TURKCELL ILETISIM HIZMETLERI A S
Form 20-F
April 23, 2007
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As filed with the Securities and Exchange Commission on April 23, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

¨ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934**
OR

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2006

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

OR

¨ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
Date of event requiring this shell company report

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: 71

34430 Tepebasi

Istanbul, Turkey

(Address of Principal Executive Offices)

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

Title of each class	Name of each exchange on which registered
American Depositary Shares	**New York Stock Exchange**
Ordinary Shares, Nominal Value TRY 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 TRY 1.000	**2,200,000,000**

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

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

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

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

Large Accelerated Filer x Accelerated Filer ¨ Non-Accelerated Filer ¨

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

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

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INTRODUCTION

This is the 2006 annual report for Turkcell Iletisim Hizmetleri A.S. (Turkcell), 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 statements included in this annual report have been prepared and are presented on a consolidated basis in accordance with International Financial Reporting Standards (IFRS) and its interpretations adopted by the International Accounting Standards Board (IASB) in US dollars. Turkcell commenced reporting under IFRS, rather than US Generally Accepted Accounting Principles (US GAAP), in 2006 and the 2005 year is also presented under IFRS in this report for comparative purposes. The reconciliation of significant differences to US GAAP is described in Note 34 to our consolidated financial statements included in Item 18. Information under IFRS for earlier years has been omitted. We have also included financial information prepared under US GAAP for each of the years in the five-year period ended December 31, 2006. The consolidated financial statements as of December 31, 2006 and 2005, included herein have been audited by KPMG Cevdet Suner Denetim ve Yeminli Mali Musavirlik A.S., or KPMG, our independent registered public accounting firm 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; references to TRY and New Turkish Lira are to the New Turkish Lira; and references to $, US dollars , and cents are to US dollars and cents. Except as otherwise noted, all interest rates are on a per annum basis. In this annual report, references to Turkey or the Republic are to the Republic of Turkey.

FORWARD-LOOKING STATEMENTS

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

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

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

- competition in our home market;
- failure to find appropriate investment opportunities;
- economic developments in Turkey and the global economy;
- political developments in Turkey and its neighboring countries;

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failure of the Turkish mobile telecommunications market to continue to develop;

failure to successfully integrate acquired companies, to compete successfully in a new market, or to successfully exploit new technologies;

technological changes in the telecommunications market;

legal and regulatory restrictions, including those imposed by the Telecommunications Authority of Turkey (the Telecommunications Authority);

enactment of the draft Electronic Communications Law in Turkey;

adverse effects on our competitiveness due to our designation by the Telecommunications Authority as an operator holding significant market power in the mobile call termination services market and as an operator holding significant market power in access to GSM mobile networks and the call origination market ;

failure to abide by the requirements of our license or applicable regulations;

our current legal action against the Turkish Capital Markets Board;

legal actions and claims to which we are a party;

foreign exchange rate risks;

interest rate risk;

the influence of our controlling shareholders;

disputes between our principal shareholders;

exposure to certain risks through our interests in associated companies;

our ability to deal with spectrum limitations;

potential liability and possible reduced usage of mobile phones as a result of alleged health risks related to base transmitter stations and the use of handsets;

- our dependence on certain suppliers for network equipment and the provision of data services;

- our dependence on certain systems and suppliers for IT services and our exposure to potential natural disasters, regular or severe IT failures and IT migration risk;

- our ability to retain key personnel;

- financial risks in the event that our majority owned subsidiaries fail to meet some of their obligations set forth in the agreements related to their financing arrangements; and

- the current issuance and cancellation halt of ADS s by depositories in Turkey.

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

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not Applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable.

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ITEM 3. KEY INFORMATION
3.A Selected Financial Data

Our financial statements included in this annual report have been prepared and are presented on a consolidated basis in accordance with IFRS and its interpretations adopted by the International Accounting Standards Board (IASB) in US dollars. Turkcell commenced reporting under IFRS, rather than US GAAP, in 2006 and the 2005 year is also presented under IFRS in this report for comparative purposes. Information under IFRS for earlier years has been omitted. We have also included selected financial data prepared under US GAAP for each of the years in the five-year period ended December 31, 2006. The consolidated financial statements as of and for the year ended December 31, 2006 and 2005, included herein have been audited by KPMG, our independent registered public accounting firm in Turkey.

The following presents our selected financial data as of and for each of the years in the two-year period ended December 31, 2006, presented in accordance with IFRS; and our selected financial data as of and for each of the years in the five-year period ended December 31, 2006, presented in accordance with US GAAP.

You should read the following information in conjunction with Item 5. Operating and Financial Review and Prospects, our audited consolidated financial statements as of December 31, 2006 and 2005 and for each of the years in the two-year period ended December 31, 2006, and the related notes appearing elsewhere in this annual report.

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The information appearing under the captions Other Financial Data and Operating Results is not derived from the audited financial statements.

	2006	2005
	(Million $, except share data and other certain data)	
Selected Financial Data Prepared in Accordance With IFRS		
Consolidated Statement of Operations Data		
Revenues		
Communication fees	4,406.7	4,295.9
Commission fees on betting business	172.4	112.5
Monthly fixed fees	57.6	54.9
SIM card sales	21.0	50.3
Call center revenues and other revenues	42.6	14.4
Total revenues	4,700.3	4,528.0
Direct cost of revenues(1)	(2,627.9)	(2,701.6)
Gross profit	2,072.4	1,826.4
Other income	8.1	15.4
Administrative expenses	(154.9)	(154.0)
Selling and marketing expenses	(827.5)	(700.5)
Other expenses	(6.5)	(4.9)
Results from operating activities	1,091.6	982.4
Finance income	184.0	167.5
Finance expense	(108.0)	(191.2)
Net finance income/(costs)	76.0	(23.7)
Share of profit of equity accounted investees(2)	78.6	68.2
Profit before gain on net monetary position, net	1,246.2	1,026.9
Gain on net monetary position, net		11.0
Profit before income taxes	1,246.2	1,037.9
Income tax expense	(413.2)	(290.5)
Profit for the period	833.0	747.4
Attributable to:		
Equity holders of the Company	875.5	772.2
Minority interest	(42.5)	(24.8)
Profit for the period	833.0	747.4
Basic and diluted earnings per share(3)	0.397951	0.351021
Other Financial Data		
Dividends declared or proposed(4)	411.9	342.2
Dividends per share (declared or proposed)(5)(10)	0.187227	0.155545
Gross margin(6)	44%	40%
Adjusted EBITDA(7)	1,820.0	1,722.2
Capital expenditures	604.8	772.6
Consolidated Balance Sheet Data (at period end)		
Cash and cash equivalents	1,598.6	808.2
Total assets	6,089.7	5,215.1
Long term debt(8)	113.5	79.2
Total debt(9)	639.6	657.3
Total liabilities	1,971.8	1,524.8
Share capital	1,636.2	1,439.0
Total equity/net assets	4,118.0	3,690.3
Weighted average number of shares(3)	2,200,000,000	2,200,000,000
Consolidated Cash Flow Information		
Net cash from operating activities	1,854.9	1,072.6
Net cash used for investing activities	(632.5)	(659.2)
Net cash used for financing activities	(395.8)	(347.6)

(1) Direct cost of revenues includes ongoing license fee and universal service fund payments, transmission fees, base station rents, billing costs, depreciation and amortization charges, technical, repair and maintenance expenses, roaming charges, interconnection fees, cost of SIM cards sold, and personnel expenses for technical personnel.

