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TURKCELL ILETISIM HIZMETLERI A S
Form 6-K
December 02, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934

Form 6-K dated November 29, 2002

Hizmetleri A.S.

(Translation of Registrant's Name Into English)

Turkcell Plaza
Caddesi No.153

Istanbul, Turkey

Mesrutiyet
80050 Tepebasi

(Address of Principal Executive Office)

(Indicate by check mark whether the registrant files or will file annual reports
under cover of Form 20-F or Form 40-F.) Form 20-F Form 40-F

(Indicate by check mark whether the registrant by furnishing the information
contained in this Form is also thereby furnishing the information to the
Commission pursuant to Rule 12g3-2(b) under
the Securities Exchange Act of 1934.)

Yes No

(If "Yes" is marked, indicate below the file number assigned to the registrant
in connection with Rule 12g3-2(b).)

Enclosure: Third Quarter Results 2002

OPERATING AND FINANCIAL REVIEW FOR THE NINE MONTH AND THREE MONTH PERIODS ENDED
SEPTEMBER 30, 2002
Overview

The financial information contained in the following discussion and
analysis has been prepared and is presented on a consolidated basis in
accordance with US GAAP in US dollars. The following discussion and analysis
should be read in conjunction with the consolidated financial statements and
related notes as of December 31, 2000 and 2001 and for each of the years in the
three year period ended December 31, 2001 included in our annual report on Form
20-F for the year ended December 31, 2001 (the "20-F") and the consolidated
financial statements and related notes as of December 31, 2001 and September 30,

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2002, and for the three month and nine month periods ended September 30, 2001 and 2002 included herein. The information as of September 30, 2002 and for the three month and nine month periods ended September 30, 2001 and 2002 is not audited.

This discussion of operating results is based upon our financial statements prepared under US GAAP. Certain statements contained below, including information with respect to our plans and strategy for our business, are forward-looking statements. The statements contained in this discussion of operating results, which are not historical facts, are forward-looking statements with respect to our plans, projections or future performance, the occurrence of which involves certain risks and uncertainties.

We were formed in 1993 and we commenced operations in 1994 pursuant to a revenue sharing agreement with Turk Telekom. Since April 1998, we have operated under a 25-year GSM license, which was granted upon payment of an upfront license fee of \$500 million. At this time we also entered into an interconnection agreement with Turk Telekom for the interconnection of our network with Turk Telekom's fixed-line network.

Under the license, we pay the Turkish Treasury a monthly treasury share equal to 15% of our gross revenue, which includes subscription fees, fixed-monthly fees and communication fees including taxes, charges and duties to the Turkish Treasury. Under our interconnection agreement with Turk Telekom, we pay Turk Telekom an interconnection fee per call based on the type and length of call for calls originating on our network and terminating on Turk Telekom's fixed-line network, as well as fees for other services. We also collect an interconnection fee from Turk Telekom for calls originating on the fixed-line network and terminating on our network. In addition, we have entered into interconnection agreements with Telsim, Aycell and IsTim pursuant to which we have agreed, among other things to pay interconnection fees to the other parties for calls originating on our network and terminating on theirs and they have agreed to pay interconnection fees for calls originating on their networks and terminating on ours.

Prior to the award of the license, we operated under a revenue sharing agreement with Turk Telekom. Under the revenue sharing agreement, Turk Telekom contracted with customers, set tariffs, performed customer billing and collection, assumed collection risks and permitted us access to Turk Telekom's communications network. We received 100% of the fees generated by SIM card sales, 32.9% of fees billed for connection, monthly fees and outgoing calls and 10% of fees billed for incoming calls, an arrangement which resulted in payment to us of approximately 25% to 30% of the net system revenues generated by customers of our GSM network.

Since the award of the license, we bear the full risks and rewards of all aspects of our business. As a result, our results of operations for periods prior to the grant of the license are not directly comparable to our results of operations for periods after the award of the license. The financial statement effects of the acquisition of the license are difficult to quantify because we have experienced growth in revenue from both the acquisition of the license and the expansion of our customer base. A description of the impact of the award of the license on our revenues and costs is provided below under "--Revenues" and "--Operating Costs".

We commenced construction of our GSM network in 1993. As of September 30, 2002, we have made capital expenditures amounting to approximately \$3.7 billion including the cost of our license. As of September 30, 2002, our network coverage area included approximately 100% of the population living in cities of 10,000 or more people, including the 81 largest cities, and a majority of the country's tourist areas and principal intercity highways.

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The build-out of our network and the development of our business to date have required substantial operating and marketing expenditures, which resulted in net losses in 1994, 1995 and 1996. We achieved our first full year of positive net results in 1997. We generated net income under US GAAP of \$212.0 million in 1998, \$369.1 million in 1999, \$227.9 million in 2000, a net loss of \$186.8 million in 2001 and net income of \$65.0 million for the nine month period ended September 30, 2002. The net income realized in the first nine months of 2002 is mainly due to the 10% increase in revenues in the first nine months of 2002 compared with the same period of 2001. Our ability to continue to grow and to generate operating cash flows and increase operating profits in the future will depend upon a number of factors, including: the level of competition in the Turkish market and its effect on pricing; the stability of the Turkish economy; our rate of churn; our ability to attract new customers to our network or retain existing customers in our network; customer usage; the level of tariff; incoming call revenue; and our ability to control costs relating to expanding and enhancing the network and developing and servicing our customer base.

Our customer base has expanded from 63,500 at year-end 1994 to approximately 2.3 million at year-end 1998, 5.5 million at year-end 1999, 10.1 million at year-end 2000, 12.2 million at year-end 2001 and 14.9 million as of September 30, 2002. The rates of increase in 2001 and in the first nine months of 2002 were slower than previous years, mainly due to the increase in penetration levels and effects of the economic turmoil in 2001.

During the first quarter of 1999, we introduced a prepaid mobile service in order to increase penetration and limit credit risk. This service permits access to our GSM services to customers who prefer to avoid monthly billing or to better control their mobile communication expenses. With prepaid service, we extended the reach of our services by providing an alternative to lower income and younger segments of the market. By September 30, 2002, 10.2 million customers had commenced usage of the prepaid service. Prepaid customers do not pay monthly fees, and this service currently includes data, call waiting, call barring, roaming and information line services. In addition, while additional prepaid customers to the network increase total revenues and total minutes of use, average minutes of use per prepaid customer and average revenue per prepaid customer tend to be lower than for postpaid customers.

Our average monthly minutes of use per customer has decreased from 132.9 minutes in 1999 to 103.4 minutes in 2000, 63.9 minutes in 2001 and to 57.3 minutes for the first nine months of 2002. This decrease was mainly due to the effect of recent economic crisis and the increased portion of prepaid subscribers in our customer base. We believe that, minutes of use per customer may continue to decrease in the fourth quarter of 2002, mainly due to the change in the subscriber mix as well as due to seasonal effects. Our average monthly revenue per customer decreased 10% to \$12.0 for the nine month period ended September 30, 2002 from \$13.4 for the same period in 2001. The significant economic and political difficulties in Turkey contributed to the decrease in average revenue per customer for the nine month period ended September 30, 2002. In addition, average revenue per customer has been negatively impacted by the implementation of a 25% special communications tax on December 1, 1999 in response to the earthquakes that hit Turkey in 1999. The special communications tax was scheduled to terminate at the end of 2000 but has been extended for two more years. The 2003 temporary budget, which was proposed prior to the November elections and is therefore subject to amendment, called for the extension of the special communications tax through 2003. Average revenue per customer has also been negatively impacted as a result of the increased portion of prepaid customers in our subscriber base. Prepaid customers represented 59% and 69% of total subscribers by the end of the first nine months of 2001 and 2002, respectively. Total revenues for the nine months period ended September 30, 2002 compared to the same period in 2001 increased as our customer base grows. We expect that the proportion of prepaid subscribers in our subscriber base will continue to increase, which may adversely affect our average monthly revenue per

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customer in the fourth quarter of 2002.

Churn is calculated as the total number of customer disconnections during a period as the percentage of the average number of customers for the period. Churn refers to disconnected subscribers, both voluntary and involuntary.

We adopted a shorter disconnection process on September 14, 2000 for nonpaying subscribers. Under this disconnection process, subscribers who do not pay their bills will be disconnected from our network, and included in churn, upon the commencement of the legal process to disconnect them, which occurs approximately 180 days from the due date of the unpaid bill. Pending disconnection, non-paying subscribers are suspended from service (but are still considered subscribers) and receive a suspension warning, which in some cases results in payment and reinstatement of service. As a result, for the year ended December 31, 2001, we disconnected approximately 786,000 subscribers for nonpayment of bills and our annual churn rate was 13.1%. For the nine month period ended September 30, 2002, we disconnected approximately 183,000 additional subscribers for nonpayment of bills. Our churn rate was 9.3% for the nine month period ended September 30, 2002. We have a bad debt provision in our financial statements for such non-payments and disconnections amounting to \$111.0 million and \$116.7 million as of December 31, 2001 and September 30, 2002, respectively, which we believe is adequate. In previous periods, the material portion of disconnections was due to non-payment of bills. In the first nine months of 2002, however, subscriber disconnections were not mainly due to non-payment of bills primarily as a result of the increase in our prepaid subscribers, which have lower usage patterns than postpaid customers, in our subscriber base.

International Operations

In order to facilitate the diversification of our telecommunications business and the development of additional telecommunications services using advanced technologies, such as digital television and Internet services, we and several of our founding shareholders formed a new holding company in 2000 to hold many of our non-GSM and international investments. The holding company, Fintur Holdings B.V. (Fintur), is currently owned jointly with one of our principal shareholders. At September 30, 2002, we own 41.45% of Fintur and the remaining equity of Fintur is owned by Sonera Holding B.V.. As of September 30, 2002, we accounted for the investment in Fintur using the equity method.

Fintur currently holds our entire interest in all of our international GSM investments other than our Northern Cyprus operations. Fintur may, in the future, hold other businesses in which we decide to invest with the other Fintur shareholders. The GSM operations of Fintur consist of the following directly or indirectly owned assets: a 51.3% interest in Azercell Telecom B.M. of Azerbaijan; an 83.2% interest in Geocell LLC of Georgia; a 51% interest in GSM Kazakhstan LLP of Kazakhstan; and a 77% interest in Moldcell S.A. of Moldova. Jointly these operators had approximately 1.5 million customers at the end of September 30, 2002. The total population of these countries is approximately 31 million, and currently the companies' networks cover a total population of approximately 23 million. The companies in Azerbaijan and Kazakhstan are market leaders in their respective markets, and Geocell of Georgia and Moldcell of Moldova are the second largest operators in their respective markets.

