TURKCELL ILETISIM HIZMETLERI A S
Form 20-F
June 30, 2004

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As filed with the Securities and Exchange Commission on June 30, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES AND EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2003
Commission File Number: 1-15092**

TURKCELL ILETISIM HIZMETLERI A.S.

(Exact name of Registrant as specified in its charter)

TURKCELL

(Translation of Registrant's name into English)

Republic of Turkey

(Jurisdiction of incorporation or organization)

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

(Address of principal executive offices)

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

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

Ordinary Shares, Nominal Value TL 1,000	**500,000,000,000**

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

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

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INTRODUCTION

This is the annual report for 2003 for Turkcell Iletisim Hizmetleri A.S., a joint stock company organized and existing under the laws of the Republic of Turkey. The terms "we," "us," "our" and similar terms refer to Turkcell, its predecessors and its consolidated subsidiaries except as the context otherwise requires.

Our financial information included in this annual report has been prepared and is presented on a consolidated basis in accordance with US GAAP in US dollars. We have presented this information in accordance with US GAAP even though we maintain our books of account and prepare our statutory financial statements in Turkish Lira in accordance with Turkish Accounting Principles promulgated under the Turkish Commercial Code and Turkish tax legislation because US and international investors are generally unfamiliar with Turkish Accounting Principles. Historically, our statutory financial statements are presented on a historical cost basis and have not been adjusted to account for the effects of inflation (except for the revaluation of fixed assets other than real property), however, beginning January 1, 2004 our statutory financial statements will be adjusted for the effects of inflation. Our statutory financial statements are not consolidated with the financial statements of our subsidiaries. The consolidated financial statements as of December 31, 2002 and 2003, and for each of the years in the three-year period ended December 31, 2003, included herein have been audited by KPMG Cevdet Suner Denetim ve Yeminli Mali Musavirlik A.S., or KPMG, our independent accountants in Turkey.

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

FORWARD-LOOKING STATEMENTS

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

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

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

ITEM 1. IDENTITY OF BOARD MEMBERS, SENIOR MANAGEMENT AND ADVISORS

Not Applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable.

ITEM 3. KEY INFORMATION

3A. Selected Financial Data

The financial information included in this annual report has been prepared and is presented on a consolidated basis in accordance with US GAAP in US dollars. We have presented this information in accordance with US GAAP even though we maintain our books of account and prepare our statutory financial statements in Turkish Lira in accordance with Turkish Accounting Principles promulgated under the Turkish Commercial Code and Turkish tax legislation because US and international investors are generally unfamiliar with Turkish Accounting Principles. Historically, our statutory financial statements have been presented on a historical cost basis and have not been adjusted to account for the effects of inflation (except for the revaluation of fixed assets other than real property), however, beginning January 1, 2004, our statutory financial statements will be adjusted for the effects of inflation. Our statutory financial statements are not consolidated with the financial statements of our subsidiaries.

The following table presents our selected financial data as of and for each of the years in the five-year period ended December 31, 2003. We have derived the selected consolidated financial data set forth below as of December 31, 2002 and 2003, and for each of the years in the three-year period ended December 31, 2003, from our audited consolidated financial statements and the notes thereto, which were prepared in accordance with US GAAP and audited by KPMG, our independent accountants in Turkey.

You should read the following information in conjunction with "Item 5. Operating and Financial Review and Prospects," our consolidated financial statements as of December 31, 2002 and 2003 and for each of the years in the three-year period ended December 31, 2003, the related notes and the independent auditors' report appearing elsewhere in this annual report.

We adopted EITF 01-09 on January 1, 2002. As a result of the application of EITF 01-09 to prior periods, certain figures provided in the table below will differ from those provided previously. See "Item 5A. Operating Results Year Ended December 31, 2002 Compared to Year Ended December 31, 2001 Revenues" for more information on EITF 01-09.

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

	Year ended December 31,				
	1999(1)	2000(1)	2001(1)	2002	2003
	$	$	$	$	$
	(in millions, except number of shares, per share and margin data)				
Consolidated Statement of Operations Data					
Revenues					
Communication fees	1,263.7	1,834.6	1,598.2	1,911.0	2,143.6
Monthly fixed fees	186.8	214.5	83.8	40.9	41.1
Subscription fees(2)	3.4	0.1			
SIM card sales	3.4	6.3	12.0	13.3	24.4
Call center revenues		6.4	7.7	7.9	7.4
Other		2.0	0.5	0.8	2.7
Total revenues	1,457.3	2,063.9	1,702.2	1,973.9	2,219.2
Direct cost of revenues(3)	(679.4)	(1,197.1)	(1,173.7)	(1,366.9)	(1,613.2)
Gross profit	777.9	866.8	528.5	607.0	606.0
General and administrative expenses	(103.7)	(187.9)	(130.7)	(104.5)	(137.2)
Selling and marketing expenses	(100.2)	(253.3)	(180.5)	(223.5)	(294.6)
Income from operations	574.0	425.6	217.3	278.9	174.2
Income (loss) from related parties, net	1.3	2.5	2.5	(0.2)	3.7
Net interest expense	(111.3)	(156.5)	(207.8)	(206.8)	(366.3)
Other income (expense), net	3.1	9.7	(5.2)	13.6	6.2
Gain on sale of participations		44.2			
Equity in net income (loss) of unconsolidated investees(4)	(8.2)	(31.6)	(51.3)	(20.4)	18.9
Minority interest	0.2	(0.3)	0.4	0.3	3.6
Translation loss	(98.3)	(22.0)	(151.5)	(18.0)	(102.4)
Income (loss) before taxes	360.8	271.6	(195.6)	47.4	(262.1)
Income tax benefit (expense)	8.3	(43.7)	8.8		477.3
Net income (loss)	369.1	227.9	(186.8)	47.4	215.2
Net income (loss) per share(5)	0.00083	0.00051	(0.00040)	0.00009	0.00043
Other Financial Data					
Gross margin(6)	53.4%	42.0%	31.0%	30.8%	27.3%
EBITDA(7)	644.9	822.4	503.4	761.3	643.0
Capital expenditures	973.5	976.8	108.3	71.2	172.9
Consolidated Balance Sheet Data (at period end)					
Cash and cash equivalents	248.7	363.4	243.1	394.1	582.7
Total assets	2,851.3	3,884.9	3,536.0	3,233.5	3,867.3
Dividends declared(8)					165.3
Long-term debt(9)	1,288.9	1,635.1	1,246.0	925.0	522.2
Total debt	1,670.7	2,083.8	1,637.8	1,308.2	630.2
Total liabilities	2,031.3	2,590.1	2,250.8	1,903.0	2,320.0
Capital stock	211.0	458.2	636.1	636.1	636.1
Total shareholders' equity/net assets	820.0	1,294.8	1,285.2	1,330.5	1,547.3
Number of shares	442,110,371,918	443,740,603,721	470,348,717,330	500,000,000,000	500,000,000,000

	Year ended December 31,				
Consolidated Cash Flow Information					
Net cash provided by operating activities	389.5	348.0	288.7	608.8	1,041.3
Net cash used in investing activities	(984.4)	(981.5)	(159.9)	(141.9)	(198.9)
Net cash provided by (used in) financing activities	749.6	748.2	(249.0)	(315.9)	(653.8)

(1) We adopted EITF 01-09 "Accounting for Consideration Given to a Customer or a Retailer of the Vendor's Products" on January 1, 2002. As a result of applying the provisions of EITF 01-09, our revenues, gross profit, and selling and marketing expenses were each reduced by $123.5 million, $161.0 million and $84.7 million for the years ended December 31, 1999, 2000 and 2001, respectively. The adoption of EITF 01-09 had no impact on operating income, net income (loss) or earnings (loss)

per share. As a result of the application of EITF 01-09 to prior periods, certain figures provided in this document will differ from figures provided previously.