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(2) Share of profit of equity accounted investees includes primarily the income (loss) from Fintur Holdings B.V. (Fintur) and A-Tel Pazarlama ve Servis Hizmetleri A.S. (A-Tel) of which we own 41.45% and 50.00%, respectively. During August 2006, we acquired 50% of the shares of A-Tel for a consideration of $150.0 million. We made the related payment on August 9, 2006 and the results of A-Tel s operations have been included in our consolidated financial statements since that date. Fintur currently holds all of our International GSM investments other than our Northern Cyprus and Ukraine operations. During 2002, Fintur restructured its two business divisions, the international GSM businesses and the technology businesses. As part of the restructuring, we acquired 16.45% of Fintur s international GSM businesses from the Cukurova Group, increasing our ownership interest in that business to 41.45% and Fintur sold its entire interest in its technology businesses to the Cukurova Group. See Item 4B. Business Overview International Operations Fintur.

(3) Net income per share figures and weighted average number of shares reflected in our historical financial statements have been retrospectively restated for the stock splits and stock dividends as explained in note 21 to our audited consolidated financial statements.

(4) The US$ equivalent of the cash dividends declared for the year ending December 31, 2006, which amount to TRY 567.0, was computed by using the Central Bank of Turkey s TRY/US$ exchange rate on March 23, 2007, which is the date of our General Assembly meeting for approval of distribution of dividends.

(5) In 2006, we declared dividends of $342.2 million for the year ended December 31, 2005, when 1,854,887,341 of our shares were outstanding. The decision of the Board of Directors was approved by the General Assembly which was held on May 22, 2006. Dividends per share for the year ending December 31, 2005 is computed over 2,200,000,000 shares in order to reflect the effect of certain stock splits and stock dividends as explained in note 21 to our consolidated financial statements. In 2007, we declared dividends of $411.9 million for the year ended December 31, 2006, when 2,200,000,000 of our shares were outstanding. The decision of the Board of Directors was approved by the General Assembly meeting which was held on March 23, 2007.

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

(7) Adjusted EBITDA equals net income before finance income, finance expense, income tax expense, other income, other expense, minority interest, share of profit of equity accounted investees, gain on net monetary position, depreciation and amortization. Adjusted EBITDA is not a measurement of financial performance under IFRS and should not be construed as a substitute for profit for the period 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.

(8) Consists of long-term loans and borrowings and long-term lease obligations.

(9) Consists of long-term and short-term loans and borrowings and lease obligations.

(10) Divdend per share figures in TRY are TRY 0.257745 for the year ended December 31, 2006 and TRY 0.231398 for the year ended December 31, 2005.

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	2006(1)	2005	2004	2003	2002
		(Million $, except share data and certain other data)			
Selected Financial Data Prepared in Accordance With US GAAP					
Consolidated Statement of Operations Data					
Total revenues		4,268.5	3,200.8	2,219.2	1,973.9
Gross profit		1,877.5	1,199.6	606.0	607.0
Operating income		1,236.8	713.1	174.2	278.9
Net income	1,015.6	910.9	511.8	215.2	47.4
Basic and diluted earnings per share(2)(7)	0.461655	0.414045	0.232636	0.097818	0.021545
Other Financial Data					
Dividends declared or proposed(3)	411.9	342.2	182.2	78.1	
Dividends per share (declared or proposed)(4)	0.187227	0.155545	0.082818	0.035500	
Gross margin(5)		44.0%	37.5%	27.3%	30.8%
Adjusted EBITDA(6)		1,704.5	1,137.1	595.7	691.0
Capital expenditures		778.7	486.7	172.9	71.2
Consolidated Balance Sheet Data (at period end)					
Total assets		4,405.6	4,361.5	3,867.3	3,233.5
Total debt		650.3	832.6	630.2	1,308.2
Common stock		636.1	636.1	636.1	636.1
Total shareholders equity/net assets	3,449.2	2,717.6	1,985.5	1,547.3	1,330.5
Weighted average number of shares(7)	2,200,000,000	2,200,000,000	2,200,000,000	2,200,000,000	2,200,000,000
Consolidated Cash Flow Information					
Net cash provided by operating activities		1,143.1	603.9	1,041.3	608.8
Net cash used for investing activities		(745.4)	(542.3)	(198.9)	(141.9)
Net cash provided by (used for) financing activities		(366.5)	119.5	(653.8)	(315.9)

(1) We commenced reporting under IFRS, rather than US GAAP, in 2006. Therefore, only net income, net income per share and total equity information have been given as of and for the year ended December 31, 2006, in accordance with US GAAP. Discussion of the principal differences between IFRS and US GAAP is set out in Note 34 to our consolidated financial statements.

(2) Net income per share figures have been restated to reflect the effect of certain stock splits.

(3) The US$ equivalent of the cash dividends declared for the year ending December 31, 2006, which amount to TRY 567.0, was computed by using the Central Bank of Turkey s TRY/US$ exchange rate on March 23, 2007, which is the date of our General Assembly meeting for approval of distribution of dividends.

(4) In 2005 we declared dividends of $182.2 million for the year ended December 31, 2004, when 1,854,887,341 of our shares were outstanding. In 2006, we declared dividends of $342.2 million for the year ended December 31, 2005, when 1,854,887,341 of our shares were outstanding. The decision of the Board of Directors was approved by the General Assembly which was held on May 22, 2006. Dividends per share for the year ending December 31, 2004 and 2005 are computed over 2,200,000,000 shares in order to reflect

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the effect of certain stock splits. In 2007, we declared dividends of $411.9 million for the year ended December 31, 2006, when 2,200,000,000 of our shares were outstanding. The decision of the Board of Directors was approved by the General Assembly meeting which was held on March 23, 2007.