On February 28, 2002, the shareholders of Fintur signed a letter of intent for the restructuring of Fintur's two business divisions, the international GSM businesses and the technology businesses. On May 10, 2002, we and the other shareholders of Fintur signed a Share Purchase Agreement in connection with the restructuring of Fintur's two business divisions, which includes the basic principles agreed in the letter of intent. On August 21, 2002, the shareholders of Fintur finalized the restructuring of Fintur's two

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business divisions. In line with the terms of the transaction, we acquired an additional 16.45% of Fintur's international GSM business from the Cukurova Group, increasing our stake in the business to 41.45%. We also transferred our entire interest in Fintur's technology businesses to the Cukurova Group. As of September 30, 2002, we remain contingently liable for \$63.1 million debt related to the technology businesses. The consideration paid by us to the Cukurova Group resulting from this transaction amounted to \$70.7 million. On March 7 and May 29, 2002, we paid \$35.4 million and \$3.8 million to the Cukurova Group, respectively, and on August 21, 2002 we paid the remaining \$31.6 million to the Cukurova Group. We had receivables from Fintur of \$67.3 million as of August 21, 2002 (December 31, 2001: \$63.2 million; September 30, 2002: \$0.8 million) and on August 22, 2002 we collected such receivables upon the completion of the transaction. The receipt of these receivables offset a major portion of the consideration paid by us to the Cukurova Group. Therefore, our net cash outflows in connection with the restructuring amounted to approximately \$3.5 million. Upon the signing of the letter of intent, Fintur classified the subsidiaries in the technology businesses as held for sale and measured them at the lower of their carrying amount or fair value less cost to sell. Accordingly, Fintur had an impairment charge of approximately \$27 million based on its unaudited consolidated financial statements for the three month period ended March 31, 2002. The \$27 million impairment charge has been recognized in Fintur's unaudited consolidated financial statements for the three month period ended March 31, 2002, which had an effect amounting to approximately \$6.7 million in our consolidated results of operations for the three month period ended March 31, 2002. This transaction will enable us to focus on our core mobile business since these GSM operations are located in countries with low mobile penetration rates, which our management believes will provide opportunities for future growth.

In addition to our interest in Fintur, we also have interests in other Turkish ventures. On June 13, 2000, Turktell Bilisim Servisleri A.S. (Turktell) was established to provide and manage marketing activities for the services developed by us or our group companies and to act as a venture capital company for new projects for our group companies. We have also established Global Bilgi Pazarlama Danisma ve Cagri Servisi Hizmetleri A.S. (Global) as a subsidiary to provide us with telemarketing, telesales, directory assistance and call center services. In addition, we established Corbuss Kurumsal Telekom Servis Hizmetleri A.S. (Corbuss) to provide data services for corporate customers using GSM, satellite, Internet and digital platform technologies. Starting from January 1, 2002, the services of Corbuss are being provided within our organization. We have also established Mapco Internet ve Iletisim Altyapilari A.S. (Mapco) for our content aggregation and content management. Additionally, we established Hayat Boyu Egitim A.S. (Hayat) on June 7, 2000 to provide educational digital broadcasting services for children. On July 14, 2000, Digikids Interaktif Cocuk Programlari Yapimciligi ve Yayinciligi A.S. (Digikids) was established to provide entertainment services for children via Internet and television. Bilisim ve Egitim Teknolojileri A.S. (Bilisim), established on July 24, 2000 and Inteltek Internet Teknoloji Yatirim ve Danismanlik Ticaret A.S. (Inteltek), established on April 6, 2001, were incorporated for search for business opportunities on multimedia platforms. Inteltek has a new project on installation and management of the infrastructure of sports betting activities under the license obtained from T.C. Basbakanlik Genclik ve Spor Mudurlugu Sportoto Teskilati Mudurlugu (Sportoto). We are also planning to establish another subsidiary of Turktell, with a similar shareholding structure as Inteltek's, which will act as an intermediary electronic agent via GSM, ITV, web and call center.

Additionally, Kibris Mobile Telekomunikasyon Limited Sirketi (Kibris Telekom) was incorporated on March 25, 1999 for the purpose of constructing and operating a GSM network in Northern Cyprus. Kibrisonline Limited Sirketi (Kibrisonline) was incorporated on July 10, 2000 to provide Internet services.

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On April 25, 2002, Turktell transferred its shares in Siber Egitim ve Iletisim Teknolojileri A.S. (Siber Egitim) to other shareholders of Siber Egitim without any consideration, which resulted in a loss of \$0.05 million.

At the Board of Directors meetings of Turktell held on March 13, 2002 and April 19, 2002, it was resolved that Turktell acquires total 396,825 shares of Inteltek, owned by Superonline Uluslararası Elektronik Bilgilendirme ve Haberleşme Hizmetleri A.S. (Superonline) with a par value of one million TL each. In addition, at the Board of Directors meeting of Turktell held on March 13, 2002, it was resolved that Turktell acquires one share of Inteltek owned by Filiz Bikmen with a par value of one million TL for TL 0.25 million. At the Board of Directors meeting held on July 19, 2002, it was resolved that Turktell acquires total 153,170 paid shares of Inteltek, owned by Superonline with a par value of one million TL each for TL 153,170 million. At the Board of Directors meeting held on August 27, 2002, it was resolved that Turktell sells 137,500 paid shares of Inteltek with a par value of one million TL each to Intralat Sa Trading, Production, Support and Management of Software and Electronic Systems of Multiple Use-Instant Lottery for TL 137,500 million. It was also resolved that Turktell sells 109,999 shares of Inteltek with a par value of one million TL each to Teknoloji Holding A.S. Since the share transfers are not completed yet, as of September 30, 2002, our ownership interest in Inteltek is 99.95%. Upon completion of the share transfers, our ownership interest in Inteltek will decrease to 55%.

Critical Accounting Policies

For a discussion of our critical accounting policies, please see "Item 5. Operating and Financial Review and Prospects-Critical Accounting Policies" in our 20-F.

Revenues

Our revenues are mainly derived from communication fees, monthly fixed fees, call center revenues and sales of SIM cards. Communication fees consist of charges for calls that originate or terminate in our GSM network, including international roaming, and are based on minutes of actual usage of service. Per-minute communication fees vary according to the customer's service package. Monthly fixed fees are charged to each postpaid customer each month in a specified amount that varies according to the customer's service package, without regard to actual use of our GSM network services. Prior to March 1, 2000, we charged a one-time nonrefundable subscription fee when a new customer initially contracted with us for the provision of GSM network services. The subscription fee was waived in many cases after the award of the license and was finally terminated on March 1, 2000, as part of our promotions to increase our customer base. SIM card revenues are receipts from the sale of SIM cards, which we sell to handset importers and which are needed to operate a handset used by a customer. Call center revenues consist of revenues for call center services provided by our call center subsidiary to affiliated non-consolidated companies. In March 2001, we launched General Packet Radio Services (GPRS) in Turkey, which allows users to remain connected to the network at all times for the receipt of data transmissions, enabling bearer capability for WAP and SMS and Internet applications. GPRS charges to subscribers are based on the amount of data downloaded.

Since the acquisition of our license, we have recognized subscription fees (until their discontinuation on March 1, 2000) and SIM card sales as revenue upon initial entry of a new customer into the GSM network, only to the extent of the direct costs associated with providing these services. In order to promote growth in the number of our customers, we terminated subscription fees on March 1, 2000. Excess subscription fees, if any, were, and SIM card sales continue to be, deferred and recognized over the estimated effective customer life. In connection with postpaid and prepaid customers, we currently incur

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costs for activation fees to dealers and other promotional expenses, which historically offset all or substantially all of the subscription fees. We charge a usage fee for certain services we offer, such as SMS, voicemail and data and facsimile transmission. Our revenues depend on the number of customers, call volume and tariff pricing.

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

In accordance with the Telecommunications Law, we set our tariffs independently, within the limits of maximum prices defined by the Telecommunications Authority, which are based on among other things, prices abroad for comparable GSM services, the Turkish consumer price index and the US consumer price index. We also notify the Authority at least 7 days before the amendment of any tariff. Prior to the award of our license in April 1998, the rates charged to customers for communication, monthly access and subscription fees were set by Turk Telekom. We periodically raise tariffs to offset Turkish inflation and devaluation of the Turkish Lira. As a result of the recent economic crisis, we have taken actions to increase revenues. We raised tariffs in January, March, June, August and November of 2001 and in February, April and June 2002. We also launched a variety of new tariff packages to attract new customers. Despite the limited impact of price competition thus far, we will continue to communicate our existing price advantages, while launching a variety of new tariff packages. Although the Amending Law has no specific regulations in case of tariff policy, it authorizes the Telecommunications Authority to scrutinize activities in contradiction to fair competition. On the regulatory side, Telecommunications Authority is working towards implementation of cost based interconnect tariffing for telecom sector.

Revenue increased by 10% for the nine month period ended September 30, 2002 compared to the same period in 2001 and increased by 21% in the third quarter of 2002 compared to the same period in 2001. The increase in revenues is mainly due to the growth of our subscriber base and increased usage.

We charge Turk Telekom a net amount of \$0.06 per minute after deducting VAT, communications tax and other taxes from the basic one-minute charge for local, metropolitan and long-distance traffic switched from Turk Telekom to our network. Prior to the award of the license, we did not receive payments from Turk Telekom for interconnection. Starting from March 1, 2001, we charge Telsim a net amount of \$0.20 per minute for traffic switched from Telsim to us. Prior to October 1999, we did not have an interconnection agreement with Telsim. We entered into an interconnection agreement with IsTim Telekomunikasyon Hizmetleri A.S. (IsTim) on February 13, 2001, that became effective on March 9, 2001, after the Ministry of Transportation's approval. Effective March 9, 2001, we charge IsTim a net amount of \$0.20 per minute for traffic switched from IsTim to us. We also entered into an interconnection agreement with Aycell Haberlesme ve Pazarlama Hizmetleri A.S. (Aycell) on July 19, 2001. We charge Aycell a net amount of \$0.20 per minute for traffic switched from Aycell to us.

Under our license, we estimate that the amount after deducting treasury share, international roaming and interconnect expenses from revenues represent 72% of our revenues for the nine month period ended September 30, 2002. Prior to the award of our license, we received approximately 25% to 30% of net GSM network revenues under our revenue sharing agreement with Turk Telekom.

During the third quarter of 2001, we were approached by IsTim, a new competitor that began its operations in March 2001 under the brand name of Aria, to negotiate a national roaming agreement. These negotiations did not result in a mutual agreement. Therefore, the discussions continued under the supervision of the Telecommunications Authority. The Telecommunications Authority proposed a solution on October 18, 2001, and asked the parties to reach a decision by

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November 15, 2001. The proposal included an upfront fee amounting to \$60 million as well as a per minute fee of \$0.12 for voice and \$0.037 for each SMS messaging with a guaranteed volume of airtime usage of 600 million minutes until the end of December 31, 2003. As we believe that the Telecommunications Authority is not authorized to intervene in this issue and its proposal is technically impossible to apply and commercially unacceptable, we obtained an injunction on November 12, 2001 from the Ankara Fourth Court of First Instance regarding the conflict, preventing the implementation of a national roaming agreement between IsTim and us. The Telecommunications Authority and IsTim have appealed the granting of the injunction. In addition, on November 26, 2001, we initiated an arbitration suit in the International Arbitral Tribunal of the International Chamber of Commerce (ICC) against the Ministry and the Telecommunications Authority. Furthermore, we have initiated an action before the Ankara Ninth Administrative Court on November 13, 2001, to annul the above-mentioned proposed solution of the Telecommunications Authority. On December 6, 2001, the Ankara Fourth Court of First Instance upheld our injunction that it rendered in our favor on November 12, 2001. We have commenced an arbitral proceeding against the Ministry and the Telecommunications Authority in accordance with the supplemental agreement relating to resolution of the disputes arising in connection with the License Agreement signed and entered into by and between us and the Ministry on May 15, 2001. The cases are currently pending and the parties are filing their petition and responses.

On March 8, 2002, the Telecommunications Authority published a new regulation regarding procedures and policies related to a national roaming agreement. The Telecommunications Authority has invited all parties affected by the new regulation, including us, to discuss the new regulations with the Telecommunications Authority. Two of the most important provisions of the new regulation are Provisional Article 1 and Article 17. Provisional Article 1, which deals with negotiations, agreements and documents relating to the issuance of this regulation, states that all ongoing negotiations shall continue in compliance with the new regulation and that all agreements and documents completed before issuance of the new regulation shall remain valid and binding. Article 17, which sets out penalties to be imposed on any party violating the provisions of the new regulation, imposes the following penalties and sanctions:

- o a penalty of 0.01% of an operator's turnover in the previous year for failure to provide the documents or information requested by the Telecommunications Authority, or the provision of defective or misleading information;
- o a penalty of no less than 1% and no more than 3% of an operator's turnover in the previous year for failure to implement the national roaming requirements set by the Telecommunications Authority within the required time period; and
- o a penalty of no less than 1% and no more than 3% of an operator's turnover in the previous year for the interruption of service without a valid reason following commencement of national roaming service.