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

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

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

(5) Net income (loss) per share figures have been restated as explained in note 23 to the consolidated financial statements.

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

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

(8) US$ equivalents of dividends declared, amounting to TL 236,317 billion, are computed by the Turkish Central Bank's TL/US$ exchange rate on June 4, 2004, which is the date our General Assembly has accepted dividend payment.

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

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

	Year ended December 31,				
	1999	2000	2001	2002	2003
	$	$	$	$	$
	(in millions)				
EBITDA	**644.9**	**822.4**	**503.4**	**761.3**	**643.0**
Minority interest	0.2	(0.3)	0.4	0.3	3.6
Equity in net (income) loss of unconsolidated investees	(8.2)	(31.6)	(51.3)	(20.4)	18.9
Gain on sale of affiliates		44.2			
Interest expense	(143.1)	(251.2)	(305.1)	(302.3)	(483.6)
Net increase (decrease) in assets and liabilities	(120.3)	(210.9)	39.5	129.7	904.4
Net cash provided by operating activities	**389.5**	**348.0**	**288.7**	**608.8**	**1,041.3**

We believe that EBITDA, a measure commonly used in the telecommunications industry in Europe, can enhance the understanding of our operating results. In addition, until March 2003, when we repaid our 1999 bank facility, our bank facility covenants required us to meet certain financial measures involving EBITDA.

Operating Results

	Year ended or as at December 31,				
	1999	2000	2001	2002	2003
Industry Data					
Estimated population of Turkey (in millions)[(1)]	64.8	65.8	66.8	69.7	70.7
Turkcell Data					
Number of postpaid subscribers at end of period (in millions)	4.94	5.61	4.64	4.68	4.76
Number of prepaid subscribers at end of period (in millions)	0.52	4.46	7.59	11.05	14.23
Total subscribers at end of period (in millions)	5.46	10.07	12.23	15.73	18.99
Average monthly revenue per user (in $)[(2)]	32.2	21.3	12.6	11.7	10.6
Postpaid	33.7	27.1	19.7	23.3	24.4
Prepaid	11.6	8.9	6.5	5.9	5.4
Average monthly minutes of use per subscriber[(3)]	132.9	103.4	63.9	56.2	58.5
Churn[(4)]	0.1%	6.9%	13.1%	12.9%	14.5%
Number of Turkcell employees at end of period	1,909	2,523	2,241	2,163	2,148
Number of employees of consolidated subsidiaries at end of period[(5)]	200	1,390	1,180	1,913	2,914

(1) The Turkish population for 2000 comes from the 2000 census as announced by the State Statistics Institute. The Turkish population for 1999, 2001, 2002 and 2003 is estimated based upon the 1996 and 2000 censuses prepared by the State Statistics Institute, applying a projected monthly growth rate of 0.13%.

(2) Starting from 2000, we calculate average revenue per user, ARPU, using the weighted average number of our subscribers during the period. ARPU for prior years was calculated using the simple average number of our subscribers during the applicable period and may not be comparable.

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

(4) Churn is calculated as the total number of subscriber disconnections during a period as a percentage of the average number of subscribers for the period.

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

Exchange Rate Data

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

The following table sets forth, for the periods and the dates indicated, the Central Bank of Turkey's buying rates for US dollars. These rates may differ from the actual rates used in preparation of our consolidated financial statements and other information appearing herein. The TL/$ exchange rate as of June 11, 2004 was TL 1,489,300 = $1.00.

	Year ended December 31,					
	1999	**2000**	**2001**	**2002**	**2003**	**2004(2)**
High	540,098	689,213	1,636,942	1,688,410	1,746,390	1,550,710
Low	313,707	535,141	663,739	1,286,543	1,348,023	1,310,219
Average(1)	426,409	628,478	1,241,391	1,513,611	1,492,581	1,379,012
Period End	540,098	671,765	1,439,567	1,634,501	1,395,835	1,489,300

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

(2) Through June 11, 2004.

	December 2003	**January 2004**	**February 2004**	**March 2004**	**April 2004**	**May 2004**	**June(1) 2004**
High	1,455,285	1,393,278	1,342,133	1,326,372	1,440,128	1,550,710	1,517,076
Low	1,395,835	1,315,579	1,311,185	1,311,185	1,301,340	1,417,299	1,466,472

Source: Central Bank of Turkey

(1) Through June 11, 2004.

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

3B. Capitalization and Indebtedness

Not applicable.

3C. Reasons for the Offer and Use of Proceeds

Not applicable.

3D. Risk Factors

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

The Turkish economy has experienced significant turmoil in recent years. High inflation, volatility in the debt and equity markets, and a significant depreciation of the Turkish Lira against the US dollar affected Turkey in 2001 and 2002. However, a new International Monetary Fund (IMF) stand-by agreement introduced in 2002, combined with the tight fiscal policy of the Turkish government, has had a positive effect on the Turkish economy. As a result, during 2003 the Turkish Lira appreciated against the US dollar, the rate of inflation decreased, and interest rates declined partially as a result of the decreasing risk premium.

The economic problems that Turkey may face in 2004 and the future are primarily the current account deficit resulting from the ongoing appreciation of the Turkish Lira against the US dollar, debt sustainability problems due to the IMF program criteria, the possibility of failing to meet a 6.5% primary surplus target and a possible increase in interest rates within the United States, which could result in an outflow of funds from emerging markets. In addition, macroeconomic indicators may be negatively impacted by the political situation in Cyprus and the progress of Turkey's application for accession to the European Union (EU). Furthermore, increased consumer confidence and wages may result in an increase in inflation. Inflation and the level of government debt may also increase as a result of recent economic policies carried out by the government. On the other hand, tight monetary and fiscal policies may lead to a decrease in investment spending, which could lead to a decrease in Turkey's employment rate and Gross Domestic Product.

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

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

Turkey has been a parliamentary democracy since 1923, although the military has in the past played a significant role in politics and the Turkish government, intervening in the political process through coups in 1960, 1971 and 1980. A divided parliament and coalition government have been common traits of recent Turkish politics. In the 81 years since its formation, the Republic of Turkey has had 59 governments with political controversies frequently resulting in early elections. In Turkey's most recent national elections, held in November 2002, the Justice and Development Party won a supermajority in the Parliament. Recep Tayyip Erdogan has served as prime minister since March 2003.