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

(6) Adjusted EBITDA equals net income before finance income, finance expense, income tax benefit (expense), other income, other expense, minority interest, share of profit of associates, gain on net monetary position, depreciation and amortization. Adjusted 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.

(7) In connection with the redenomination of the Turkish Lira and as per the related amendments of Turkish Commercial Code, in order to increase the nominal value of the shares to TRY 1, 1,000 units of shares, each having a nominal value of TRY 0.001 shall be consolidated and each unit of share having a nominal value of 1 TRY shall be issued to represent such shares. Turkcell is currently in the process of merging 1,000 existing ordinary shares, each having a nominal value of TRY 0.001 to one ordinary share having a nominal value of TRY 1. After the share consolidation which appears as a provisional article in the Articles of Association to convert the value of each share with a nominal value of TRY 0.001 to TRY 1, all shares will have a value of 1 TRY. Although the consolidation process has not been finalized, the practical application is to state each share having a nominal value of TRY 1 which is consented by CMB. Basic and deleted weighted average number of shares and net income per share as of December 31, 2002, 2003, 2004 and 2005 are retrospectively changed to reflect each share having a nominal value of TRY 1.

The following tables provide a reconciliation of Adjusted 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 IFRS.

	Year ended December 31,	
	2006	**2005**
	(Million $)	
Adjusted EBITDA	1,820.0	1,722.2
Other operating income/(expense)	1.6	10.5
Financial income	184.0	167.5
Financial expense	(108.0)	(191.2)
Gain on net monetary position, net		11.0
Net decrease in assets and liabilities	(60.3)	(624.4)
Net cash provided by operating activities	1,837.3	1,095.6

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

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Operating Results

	Year ended December 31, 2006	2005
Industry Data		
Estimated population of Turkey (in millions)(1)	74.4	73.4
Turkcell Data		
Number of postpaid subscribers at end of period (in millions)(2)	5.8	5.4
Number of prepaid subscribers at end of period (in millions)(2)	26.0	22.5
Total subscribers at end of period (in millions)(2)	31.8	27.9
Average monthly revenue per user (in $)(3)	12.1	14.0
Postpaid	31.0	33.5
Prepaid	7.8	9.0
Average monthly minutes of use per subscriber(4)	70.3	67.7
Churn(5)	14.7%	10.1%
Number of Turkcell employees at end of period	2941	2858
Number of employees of consolidated subsidiaries at end of period(6)	5258	4659

(1) The Turkish population for 2006 and 2005 has been estimated based upon the 1996 and 2000 censuses prepared by the Turkish Statistical Institute, applying a projected monthly growth rate of 0.13%.

(2) Subscriber numbers do not include the subscribers in Ukraine and Northern Cyprus.

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

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

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

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

Exchange Rate Data

Effective January 1, 2005, the Turkish parliament redenominated the Turkish Lira and created a new currency, the New Turkish Lira or TRY. One million Turkish Lira is equal to one New Turkish Lira. Turkish Lira remained in circulation along with the New Turkish Lira until the end of 2005. Effective January 1, 2006, only New Turkish Lira are in circulation in Turkey.

The Federal Reserve Bank of New York does not report a noon buying rate for the New Turkish Lira and historically has not reported a noon buying rate for the Turkish Lira. For the convenience of the reader, this annual report presents translations of certain New Turkish Lira amounts into US dollars at the relevant New Turkish Lira exchange rate for purchases of US dollars at the TRY/$ Exchange Rate announced by the Central Bank of Turkey. In addition, this annual report presents translations of certain New Turkish Lira amounts into US dollars at the relevant New Turkish Lira exchange rate for purchases of US dollars at the TRY/$ Exchange Rate announced by the Central Bank of Turkey. Prior to January 1, 2006, unless otherwise stated, any balance sheet data in US dollars derived from our consolidated financial statements are translated from New Turkish Lira into US dollars at rates 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 non-monetary assets and liabilities. Any data from our consolidated statements of operations in US dollars derived from our consolidated financial statements are translated from New Turkish Lira into US dollars at historic rates. Unless otherwise indicated, the TL/$ exchange rate or TRY/$ exchange rate used in this annual report is the TL/$ exchange rate or TRY/$ exchange rate in respect of the date of the financial information being referred to.

Starting from January 1, 2006, all assets and liabilities are translated to US dollars at exchange rates at the balance sheet date.

The following table sets forth, for the periods and the dates indicated, the Central Bank of Turkey s buying rates for US dollars. These rates may differ from the actual rates used in preparation of our consolidated financial statements and other information appearing herein. The TRY/$ exchange rate as of April 6, 2007 was TRY 1.3625 = $1.00.

	Year ended December 31,					
	2007(2)(3)	2006(2)	2005(2)	2004	2003	2002
High	1.450	1.693	1.400	1,550,710	1,746,390	1,688,410
Low	1.363	1.297	1.254	1,301,340	1,348,023	1,286,543
Average(1)	1.402	1.431	1.344	1,422,514	1,492,581	1,513,611
Period End	N/A	1.406	1.342	1,342,100	1,395,835	1,634,501

Source: Central Bank of Turkey

(1) Calculated based on the average of the exchange rates on the last day of each month during the relevant period.
(2) These columns set forth the Central Bank of Turkey s buying rates for US dollars expressed in New Turkish Lira.
(3) Through April 6, 2007.

	April 2007(1)	March 2007	February 2007	January 2007	December 2006	November 2006	October 2006
High	1.381	1.450	1.414	1.445	1.450	1.476	1.509
Low	1.363	1.377	1.376	1.404	1.413	1.432	1.442

Source: Central Bank of Turkey

(1) Through April 6, 2007.

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

3.B Capitalization and Indebtedness

Not applicable.

3.C Reasons for the Offer and Use of Proceeds

Not applicable.

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3.D Risk Factors

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

We currently face competition from Vodafone Telekomunikasyon A.S. (Vodafone) and Avea Iletisim Hizmetleri A.S. (Avea) in the Turkish GSM market. Competition is likely to increase due to recent structural changes in the competitive environment. Vodafone acquired all the shares of Telsim Mobil Telekomunikasyon Hizmetleri A.S. (Telsim) on May 24, 2006 and in September 2006, Telecom Italia SpA sold its 40.5% stake in Avea to Turk Telekomunikasyon A.S. (Turk Telekom). This transaction increased Turk Telekom s stake in Avea to 81%.

The new presence of Vodafone in the Turkish GSM market is important because Vodafone is a multinational GSM operator with a strong and proven track record. In addition, the change in Avea s share ownership structure could also lead to increased competition for us in the Turkish GSM market, especially if Avea is able to benefit from its position as an affiliate of Turk Telekom.