If we are forced to enter a national roaming agreement with IsTim and/or the other operators in Turkey on terms and conditions that do not provide an adequate return on our investment in our GSM network, our financial position, results of operations and cash flows could be materially adversely affected.

In a letter dated March 14, 2002, the Telecommunications Authority subjected IsTim's request for national roaming to the condition that it be reasonable, economically viable, and technically possible. Nevertheless, the Telecommunications Authority declared that we are under an obligation to enter a national roaming agreement with IsTim within a 30 day period. However, we still

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benefit from the injunctive relief obtained on November 12, 2001.

On April 8, 2002, we obtained a cautionary injunction from the Court against the application of the new regulation published by the Telecommunications Authority requiring us to agree on national roaming within 30 days and providing for penalties in case we did not agree. We initiated proceedings against application of the new regulation before the ICC on April 11, 2002, requesting certification of the fact that we are not required to enter into an agreement within 30 days and that we are under no obligation to pay any penalties whatsoever if we do not agree within 30 days. We believe that Telsim has obtained a similar injunction but has not yet enforced it. The parties have appointed their arbitrators and third arbitrator has been appointed by the ICC International Court of Arbitration since those two arbitrators of the parties cannot reach an agreement.

We have not been approached by Aycell regarding entering into a national roaming agreement.

Operating Costs

Direct Cost of Revenues

Direct cost of revenues include mainly treasury share payments, transmission fees, base station rents, billing costs, depreciation and amortization charges, technical, repair and maintenance expenses directly related to services rendered, roaming charges paid to foreign GSM network operators for calls made by our customers while outside Turkey, interconnection fees paid to Telsim, IsTim, Aycell and Turk Telekom and wages, salaries and personnel expenses for technical personnel. Direct costs of revenues also include costs arising from legal disputes, which relates items included in direct cost of revenues.

Under the Turk Telekom interconnection agreement, we pay Turk Telekom interconnection fees of \$0.06 per minute for calls to our GSM network, \$0.014 per minute for local calls from our network to the Turk Telekom fixed-line network and \$0.025 per minute for non-local calls from our network to the Turk Telekom fixed-line network. Prior to the award of the license, we did not pay treasury share. In addition, we did not pay Turk Telekom separately for interconnection. Interconnection costs were covered in the revenues that Turk Telekom retained under the Revenue Sharing Agreement.

Effective March 1, 2001, we pay Telsim a net amount of \$0.20 per minute for traffic switched from us to Telsim. Prior to October 1999, we did not have an interconnection agreement with Telsim. Calls originating on our network and terminating on the Telsim network were routed through the Turk Telekom network and we paid Turk Telekom for the interconnection. We entered into an interconnection agreement with IsTim that became effective on March 9, 2001, after the Ministry of Transportation's approval. Under the IsTim interconnection agreement, each party agreed, among other things, to permit the interconnection of its network after the other's network to enable calls to be transmitted to, and received from, the GSM system operated by each party in accordance with technical specifications set out in the interconnection agreement. Starting from March 9, 2001, we pay IsTim a net amount of \$0.20 per minute for traffic switched from us to IsTim. We also entered into an interconnection agreement with Aycell on July 19, 2001. We pay Aycell a net amount of \$0.20 per minute for traffic switched from us to Aycell. These charges are included in direct cost of revenues.

General and Administrative

General and administrative expenses consist of fixed costs, including services provided from outside sources, company cars, office rent, office

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maintenance, insurance, consulting, payroll and other overhead charges. In addition, while these expenses are generally related to the size of our employee base, the general and administrative expense per employee has decreased over the past four years due to economies of scale. Since the award of the license in April 1998, our general and administrative expenses also include bad debt expenses of our postpaid customers.

Selling and Marketing

Selling and marketing expenses consist of public relations, sales promotions, dealer activation fees, advertising, wages and salaries and personnel expenses of sales and marketing related employees and other expenses, including travel expenses, office expenses, insurance, company car expenses, training expenses and telephone cost services.

The average acquisition cost was approximately \$43 and \$27 per new customer for the nine month periods ended September 30, 2001 and 2002, respectively. We compute average acquisition cost per new customer by adding sales promotion expenses, simcard subsidies, activation fees and special transaction tax and dividing the sum by the gross number of new customers for the related period. These costs are recorded as either selling and marketing expense or reduction of revenue in our statements of operations. We believe that despite the recent decline in acquisition costs, the average acquisition cost may increase in the future as a result of increased spending of our competitors in the market to attract new customers.

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

	Year ended	December 31,	Nine Months ended	September 30,	Three M
	2000	2001	2001	2002	Sept
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Statement of Operations (% of revenue)					
Revenues					
Communication fees	88.2%	93.9%	93.4%	96.8%	95.5%
Monthly fixed fees	10.4	4.9	5.5	2.1	3.0
SIM card sales	1.0	0.7	0.6	0.6	1.0
Call center revenues	0.3	0.5	0.4	0.4	0.4
Other	0.1	0.0	0.1	0.1	0.1
Total revenues	100.0	100.0	100.0	100.0	100.0
Direct cost of revenues	(58.0)	(69.0)	(67.8)	(68.3)	(70.1)
Gross margin	42.0	31.0	32.2	31.7	29.9
General and administrative expenses	(9.1)	(7.6)	(8.0)	(5.3)	(6.2)
Selling and marketing expenses	(12.3)	(10.6)	(9.5)	(9.7)	(6.2)
Operating income	20.6	12.8	14.7	16.7	17.5

Nine month period ended September 30, 2002 compared to nine month period ended September 30, 2001 and three month period ended September 30, 2002 compared to the three month period ended September 30, 2001

We had 14.9 million customers, including 10.2 million prepaid customers, as of September 30, 2002, compared to 11.8 million customers, including 6.9 million prepaid customers, as of September 30, 2001. During the first nine months of 2002, we added approximately 2.7 million net new customers. We added 1.05 million net new subscribers to our network in the third quarter of 2002 compared to 0.47 million net new subscribers for the corresponding period in 2001.

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Revenues

Total revenues for the nine month period ended September 30, 2002 increased 10% to \$1,469.0 million from \$1,331.7 million for the same period in 2001. The increase in revenues is mainly due to the growth of the subscriber base. For the same reasons, revenue increased 21% to \$534.3 million in the third quarter of 2002 from \$440.6 million in the corresponding period in 2001. We expect revenues to decrease in the fourth quarter of 2002 due to the negative seasonality impact of winter months and Ramadan.

Revenues from communication fees for the nine month period ended September 30, 2002 increased 14% to \$1,421.4 million from \$1,244.5 million for the same period in 2001 mainly due to the increase in tariffs and the growth of our subscriber base. Revenues from communication fees increased 24% to \$521.1 million in the third quarter of 2002 from \$420.6 million in the corresponding period of 2001 for the same reasons. Communication fees include SMS revenue, which amounted to \$135.7 million for the nine month period ended September 30, 2002, \$125.6 million for the same period in 2001, \$46.3 million for the three month period ended September 30, 2002 and \$38.0 million for the three month period ended September 30, 2001. As the monthly fixed fee in Turkish Lira remained the same for the period between May 15, 2001 and September 30, 2002, devaluation effects caused monthly fixed fees to decline as a percentage of revenues. Accordingly, revenues from monthly fixed fees for the nine month period ended September 30, 2002 decreased 57% to \$31.5 million from \$73.0 million for the same period in 2001. In addition, monthly fixed fees decreased 30% to \$9.2 million in the third quarter of 2002 from \$13.1 million in the third quarter of 2001. SIM card revenues for the nine month period ended September 30, 2002 increased 21% to \$9.2 million from \$7.6 million for the same period in 2001. SIM card revenues decreased 58% to \$1.9 million in the third quarter of 2002 from \$4.5 million in the third quarter of 2001.

In 2001, the Emerging Issues Task Force (EITF) within the Financial Accounting Standards Board (the FASB) discussed EITF 00-14 "Accounting for Certain Sales Incentives", EITF 00-22 "Accounting for Points and Certain Other Time-Based or Volume-Based Sales Incentive Offers, and Offers for Free Products or Services to Be Delivered in the Future" and EITF 00-25 "Vendor Income Statement Characterization of Consideration Paid to a Reseller of the Vendor's Products", which in November 2001 led to the issuance of EITF 01-09 "Accounting for Consideration Given by a Vendor to a Customer or a Reseller of the Vendor's Products". EITF 00-14, 00-22 and 00-25 address the extent to which different types of payments or benefits to retailers or customers shall be reported as reductions in revenue or expenses. EITF 01-09 codifies and reconciles standards in the area. The regulations are effective for annual or interim periods beginning after December 15, 2001. We have adopted EITF 01-09 on January 1, 2002. As a result of applying the provisions of EITF 01-09, our revenues, gross profit, and selling and marketing expenses each were reduced by an equal amount of \$71.8 million and \$16.9 million in the first nine months of 2001 and third quarter of 2001, respectively. As a result of applying the provisions of EITF 01-09, we have reduced our revenues, gross profit and selling and marketing expenses by an equal amount of \$65.8 million and \$22.5 million in the first nine months of 2002 and third quarter of 2002, 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 review will differ from figures provided previously.

Direct cost of revenues

Direct cost of revenues increased 11% to \$1,003.5 million for the nine month period ended September 30, 2002 from \$903.5 million for the same period in 2001 mainly due to the increase in revenue-based costs such as the treasury

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share paid to the Turkish Treasury, which increased 16% to \$252.1 million for the first nine month period ended September 30, 2002 from \$218.0 million for the same period in 2001. For the same reason, direct cost of revenues increased 12% to \$347.4 million in the third quarter of 2002 from \$309.0 million in the third quarter of 2001. Treasury share increased 31% to \$92.4 million in the third quarter of 2002 compared to \$70.4 million in the third quarter of 2001. Treasury share increased due to the increase in revenue. Interconnection costs increased 27% to \$143.7 million for the first nine month period ended September 30, 2002 from \$113.0 million for the same period in 2001, mainly due to the effect of renegotiation of interconnection terms with Telsim in line with the agreements signed with IsTim and Aycell and the increase in transmission costs. Interconnection costs increased 79% to \$57.2 million in the third quarter of 2002 from \$32.0 million in the third quarter of 2001, mainly due to the increase in off net traffic.

Transmission costs, site costs, information technology and network maintenance expenses increased slightly to \$130.2 million for the first nine month ended September 30, 2002 from \$129.5 million in 2001. Those expenses decreased 42% to \$36.2 million in the third quarter of 2002 from \$62.5 million in the same period of 2001, mainly due to the decrease in site costs as a result of the finalization of the project aimed to remove our GSM equipment from Turk Telekom sites. In addition, uncapitalizable antenna site costs and expenses increased 24% to \$49.8 million for the nine month period ended September 30, 2002 from \$40.2 million for the same period in 2001. Uncapitalizable antenna site costs and expenses increased 41% to \$16.5 million for the third quarter of 2002 from \$11.7 million for the third quarter of 2001.

Roaming expenses decreased 5% to \$22.5 million for the nine month period ended September 30, 2002 from \$23.7 million for the same period in 2001. Roaming expenses increased 9% to \$8.5 million in the third quarter of 2002 from \$7.8 million in the third quarter 2001, mainly due to the increase in roaming revenue generated from the calls made by our customers while outside Turkey, primarily reflecting the decreasing effect of economic crisis.