Any negative changes in the government and political environment, including conflicts between senior politicians in Turkey may create instability and may adversely affect the Turkish economy. In addition, the failure of the Turkish government to devise or implement appropriate economic programs, or the failure of the IMF to complete periodic reviews of the economic program introduced by the IMF in 2002, may also adversely affect the Turkish economy.

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

Political uncertainty within Turkey, armed conflict and the threat of armed conflict in neighboring countries, such as Iran, Syria, Georgia and Armenia, historically have been among the potential risks associated with investment in Turkish companies. The uncertainty and potential instability surrounding the post-war situation in Iraq, as well as tension in and involving the Kurdish region of Iraq, could also have negative economic consequences. Furthermore, although relations with the United States have always played a major role in the stability of the Turkish economy, relations between Turkey and the United States have become much more delicate since the events surrounding the war in Iraq. The relationship has also become more important due to the United States's presence and role in post-war Iraq. Furthermore, even though in recent years Turkey has undergone significant political and economic reforms, Turkey is generally considered by international investors to be an emerging market. In general, investing in the securities of issuers with substantial operations in emerging markets like Turkey involves a higher degree of risk than investing in the securities of issuers with substantial operations in the United States, the countries of the European Union or other similar jurisdictions.

In addition to our investments in Fintur, we have been operating a GSM network in Northern Cyprus since July 1999. Since 1983, Northern Cyprus has functioned as an independent state under the name The Turkish Republic of Northern Cyprus. Throughout that time, Northern Cypriot independence has been disputed by the southern, Greek part of Cyprus. This dispute has resulted in high tensions between Northern Cyprus and the Greek part of Cyprus, which has occasionally resulted in violence on Cyprus. Recently, leaders from the Greek part of Cyprus and Northern Cyprus have had fruitful discussions concerning the future of the island and a peaceful solution to the problems between the two parts. In April 2004 residents of the northern and southern parts of Cyprus voted in a United Nations (UN) sponsored referendum on the reunification of the island, which was marked by high participation rates on both sides. The residents of Northern Cyprus voted strongly in favor of the referendum but the residents of the Greek part of Cyprus voted overwhelmingly against the plan. This overwhelming rejection of the referendum by voters in the Southern part of Cyprus has led to disappointment and concerns over the success of any future reunification efforts. Consequently, any hostilities and/or political instability in Cyprus may have a material adverse effect on the Northern Cypriot economy as well as on the economy of Turkey and on our investments and business in Northern Cyprus.

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

We currently face competition from Telsim and TT&TIM, the company established from the February 2004 merger of Aycell and Aria, which were respectively affiliates of Turk Telekom, the fixed-line telephone operator in Turkey, and of IsTim, a company formed by Telecom Italia and Isbank, one of the largest private banks in Turkey. Telsim, which is our principal competitor, began offering mobile services shortly after us in 1994. In February 2004, Turkey's Savings and Deposit Insurance Fund (SDIF) took over the management of Telsim due to the high amount of debt owed by the owners of Telsim to the government. The SDIF has announced that it will either continue to run Telsim until the debts are paid, or it may sell the company to a third party. If Telsim is sold to a powerful national or international group, its competitive position may be enhanced.

Aria and Aycell received their GSM 1800 licenses in September 2000. Aria began offering GSM services in March 2001, and Aycell began offering GSM services in December 2001. The merged entity, TT&TIM, may benefit from its position as an affiliate of Turk Telekom (which owns 40% of TT&TIM) by entering into agreements with Turk Telekom on terms not available to other network operators in arms-length transactions. Furthermore, after TT&TIM fully completes the merger process by combining Aria and Aycell's GSM networks, distribution channels, and other assets, it may be able to reduce its costs and increase its efficiency, thereby becoming a stronger competitor.

In addition to the foregoing competitors, we expect in the future to face direct competition from, among others, wireless communications services and from mobile virtual network operators, as well as traditional providers of fixed line telephony. In May 2004 the Telecommunications Authority granted long-distance licenses, which will allow the licensees to provide both domestic and international long-distance telephony services. Although these licenses are unlikely to have an immediate effect on our operations in the long term these licenses could have the effect of driving down prices and shifting traffic patterns for long-distance calls in Turkey. Furthermore, interconnection and access regulations may lead to an increase in price differentials and in competition.

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

- reduce our ability to acquire and retain high value subscribers;
- reduce our share of net subscriber additions;
- force us and our competitors to take measures that could raise subscriber acquisition costs and retention costs;
- force us to reduce tariffs to match price cuts of our competitors;
- force us to offer subscribers free airtime, free SMS, or other free services; and

disrupt our distribution channels by leading to an increase in distributor churn if our existing or future competitors are successful in eroding brand loyalty among our distributors.

To date, our annual churn rates have not exceeded 14.5%. We believe that we have an adequate bad debt provision in our financial statements for such nonpayments and disconnections. However, if our expectations regarding nonpayments and disconnections prove incorrect for any reason, our bad debt provisions may prove inadequate, which could have a negative adverse impact on our consolidated financial condition or results of operations.

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

The mobile telecommunications penetration rate in Turkey is relatively low in comparison to penetration rates in other EU countries. The development of our business will depend, in large part, on the future level of demand for mobile telecommunications in Turkey. Although we expect continued growth in the number of mobile telecommunications subscribers in Turkey, the size and usage patterns of our future subscriber base will be affected by a number of factors, many of which are outside our control. Such factors include, general economic conditions, the gross domestic product per capita of Turkey, the development of the GSM market and any rival technology for the provision of mobile telecommunications services, the price of handsets, the availability, quality and cost to the subscriber of competing mobile services and improvements in the quality and availability of fixed-line telephone services in Turkey. The economic crisis in Turkey in 2001 adversely impacted our operations and adversely affected us by decreasing the rate of subscriber growth and causing a significant decline in average monthly minutes of use per subscriber and average monthly revenue per user. Although economic conditions in Turkey improved in 2002, 2003 and 2004, they have not returned to pre-crisis levels. Any future disruptions in the Turkish economy could lead to further declines in the rate of subscriber growth and decreases in average monthly revenue per user and/or average monthly minutes of use per subscriber. Given these factors, it is difficult to predict with any degree of certainty the future growth of either mobile telecommunications services in Turkey or the number of our subscribers.

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

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

- changes in the laws, regulations or governmental policy, or their interpretation, including revisions to the interconnection and access regime or the imposition of price controls;

- changes in taxation, such as the increases in value added tax (VAT) in December 1999 from 15% to 17% and in May 2001 from 17% to 18%;

- the imposition of taxes on mobile telephone usage, such as the special communications tax of 25% enacted after the earthquakes in Turkey in December 1999, which was due to be terminated at the end of 2003 but was made permanent in 2004;

- granting additional mobile telephone licenses or other telephony licenses to new entrants and existing operators;

- the establishment of limitations on our operations;

investigations, enforcement actions or other assessments of the Competition Board, or other regulatory authorities;

denial of discretionary benefits that we may seek in expanding our network; and

the introduction of additional fees or charges by governmental authorities, such as the proposed fees for the universal services fund.