These shifts in the GSM market could result in changes to, and a strengthening of, the competitive environment for Turkcell. Previously, competition has mainly focused on price, with aggressive subscriber offers such as lower tariffs, free minutes and free SMS messages. However, competition is now also beginning to focus on the acquisition of high value subscribers based on such factors as the quality of service, customer service, product variety, distribution capabilities and improved branding and thereby, other GSM operators are also seeking to increase their subscriber base and subscriber retention. Currently, Turkcell is perceived as the highest quality GSM operator and we possess the highest market share among GSM operators in Turkey. If other GSM operators begin to provide a competitive quality of service, then our market share could fall, our churn could increase and we may fail to retain customers.

In addition, we expect to face increased direct competition from, among others, long distance carriers and fixed line telephony providers. In May 2004, the Telecommunications Authority granted long distance licenses, allowing licensees to provide both domestic and international long distance telephony services. As of March 2007, approximately 45 companies are holding such licenses but only some are operational. Although these long distance telephony providers have not yet had a significant effect on our operations, in the long term they could have the effect of driving down prices and shifting traffic patterns for long distance calls in Turkey.

On February 1, 2007, the Telecommunications Authority issued regulations on Mobile Number Portability (MNP). These regulations allow subscribers to keep their existing telephone numbers when changing telephone operators. These regulations are expected to become operational at the end of 2007 or early 2008. However, the introduction of MNP into the Turkish market may lead to increased churn rates and may have a significant impact on both Turkcell and the market. Turkcell must ensure it implements MNP on a timely basis, otherwise a delayed implementation may result in the imposition of fines by the Telecommunications Authority.

The Telecommunications Authority is in the process of preparing regulations and is expected to begin a tender process for the granting of Third Generation (3G) licenses during the first half of 2007. The Telecommunications Authority has announced that there will be a tender process for the awarding of the 3G licenses. 3G licenses will be sold for a minimum 252 million for the largest bandwidth. However, the tender process could result in a significantly higher price, especially if multiple new licenses are granted to new entrants. Turkcell s ability to implement 3G services will be dependent on clearing the 3G regulatory and licensing process. The issuance of 3G licenses and the introduction of 3G services in Turkey could lead to significant changes in the competitive environment and Turkcell s failure to obtain a 3G license or to implement 3G could affect our competitive position. The Telecommunications Authority may attempt to award at least four 3G licenses, possibly resulting in at least one new entrant into the current market. Currently, we do not know whether a new entrant intends to join the market but if a new competitor does enter the market, it could affect market dynamics and lead to further market share deterioration.

In addition, the Telecommunications Authority is in the process of preparing regulations for Mobile Virtual Network Operators (MVNO), Wireless Broadband Access Services operator licenses (WBA) and Value Added Services (VAS) licenses. Although it is unclear exactly when or even if they will be issued, these potential regulatory changes have the potential to significantly affect market dynamics.

Each of these potential changes in market dynamics could have a negative impact on our ability to attract and retain customers, the competitiveness of our products and services, our distribution channels, our brand and our infrastructure investments, which, in turn, could have a material adverse effect on our business, consolidated financial condition and results of operations.

We may not find appropriate investment opportunities with which to utilize our cash to provide an adequate rate of return for our investors.

Our business has been highly cash generative in recent years. However, to provide an adequate return for our investors, we will need to find appropriate opportunities in which to invest in line with our expansion strategy. These opportunities may include the purchase of licenses and acquisitions of interests in other operators in markets outside of Turkey in which we currently do not operate. These opportunities are becoming increasingly sought after and competitive as other operators in the region and internationally also seek to grow their businesses. We may also pursue investment opportunities in communications and technology-related investments in Turkey. There can be no assurances that we will find appropriate opportunities or that we will win competitive bids, or that, if successful, the prices that we pay will permit an appropriate return for investors.

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

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

Beginning May 2006, the short global downturn has continued to affect the Turkish economy. The downturn resulted in New Turkish Lira depreciating against the US dollar almost 22% from the beginning of May 2006 until the end of June 2006. Since then, the New Turkish Lira has recovered through the Turkish Central Bank s cautious stance and strong fiscal policies and the assistance of Turkey s largely healthy banking sector. The New Turkish Lira may again depreciate if Turkey is unable to meet obligations to reform its social security and other entitlement programs in accordance with EU or IMF requirements.

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

- Widening of the current account deficit accounted for approximately 8% of GDP at the end of 2006 due to rising import volumes and an increased non-energy current account deficit. Foreign direct investment inflows in 2006 were at their historical peak at around 5% of GDP. Although the amount of foreign direct investment into Turkey increased in 2006, the cancellation of some privatizations and bureaucratic problems may limit the future financing of Turkey s significant current account deficit. Due to Turkey s large current account deficit, Turkey is susceptible to unexpected changes in global liquidity conditions and oil prices;

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Sustainability of sovereign debt, or the capacity to service debt, has been a concern with respect to the Turkish economy for years. Turkey has made progress in restoring debt sustainability with primary surplus and growth and a lowering of borrowing costs but there are no assurances that this progress will continue;

Inflation rates came down to single digit levels in 2004 (9.3%) for the first time in the last 40 years and this downward trend continued in 2005 (7.7%). Inflation increased to 9.7% for the year ended December 31, 2006. This was significantly higher than the 2006 target rate of 5%. The official inflation target for 2007 is 4%, although this is significantly below market expectations of 6% to 7%. A sudden increase in inflation, especially into double-digit figures, due to local and international factors like a rise in oil prices or depreciation of the New Turkish Lira may have a negative impact on the economy.

In addition to the foregoing, one of the political reasons that caused the Turkish economy to further develop and improve was the start of negotiations to evaluate Turkey for membership in the EU on October 3, 2005. However, during 2006 the political situation concerning Cyprus presented an obstacle to the discussions. This situation resulted in delays but did not cause a material adverse impact on the Turkish economy. The failure of the Turkish government to devise or implement appropriate economic programs, or the failure of the IMF to complete periodic reviews of the economic program introduced by the IMF in 2005, may also adversely affect the Turkish economy.

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.

The Adalet ve Kalkinma Partisi (AKP) government is the first majority, non-coalition government that Turkey has enjoyed in over 12 years. General elections are scheduled for November 2007 but there is a possibility that the general elections could be held during September 2007. There can be no assurance that there will be a single party majority and Turkey may once again be governed by a coalition, which historically has proven to be less effective. In addition, the presidential election is scheduled for April and May 2007. The results of these elections may result in political conflicts. Any negative changes from the current political environment may create instability and may adversely affect the Turkish economy.

