM license in Arab Republic of Egypt. Turkcell will have a 60% stake in the consortium where the remaining stake will be equally divided between other consortium members. Turkcell is still evaluating the third GSM license in Arab Republic of Egypt and conducting studies for the pre-qualification application.

**SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F/A and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Date: November 8, 2006

TURKCELL ILETISIM HIZMETLERI A.S.  
By: /s/ SERKAN OKANDAN  
Serkan Okandan  
*Acting principal executive officer*

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**Exhibit Index**

**EXHIBIT  
NUMBER**

**DESCRIPTION**

12.1	Certification of Serkan Okandan, Acting Principal Executive Officer, pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
12.2	Certification of Serkan Okandan, Chief Financial Officer of Turkcell Iletisim Hizmetleri A.S., pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
13.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002.

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