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

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

We are required to provide access and interconnection services to competing networks at cost-based pricing.

The Telecommunications Authority has designated us as an "operator holding significant market power" in the mobile call termination services market, along with one other operator. This designation may put us at a competitive disadvantage as we are required to provide access and interconnection services to any requesting operator at a price based on our cost while they are entitled to charge us more for interconnection to their network.

The designation comes from the Access and Interconnection Regulation, promulgated by the Telecommunications Authority on May 23, 2003. The Regulation requires all telecommunications operators in Turkey to enter into negotiations with any other telecommunications operator who requests use of and access to its network. The Regulation imposes more stringent requirements on operators designated by the Telecommunications Authority as "operators holding significant market power." Operators, other than those designated as holding significant market power, have the right to freely set the prices they charge other operators for access to their network. However, operators designated as holding significant market power are required to provide interconnection to any requesting operator at a price based on cost. If the parties are unable to come to an agreement, the Telecommunications Authority may intervene to establish the terms between the parties.

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

The Access and Interconnection Regulation required us to renew all of our existing interconnection agreements with the other telecommunications providers in Turkey. We renewed our interconnection agreement with Turk Telekom on September 20, 2003 and with Telsim on October 13, 2003, and agreed on new call termination charges on domestic and international calls. Although we had reached a new interconnection agreement with Aria and Aycell separately prior to their merger in November 2003, we have not yet reached an agreement with the merged entity, TT & TIM, and are in the process of negotiating terms. If we are unable to come to terms, the Telecommunications Authority may set the call termination fees to be applied by each operator with respect to any interconnection agreement. As part of the new interconnection agreements entered into with other operators, the pricing terms of the agreements must be revised in June with mobile operators and in December with Turk Telekom for year 2004, based on regulation set by the Telecommunications Authority and taking into account cost structures and inflationary adjustments. As a result of this requirement, we will go through a process of negotiating new pricing terms with each operator and, if we cannot agree on necessary terms with the operators, the Telecommunications Authority may set the call termination fees to be applied. We cannot ensure that the new pricing terms negotiated during 2004 or for other subsequent periods will be favorable to us. The current call termination charges are not as favorable to us as they have been previously as we are paying more and receiving less compared to the previous terms. In addition, the impact of the new pricing terms or possible future changes and their long term impact is not clear as the revenue composition will be dependent on future changes in traffic call patterns and consumer behavior, including the response of consumers to changes in retail end-user pricing.

The Telecommunications Authority has recently designated us as an "operator with dominant position" in the GSM mobile telecommunications services market.

The Telecommunications Authority passed the "Tariff Regulation" on August 28, 2001, which sets out the principles and procedures to be applied for the approval and the audit of the tariff to be applied to telecommunications services if it is determined that a business enterprise: (i) is a legal or de facto monopoly; or (ii) is in a dominant position in the relevant service or geographic market; or (iii) has significant market power. The Telecommunications Authority published a communiqué on June 3, 2003 defining "dominant position" as any position enjoyed in a related telecommunications market by one or more enterprises by virtue of which those competitors and consumers are able to determine economic parameters such as the amount of production or distribution, price and supply. In determining which operators possess dominant positions, the Telecommunications Authority will take into consideration the following criteria: market share; vertical integrity; the power to influence market conditions; entrance to relevant market; difficulty to control and replace the network; technological superiority; lack of competition in the relevant market; the quantity of unused capacity and the power to access financial resources. In September 2003, we were designated as an "operator holding significant market power" in the GSM Mobile Telecommunications Services Market. On June 9, 2004, the Telecommunications Authority designated Turkcell an "operator holding dominant position" in the GSM Mobile Telecommunications Services Market which subjects us to certain regulations including the requirement that we provide infrastructure facility sharing on a cost basis. Additionally, according to the tariff regulation, since there is no difference in the obligations between an operator with significant market power and one with a dominant position, we believe Turkcell will be subject to similar tariff regulations as before.

The Telecommunications Authority wants to set the maximum tariffs that we can charge our subscribers whenever it wants and at its sole discretion.

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

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

The Telecommunications Authority has been issuing new regulations which are designed to promote competition.

The Telecommunications Authority issued a co-location and facility sharing regulation, which requires operators with significant market power in related markets, including Turkcell, to provide other operators access to their sites and facilities. The Telecommunications Authority may also issue number portability regulation, which would enable subscribers to keep the same phone numbers after switching from one operator to another. Such a regulation would facilitate more customers churning from our network to other networks. These and other such regulations may adversely affect our financial and competitive position. We cannot estimate the timing of such regulatory changes or whether such implementation will happen at all or the impact of such changes on our results of operations.

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

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

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

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

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

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

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

We are involved in various claims and legal actions with governmental authorities in Turkey, including the Competition Board, the Turkish Treasury and the Telecommunications Authority, as well as with Turk Telekom, one of our principal competitors.

Disputes with the Turkish Competition Board, the Telecommunications Authority and other governmental authorities

We have been involved in several disputes with the Turkish Competition Board relating to their claim that we have violated competition law by abusing our dominant position and that we are disrupting the competitive environment through an abuse of dominant position in the Turkish mobile market and infringements of certain provisions of the Law on the Protection of Competition. If the Competition Board wins any of the disputes, it may require us to alter our business practices or the way we currently run our business, which could have a material adverse effect on our business, consolidated financial condition, results of operations or liquidity.

We are also involved in numerous litigations with the Turkish Treasury, the Telecommunications Authority, the Tax Office, and the Ministry of Transportation. These litigations primarily involve allegations that we have not paid our ongoing license fee in full, violated certain regulations of the Telecommunications Authority, or owe taxes or interest. Several of these litigations involve disputes regarding the proper method of computing the fees we must pay to various government entities. The loss of one or more of these lawsuits could have a material adverse effect on our business, consolidated financial condition or results of operations, or liquidity.

Disputes with Turk Telekom

We are involved in a number of disputes with Turk Telekom, including a dispute regarding the pricing terms of the interconnection agreement, the dispute regarding the pricing of the transmission lines leases and a dispute regarding Turk Telekom's infrastructure usage directive. An adverse result with respect to one or more of these disputes could have a material adverse effect on our business, consolidated financial condition, results of operations or liquidity.

For a more detailed discussion of all of our significant disputes, see "Item 8A. Consolidated Statements and Other Financial Information."

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

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

- incur additional indebtedness;
- incur liens;
- make restricted payments;
- pay dividends other than qualified capital stock of the Company;
- purchase or redeem any capital stock of the Company;
- prepay subordinated debt;
- make investments other than permitted investments;
- enter into transactions with affiliates;
- merge or consolidate with any other person; and
- sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of our assets.