Political uncertainty within Turkey, including actions by terrorist and ethnic separatist groups, along with 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 instability surrounding the situation in Iraq, as well as tension in and involving the Kurdish regions of northern Iraq, could also have negative economic consequences for us. Although relations with the United States have always played a major role in the stability of the Turkish economy, the relationship has become even more important due to the United States presence in Iraq. The current tension between Iran, the United Nations and the United States related to Iran s nuclear program may also negatively affect Turkey economically and politically.

Even though in recent years Turkey has undergone significant political and economic reforms, Turkey is generally considered by international investors to be an emerging market. In general, investing in the securities of issuers with substantial operations in emerging markets like Turkey involves a higher degree of risk than investing in the securities of issuers with substantial operations in the United States, the countries of the EU or other similar jurisdictions.

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

The subscriber mobile line penetration rate in Turkey is relatively low in comparison to the average EU penetration rate. As of the end of December 2006, the mobile line penetration rate in Turkey was approximately 70%, according to the Telecommunications Authority. This figure is higher than the actual individual customer

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penetration rate because it includes multiple SIM card usage. The development of our business will depend, in large part, on the level of demand for mobile telecommunications in Turkey. Although we expect continued growth in the number of mobile telecommunications subscribers in Turkey, we expect the growth rate to be less than that of recent years. As a result, we are focused on increasing average monthly revenue per user and average monthly minutes of use per subscriber rather than purely growing our subscriber base. These parameters will, however, be negatively affected by an increasing prepaid subscriber base. In addition, the size and usage patterns of our future subscriber base will be affected by a number of factors, outside our control. Such factors include general economic conditions, consumption tax on mobile phone usage, the development of and changes to the GSM market, 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. Given these factors, it is difficult to predict with any degree of certainty the growth and usage patterns of our subscribers and our ability to increase revenues or profitability.

As part of our strategy, we may seek to acquire companies, telecommunication licenses or new technologies. A failure to successfully integrate acquired companies, compete successfully in a new market or successfully exploit new technologies could harm our business and results of operations.

Part of our strategy is to selectively seek and evaluate new investment opportunities. These opportunities could include the acquisition of other companies, the purchase of telecommunication licenses or the use of new technologies. However, we may not be able to successfully integrate and manage any acquired company, successfully compete in a market in which we have bought a telecommunication license or successfully exploit new technologies so as to achieve the strategic benefits and the return we have sought. In addition, any potential acquisition of a company, purchase of a telecommunication license or the use of new technology may result in management diverting undue attention away from other ongoing business concerns.

We may be unable to adapt to technological changes in the telecommunications market.

The telecommunications industry is characterized by rapidly changing technology with related changes in customer demands for new products and services at competitive prices. Technological developments are also shortening product life cycles and facilitating convergence of various segments in the telecommunications industry. Our future success will largely depend on our ability to anticipate, invest in and implement new technologies with the levels of service and prices that customers demand. Technological advances may also affect our level of earnings and financial condition by shortening the useful life of some of our assets.

The operation of our business depends in part upon the successful deployment of continually evolving mobile communications technologies, which requires significant capital expenditures. There can be no assurance that such technologies will be developed according to anticipated schedules, that they will perform according to expectations, or that they will achieve commercial acceptance. We may be required to make more capital expenditures than we currently expect if suppliers fail to meet anticipated schedules, performance of such technologies fall short of expectations, or commercial success is not achieved.

The effects of technological changes on our business cannot be predicted. In addition, it is impossible to predict with any certainty whether the technology selected by us will be the most economical, efficient or capable of attracting customer usage. There can be no assurance that we will be able to develop new products and services that will enable us to compete effectively.

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

The Turkish 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 giving general permission as well as concluding concession agreements with the operators. Therefore, actions of the Turkish government, the

Telecommunications Authority or other regulatory authorities in Turkey (such as the Competition Board) have in the past, and could in the future, adversely affect our business. Such actions could include:

- changes in laws, regulations or governmental policy, or their interpretation, including revisions to the interconnection and access regime or the imposition of price controls;
- any unfavorable change in corporate and/or income tax legislation, or the imposition of additional consumption taxes or other taxes on subscribers or mobile operators;
- granting additional mobile telephone licenses or other telephony licenses to new entrants and existing operators;
- the establishment of limitations on our operations or restrictions on our ability to provide services to existing or new subscribers;
- investigations, enforcement actions or other assessments of the Competition Board or other regulatory authorities;
- denial of discretionary benefits that we may seek in expanding our network; and
- the introduction of additional fees or charges by governmental authorities.

In the case of war, general mobilization or when the Telecommunications Authority considers it necessary for public safety or 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 material adverse effect on our business, consolidated financial condition, results of operations or liquidity.

Enactment of the draft Electronic Communications Law could have a material adverse effect on our operations and financial results.

Enactment of the draft Electronic Communications Law, which is expected to be enacted in 2007, would result in an expansion of the Telecommunications Authority s powers and could lead to an increase in our current obligations, which may adversely affect our operations and financial results. The draft law grants the Telecommunications Authority, among other things, the power to establish general criteria with respect to tariffs applicable to users and operators, and to approve and amend tariffs. The draft law would also considerably increase the fees paid by operators, including administrative fees paid towards the expenses of the Telecommunications Authority and infrastructure fees paid per item of network infrastructure. Finally, the draft law would increase the power of the Telecommunications Authority, including its ability to impose administrative fines in the case of breaches by operators of applicable laws and regulations, usage fees, provisions of concession (license) agreements, other rules of authorization or the provisions of wireless licenses. It sets the maximum limit of the fine at 5% of net sales in the previous year of the relevant service. The law also grants the Telecommunications Authority the power to impose various obligations on operators having significant market power, such as requiring them to provide access to their network or interconnecting at a price based on cost. Increases in fees or fines payable by us, a reduction in our tariffs or an order for us to open our networks at a price based on cost to potential competitors as a result of the draft Electronic Communications Law could have a material adverse effect on our operations and financial results.

The Telecommunications Authority has designated Turkcell as an operator holding significant market power in the GSM mobile call termination services market and an operator holding significant market power in access to GSM mobile networks and the call origination market , which could affect our competitiveness and have a material adverse affect on our results of operations.

Pursuant to the Access and Interconnection Regulation promulgated by the Telecommunications Authority, in 2003 Turkcell was designated by the Telecommunications Authority as an operator holding significant

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market power   in the GSM mobile call termination services market and Vodafone, and Avea were so designated in 2005. As a result of this designation, the operators holding significant market power are required to provide interconnection services to any requesting operator at a price based on cost while such requesting operator is entitled to charge operators holding significant market power more for interconnection to its network, which may put such operators at a competitive disadvantage. Operators who are not designated as holding significant market power have the right to freely set the prices they charge other operators for interconnection services. If parties are unable to reach an agreement, the Telecommunications Authority may intervene to establish the terms between the parties.