Billing costs increased 8% to \$15.6 million for the nine month period ended September 30, 2002 from \$14.5 million for the same period in 2001, principally due to the increase in postage fees. Due to the same reason, billing costs increased 18% to \$5.2 million in the third quarter of 2002 from \$4.4 million in the third quarter of 2001.

Depreciation and amortization expenses increased 6% to \$309.4 million for the nine month period ended September 30, 2002 from \$292.8 million for the same period in 2001 as a result of an increase in fixed assets and intangibles due to additional capitalization of network investments in the second half of 2001 and in the first half of 2002. Due to the same reasons, depreciation and amortization expenses increased 4% to \$104.1 million for the third quarter in 2002 from \$99.9 million for the third quarter in 2001. The amortization expense for our GSM license was \$15.0 million both for the first nine months of 2002 and 2001.

The cost of SIM cards sold increased 12% to \$23.4 million for the nine month period ended September 30, 2002 from \$20.8 million for the same period in 2001, reflecting primarily an increase in the number of prepaid SIM cards sold during the first nine months of 2002. The cost of SIM cards sold decreased 1% to \$7.2 million for the third quarter of 2002 from \$7.3 million for the third quarter of 2001.

Wages and salaries and personnel expenses for technical personnel decreased 10% to \$34.1 million for the nine month period ended September 30, 2002 from \$37.8 million for the same period in 2001. The decrease was primarily due to reduction in the headcount between March 31, 2001 and September 30, 2002. Wages and salaries and personnel expenses for technical personnel increased 15%

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to \$10.5 million for the third quarter of 2002 from \$9.1 million for the third quarter of 2001. The increase in wages and salaries and personnel expenses experienced in the third quarter of 2002 stemmed mainly from the temporary unpaid leaves as a result of cost cutting efforts undertaken in the third quarter of 2001.

As a percentage of revenue, direct cost of revenues remained stable at 68% for the nine month period ended September 30, 2002 and 2001. In addition, as a percentage of revenue, direct cost of revenues decreased to 65% for the third quarter of 2002 from 70% for the third quarter of 2001.

General and administrative expenses

General and administrative expenses decreased 27% to \$77.3 million for the nine month period ended September 30, 2002 from \$106.6 million for the same period in 2001, mainly due to positive effects of cost saving efforts undertaken by us after the first quarter of 2001, decreased bad debt expenses and a decrease in wages and salaries. For the same reasons, general and administrative expenses decreased 7% to \$25.1 million in the third quarter of 2002 from \$27.1 million in the third quarter of 2001. As a percentage of revenues, general and administrative expenses were 5% for the nine month period ended September 30, 2002 compared to 8% for the same period in 2001. In addition, as a percentage of revenues, general and administrative expenses were 5% for the three month period ended September 30, 2002 compared to 6% for the corresponding period in 2001.

Bad debt expenses decreased 46% to \$27.3 million for the nine month period ended September 30, 2002 from \$50.5 million for the same period in 2001 mainly due to the increased proportion of prepaid subscribers in our customer base, improved collection activities such as credit scoring, and new collection channels and improvement in the legal follow-up system to decrease fraud. For the same reasons, bad debt expenses decreased 11% to \$8.7 million in the third quarter of 2002 from \$9.8 million in the third quarter of 2001. We provided an allowance for doubtful receivables identified based upon past experience in our consolidated financial statements.

Rent expense increased 3% to \$3.2 million for the nine month period ended September 30, 2002 from \$3.1 million for the nine month period ended September 30, 2001. Rent expense increased 11% to \$1.0 million in the third quarter of 2002 from \$0.9 million in the third quarter of 2001.

Consulting expenses increased 5% to \$6.9 million for the nine month period ended September 30, 2002 from \$6.6 million for the same period in 2001, mainly due to consulting expenses related to due diligence and relevant fair-value assessments in connection with the restructuring of Fintur incurred in the second quarter of 2002. Consulting expenses decreased 62% to \$1.4 million for the third quarter of 2002 from \$3.7 million for the third quarter of 2001, mainly due to the consulting expenses incurred in the third quarter of 2001 related to our capital increase.

Wages, salaries and personnel expenses for non-technical and non-marketing employees decreased 16% to \$12.8 million for the nine month period ended September 30, 2002 from \$15.2 million for the same period in 2001. The decrease was mainly due to the decrease in devaluation of the Turkish Lira against the US Dollar to 13% in the nine month period ended September 30, 2002 from 56% in the nine month period ended September 30, 2001. These expenses were \$4.1 million both for the third quarter of 2002 and 2001.

Selling and marketing expenses

Selling and marketing expenses increased 13% to \$142.7 million for the nine month period ended September 30, 2002 from \$126.7 million for the same period in 2001, mainly due to the increase in advertising expenses related with

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additional marketing. Due to the same reasons, selling and marketing expenses increased 63% to \$44.8 million in the third quarter of 2002 from \$27.5 million in the third quarter of 2001. As a percentage of revenues, selling and marketing expenses were 10% for both of the nine month periods ended September 30, 2002 and 2001. In addition, as a percentage of revenues, selling and marketing expenses increased to 8% for the third quarter of 2002 from 6% for the same period in 2001. Selling and marketing expenses for the nine month period ended September 30, 2001 and for the three month period ended September 30, 2001 were reduced by \$71.8 million and \$16.9 million, respectively, due to the adoption of EITF 01-09 as discussed above. We expect our selling and marketing expenses to slightly increase as a percentage of revenue in the fourth quarter of 2002 due to expected seasonal drop in revenue.

Total postpaid advertising, market research, product management, public relation and call center expenses increased 48% to \$53.8 million for the nine month period ended September 30, 2002 from \$36.3 million for the same period in 2001 mainly due to increased advertising and product management activities. For the same reasons, total postpaid advertising, market research, product management, public relation and call center expenses increased 34% to \$14.3 million in the third quarter of 2002 from \$10.7 million in the third quarter of 2001.

Total prepaid advertising, market research, product management, public relations expenses and prepaid subscribers' frequency usage fee expenses increased 8% to \$31.9 million for the nine month period ended September 30, 2002 from \$29.5 million for the same period in 2001. The increase in the first nine months of 2002 stemmed mainly from the fact that the increase in prepaid advertising expenses incurred for additional marketing campaigns is higher than the decrease in prepaid subscribers' frequency usage fees, which were not expensed for the nine month period ended September 30, 2002 as a result of the court decree described below. Due to the same reason, total prepaid advertising, market research, product management and public relation expenses increased 36% to \$13.1 million in the third quarter of 2002 from \$9.6 million in the third quarter of 2001. Until the end of 2001, we were required to collect frequency usage fees from the taxpayers using mobile phones on behalf of the Telecommunications Authority and pay the levied tax to the Telecommunications Authority. On March 22, 2002, as a consequence of the impossibility in fact and at law of collecting such tax from our prepaid subscribers, we applied to the court and obtained an injunction in respect of the collection of the frequency usage fees. Immediately after this decision, on March 27, 2002, we filed a lawsuit against the Telecommunications Authority requesting cancellation of the protocols obligating us to collect the frequency usage fees from the subscribers and to pay it to the Telecommunications Authority. On July 10, 2002 the court decided in our favour. Therefore, we did not pay and provide an accrual for the frequency usage fees in our consolidated financial statements as of and for the nine month period ended September 30, 2002. We and our legal counsel believe that we will prevail in this matter. However, the Telecommunications Authority has appealed the decision.

Total sales promotion expenses decreased 29% to \$1.5 million for the nine month period ended September 30, 2002 from \$2.1 million for the same period in 2001, primarily due to the positive effects of cost saving efforts undertaken by us after the first quarter of 2001. Total sales promotion expenses increased to \$0.4 million in the third quarter of 2002 from nil in the third quarter of 2001, mainly as a result of new sales promotion campaigns for our prepaid services. Of the total sales promotion expenses for the nine month period ended September 30, 2002, for the nine month period ended September 30, 2001, for the three month period ended September 30, 2002 and for the three month period ended September 30, 2001, \$1.6 million, \$0.9 million, \$0.6 million and \$0.4 million were for prepaid sales promotion activities, respectively.

Activation fees increased 11% to \$29.0 million for the nine month

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period ended September 30, 2002 from \$26.1 million for the same period in 2001. Activation fees increased 49% to \$8.8 million in the third quarter of 2002 from \$5.9 million in the third quarter of 2001, mainly due to the increase in new additions to subscriber base. Of the total dealer activation fees for the nine month period ended September 30, 2002, for the nine month period ended September 30, 2001, for the three month period ended September 30, 2002 and for the three month period ended September 30, 2001, \$24.1 million, \$18.9 million, \$7.2 million and \$4.6 million were for prepaid activations, respectively.

Wages, salaries and personnel expenses for selling and marketing employees increased 39% to \$16.0 million for the nine month period ended September 30, 2002 from \$11.5 million for the same period in 2001, mainly due to the temporary unpaid leaves as a result of cost cutting efforts undertaken in the first nine months of 2001. For the same reason, wages, salaries and personnel expenses for selling and marketing employees increased 68% to \$4.7 million in the third quarter of 2002 from \$2.8 million in the third quarter of 2001.

Operating income

Operating income increased 26% to \$245.5 million for the nine month period ended September 30, 2002 from \$194.9 million for the same period in 2001, mainly due to the increase in our revenues and decrease in general and administrative expenses and despite an increase in our operating costs resulting from an increase in revenue-based costs. Operating income increased 52% to \$117.0 million in the third quarter of 2002 from \$77.0 million in the third quarter of 2001 for the same reasons.

Income from related parties, net

Income from related parties, which includes sales of GSM equipment and SIM cards and charges for management, promotional materials and technical advisory services provided to Azercell, Moldcell, Global Georgia, Geocell and GSM Kazakhstan net of cost of goods sold after accounting for intercompany profit elimination was \$0.1 million for the nine month period ended September 30, 2002 compared to \$2.2 million for the same period in 2001. Income from related parties was nil in the third quarter of 2002 compared to \$1.1 million in the third quarter of 2001.

Interest income (expense), net

Net interest expense decreased 13% to \$139.4 million for the nine month period ended September 30, 2002 from \$160.6 million for the same period in 2001, mainly due to principal repayments of loans in the first nine months of 2001 and first nine months of 2002. For the same reason, net interest expense decreased 19% to \$45.4 million in the third quarter of 2002 from \$56.0 million in the third quarter of 2001.

Other income (expense), net

Other income, net amounted to \$2.7 million for the nine month period ended September 30, 2002, compared to an expense of \$15.1 million for the same period in 2001. Other expense, net amounted to \$2.7 million for the three month period ended September 30, 2002 compared to an expense of \$13.8 million for the same period of 2001.

Translation gain/(loss)

We have recorded a translation loss of \$20.7 million for the nine month period ended September 30, 2002, compared to a translation loss of \$130.9 million for the same period in 2001. The decrease in translation loss experienced in the first nine month period of 2002 stemmed from the 13%

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devaluation of the Turkish Lira against the US Dollar in the first nine month period of 2002 compared to the 56% devaluation of the Turkish Lira against the US Dollar in the first nine month period of 2001. Translation loss decreased 56% to \$10.4 million in the third quarter of 2002 from \$23.5 million in the third quarter of 2001. The decrease in translation loss in the third quarter of 2002 resulted from the 5% devaluation of the Turkish Lira against the US Dollar in the third quarter of 2002 compared to the 18% devaluation during the third quarter of 2001.