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

Building, enhancing, operating and maintaining a mobile telephone network like ours requires substantial capital investment and marketing investments over a period of years, which we have financed mostly through indebtedness. From our inception until December 31, 2003, we have invested approximately $3,935.8 billion in acquiring our license and assets for the development of our network. As of December 31, 2003, we had, on a consolidated basis, total indebtedness of $630.2 million.

We believe that we will be able to finance our current operations, capital expenditures and financing costs and maintain and enhance our network in 2004 through our operating cash flow, our strong cash balance as of December 31, 2003 and certain new financings and debt restructurings that we have recently entered. However, we may face additional financial burdens and risks arising from the acquisition of a 3G license and the provision of 3G services and arising from our international operations, the acquisition of GSM licenses in Ukraine and Iran, payment guarantees to be provided or already provided with respect to financings in Ukraine and Iran, mandatory equity contributions and potential new investments, all of which could result in new financings. In addition, if there is a significant deterioration in the macroeconomic situation in Turkey, the mobile telecommunications services industry in Turkey, or other shocks or disruptions to our business, we may be required to seek additional financing. If we do need to seek additional financing, we may be unable to obtain such financing on terms favorable to us, or at all.

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

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

We use analytical techniques such as market valuation and sensitivity and volatility analysis to manage and monitor foreign exchange risk. To manage our foreign exchange risk more efficiently, we have in the past entered into forward transactions to buy US dollars. All of these transactions have expired and we have not entered into new transactions. In addition, we keep a significant proportion of our monetary assets in US dollars to reduce our currency exposure. The maximum tariffs we may charge are adjusted periodically pursuant to a formula set forth in our license agreement.

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

In addition to the foregoing risks, we also face risks associated with the appreciation of the Turkish Lira. Because we keep a significant proportion of our monetary assets in US dollars, a significant increase in the value of the Turkish Lira would reduce the effective value to us of such holdings.

Additionally, our provisions relating to legal disputes are in Turkish Lira. An appreciation of the Turkish Lira relative to the US dollar would impact the value of our provisions in terms of the US dollar and could have a material adverse effect on our results of operations.

We incurred currency translation losses of approximately $151.5 million, $18.0 million and $102.4 million for the years ended December 31, 2001, 2002 and 2003, respectively. Although we expect that the macroeconomic situation in Turkey will stabilize, we can make no assurance that our expectations will prove correct and we may incur translation losses in the future.

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

The Cukurova Group and TeliaSonera currently own, directly or indirectly, approximately 42.3% and 37.1%, respectively, of our share capital. As a result of their share ownership and power to appoint board members, each of the Cukurova Group and TeliaSonera have significant influence over decisions made by our board of directors.

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

On the other hand, the failure of the Cukurova Group and TeliaSonera to have a cooperative relationship could adversely impact the ability to achieve the consensus necessary to approve important matters relating to our business and operations. In October 2003, for example, one of our statutory auditors called an Extraordinary General Meeting on the basis that our board of directors was unable to agree upon important and strategic decisions for Turkcell. Two proxies representing Turkcell Holdings AS were present at the meeting and unable to agree on how to vote Turkcell Holdings' shares. The meeting was therefore postponed and rescheduled. Although the meeting was ultimately cancelled at the request of the Cukurova Group and TeliaSonera, who stated that the issues that led to the calling of the meeting had been resolved, there can be no assurance that disputes between the Cukurova Group and TeliaSonera will not occur in the future.

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

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

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

We will also begin conducting operations in Iran, which we expect will be significant in the future, through a majority-owned subsidiary. The success of these operations will depend, in part, on economic and political stability in Iran in the future. Despite the increasing political stability in Iran and efforts by the Iranian government to implement reforms to encourage foreign investment, Iran is still exposed to internal and external risks. In particular, political uncertainty in Iran and armed conflict and the threat of armed conflict in neighboring countries is one of the principal risks associated with investment in Iranian companies. In addition to the foregoing political risks, our operation in Iran will face additional risks resulting from the underdeveloped legal and regulatory regime in Iran.

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

We have financial exposure relating to outstanding receivables from and guarantees on behalf of Digital Platform.

Digital Platform, a direct-to-home digital broadcasting company that is owned by the Cukurova Group, held the broadcasting rights for the Turkish Super Football League until May 2004. Digital Platform has recently undergone a process to restructure some of its outstanding debts and is about to participate in the tender process for new broadcasting rights for the Turkish Super Football League. We currently believe that it is probable that Digital Platform will win this tender.

Our current receivables from Digital Platform Iletisim Hizmetleri A.S., a direct-to-home digital broadcasting company with which we have signed several agreements, is US$64 million. In addition, we have an outstanding risk of approximately US$47.0 million from corporate guarantees we have given on behalf of Digital Platform to various lenders. We currently believe that it is unlikely that we will not recover our receivables. However, there can be no assurance that we will recover all or some of our receivables. For more information on our transactions with Digital Platform, see "Item 7B. Related Party Transactions Digital Platform Iletisim Hizmetleri A.S. (Digital Platform)."

One of our shareholders has been seized by Turkish regulators

On June 18, 2002, the Banking Regulation and Supervision Agency of Turkey (the "BRSA") transferred the management and supervision of Pamukbank T.A.S. (Pamukbank), one of our shareholders whose majority shares are owned by the Cukurova Group, to the Savings Deposit Insurance Fund of Turkey (the "SDIF"). On January 31, 2003, the BRSA announced that it reached an agreement with the Cukurova Group whereby the Cukurova Group agreed to purchase the Turkcell shares, together with Turkcell Holding A.S. shares, owned by Pamukbank and Pamuk Factoring. On April 25, 2003, the shares were transferred to the Cukurova Group. The shares transferred to the Cukurova Group have been pledged to the SDIF. This pledge will be removed once the Cukurova Group has performed all of its obligations in full and in accordance with the provisions of the agreement with the SDIF. If the Cukurova Group fails to meet the foregoing requirements the SDIF may seize the Turkcell shares owned by the Cukurova Group that have been pledged to the SDIF.

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

The number of subscribers that can be accommodated on a mobile network is constrained by the amount of spectrum allocated to the operator of the network and is also affected by subscriber usage patterns and network infrastructure. Spectrum is a continuous range of frequencies within which the waves have certain specific characteristics. A number of techniques can be employed to increase the effective carrying capacity of a given allocation of spectrum. Beyond a certain point, however, it may become impracticable to apply these techniques in densely populated metropolitan areas for reasons of cost or technological limitations. The amount of spectrum currently allocated to our network may not be sufficient to accommodate the growth of our subscriber base or the increasing use of higher bandwidth applications. In particular, we currently face a lack of available frequencies in certain areas, particularly metropolitan areas. We may request from the Telecommunications Authority additional spectrum in the 1800 MHz band if it is available. However, there can be no assurance that the Telecommunications Authority will award some or all of the remaining GSM spectrum to us at reasonable cost or that it will not make such an award to one of our competitors or not make any such award at all.