In January 2007, the Telecommunications Authority published   Standard Reference Interconnection Tariffs , which recommends call termination fees for all GSM operators and Turk Telekom. These   Standard Reference Interconnection Tariffs   are not necessarily directly applicable to our current or future interconnection agreements. However, if the Telecommunications Authority decides to set the termination fees for us it may use these rates, as it has done in connection with our previous disputes with Turk Telekom and Avea. In 2005, the Telecommunications Authority also designated Turkcell as an operator having significant market power in the access to GSM mobile networks and call origination market. As a result, if 3G licenses are awarded in the forthcoming 3G tender process, to operators without GSM capability in Turkey, Turkcell may be obligated to provide interconnection and national roaming to these potential operators. This may result in increased competition and have a material adverse effect on Turkcell s results of operations.

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

The statutes, rules and regulations applicable to our activities and our license are generally new, subject to change, in some cases, incomplete, and have been subject to limited governmental interpretation. Precedents for and experience with business and telecommunications regulations in Turkey are generally limited. In addition, there have been several changes to 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 anti-competitive behavior; and compliance with international and national GSM standards. If we fail to meet any requirement in our license or to comply with applicable regulations, we could be subject to sanction, including the limitation or revocation of our license.

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.

In addition, Turkey s accession talks with the EU may require further modifications in the regulatory framework governing the Turkish telecommunications industry, any or all of which may be detrimental to our competitive position or our operations.

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

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

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The Turkish Capital Markets Board has informed us that our appointment of one of our board members to the audit committee does not satisfy Turkish legal requirements with respect to audit committees.

Alexey Khudyakov was appointed to the audit committee on July 21, 2006. Alexey Khudyakov s status on the audit committee is as an observer member because under the US Sarbanes-Oxley Act of 2002, he is not considered an independent audit committee member due to his position with one of our affiliated shareholders. On January 26, 2007 the Turkish Capital Markets Board (CMB) informed Turkcell that Alexey Khudyakov s current status, as an observer member on the audit committee does not satisfy the requirements under Article 25, Committees Responsible for Auditing of the CMB. The CMB has stated that steps must be taken urgently so that our Company can comply with Article 25. We believe that Mr. Khudyakov does fully meet the requirements of Article 25 as he is a non-executive board member. In March 2007, we have commenced a law suit seeking to suspend the execution and to annul the decision of the CMB with respect to Mr. Khudyakov.

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 Telecommunications Authority and certain other parties. In addition, we may be involved in additional claims and legal actions with various governmental and other parties in the future. For a more detailed discussion of all of our significant disputes, see Item 8.A. Financial Information and note 30 to our audited consolidated financial statements included in Item 18. Financial Statements of this annual report on Form 20-F.

We are exposed to foreign exchange rate risks that could significantly affect our results of operation and financial position.

We are exposed to foreign exchange rate risk because certain amounts of purchases, operating costs and expenses, receivables and payments are denominated in multiple currencies, primarily US dollars, euros and Swedish Krona. A substantial majority of our debt obligations are currently, and are expected to continue to be, denominated in US dollars and euros. Although we have successfully operated in a hyperinflationary environment with continuous devaluation of the Turkish currency since our inception, sudden increases in inflation or the devaluation rate have had, and may continue to have, an adverse effect on our consolidated financial condition, results of operations or liquidity.

The maximum tariffs we may charge are adjusted periodically pursuant to a formula set forth in our license agreement. Although we believe the tariff structure in our license will, in most instances, permit adjustments designed to offset the devaluation of the New Turkish Lira against the US dollar, any such devaluation that we are unable to offset will require us to use a larger portion of our revenue to service our non-New Turkish Lira foreign currency obligations. Additionally, in the event that the Telecommunications Authority were to establish maximum tariffs at levels below those that would enable us to adjust our rates to offset devaluations, this could have a material adverse effect on our business, consolidated financial condition, results of operations or liquidity.

We use analytical techniques such as market valuation and sensitivity and volatility analysis to manage and monitor foreign exchange risk. We keep a portion of our monetary assets in US dollars, euros and Swedish Krona and a portion in New Turkish Lira to reduce our foreign currency exposure. However, fluctuations between New Turkish Lira, on the one hand, and US dollars, euros, Swedish Krona, on the other, may have an unfavorable impact on us.

In 2006, in order to take advantage of market volatility in the foreign exchange and fixed income markets, we have started to enter into option contracts in line with our treasury policies. Any options exercised that are either above or below market levels might result in unfavorable results to us.

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We are also subject to translation risk when we translate our results of operations and financial position into US dollar financial statements. We do not hedge translation risk.

We are also exposed to interest rate risk on our variable rate borrowings. An increase in Euribor or Libor rates would increase our interest exposure through increased interest expense.

As of December 31, 2006, the major portion of our outstanding debt consists of the long term financing facility of Euroasia, 100% shareholder of our Ukrainian subsidiary with a variable interest rate. We fixed the Euribor rate for a large part of the total debt until maturity instead of the market practice of setting the rate for three or six months in order to partially hedge our interest rate risk against possible short term interest rate increases. In order to hedge the interest rate risk, we continue to look for hedging alternatives such as interest rate swaps. There are no outstanding swap arrangements due to the cost of such arrangements in the market and the general market view of forward interest rates.

On February 26, 2007 we put in place a $3 billion unsecured syndicated Term Loan facility to provide us with the flexibility to identify and execute acquisitions and investments in the region. At present, no amount has been utilized as of April 20, 2007; however if we draw down this loan we will become exposed to interest rate risk on the draw down amount utilized.

As a result of these borrowings an increase in the Libor or Euribor rates would cause an increase in the amount of our interest payments and could have a material adverse effect on our result of operations.

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

As of the date of this annual report on Form 20-F, TeliaSonera, the Cukurova Group, and the Alfa Group (through its Altimo subsidiary) currently own, directly or indirectly, approximately 37.1%, 21.2% and 13.2%, respectively, of our share capital. Our Board of Directors currently consists of seven members, five members are required for a quorum. Two members of the board are affiliated with each of TeliaSonera, the Cukurova Group, and the Alfa Group with the seventh member being independent. TeliaSonera, the Cukurova Group, and the Alfa Group hold a portion of their interests in us through Turkcell Holding, a holding company that holds 51% of our shares. If TeliaSonera, the Cukurova Group, and the Alfa Group act together they have the ability to control the Board of Directors and exercise a controlling influence over matters requiring a simple majority vote of the shareholders at a general assembly. To the extent that the interests of TeliaSonera, the Cukurova Group, and the Alfa Group differ from our interests, their individual interests or those of our other shareholders, Turkcell, or our other shareholders could be disadvantaged by any actions that TeliaSonera, the Cukurova Group, and the Alfa Group might individually or collectively, as two shareholders or three shareholders, seek to pursue.