Income tax benefit (expense)

Income tax benefit under US GAAP was nil for the nine month period ended September 30, 2002 compared to an income tax benefit of \$8.8 million for the same period in 2001. We have experienced significant losses and have historically provided a valuation allowance on certain deferred tax assets, which we determined it is more likely than not that they would not be recognized. We have recently begun to be profitable. However, no provision for income taxes has been made as we can offset the provision against net operating loss carryforwards. We will continue to monitor the valuation allowance, and if profits continue in the future, we may reverse a portion of valuation allowance. Income tax benefit was nil both in the third quarter of 2002 and 2001. As of September 30, 2002, we have generated approximately \$325.4 million of potential future tax benefit from tax credit carry forwards arising under our Investment Incentive Certificates. See "--Investment Incentive Certificates".

Equity in net income (loss) of unconsolidated investees

Equity in net loss of unconsolidated investees was \$23.4 million for the nine month period ended September 30, 2002 whereas equity in net loss of unconsolidated investees was \$41.6 million in the same period 2001. Equity in net income of unconsolidated investees was \$0.2 million in the third quarter of 2002 whereas the equity in net loss of unconsolidated investees was \$11.5 million in the third quarter of 2001. Equity in net income (loss) of unconsolidated investees figure is not comparable to the previous quarter's figure as the technology businesses operated by Fintur have been transferred to the Cukurova Group and our ownership of Fintur has increased from 25% to 41.45% due to the restructuring of Fintur completed in August 2002.

Net income (loss)

Net income was \$65.0 million for the nine month period ended September 30, 2002 compared to the net loss of \$141.8 million in the same period of 2001. The change was mainly due to the decrease in devaluation of the Turkish Lira against the US Dollar, which resulted in a translation loss of \$20.7 million for the nine month period ended September 30, 2002 compared to the translation loss of \$130.9 million in the same period of 2001. For the same reason, net income was \$58.8 million in the third quarter of 2002 compared to net loss of \$26.6 million in the third quarter of 2001.

Taxation Issues in Telecommunications Sector

For a discussion of Turkish Tax legislation on telecommunications revenues, please see "Item 5A. Operating Results-Taxation Issues in Telecommunications Sector" in the 20-F. There have been no material changes in the taxes imposed on telecommunications services since the date of the 20-F.

Investment Incentive Certificates

In 1993, 1997, 2000 and 2001, the Undersecretariat of the Treasury approved investment incentive certificates for a program of capital expenditures by us and our subsidiaries in our mobile communications operations and call

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center operations. Such incentives entitle us to a 100% exemption from customs duty on imported machinery and equipment and an investment tax benefit of 100% on qualifying expenditures. The investment tax benefit takes the form of deductions for corporation tax purposes, but these deductions are subject to withholding tax at the rate of 19.8%. Investment incentive certificates provide for tax benefits on cumulative purchases of up to approximately \$3.3 billion in qualifying expenditures. As of September 30, 2002, we had incurred cumulative qualifying expenditures of approximately \$2.5 billion (\$2.1 billion as of December 31, 2001), resulting in tax credit carryforwards under the certificates of approximately \$325.4 million (\$271.7 million as of December 31, 2001), net of foreign exchange translation losses. Such tax credits can be carried forward indefinitely. However, as of September 30, 2002, a valuation allowance of approximately \$525.0 million has been recorded against such amount, as we believe that currently there exists significant uncertainty regarding the realizability of tax credit carryforwards (\$539.7 million as of December 31, 2001). The certificates are denominated in Turkish Lira. However, approximately \$2.2 billion of qualifying expenditures through September 30, 2002 (\$2.0 billion as of December 31, 2001) under the certificates are indexed against future inflation.

Recapitalization

On March 30, 2001, our General Assembly Meeting authorized an increase in our authorized share capital from TL 240 trillion to TL 263.8 trillion. In May 2001, we announced that we would increase our capital from TL 240 trillion to approximately TL 263.8 trillion through a bonus share issue. The TL 23.8 trillion increase was profit gained from the sale of certain of our subsidiaries in June 2000.

On May 16, 2001, we announced our intention to increase our authorized share capital by approximately TL 236.2 trillion (approximately \$178 million at the payment dates) through a rights offering, assuming the rights are exercised in full. During the rights issue, we offered qualifying shareholders the opportunity to subscribe for approximately 236 billion new ordinary shares at a subscription price of TL 1,000 per ordinary share. During the subscription period, the take up rate for the rights issue was approximately 99.97%, which resulted in our receiving gross proceeds of approximately \$178 million. We completed the offering in August 2001. We used the proceeds from the rights issue for debt repayment and to strengthen our cash position. As of September 30, 2002, our share capital was \$636.1 million.

Effects of Inflation

The annual inflation rates in Turkey were 39.0% and 68.5% for the years ended December 31, 2000 and 2001, respectively, based on the Turkish consumer price index. Annual inflation rates were 37.0% as of September 30, 2002 and 61.8% for the same period in 2001. Within a hyperinflationary economy such as Turkey's, holding TL-denominated monetary assets in excess of TL-denominated monetary liabilities results in a loss as the real value of the net monetary assets decreases in line with the inflation rate. In a situation where monetary liabilities exceed monetary assets, a gain results as the real value of the net liabilities decreases. In order to try to contain inflation rates that have averaged about 60% per annum over the past three years, the Turkish government has implemented policies, including certain austerity measures that could have a negative impact on the Turkish economy and on our profitability.

New Accounting Standards Issued

In July 2001, the FASB issued SFAS No. 141, "Business Combinations", and SFAS No. 142, "Goodwill and Other Intangible Assets". SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after September 30, 2001 as well as all purchase method business

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combinations completed after September 30, 2001. SFAS No. 141 also specifies criteria that intangible assets acquired in a purchase method business combination must meet to be recognized and reported apart from goodwill, noting that any purchase price allocable to an assembled workforce may not be accounted for separately. SFAS No. 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of this statement. SFAS No. 142 also requires that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of". As of September 30, 2002, we do not have any goodwill or indefinite live intangible assets. We have adopted these statements on January 1, 2002. This adoption did not have a material effect on our consolidated financial position or results of operations.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations". SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. This statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. It applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or the normal operation of a long-lived asset, except for certain obligations of lessees. We have not determined the impact, if any, of the adoption of SFAS No. 143 on our consolidated financial position or results of operations.

On October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS No. 144 is effective for the fiscal years beginning after December 15, 2001. While SFAS No. 144 supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of", it retains many of the fundamental provisions of that statement. SFAS No. 144 also supersedes the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions", for the disposal of a segment of a business. However, it retains the requirement in APB Opinion No. 30 to report separately discontinued operations and extends that reporting to a component of an entity that either has been disposed of (by sale, abandonment, or in a distribution to owners) or is classified as held for sale. By broadening the presentation of discontinued operations to include more disposal transactions, the FASB has enhanced managements' ability to provide information that helps financial statement users to assess the effects of a disposal transaction on the ongoing operations of an entity. We have adopted SFAS No. 144 on January 1, 2002. The adoption did not have a material impact on our financial position, results of operations, or cash flows.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145 rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt", an amendment of APB Opinion No. 30, that required all gains and losses from extinguishment of debt to be aggregated and, if material, classified as an extraordinary item, net of related income tax effect. As a result, the criteria set forth by APB Opinion 30 will now be used to classify those gains and losses. SFAS No. 64 amended SFAS No. 4, and is no longer necessary because SFAS No. 4 has been rescinded. SFAS No. 44 was issued to establish accounting requirements for the effects of transition to the provisions of the Motor Carrier Act of 1980. SFAS No. 145 also amends SFAS No. 13 to require that certain lease modifications that have economic effects similar to sale-leaseback transactions be accounted for in the same manner as

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sale-leaseback transactions. SFAS No. 145 also makes non-substantive technical corrections to existing pronouncements. SFAS No. 145 is effective for fiscal years beginning after May 15, 2002 with earlier adoption encouraged. We have not determined the impact, if any, of the adoption of SFAS No. 145 on our consolidated financial position or results of operations.

In 2001, the Emerging Issues Task Force (EITF) within the FASB discussed EITF 00-14 "Accounting for Certain Sales Incentives", EITF 00-22 "Accounting for Points and Certain Other Time-Based or Volume-Based Sales Incentive Offers, and Offers for Free Products or Services to Be Delivered in the Future" and EITF 00-25 "Vendor Income Statement Characterization of Consideration Paid to a Reseller of the Vendor's Products", which in November 2001 led to the issuance of EITF 01-09 "Accounting for Consideration Given by a Vendor to a Customer or a Reseller of the Vendor's Products". EITF 00-14, 00-22 and 00-25 address the extent to which different types of payments or benefits to retailers or customers shall be reported as either reductions in revenue or expenses. EITF 01-09 codifies and reconciles standards in the area. The regulations are effective for annual or interim periods beginning after December 15, 2001. We adopted EITF 01-09 on January 1, 2002. As a result of applying the provisions of EITF 01-09, our revenues, gross profit, and selling and marketing expenses each were reduced by an equal amount of \$71.8 million and \$16.9 for the nine month and three month periods ended September 30, 2001, respectively. The adoption of EITF 01-09 had no impact on our operating income, net income (loss) or earnings (loss) per share.

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". This Statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies EITF 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002. An entity would continue to apply the provisions of EITF 94-3 to an exit activity that it initiated under an exit plan that met the criteria of EITF 94-3 before the entity initially applied SFAS No. 146. We have not determined the impact, if any, of the adoption of SFAS No. 146 on our consolidated financial position or results.

Liquidity and Capital Resources

Liquidity

We require significant liquidity to finance capital expenditures for the expansion and improvement of our GSM network, for non-operational capital expenditures, for working capital and to service our debt obligations. To date, these requirements have been funded largely through supplier financings, bank borrowings, and the issuance of \$700 million in bonds by a special purpose finance vehicle, Cellco Finance N.V. (Cellco), which issued \$300 million of debt securities in July 1998 and \$400 million of debt securities in December 1999, and a rights issue. As of September 30, 2002, total outstanding payables related to the Cellco transaction was \$700 million.

The net cash provided by our operating activities for the nine month periods ended September 30, 2001 and 2002 amounted to \$164.8 million and \$396.1 million, respectively. The increase in 2002 was primarily due to net income recorded for the nine month period ended September 30, 2002 compared with net loss for the same period in 2001.

The net cash used for investment activities for the nine month period ended September 30, 2001 and 2002 amounted to \$154.8 million and \$131.1 million, respectively. From our formation through September 30, 2002, we made total capital expenditures for assets of \$3.7 billion including our license, of which \$87.3 million was for construction in progress and \$2,067.3 million was for the

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build-out of the network. We also invested \$667.1 million in computer software over that period. In February 1999, July 1999, January 2000 and January 2001, we signed contracts with Ericsson, our primary equipment supplier, to purchase approximately \$514 million, \$551 million, \$640 million and \$400 million, respectively, of equipment to expand and improve our network. Total investments in investees amounted to \$103.7 million as of September 30, 2002 compared to \$68.2 million as of September 30, 2001.