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

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

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

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

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

We are aware of allegations that there may be health risks associated with the effects of electromagnetic signals from base transmitter stations and from mobile telephone handsets. While there is currently no substantiated link between exposure to electromagnetic signals at the level transmitted by our base transceiver stations and mobile telephone handsets and long-term damage to health, the actual or perceived health risks of mobile communications devices could adversely affect us through a reduction in subscribers, reduced usage per subscriber, increased difficulty in obtaining sites for base stations and exposure to potential liability. Furthermore, we may not be able to obtain insurance with respect to such liability on commercially reasonable terms.

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

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

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

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

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

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

ITEM 4. INFORMATION ON THE COMPANY

4A. History and Development of the Company

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

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

agreement between us and Turk Telekom, our network is interconnected to the Turk Telekom fixed-line network.

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

In July 1998, Cellco Finance N.V. (Cellco), a financing entity set up to issue debt instruments in order to refinance our existing indebtedness, issued $300 million in 15.00% senior subordinated notes due in 2005, which were fully repaid on November 10, 2003. In December 1999, Cellco issued $400 million in 12.75% senior notes due in 2005. In July 2000, we completed our initial public offering with the listing of our ordinary shares on the Istanbul Stock Exchange and our American Depositary Shares, or ADSs, on the New York Stock Exchange.

Our subscriber base has grown from 63,500 at year-end 1994 to approximately 19.7 million at March 31, 2004. For the year ended 2003, we had total revenues of $2,219 million, our EBITDA totaled $643 million, and we reported net income of $215 million.

4B. Business Overview

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

Through a state-of-the-art GSM network, we provide comprehensive coverage of an area that as of December 31, 2003, included 100% of the population living in cities of 10,000 or more people, as well as 99.87% of the population living in cities of 5,000 or more people, 99.45% of the population living in cities of 3,000 or more people as well as the 81 largest cities and the majority of the country's tourist areas and principal intercity highways. As of May 31, 2004, we provided service to our subscribers in 167 countries through roaming agreements with 403 operators.

Our principal founding shareholders are Sonera Holding, formerly known as Telecom Finland Ltd. and currently owned by TeliaSonera, and the Cukurova Group. The Cukurova Group is one of Turkey's leading financial and industrial conglomerates, with important financial services and media assets in Turkey. TeliaSonera was formed in December 2002 with the merger of Sonera Corporation, a Finnish telecommunications provider, and Telia, a telecommunications operator in Sweden. We have benefited from Sonera's expertise in constructing and operating our GSM network and developing our services. Notwithstanding the merger between Sonera and Telia, we expect to continue to benefit from our relationship with Sonera in the future. We have also benefited from Cukurova's knowledge of the local environment, particularly in relation to marketing and distribution. TeliaSonera and the Cukurova Group own, directly or indirectly, approximately 37.1% and 42.3%, respectively, of our outstanding share capital.

Industry

Overview

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

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

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

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

The Turkish Mobile Market

Turkey's population is estimated to be 70.7 million as of December 31, 2003. The Turkish population is young with an average age of 26, which is lower than elsewhere in Europe, and the majority of the population lives in urban areas. In our opinion, these factors indicate significant growth potential for the mobile communications market in Turkey.

There are currently three mobile communications operators in Turkey: Turkcell, Telsim, and TT&TIM (the company resulting from the merger of IsTim and Aycell).

Telsim, our principal competitor, received a 25-year license at the same time as we did on what we believe are identical terms, including the $500 million upfront license fee.

Turk Telekom commenced operations of its analog network in 1986. Turk Telekom promoted mobile telephony as primarily a car telephone product. We believe that subscribers have preferred GSM because most analog receivers available in the Turkish market are car phones rather than portable handsets and because of GSM's greater service offerings and better voice quality. We therefore believe that analog mobile telephony has become somewhat obsolete in Turkey over the years.

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

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

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

Following meetings with Italian Prime Minister Silvio Berlusconi in May 2003, Recep Tayyip Erdogan, the Turkish Prime Minister, announced that IsTim will merge with Aycell. Although the re-organization of numbering and frequency plans has not yet been announced, the merger process between IsTim and Aycell was legally completed on February 20, 2004. The new company, called "TT&TIM," is owned by Turk Telekom (40%), Telecom Italia Mobile (40%) and Isbank (20%).

Strategy

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

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

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

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

Enhance Customer Focused and Customer Relationship Management (CRM) Approach

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

Provide Superior Products and Services

We provide a full range of products and services through our GSM network. We have made a substantial investment in the development of our network. Through our state-of-the-art GSM network, we provide comprehensive coverage of an area that, as of December 31, 2003, includes 100% of the population living in cities of 10,000 or more people and 99.87% of the population living in cities of 5,000 or more people, 99.45% of the population living in cities of 3,000 or more people, as well as the 81 largest cities and the majority of the country's tourist areas and principal intercity highways. We believe that the quality of our network, measured in terms of network coverage and capacity, has been an important factor in our success to date. We intend to maintain our high quality network and to upgrade our networks to further facilitate the introduction of more sophisticated data services.

Provide Value-Added Services and Innovative Data Services

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

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

Focus on Cost Control and Efficiency

In 2003, we continued to focus on cost management and increased the efficiency of our operations without adversely impacting our ability to deliver high quality products and services to our subscribers. As a result of the extensive capital expenditures we have made since our formation, we have built a comprehensive, high quality network that covers 100% of the population living in cities of 10,000 or more people and 99.87% of the population living in cities of 5,000 or more people, 99.45% of the population living in cities of 3,000 or more people, as well as the 81 largest cities and the majority of the country's tourist areas and principal intercity highways. We believe that these past capital expenditures ensure that we will only need limited upgrade investments in 2004 for maintenance and enhancement at our network.

Focus on Relations with Shareholders, Business Partners and Stakeholders

We believe that in addition to a focus providing a consistently high level of subscriber service to our subscribers that it is also very important for us to develop close relations with our shareholders, business partners and other stakeholders. We plan to continue to strengthen our commitment to building shareholder value and forging further links with our business partners and other stakeholders in our community. Our main focus areas are maintaining our close relationships with our subscribers, business partners, suppliers and the community and considering and prioritizing the shareholders' expectations during the decision making processes and encouraging entrepreneurship. Teamwork and synergies to be created via partnerships and alliances as well as driving the market into the targeted business domains proactively will be important factors in our future success.

Services

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

Postpaid Voice Services

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

Prepaid Voice Services

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

There was rapid growth in our prepaid subscriber base in 2003. As of December 31, 2003, we had approximately 14.2 million prepaid subscribers, compared to approximately 11.0 million at December 31, 2002. The number of prepaid subscribers increased to 14.8 million and postpaid subscribers increased to 4.9 million at the end of the first quarter of 2004.

Other Services

International Roaming

We have international roaming agreements in force with all of the leading mobile operators. As of May 31, 2004, we offered our subscribers international roaming in 167 destinations around the world, pursuant to commercial roaming agreements with 403 operators. In addition, 30 new roaming agreements are signed and tests are in progress to activate roaming with these operators.

Since July 2002, we believe that we are the only mobile operator in Turkey providing roaming services for the prepaid subscribers of foreign mobile operators visiting Turkey. This service, also called "passive CAMEL" can only be enabled if both operators have installed CAMEL system on their networks. As of May 31, 2004, we offer prepaid roaming to the prepaid subscribers of 60 operators in 32 destinations.