The ownership of a substantial percentage of our outstanding ordinary shares by TeliaSonera, the Cukurova Group and the Alfa Group 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.

Certain of our principal shareholders are currently involved in a dispute which could adversely impact their ability to achieve the consensus necessary to approve important matters relating to our business and operations.

The Cukurova Group and TeliaSonera are currently involved in a dispute regarding the previously proposed sale by the Cukurova Group to TeliaSonera of certain holdings in Turkcell Holding A.S. Class B shares. The Cukurova Group and TeliaSonera are also currently involved in a dispute regarding the sale by the Cukurova Group to Cukurova Telecom Holdings Limited, a joint venture between the Cukurova Group and the Alfa Group, of certain holdings in Turkcell Holding A.S. Class B shares. In addition, as part of this dispute on August 21, 2006, TeliaSonera filed a lawsuit for the purpose of determination of the invalidity of our General Assembly Meeting held on May 22, 2006, and the invalidity of all resolutions taken in this meeting, including with respect to dividends and the election of board members. The court decided that the General Assembly meeting of May 22, 2006, was validly held.

Based on publicly available information, the arbitration tribunal of the International Chamber of Commerce recently held that a binding share purchase agreement for the proposed sale was concluded between TeliaSonera and the Cukurova Group and that the Cukurova Group is obligated to fulfill the agreement, despite already having sold some of the disputed shares to the Alfa Group. In addition, Alfa Group recently has indicated publicly that it is seeking early repayment of approximately $1.35 billion from a loan which it made to the Cukurova Group, due to an alleged default under the relevant loan agreement. The Cukurova Group has denied such alleged default, has indicated that Alfa Group has no grounds to force early repayment of such loan and that the Cukurova Group intends to initiate legal proceedings to oppose the claims of Alfa Group.

In 2005, an independent group petitioned a court regarding the exemption provided by the CMB for the sale of shares between the Cukurova Group and the Alfa Group. It is claimed that under Turkish law the CMB exemption for this sale by the Cukurova Group should not have been granted and this transfer should have triggered a tender offer for minority shareholders. The court annulled the exemption by the CMB. In March, 2007 the Cukurova Group and the Alfa Group appealed the decision. At present there has been no outcome to the case.

These disputes could result in the failure of our three major shareholders to have a cooperative relationship, which could adversely impact the ability of our principal shareholders to achieve the consensus necessary to approve important matters relating to our business and operations.

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

We work through subsidiaries and associated companies both within Turkey and internationally. Our investments in these companies could expose us to economic, political, social, financial and liquidity risks both in Turkey and in Azerbaijan, Georgia, Kazakhstan, Moldova and Ukraine. Along with Turkey, 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, their economies have only recently begun to open to market principles and their respective institutions and commercial practices are weaker and less developed. 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.

Our international and domestic 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 and legal, regulatory or political obstacles.

We have been operating in Ukraine since the second half of 2004 through our subsidiary, Limited Liability Company Astelit (Astelit). The country is undergoing a great deal of change and any political instability in Ukraine may have a negative impact on our operations. On March 26, 2006, the first parliamentary elections since the Orange Revolution were held, followed by almost 3 months of discussions among political parties about the forming of the new government and more recently, on April 3, 2007, the President signed a decree to dissolve parliament and order new parliamentary elections for May 27, 2007. The parliament has refused to recognize this decree and the ongoing political instability may have a negative effect over the business environment of Ukraine and the country s economic performance may fail to meet expectations, therefore affecting the purchasing power of the population. As a result, the expected revenue of Astelit, our Ukrainian subsidiary, may be affected.

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Although the local currency has been relatively stable for almost two years, this situation may change in the future as a result of the country s balance of payments issues. Furthermore, granting 3G license to Ukrtelecom and issuing the National Roaming law in 2006 created an additional mobile player in the market. The privatization of Ukrtelecom is also on the agenda of the government. These developments could lead to increasing competition. Moreover, if we have conflicts in the future with other shareholders of our local partner Euroasia Telecommunications Holdings B.V. (Euroasia), the company that controls our Ukrainian operations, they may affect the ability of Astelit s management to move forward with its business plan.

We have operated a GSM network in Northern Cyprus since July 1999, which may expose us to a number of risks. Any hostilities and/or political instability in Cyprus may have a material adverse effect on the Northern Cypriot economy as well as on the Turkish economy, the progress of Turkey s accession talks with the EU and our investments and business in Northern Cyprus.

Inteltek, our 55%-owned subsidiary, signed a contract on July 30, 2002 following a successful tender. The contract provides for the installation, support and operation of an on-line central betting system as well as maintenance and support for the provision of football betting games. The Central Betting System contract is scheduled to expire in March 1, 2008.

Following a further successful tender, Inteltek signed a contract with the General Directorate of Youth and Sports on October 2, 2003 which authorized Inteltek to establish and operate a risk management center and become head agent for fixed odds betting. Inteltek became fully operational during 2004. The Fixed Odds Betting contract was scheduled to expire in October 2011. Subsequently, there were three lawsuits filed, two of them were initiated requesting the annulment of the Fixed Odds Betting tender and the other one was initiated requesting an annulment of the Fixed Odds Betting Tender contract. During January 2007, the Danistay, the highest administrative court, decided for a preliminary injunction of the tender and the tender transaction. As a result in March 2007, the General Directorate of Youth and Sports ceased the implementation of the Fixed Odds Betting contract. Immediately after a lawsuit was initiated by Inteltek against the said transaction. On February 28, 2007, the Turkish parliament passed a new law that allowed Spor Toto Teskilati A.S. (Spor Toto) to hold a new tender before March 1, 2008 and sign a contract, which will be valid until March 1, 2008. Following this law, in March 2007, the General Directorate of Youth and Sports terminated the agreement with Inteltek. In addition, a further lawsuit was initiated by Inteltek against the General Directorate of Youth and Sports on the ground that the termination was unjustified. The new tender process is currently scheduled to be no later than March 1, 2008. In the interim, Spor Toto and Inteltek signed a new Fixed Odds Betting Contract on March 15, 2007, with less-advantageous conditions that will expire on March 1, 2008. As per the new conditions, the commission rate of Inteltek decreased from 12% to 7%. Inteltek accounted for substantially all betting segment revenue.