On February 28, 2002, the shareholders of Fintur signed a letter of intent for the restructuring of Fintur's two business divisions, the international GSM businesses and the technology businesses. On May 10, 2002, we and the other shareholders of Fintur Holdings B.V. signed a Share Purchase Agreement in connection with the restructuring of Fintur's two business divisions, which includes the basic principles agreed in the letter of intent. On August 21, 2002, the shareholders of Fintur finalized the restructuring of Fintur's two business divisions. In line with the terms of the transaction, we acquired an additional 16.45% of Fintur's international GSM business from the Cukurova Group, increasing our stake in the business to 41.45%. We also transferred our entire interest in Fintur's technology businesses to the Cukurova Group. As of September 30, 2002, we remain contingently liable for \$63.1 million debt related to the technology businesses. The consideration paid by us to the Cukurova Group resulting from this transaction amounted to \$70.7 million. On March 7 and May 29, 2002, we paid \$35.4 million and \$3.8 million to the Cukurova Group, respectively, and on August 21, 2002 we paid the remaining \$31.6 million to the Cukurova Group. We had receivables from Fintur of \$67.3 million as of August 21, 2002 (December 31, 2001: \$63.2 million; September 30, 2002: \$0.8 million), and on August 22, 2002 we collected such receivables upon the completion of the transaction. The receipt of these receivables offset a major portion of the consideration paid by us to the Cukurova Group. Therefore, our net cash outflows in connection with the restructuring amounted to approximately \$3.5 million. Upon the signing of the letter of intent, Fintur classified the subsidiaries in the technology businesses as held for sale and measured them at the lower of their carrying amount or fair value less cost to sell. Accordingly, Fintur had an impairment charge of approximately \$27 million based on its unaudited consolidated financial statements for the three month period ended March 31, 2002. The \$27 million impairment charge has been recognized in Fintur's unaudited consolidated financial statements for the three month period ended March 31, 2002, which had an effect amounting to approximately \$6.7 million in our consolidated results of operations for the three month period ended March 31, 2002. This transaction will enable us to focus on our core mobile business since these GSM operations are located in countries with low mobile penetration rates, which our management believes will provide opportunities for future growth.

The net cash used for financing activities for the nine month period ended September 30, 2001 and 2002 amounted to \$240.0 million and \$202.7 million, respectively. As of September 30, 2002, \$1,396.9 million was outstanding as short-term and long-term borrowings. We also entered into lease agreements in the amount of \$66.7 million with various leasing companies (\$63.2 million for our headquarters and other real estate and \$3.5 million for computers installed at the building, office equipment and company cars). On November 24, 1999, we entered into another bank facility, which provides for \$550 million of senior amortizing term loan facilities. We made our first drawing in the amount of \$332.5 million on December 9, 1999 under this bank facility, and as of September 30, 2002, \$244.4 million was outstanding.

On November 9, 2000, we signed a loan agreement for three years amounting to \$200 million for investment financing purposes. The lender under the agreement is Akbank T.A.S. (Akbank). The loan will be repaid in semi-annual installments starting on November 11, 2002, and the repayments will be in the amount of \$50 million, \$100 million and \$50 million on November 11, 2002, May 9, 2003 and November 10, 2003, respectively. The loan bears an interest rate of

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LIBOR plus 5.25%.

On November 22, 2000, we signed two new loan agreements for three years amounting to \$100 million and \$150 million for investment financing purposes. The \$100 million loan from Vakiflar Bankasi T.A.O. (Vakifbank) will be repaid in seven consecutive quarterly installments starting on June 24, 2002, and bears an interest rate of 11.95% per annum, which was amended to 16.0% per annum as of March 22, 2001, and amended to 14% per annum as of November 1, 2001. A further rate cut was effective as of February 1, 2002 after which the interest rate became 12% per annum. On June 3, 2002, we agreed with Vakifbank to amend the interest rate further. Accordingly, the interest rate has been amended as 10% per annum effective May 1, 2002, 9% per annum effective June 1, 2002 and 8.5% per annum effective October 1, 2002. The \$150 million loan from Garanti Bankasi A.S. (Garanti) will be repaid in four semi-annual equal installments starting on June 21, 2002, and bears an interest rate of LIBOR plus 5.30% per annum, which was amended to 17% per annum as of March 22, 2001, and amended to 14% per annum as of November 1, 2001. Further rate cuts were effective as of January 3, 2002, April 1, 2002 and June 30, 2002 after which the interest rates became 12%, 9% and 8.21% per annum, respectively. On December 5, 2000, we signed a loan agreement with Akbank for three years amounting to \$50 million for investment financing purposes. The loan will be repaid in semi-annual installments starting on December 5, 2002 and the repayments will be in the amount of \$12.5 million, \$25 million and \$12.5 million on December 5, 2002, June 5, 2003 and December 5, 2003, respectively. The loan bears an interest rate of LIBOR plus 5.25%.

In the first nine months of 2002, we spent approximately \$59.3 million, after deducting fixed asset disposals of \$1.1 million, for capital expenditures compared with \$181.9 million for the same period in 2001. We are now in a position to complete the year with capital expenditures of approximately \$85 million, which is well below the budgeted amount of \$150 million. Our capital expenditures will be lower than budgeted mainly due to slower technological improvements for our 2.5G network and delayed investments in related data services because of lower market demand.

In 2001, we increased our authorized share capital by approximately TL 236.2 trillion (approximately \$178 million at the payment dates) through a rights offering. During the rights issue, we offered qualifying shareholders the opportunity to subscribe for approximately 236 billion new ordinary shares at a subscription price of TL 1,000 per ordinary share. During the subscription period, the take up rate for the rights issue was approximately 99.97%, which resulted in our receiving gross proceeds of approximately \$178 million. We completed the offering in August 2001. We used the proceeds from the rights issue for debt repayment and to strengthen our cash position. As of September 30, 2002, our share capital was \$636.1 million.

At December 31, 2001, our current liabilities exceeded our current assets by approximately \$248.7 million. At September 30, 2002, our current liabilities exceeded our current assets by approximately \$252.6 million.

Contractual Obligations and Commercial Commitments

The following table illustrates our major contractual obligations and commitments as of September 30, 2002.

US\$ Million	Payments due by period			
Contractual Obligations	Total	Less than 1 year	1-3 years	4-5 year

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Long-Term Borrowings	1,396.1	452.4	943.7
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Capital Lease Obligations	38.0	12.9	22.4
<hr style="border-top: 1px dashed black;"/>			
Operating Leases	12.5	2.3	5.5
<hr style="border-top: 1px dashed black;"/>			
Total Contractual Cash Obligations	1,446.6	467.6	971.6
<hr style="border-top: 1px dashed black;"/>			

Related Party Transactions

KVK Mobil Telefon Sistemleri A.S. (KVK)

KVK, one of our principal SIM card distributors, is a Turkish company, which is affiliated with our shareholders. In addition to sales of simcards and scratch cards, we have entered into several agreements with KVK, in the form of advertisement support protocols, each lasting for different periods pursuant to which KVK must place advertisements for our services in newspapers. The objective of these agreements was to promote and increase handset sales with our prepaid and postpaid brand SIM cards, thereby supporting the protection of our market share in the prevailing market conditions. The prices of the contracts were determined according to the cost of advertising for KVK and the total amount of advertisement benefit received, reflected in our market share in new subscriber acquisitions. Distributors' campaign projects and market share also contributed to the budget allocation. The total amount of simcard and scratch card sales to KVK in the nine month and three month periods ended September 30, 2002 amounted to \$66.8 million and \$11.0 million, respectively.

ADD Production Medya A.S. (ADD)

ADD, a media planning and marketing company, is a Turkish company owned by one of our principal shareholders, Cukurova Group. We entered into a media purchasing agreement with ADD on January 23, 2002, which will last until December 31, 2002. The purpose of this agreement is to benefit from the expertise and bargaining power of ADD against third parties, regarding the formation of media purchasing strategies for both postpaid and prepaid brands. The contract prices were determined according to prevailing market prices for media purchasing. The total amount charged by ADD in the nine month and three month periods ended September 30, 2002 amounted to \$38.7 million and \$15.9 million, respectively.

Geocell LTD (Geocell)

Geocell, one of the cellular phone operators in Georgia, is an indirect subsidiary of Fintur. We have signed an agreement for the export of a set of renovated but usable GSM equipments to Geocell. The objective of the agreement is to make use of the fixed assets that are no longer used in our network. The prices were determined following the examination of fair values of the equipment in consideration. The contract amount is \$5.7 million, which will be received within one year after the delivery date of the goods. The total GSM equipment sold to Geocell in the nine month and three month periods ended September 30, 2002 amounted to \$1.8 million and nil, respectively.

Hobim Bilgi Islem Hizmetleri A.S. (Hobim)

Hobim, one of the leading data processing and application service provider companies in Turkey, is owned by the Cukurova Group. We have entered into invoice printing and archiving agreements with Hobim under which Hobim provides us with monthly invoice printing services and manages archiving of invoices and subscription documents for an indefinite period of time. Prices of

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the agreements are determined as per unit cost plus profit margin. The total amount charged by Hobim related to these contracts in the nine month and three month periods ended September 30, 2002 amounted to \$4.1 million and \$1.4 million, respectively.

A-Tel Pazarlama ve Servis Hizmetleri A.S. (A-Tel)

A-Tel is one of the principal importers of handsets and is involved in marketing, selling and distributing of our prepaid system. A-Tel acts as our sole dealer for Muhabbet Kart (a prepaid card), and receives dealer activation fees and simcard subsidies for the sale of Muhabbet Kart. In addition to sales of simcards and scratch cards we have entered into several agreements with A-Tel for sales campaigns and for subscriber activations. Sales campaigns are also incorporated with Sabah, the media company. The total amount of simcard and scratch card sales to A-Tel in the nine month and three month periods ended September 30, 2002 amounted to \$88.2 million and \$32.0 million, respectively.

Asli Gazetecilik ve Matbaacilik A.S. (Asli Gazetecilik)

Asli Gazetecilik, a media planning and marketing company, is a Turkish company owned by one of our principal shareholders, Cukurova Group. We receive services related to making space and airtime reservations for advertisements on television stations, radio stations, newspapers and magazines. Services we received are priced according to prevailing market prices. The total amount charged by Asli Gazetecilik related to these services in the nine month and three month periods ended September 30, 2002 amounted to \$12.3 million and \$4.2 million, respectively.

Superonline Uluslararası Elektronik Bilgilendirme ve Haberleşme Hizmetleri A.S. (Superonline)

We have entered into an agreement with Superonline to provide each other with mutual services. According to this agreement, Superonline will provide us with dealer automation services, web hosting services, internet access services, high speed circuit switched data services, wireless application protocol services and unified messaging services. We will provide space to Superonline on base station sites to install servers and equipments to increase the performance of the system infrastructure of Superonline. The total amount of services charged by Superonline in the nine month and three month periods ended September 30, 2002 was \$0.6 million and \$0.2 million, respectively.

Digital Platform İletişim Hizmetleri A.S. (Digital Platform)

Digital Platform, a direct-to-home digital broadcasting company under Digiturk brand name, is a Turkish company owned by one of our principal shareholders, Cukurova Group. Digital Platform holds the broadcasting rights for Turkish Super Football League until May 2004. We have entered into several agreements with Digital Platform, in order to exploit the unique position of Digital Platform in Turkey, including a slow motion advertising agreement, relating to our ads shown on digital television screens during football games and related events, amounting to \$5.0 million for a period of one year and extendable if any of the parties do not oppose it. The contract prices were determined by the related media channels. We have agreed with Digital Platform to sponsor some of the films broadcast on its pay-per-view channels. We also have a rent agreement for the space occupied by Digital Platform in one of our leased buildings, an agreement related to the provision of Group SMS services that we offer to Digital Platform, and an agreement for call center services provided by our subsidiary Global. Prices for these contracts were determined based on prevailing market prices for these services. The total amount charged by Digital Platform related to these contracts in the nine month and three month periods ended September 30, 2002, including payments for sponsorships and services, amounted to \$6.6 million and \$2.6 million, respectively.

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Genel Yasam Sigorta A.S. (Genel Yasam Sigorta)

Genel Yasam Sigorta, a life insurance company, is a Turkish company owned by one of our principal shareholders, Cukurova Group. We have signed agreements for the life insurance policies related to our personnel and the personnel of some of our dealers, based on their performance. The contract prices were determined based on the prevailing market prices. Total amount charged by Genel Yasam Sigorta related to these contracts in the nine month and three month periods ended September 30, 2002 amounted to \$8.0 million and \$3.0 million, respectively.