Since October 2002, we have offered GPRS roaming. As of May 31, 2004, we had 101 GPRS roaming partners in 52 destinations. We have signed 130 GPRS roaming addendums to enrich the GPRS roaming availability.

In order to balance international SMS traffic, we started to sign international SMS Interworking Agreements with other mobile operators in April 2002. As of May 31, 2004, we had 95 International SMS Interworking Agreements in force.

Collect Call Service

In September 2002, we launched collect call service, where the called party pays for the call upon his approval. This service is available for both postpaid and prepaid subscribers, but is a convenience mainly for prepaid subscribers, which allows them to make calls even when they are short of counters.

Value-Added Services

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

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

We restructured our value added services business early in 2003. Our existing services are now distributed among three different business groups: Turkcell Operator services, Lifestyle services, and Carrier services, each described further below. Our goal with the restructuring was to increase subscriber value while addressing the needs of various third parties. As of May 31, 2004, we offered a total of 331 value added services, a 155% increase from 2002. Of these services, 142 were two-way interactive services within our Turkcell Operator services group; 81 were services within our Lifestyle Services group (consisting of 65 two-way interactive services and 16 packages), and 108 were two-way interactive services within our Carrier services group.

Turkcell Operator Services

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

- *Counter Transfer service.* Allows counter transfer among both postpaid and prepaid subscribers.
- *Collect Call service.* Allows a call that is paid by the called party.

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

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

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

Tourist info. Provides emergency information for tourists.

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

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

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

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

WebSMS. Enables subscribers to send SMS from our website.

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

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

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

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

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

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

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

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

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

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

Lifestyle Services

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

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

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

Shubuo offers 16 packages including:

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

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

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

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

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

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

Shubuo also offers 65 services including:

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

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

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

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

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

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

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

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

Diet. Offers various diet menus.

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

TV Guide. Provides information about TV program schedules.

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

Biorhythm. Provides information on the daily biorhythm.

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

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

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

Carrier Services

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

The number of carried services increased from 30 in 2002 to 108 as of May 31, 2004. Important milestones of 2003 were the introduction of Interactive Voice Response (IVR) chat services and SMS and IVR applications for TV contests. In addition, the logo and ring tones markets grew drastically.

Some carrier services include:

Chatwalk SMS and IVR. Enables subscribers to interact in chat groups using their mobile phones.

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

Who wants to be a billionaire? Enables subscribers to participate as a contestant in "Who Wants to be a Billionaire?" contests on TV.

Mad Chances. Gives subscribers a chance to win a prize such as an automobile.

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

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

Oynax java games. Provides subscribers a number of java games such as puzzle, quiz, basketball & football, car race, shooting and adventure games.

Data Services

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

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

Interactive Voice Response

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

SMS

SMS, or Short Message Service, enables mobile telephone users to send and receive written messages on their handsets. During 2003 average SMS usage per subscriber was approximately 16.1 SMS messages per month. During the first quarter of 2004, SMS per subscriber increased to 16.6.

MMS

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

The pricing of the service is a set price per message, regardless of the amount of data. Therefore, Turkcell subscribers will know exactly how much it costs to send a message. Turkcell subscribers should have particular phone settings and register with Maximesaj to use this service. There is a one-step registration that can be done by a single SMS or at the Turkcell website.

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

Future Services: Third Generation Mobile

The "first generation" of mobile telecommunications, based on analog technology, provided simple voice telephony. The "second generation" of mobile telecommunications, based on the digital GSM standard, provides additional data facilities, ranging from short messaging services to narrow band data. We currently offer general packet radio service (GPRS), often referred to as "Generation 2.5" or "2.5G," which permits even greater opportunities for improved data and voice services, provides the platform for the introduction of mobile Internet services, and paves the way for third-generation (3G) networks. With 2.5G, users can surf on the mobile Internet via GPRS and choose from a wider array of entertainment and business applications. Third generation mobile telecommunications, which offers full interactive multimedia capabilities at data rates of up to 2 Mbs, are expected to bring mobile networks significantly closer to the capabilities of fixed-line networks. Improvements in coding and data compression technology will provide better speech quality and more reliable data transmission. UMTS is the EU's implementation of third generation mobile telecommunications.

Ultimately, the range of services offered over third generation networks will be determined by the needs of the market over time. However, we anticipate that key new product offerings will be facilitated as a result of greater bandwidth and enhanced network intelligence. Bandwidth is the range of frequencies occupied by a radio signal or the range of frequencies over which a radio receiver operates. Multimedia services will feature prominently in third generation networks, and may include, in addition to conventional mobile voice and data services:

- high speed Internet and intranet access;
- video telephone and conferencing;
- rich voice services;
- entertainment, information and high precision location services; and
- direct instant access to home or office IT system.

A licensing process for third generation services in Turkey has not yet been established by the Turkish government, and our ability to implement these services will be dependent on clearing regulatory and licensing hurdles. However, we believe that these services will be important for our business when they are introduced in the coming years and we intend to participate in the licensing process when it commences.

Tariffs

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

Each subscriber pays a voice tariff. Voice tariffs vary based on type of subscriber (whether corporate or individual), time and destination of call, and call volume. While current price levels for domestic calls in our postpaid and prepaid tariffs are more than twice as expensive as fixed-line call prices, some of our discounted rates for onnet calls match or are slightly below the rates of long-distance fixed-line calls. Variations in our voice tariffs are summarized below under "Postpaid Tariffs" and "Prepaid Tariffs."

Postpaid Tariffs

Although we offer a number of postpaid tariffs, as of December 31, 2003, approximately 75% of our postpaid subscribers subscribed to the Super On Net tariff ("Bizbize") and 13% to the standard tariff. BizimSirket, a corporate tariff with a structure similar to Super On Net, was our third largest tariff with 3% of the total postpaid subscriber base.

In 2003, our postpaid tariff portfolio went through certain revisions. These revisions were designed to make various tariffs aimed at specific groups of users more appealing. For example, we adjusted the pricing of the Hero tariff (which is available to veterans, state police, public prosecutors and adjudicators) and the Support tariff (which is available to the handicapped and to veterans).

The revisions to tariffs were also accompanied by new community tariff launches and discount campaigns. For example, in 2003, we introduced the postpaid Kampus tariff, which is aimed at university students and launched three new tariffs, "Group 1," "Group 2" and "Group 3," which are designed for communities or companies with 150,000-300,000 members, 500 or more members and 600,000 or more members, respectively. These community tariffs allow members of a community to speak with each other for a set number of minutes each month for a flat fee.

In March 2004, we started a three-month campaign for subscribers of certain of our tariffs: calls to PSTN are discounted by half in Bizbize, Kademeli, BizimSirket, Kampus, Hero and Group 2 on Mondays through Saturdays from 18:00 to 06:00 and on Sundays all day. In June we extended this campaign for another three months.