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. The spectrum is a continuous range of frequencies within which the waves have certain specific characteristics and we only have 10 MHz of spectrum in the 900 MHz band. As our subscriber base and service offerings increase, there will be a need for more capacity for mobile voice and data; however, with the currently available spectrum, we may face a bottleneck, especially in the metropolitan areas. To overcome this bottle neck, we have applied for the allocation of additional frequencies in the GSM900 MHz band.

Beginning in 2005, we employed the latest technology in our network, particularly in the metropolitan areas in order to increase the effective carrying capacity of the given allocations of spectrum. There can be no assurance that we can obtain additional frequencies in the 900 MHz band or additional spectrum in the 1800 MHz band at reasonable cost or at all, or that such additional frequencies will not be awarded to our competitors. Achieving enough spectrum capacity to ensure long term provision of quality services may only be possible with a 3G/Universal Mobile Telecommunications System (UMTS) infrastructure.

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

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

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

We currently purchase all of our GSM network equipment, including switching equipment, base station controllers and base transceiver stations, and our network software from 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. We may not be the preferred customer of suppliers, which would mean that our competitors might get exclusivity over certain equipment and services. 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.

We are dependent on certain systems and suppliers for IT services and our business continuity is at risk due to our exposure to potential natural disasters, regular or severe IT failures and IT migration risk.

We are heavily dependent on IT systems and suppliers for IT services for the continuity of our business. We also regularly upgrade or convert our IT systems. Currently, we have a Business Continuity Management (BCM) scheme that is designed to protect and minimize the potential damage to Turkcell s operations should we experience a crisis situation due a potential natural disaster, such as an earthquake. It is expected that implementation of the BCM will be complete by the end of 2007. In addition, should we experience regular or severe IT failures, not successfully migrate to alternative or improved IT systems or experience a crisis situation, we may not fully recover our IT systems. If such event(s) occurred it would result in interruptions in the continuity of our business which could have a material adverse effect on our business, consolidated financial position and results of operations.

If we are unable to retain key personnel, our business, consolidated financial condition or results of operations could be materially and adversely affected.

Our performance depends to a significant extent on the abilities and continued service of our key personnel. Competition for qualified telecommunications and information technology personnel in Turkey is intense. The loss of the services of these key personnel could adversely affect our financial condition or results of operations, particularly if a number of such persons were to join a competitor. In addition, several of our directors and executive officers have left and been replaced during the past year. Retention of high-caliber individuals in these positions is also key to our being able to deliver on our strategy.

We face financial risks in the event that our majority owned subsidiaries fail to meet some of their obligations set forth in the agreements related to their financing arrangements or they require additional financing.

On December 30, 2005, Astelit, our majority owned subsidiary, held through our wholly-owned subsidiary Turktell Uluslararasi Yatirim Holding A.S. (Turktell Uluslararasi), signed a 6-year, $390 million long-term senior syndicated facility; the mandated lead managers were ING Bank N.V. and Standard Bank London Ltd. Of the total facility, $270 million is guaranteed by Export Credit Agency (ECA) and $120 million is not guaranteed. Based on Astelit s financial statements, for the periods ended March 2006, June 2006, September 2006 and December 2006, Astelit was in breach of certain financial covenants. Astelit has received the necessary waivers from the senior lenders related to the covenant breaches in part due to additional shareholder contributions to Astelit required by the lenders. Astelit s last waiver expired on April 13, 2007. We and CJSE System Capital Management (SCM), the two main shareholders of Euroasia, intend to take over all or a portion of the loan of the senior lenders to the extent that they decline to continue to take part in the facility following the implementation of the intended restructuring. In addition to the senior syndicated facility, a long term junior facility agreement up to $150 million was also signed during December 2005 with Garanti Bankasi, Luxemburg Branch, and Akbank TAS, Malta Branch. At December 31, 2006, the principle portion of this facility has been fully utilized. According to the conditions of the facility agreement, interest costs will be added to the principal amount until total principal amount will reach $150 million. This junior facility is fully guaranteed by Turkcell.

Since January 2005, we have successively provided additional funding to Astelit through Euroasia. We own our 54.8% interest in Euroasia through our 100% owned subsidiary, Turktell Uluslararasi Yatirim Holding A.S. (Turktell Uluslararasi). As of March 2007, we determined, along with SCM, to contribute an aggregate amount of $300 million to the capital stock of Euroasia, out of which $200 million is in the form of cash equity to be made available during 2007 and a further $100 million to be made available as required by Astelit. Eurocorp Invest Limited (Eurocorp), the third and minority shareholder of Euroasia, will not participate in this capital increase. After the execution of the final installment, our interest in Euroasia will increase to 55% provided we and SCM make the pro-rata contributions.

Any requirement on Euroasia or Astelit to meet obligations under the long term facility or any requirement for us to contribute additional funds to Euroasia or Astelit may have a material adverse effect on our Ukrainian operations and our financial condition and results of operations.

Issuance and cancellation of ADSs has been halted and this may adversely affect liquidity and trading of our ADSs.

Due to uncertainties arising after January 1, 2006 surrounding the application of the Turkish capital gains tax and withholding related thereto on the deemed capital gains which arise on the cancellation of ADSs, our ADR depositary, JPMorgan Chase Bank, N.A., consistent with the practice of all depositary banks for Turkish issuers, halted the issuance and cancellation of ADRs. Trading of our ADSs on the New York Stock Exchange has continued and has not been impacted by the closure of the issuance and cancellation books of our ADR depositary.

On March 8, 2007 a new communique was issued that will facilitate the reopening of the issuance and cancellation books for all Turkish DR programs. This communique has served to inform ADR Depositaries regarding the application of the Turkish withholding tax for ADRs acquired after January 1, 2006. We are currently in discussions with our ADR Depositary regarding our ADR program to enable the issuance books and cancellation books on some of the currently outstanding ADRs to reopen.

However, if there is a delay in reopening the ADR program and during that period there were a sudden or significant increase in persons wishing either to sell or to buy ADSs at the same time, there may be adverse effects on liquidity and market disruption in the trading of our ADSs.

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ITEM 4. INFORMATION ON THE COMPANY
4.A 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. Our principal shareholders are Sonera Holding, formerly known as Telecom Finland Ltd., and currently owned by TeliaSonera, the Cukurova Group and Alfa Group (through its Altimo subsidiary). The address of our principal office is Turkcell Iletisim Hizmetleri A.S., Turkcell Plaza, Mesrutiyet Caddesi, No. 71, 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 was amended on September 20, 2003. Under our license, we pay the UnderSecretariat of Treasury (the Turkish Treasury) a monthly ongoing license fee equal to 15% of gross revenue. Of that monthly ongoing license fee, 10% goes to the Ministry of Transportation and Communications of Turkey (Turkish Ministry) as Universal Services Fund. 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 in