Yapi ve Kredi Bankasi A.S. (Yapi ve Kredi)

Yapi ve Kredi, one of the largest commercial banks in Turkey, is one of our shareholders. We have entered into an agreement with Yapı ve Kredi providing for Yapı ve Kredi to issue a co-brand Turkcell credit card. The card provides a discount to cardholders on their purchases using the card and we and Yapı ve Kredi share the expenses created by the discount. We participate in the interest paid under the card. We collected about \$119.3 million under this program from its inception in August 1998 through September 30, 2002. We also use Yapı ve Kredi as one of our major collection channels for our postpaid customers. Total amounts collected via Yapı ve Kredi ATMs and branches in the nine month and three month periods ended September 30, 2002 amounted to \$214.7 million and \$72.0 million, respectively.

Pamukbank T.A.S. (Pamukbank)

Pamukbank, one of the largest commercial banks in Turkey. We use Pamukbank as one of our major collection channels for our postpaid customers. Total amounts collected via Pamukbank ATMs and branches in the nine month and three month periods ended September 30, 2002 amounted to \$53.1 million and \$17.0 million, respectively.

Baytur Insaat Taahhut A.S. (Baytur)

Baytur is a leading international construction company owned by one of our principal shareholders, Cukurova Group. We had agreements with Baytur regarding the construction of various Turkcell Operation Centers in a number of cities throughout the country. The total amount of the agreements regarding these projects amounted to \$29.0 million. All payments regarding these contracts have been made by us and contracts have expired as of September 30, 2002.

Yapi Kredi Finansal Kiralama A.S. (Yapi Kredi Leasing)

Yapi Kredi Leasing, an affiliate of Yapı ve Kredi Bankasi A.S., one of our shareholders, is a financial leasing company. We have entered into a finance lease agreement with Yapı Kredi Leasing for the new headquarters building we began to occupy in early 1998. The purchase price of the building was \$14.2 million. We purchased the building on May 17, 2002 for its nominal purchase price.

In addition, we have entered into a lease agreement with Yapı Kredi Leasing for a building in Ankara for regional offices. The total purchase price of the building was \$16.4 million and our outstanding lease obligation at September 30, 2002 was \$10.3 million (December 31, 2001: \$11.9 million). We may purchase the buildings at the end of the lease period for a nominal purchase price. Total amount paid to Yapı Kredi Leasing related to these contracts in the nine month and three month periods ended September 30, 2002 amounted to \$4.7 million and \$1.0 million, respectively.

Pamuklease Pamuk Finansal Kiralama A.S. (Pamuk Leasing)

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Pamuk Leasing (formerly Interlease Inter Finansal Kiralama A.S.) is a Cukurova Group Company. We have entered into five lease agreements with Pamuk Leasing for our departments and regional offices in Istanbul, Ankara and Izmir. The total purchase price of the buildings was \$32.7 million and our outstanding lease obligation at September 30, 2002 was \$18.7 million (December 31, 2001: \$22.6 million). We may purchase the buildings at the end of the lease period for a nominal purchase price. Total amount paid to Pamuk Leasing related to these contracts in the nine month and three month periods ended September 30, 2002 amounted to \$6.7 million and \$2.3 million, respectively.

GSM Kazakhstan LLP OAO (GSM Kazakhstan)

GSM Kazakhstan, one of the largest cellular phone operators in Kazakhstan, is a subsidiary of Fintur. We have signed various agreements for the export of a set of renovated but usable GSM equipment to GSM Kazakhstan. The objective of the agreement is to make use of the fixed assets that are no longer used in our network. The prices were determined following the examination of fair values of the equipment in consideration. The total amount of contracts is \$7.6 million, which will be received within one year after the delivery date of the goods. The total GSM equipment sold to GSM Kazakhstan in the nine month and three month periods ended September 30, 2002 amounted to \$0.1 million and nil, respectively.

Milleni.com GmbH (Milleni.com)

Milleni.com, one of the active players in the international carrier's carrier market, is a subsidiary of Fintur's subsidiary in Germany, European Telecommunications Holding A.G. (ETH). We have signed an agreement to provide telecommunications services to each other whereby Milleni.com may convey calls to our switch and we may convey calls to Milleni.com's switch, in both cases, for onward transmission to their destinations. The prices per airtime are changed depending on the destination. In the nine month and three month periods ended September 30, 2002, the total amount charged by Milleni.com related to this agreement was \$5.5 million and \$2.6 million, respectively. In the nine month and three month periods ended September 30, 2002, the total amount charged to Milleni.com related to this agreement was \$5.2 million and \$2.2 million, respectively.

Personal loans to directors and executive officers

As of December 31, 2001 and September 30, 2002, 10 of our directors and executive officers have outstanding personal loans from us amounting to \$0.2 million and \$0.1 million, respectively.

Contingent Liabilities

The following table illustrates our major contingent liabilities as of September 30, 2002.

(USD million)	Amount of contingent liability expiration per			
	Total amount committed	Remaining commitment at September 30, 2002	Less than 1 year	1 - 3 years
Guarantees				
Digital Platform	88.9	63.1	29.3	29.3
BNP - Brussels (Buyer Credit)	50.2	35.7	10.8	21.6
BNP - Brussels (Financial Loan)	8.2	4.9	2.8	2.1

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BNP - Hungary (Buyer Credit)	13.1	8.1	2.3	4.6
BNP - Hungary (Financial Loan)	2.2	1.3	0.7	0.6
Websterbank - USA	1.2	0.6	0.2	0.4
HSBC - Istanbul Main Branch	14.0	12.5	12.5	-
Moldcell	5.0	5.0	5.0	-
Toprakbank	5.0	5.0	5.0	-
Geocell	3.6	3.6	3.6	-
Toprakbank	3.6	3.6	3.6	-
Inteltek	0.2	0.2	0.2	-
Denizbank	0.2	0.2	0.2	-
Hobim	0.1	0.1	0.1	-
BNP AK Dresdner (Financial Leasing)	0.1	0.1	0.1	-

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

Guarantees given for Moldcell and Geocell are related to loans for working capital financing used from the respective banks.

Guarantees given for Inteltek are related to a guarantee letter issued by the respective bank to Sportoto. Additionally, on November 8, 2002, another guarantee, amounting to \$1.1 million, is given for Inteltek related to a letter of guarantee issued by Garanti Bank for financial leasing agreements with Garanti Leasing.

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

On March 4, 2002, we provided financial support letters for Moldcell, GSM Kazakhstan and Geocell, which are subsidiaries of Fintur, for twelve months. Initially, we estimated our cash outflows in 2002 in this respect to be approximately \$20.0 million, however as of September 30, 2002, we have not provided any financial support to these companies.

Liquidity Outlook

According to our current business plan, we believe that we will be able to finance our current operations, capital expenditures and financing costs and maintain and enhance our network in 2002 through our operating cash flow, our strong cash balance as of September 30, 2002 and certain financing arrangements that we have recently entered.

In March 2002, we received intention letters from Vakifbank and Garanti Bankasi agreeing to the extension of approximately \$120 million relating to 2002 principal repayments for one year. We will continue to pay interest during the extension period. During the first nine months of 2002, we did not use our option of those extensions and paid a total amount of \$66.1 million in principal for these two loans. In March 2002, we also received a commitment letter from Yapi Kredi Bankasi for a loan of \$200 million over one year. In addition, on May 9, 2002, we agreed with Akbank T.A.S. to extend two principal repayments of existing borrowings totaling \$62.5 million, which were due in May and June 2002, for twelve months subsequent to their initial maturities. Furthermore, according to the agreement that we signed with Ericsson on December 14, 2001, \$225 million of trade payable due in 2002 was scheduled to be repaid in three equal installments in April, May and June 2002. We have completed all repayments of \$75 million each in April, May and June 2002, respectively. We believe that our cash from operations, will be sufficient to fully fund our business plan through December 31, 2002, which includes the repayment of approximately \$138 million in principal and interest in debt obligations during the fourth quarter of 2002. Based on our current expectations regarding the domestic and international

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macroeconomic environment, developments in the telecommunications sector in general, our debt repayment schedule, costs arising from pending litigation and the cost of new financing, we do not foresee any funding gap in 2003. Notwithstanding this, if our current expectations regarding any of the foregoing items prove incorrect, we may need to obtain additional financing to fully fund our business plan through 2003.

In order to finance certain payments that we may be required to make in relation with outstanding legal disputes and/or in order to maintain our liquidity position, we may raise a precautionary new financing in the fourth quarter of 2002 or during 2003. During the fourth quarter of 2002 or during 2003, we may seek such new financing through some combination of debt financing alternatives, the extension and/or refinancing of our existing obligations under certain loan agreements or through the issuance of new debt depending on the maturity and cost of new financing alternatives. We are currently evaluating different financing alternatives through domestic and international markets to ensure the continuity of our long-term borrowing structure and strategies. We will continue to focus on strategies for lowering weighted average cost of total borrowing and extending the maturity of outstanding borrowings. We are reviewing domestic loan alternatives either by extending the existing facilities or by obtaining additional domestic debt. In addition, we will be watching international debt markets for opportunities to make a longer term club deal or syndication. In the meantime, we will be following the high yield markets throughout 2002 and 2003 depending on the performance of the existing Cellco Bonds. We cannot assure you that we will be able to obtain any of this additional financing on terms that are satisfactory to us, or at all. Additionally, we may incur indebtedness only in compliance with the terms of the covenants regulating our existing debt. If for any reason adequate internal resources or external financing are not available as needed, we may not be able to maintain and enhance the quality of our network or to meet our other obligations and liabilities as they become due. This could lead to a loss of customers and market share, as well as potential defaults under, and refinancing or restructuring of, existing debt and other obligations, all of which could have a material adverse effect on our business, financial condition and results of operations.

Based on our consolidated financial statements as of and for the six month period ended June 30, 2001, we were in breach of one of the covenants contained in our 1998 and 1999 bank facilities. We were not in breach of our covenant at December 31, 2000, September 30, 2001, December 31, 2001 or September 30, 2002. The breach of leverage ratio covenant was an event of default and in accordance with US GAAP we reclassified \$305.5 million of our long-term debt as short-term debt payable in the current period as of June 30, 2001. During November 2001, we renegotiated the maximum leverage ratio and minimum interest coverage covenant. The renegotiated maximum leverage ratio covenant was agreed with retroactive effect by the lenders of our bank facilities. In addition, during the third quarter of 2001 we repaid the 1998 bank facility. As a result of the repayment of the 1998 bank facility and the renegotiations of the covenants, \$244.4 million of debt that was classified as short-term debt at June 30, 2001, was reclassified as long-term debt as of December 31, 2001. For additional information on this breach, see "Item 13. Defaults, Dividends, Arrearages and Delinquencies" in the 20-F.

As a result of recent improvements in the Turkish economy and legislative reforms undertaken by the government, we expect that we will be able to comply with the amended financial covenants in our debt agreements. However, we can make no assurances that there will not be any negative changes in our business or financial results, or any negative changes in the Turkish economy or the telecommunications industry that impact our financial condition negatively and cause us to breach the amended covenants. In such a case we may request additional amendments to our covenants but we can make no assurances that we will be able to obtain future amendments. Any breach of one or more of our

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financial covenants triggering acceleration of our indebtedness would have a material adverse effect on our business, financial conditions and results of operations.

Please see note 2 to our consolidated financial statements and related notes as of December 31, 2000 and 2001 and for each of the years in the three-year period ended December 31, 2001.

Quantitative and Qualitative Discussion of Market Risk

Total indebtedness denominated in foreign currencies (all in US Dollar) amounted to \$1,425.2 million, representing almost 100% of our total indebtedness at September 30, 2002.