Subscribers can also sign up for bulk SMS and minute packages (bundles) on top of their tariff plan. Once the bulk usage is exhausted, the rates in the subscribers' existing tariff package apply. We offer seven bulk minute tariff packages (bundles) and two bulk SMS packages, all launched after May 2003.

Our main tariffs are listed below as of May 18, 2004 (the US dollar amounts in the table are based on the June 9, 2004 exchange rate of TL 1,480,880 = $1.00). The prices below include 18% VAT but exclude the 25% Special Communications Tax.

The tariffs below are offered both to the mass market and corporate subscribers:

	Super On Net	Standard	Daily Volume	Professional
	$	$	$	$
Monthly Fee	0.65	1.86	0.65	8.10
Calls Out (per minute):				
Turkcell to Turkcell	0.17	0.32	0.20/0.14/0.11	0.24
Turkcell to PSTN*	0.46/0.23	0.38	0.40/0.23	0.24
Turkcell to OMO	0.47	0.38	0.41	0.24
Turkcell to Turkcell off peak	0.17	0.30	0.20/0.14/0.11	0.22
SMS (per message)	0.09	0.09	0.09/0.04	0.09

* Calls to PSTN are discounted in Super On Net and Daily Volume tariffs on Mondays through Saturdays from 18:00 to 06:00 and on Sundays all day.

	1cebe3cep(1)	Kampus(2)	Starlet(1)	Hero(2)	Support(2)	Group 1(2)	Group 2(2)	Group 3(2)
	$	$	$	$	$	$	$	$
Monthly Fee	0.68	0.34	0.34	0.68	0.32	6.75*	5.4/8.1/10.8**	6.75*
Calls Out (per minute):								
Turkcell to Turkcell	0.43/0.13	0.17/0.11	0.48	0.17	0.08	0.17	0.17	0.17
Turkcell to PSTN***	0.43	0.46/0.23	0.48	0.30/0.23	0.23	0.17	0.46/0.23	0.17
Turkcell to OMO	0.43	0.47	0.48	0.31	0.23	0.31	0.47	0.31
Turkcell to Turkcell off peak	0.43	0.17	0.10	0.17	0.08	0.17	0.17	0.17
SMS (per message)	0.09	0.09/0.05	0.09	0.09	0.09	0.09	0.09	0.09

* Includes 600 minutes and 30 free SMS within the group.

** There are three options, which include 60/100/150 minutes and 60/100/150 free SMS within the group.

*** Calls to PSTN are discounted in Kampus, Hero and Group 2 tariffs on Mondays through Saturdays from 18:00 to 06:00 and on Sundays all day.

(1) These tariffs are offered to the mass market, not to corporate subscribers.

(2) These tariffs are offered to a specific group of subscribers.

The tariffs below are offered specifically for corporate subscribers.

	BizimSirket	MobilSirket	Sirketim
	$	$	$
Monthly Fee	0.65	3.04	3.38
Calls Out (per minute):			
Turkcell to Turkcell	0.16/0.15	0.23/0.19	0.24/0.05

	BizimSirket	MobilSirket	Sirketim
Turkcell to PSTN*	0.43/0.22	0.23	0.36
Turkcell to OMO	0.44	0.23	0.36
Turkcell to Turkcell off peak	0.16	0.23	0.24
SMS (per message)	0.09	0.09	0.09

* Calls to PSTN are discounted in Bizimsirket tariff on Mondays through Saturdays from 18:00 to 06:00 and on Sundays all day.

Call prices in the table do not include the effect of the volume discount plan.

Prepaid Tariffs

We offer two tariffs for our mass market subscribers (Standard and Super On Net, or "Bizbize") and one package to our corporate prepaid subscribers. The flat Standard tariff charges the same price for all domestic calls. The Super On Net tariff, which was launched in March 2001, encourages existing subscribers to make calls within our network and encourages new subscribers to choose Turkcell by providing a 64% discount on Turkcell-to-Turkcell calls compared to off-network charges. As of December 2003, TopluKontorCELL, which offers bulk counter packages aimed at corporate users, contained a total of 18 different counter packages. The counters in a package can be distributed among a predetermined number of lines; for instance, the smallest package can be distributed among up to three lines.

In 2003, we continued the implementation of the volume discount campaigns, such as "Yarisi Bizden" (which provides a 50% discount after the first minute during every on net call), "Kontorbizden" (which provides extra bonus counters after every recharge), "SMS for one counter campaign," and "Extra bonus counter campaign for Refill scratch cards." In January 2004, we launched the prepaid version of Kampus (a community tariff for university students). Prepaid Kampus subscribers can call and send SMS to other Kampus subscribers for 50% less than Bizbize. In March 2004, we launched a three-month discount campaign in Bizbize and Kampus, in which calls to PSTN are discounted by more than 50% on Mondays through Saturdays from 18:00 to 06:00 and on Sundays all day. In June we extended this campaign for another three months.

The following table sets forth our prepaid tariffs charged as of May 18, 2004 (the US dollar amounts in the table are based on the June 9, 2004 exchange rate of TL 1,480,880 = $1.00). These tariffs include VAT of 18% but exclude the 25% special communications tax and are based on the 100 counter card price level.

	Standard	**Super On Net**	**KampusCELL(1)**	**TopluKontorCELL(2)**
	($)	**($)**	**($)**	**($)**
Calls Out (per minute):				
Turkcell to Turkcell	0.56	0.22	0.22/0.11	0.18
Turkcell to PSTN(3)	0.56	0.61/0.28	0.61/0.28	0.50/0.23
Turkcell to OMO	0.56	0.61	0.61	0.50
Turkcell to Turkcell off peak	0.56	0.22	0.22/0.11	0.18
SMS (per message)	0.11	0.11	0.11	0.09

(1) These tariffs are offered to a specific group of subscribers.

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

(3) Calls to PSTN are discounted on Sper On Net, Kampus Cell and Toplu Kontor Cell from Monday through Saturday between 18:00 and 06:00 and all day Sundays.

The level of prepaid usage prices vary by the volume of counters purchased by the subscriber. Mass market subscribers can choose from one of five scratch cards (100, 250, 500, 750, 1000) and get a discount on cards with counters of 250 and up. The discount has been in place since March 2001 and has increased over time in line with changes in usage behavior. Current discount levels, compared to 100 counter-card prices are as follows: 250 counters 16%; 500 counters 22%; 750 counters 23%; 1000 counters 27%. Corporate subscribers on the other hand can use TopluKontorCELL, a service with eighteen counter bundles, to purchase counters in bulk with the purpose of distributing them among employees. All bundles are offered at a 18% to 31% discount compared to the 100 counter card unit price.

Data Tariffs

The following tariffs for data calls are in effect as of May 19, 2004 (the US dollar amounts in the table are based on the June 9, 2004 exchange rate of TL 1,480,880 = $1.00). These tariffs include VAT of 18% but exclude the 25% special communications tax. Since the usage of the 100 counter top-up is still 45% of the total, prepaid prices below are based on the 100 counter top-up price level.

	Postpaid	Prepaid