During the first nine month period of 2002, we made principal loan payments of \$205.3 million. We have incurred no additional indebtedness since December 31, 2001.

Since December 31, 2001, the following terms of our indebtedness were amended:

- o The interest rate of the Garanti loan was 14% per annum as of December 31, 2001 and has been amended as 12% per annum on January 3, 2002, 9% per annum on April 1, 2002 and 8.21% per annum on June 30, 2002.
- o The interest rate of the Vakifbank loan was 14% per annum as of December 31, 2001 and has been amended as 12% per annum on February 1, 2002. On June 3, 2002, we agreed with Vakifbank to amend the interest rate further. Accordingly, the interest rate has been amended as 10% per annum effective May 1, 2002, 9% per annum effective June 1, 2002 and 8.5% per annum effective October 1, 2002.
- o On May 9, 2002, we agreed with Akbank T.A.S. to extend two principal repayments of existing borrowings totalling \$62.5 million, which were due in May and June 2002, for twelve months subsequent to their initial maturities.

Fair value of indebtedness as of September 30, 2002, which was outstanding at December 31, 2001, has not changed significantly except for loans under 1999 and 1998 Issuer Credit Agreements. The fair value of 1998 Issuer Credit Agreement has increased from \$270.0 million at December 31, 2001 to \$291.0 million at September 30, 2002; and the fair value of 1999 Issuer Credit Agreement has increased from \$348.0 million at December 31, 2001 to \$372.0 million at September 30, 2002.

We are exposed to foreign exchange availability and rate risks that could significantly impact our ability to meet our obligations and finance our network construction. A substantial majority portion of our debt obligations and capital expenditures are, and are expected to continue to be, denominated in US Dollar. By contrast, substantially all of our revenues are, and will continue to be, denominated in Turkish Lira. In the normal course of business, on October 14, 2002 and October 16, 2002, we employed three USD/TL forward transactions maturing on December 30, 2002, facilitated by Deutsche Bank AG London, totalling to \$20 million, in order to manage our foreign exchange risk more efficiently. There is no covenant restriction related with hedging transactions provided that the transaction is not made for purely speculative purposes and leverage ratio is below 4.00X. However, we keep our monetary balances in US Dollar to reduce our currency exposure and the maximum tariffs we may charge are adjusted periodically by the Telecommunications Authority to account, among other things, for the devaluation of the Turkish Lira.

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Legal and Arbitration Proceedings

We are involved in various claims, which are described in "Item 8A. Consolidated Statements and Other Financial Information-Legal and Arbitration Proceedings" in the 20-F.

Subsequent to the filing of 20-F on May 21, 2002, we initiated an arbitral proceeding before the International Court of Arbitration of the International Chamber of Commerce against the Turkish Treasury and the Telecommunications Authority to resolve the dispute in respect to the determination of the items to be taken into account in the calculation of the "gross revenue", which is base for the calculation of the amounts to be paid to the Turkish Treasury in accordance with Article 8 of the License Agreement.

Also, in connection with the dispute on collection of frequency usage fees, on March 27, 2002 we filed a lawsuit against the Telecommunications Authority requesting cancellation of the protocols obligating us to collect the frequency usage fees from the prepaid subscribers and to pay the collections to the Telecommunications Authority. On July 10, 2002, the court decided in our favour. The Telecommunications Authority has appealed the decision. We and our legal counsel believe that we will prevail in this matter. Accordingly, we have not made any provision in our consolidated financial statements.

Further, effective from July 1, 2000, Turk Telekom had annulled the discount of 60% that it had provided to us based on its regular ratio, which had been provided for several years, and, at the same time, Turk Telekom had started to provide a discount of 25% being subject to certain conditions. We had filed a lawsuit against Turk Telekom for the application of the agreed 60% discount. However, on July 30, 2001, we had been notified that the appeals court upheld the decision made by the commercial court allowing Turk Telekom to terminate the 60% discount. Accordingly, we had paid and continue to pay transmission fees to Turk Telekom based on the 25% discount. Although Turk Telekom had not charged any interest on late payments at the time of such payments, we recorded an accrual amounting to TL 3.0 trillion (equivalent to \$2.1 million and \$1.8 million as of December 31, 2001 and September 30, 2002, respectively) for possible interest charges as of December 31, 2000. On May 9, 2002, Turk Telekom requested an interest payment amounting to TL 30.1 trillion (equivalent to \$18.2 million at September 30, 2002) on these late payments. We did not agree with the Turk Telekom's interest calculation and, accordingly, we obtained an injunction from the commercial court to prevent Turk Telekom from collecting any amounts relating to this interest charge. Also, we initiated a lawsuit against Turk Telekom on the legality of such interest. As of September 30, 2002, we made a provision of TL 13.3 trillion (equivalent to \$8.1 million as of September 30, 2002) because we and our legal counsel believe that this is the maximum potential liability in accordance with the relevant provisions of the Interconnection Agreement.

There have been no other material changes in our legal and arbitration proceedings since the date of the 20-F.

Other Matters

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, to the Savings Deposit Insurance Fund of Turkey (the SDIF) who took over all shareholding rights of all Pamukbank shareholders, excluding their dividend entitlements. The BRSA cited that Pamukbank failed to take measures required under the Turkish Banks Act; that its total liabilities exceed its total assets and that its financial weakness threatened depositors' rights as well as the safety and soundness of the Turkish financial system. In addition, the SDIF has acquired ownership of Pamukbank by

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paying the amount equivalent to Pamukbank's losses. As of September 30, 2002, to the best of our knowledge, Pamukbank held 7.87% ownership interest indirectly over Turkcell Holding A.S in Turkcell. On August 9, 2002, Pamukbank advised us that the BRSA decided to transfer shares of Turkcell held directly by Pamukbank, approximately 0.51% of Turkcell's outstanding share capital, to the SDIF. Pamukbank is majority owned by the Cukurova Group, which was our largest shareholder. Accordingly, on August 21, 2002, the Board of Directors of Turkcell resolved to register such shares in the Share Register of Turkcell under the name of the SDIF. On November 22, 2002, Council of State Administrative Cases Department General Assembly rendered precautionary judgement regarding Pamukbank's case.

On October 1, 2002, Telia AB and Sonera published a prospectus for the share exchange offer related to the announced merger of the two companies. According to the prospectus, the transaction is expected to be completed before the end of 2002. We do not currently know how the merger will be finalized and what its legal effects will be. Prior to the finalization of the transaction we do not anticipate that we will be able to provide any further or additional clarity.

TURKCELL ILETISIM HIZMETLERI A.S.
AND ITS SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AT DECEMBER 31, 2001 AND SEPTEMBER 30, 2002 (Unaudited)
(In thousands, except share data)

	December 31, 2001 -----	Sept ----- (una
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 243,114	30
Trade receivables and accrued income, net (Note 5)	256,143	26
Due from related parties (Note 6)	164,448	8
Inventories	12,154	1
Prepaid expenses	20,843	2
Other current assets (Note 7)	46,965	3
	-----	-----
Total current assets	743,667	72
DUE FROM RELATED PARTIES (Note 8)	10,085	1
PREPAID EXPENSES	3,300	
INVESTMENTS (Note 9)	58,329	10
FIXED ASSETS, net (Note 10)	1,655,110	1,49
CONSTRUCTION IN PROGRESS (Note 11)	119,636	8
INTANGIBLES, net (Note 12)	916,920	86
OTHER LONG TERM ASSETS	28,996	1
	-----	-----
	\$ 3,536,043	3,30
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Short term borrowings (Note 13)	\$ 383,167	45
Trade payables (Note 14)	302,039	9
Due to related parties (Note 15)	3,626	
Taxes payable (Note 17)	130	
Other current liabilities and accrued expenses (Note 16)	303,425	42
	-----	-----

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Total current liabilities	992,387	97
LONG TERM BORROWINGS (Note 18)	1,218,903	94
LONG TERM LEASE OBLIGATIONS (Note 19)	27,103	2
RETIREMENT PAY LIABILITY	4,737	
MINORITY INTEREST	896	
OTHER LONG TERM LIABILITIES	6,792	
SHAREHOLDERS' EQUITY		
Common stock		
Par value one thousand TL; authorized, issued and outstanding 500,000,000,000 shares in 2001 and 2002 (Note 20)	636,116	63
Additional paid in capital	178	
Advances for common stock	119	
Legal reserves	5	
Accumulated other comprehensive loss (Note 3)	(1,875)	(
Retained earnings	650,682	71
	-----	-----
Total shareholders' equity	1,285,225	1,34
	-----	-----
COMMITMENTS AND CONTINGENCIES (Note 23)	\$ 3,536,043	3,30
	-----	-----

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

TURKCELL ILETISIM HIZMETLERI ADS.
AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTH AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2001 AND 2002
(Unaudited)
(In thousands, except share data)

	Three Months Ended September 30,	
	2001	2002
	----- \$ (Unaudited)	-----
Revenues (Notes 4 and 21)	\$ 440,636	534,332
Direct cost of revenues	(309,029)	(347,455)
	-----	-----
Gross profit	131,607	186,877
General and administrative expenses	(27,088)	(25,076)
Selling and marketing expenses (Note 4)	(27,555)	(44,762)
	-----	-----
Operating income	76,964	117,039
Income (expense) from related parties, net (Note 22)	1,072	(17)
Interest income	19,021	22,360
Interest expense	(74,992)	(67,776)
Other income (expense), net	(13,777)	(2,661)
Equity in net income (loss) of unconsolidated investees (Note 9)	(11,478)	165

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Minority interest	72	46
Translation loss	(23,462)	(10,359)
	-----	-----
Income (loss) before taxes	(26,580)	58,797
Income tax benefit (Note 17)	--	--
	-----	-----
Net income (loss)	\$ (26,580)	58,797
	=====	=====
Basic and diluted earnings (loss) per common share (Note 20)	\$ (0.00006)	0.00012
	=====	=====
Weighted average number of common shares outstanding (Note 20)	480,033,876,523	500,000,000,000

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

TURKCELL ILETISIM HIZMETLERI A.S.
AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTH PERIODS ENDED SEPTEMBER 30, 2001 AND 2002 (Unaudited)
(In thousands)

	September 30, 2001	September 30, 2002
	----- (unaudited)	----- (unaudited)
Operating Activities:		
Net income (loss)	\$ (141,754)	64,975
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	292,835	309,408
Provision for retirement pay liability	(107)	1,316
Provision for inventories	--	2,275
Provision for doubtful receivables	(49,697)	5,718
Provision for income taxes	--	(130)
Accrued income	29,885	5,291
Accrued expense	(35,078)	117,777
Equity in net loss of unconsolidated investees	41,626	23,413
Minority interest	786	(159)
Deferred taxes	(24,594)	--
Changes in assets and liabilities:		
Trade receivables	114,009	(20,236)
Due from related parties	(21,411)	77,917
Inventories	(3,435)	(699)
Prepaid expenses	(5,933)	422
Other current assets	(8,115)	12,920
Advances to related parties	1,020	--
Other long term assets	406	477
Due to related parties	(586)	(2,372)
Trade payables	(17,376)	(209,028)
Other current liabilities	(8,868)	7,971
Other long term liabilities	1,150	(1,111)
	-----	-----
Net cash provided by operating activities	164,763	396,145
Investing Activities:		
Additions to fixed assets	(126,025)	(66,916)
Reductions in construction in progress	44,797	32,366

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Additions to intangibles	(22,062)	(25,858)
Investments in investees	(51,544)	(70,741)
	-----	-----
Net cash used for investing activities	(154,834)	(131,149)

Financing Activities:

Proceeds from i