TURKCELL ILETISIM HIZMETLERI A S
Form 6-K
December 22, 2005

FORM 6-K

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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

For the month of **December, 2005**

Commission File Number **001-15092**

TURKCELL ILETISIM HIZMETLERI A.S.

(Translation of registrant s name into English)

Turkcell Plaza
Mesrutiyet Caddesi No. 153
34430 Tepebasi
Istanbul, Turkey
(Address of principal executive offices)

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

Form 20-F: ý Form 40-F: o

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): ______

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Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): ______

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

Yes: o **No:** ý

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b) 82___

EXHIBIT INDEX

1	**Operating and Financial Review for the Nine Month and Three Month Periods Ended September 30, 2005**

EXHIBIT 1

OPERATING AND FINANCIAL REVIEW FOR THE NINE MONTH AND THREE MONTH PERIODS ENDED SEPTEMBER 30, 2005

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 balance sheets as of December 31, 2003 and 2004 and the related consolidated statements of operations, changes in shareholders equity and comprehensive income, and cash flows for each of the years in the three year period ended December 31, 2004 and the related notes there to included in our annual report on Form 20-F for the year ended December 31, 2004 (the 20-F) and the consolidated balance sheets as of December 31, 2004 and September 30, 2005, and the related consolidated statements of operations, changes in shareholders equity and comprehensive income, and cash flows for each of the three month and nine month periods ended September 30, 2004 and 2005 included herein. The information as of September 30, 2005 and for the three month and nine month periods ended September 30, 2004 and 2005 is not audited.

Certain statements contained below, including information with respect to our plans and strategy for our business, are forward-looking statements. The statements contained in this discussion of operating results, which are not historical facts, are forward-looking statements with respect to our plans, projections or future performance, the occurrence of which involves certain risks and uncertainties. For a discussion of important factors that could cause actual results to differ materially from such forward-looking statements see Item 3D. Risk Factors in our 20-F.

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 (the License), which was granted upon payment of an upfront license fee of $500 million. At the same time we entered into an interconnection agreement with Turk Telekom for the interconnection of our network with Turk Telekom s fixed-line network. On September 20, 2003, we signed an agreement (the Amended Agreement) with Turk Telekom amending certain sections of the Interconnection Agreement dated April 24, 1998. As a result of intervention by the Telecommunications Authority, we entered into a new supplemental protocol with Turk Telekom in 2003.

Under the license, we pay ongoing license fees to the Turkish Treasury equal to 15% of our gross revenue from our Turkish GSM operations, which includes monthly fixed fees and communication fees including taxes, charges and duties paid to the Turkish Treasury. Since June 2004, Turkish SIM card sales, outgoing roaming revenues and late payment interest charges have been included in the definition of gross revenue and included in the monthly ongoing license fees computations. Under our the Amended 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 their fixed-line network and terminating on our network. We also have interconnection agreements with Telsim Mobil Telekomunikasyon Hizmetleri A.S. (Telsim), TT&TIM Iletisim Hizmetleri A.S. (AVEA), Milleni.com GMBH (Milleni.com) and Globalstar Avrasya Uydu Ses ve Data Iletisim A.S. (Globalstar) pursuant to which we have agreed, among other things, to pay interconnection fees to the other parties for calls originating on our network and terminating on theirs, and they have agreed to pay interconnection fees for calls originating on their networks and terminating on ours.

From the time of our start-up through September 30, 2005, we have made capital expenditures amounting to approximately $5.0 billion including the cost of our licenses. The build-out of our network in Turkey is now substantially complete, with coverage at September 30, 2005 of 100% of the Turkish population living in cities of 10,000 or more people. As of September 30, 2005, our network

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covers 99.95% of the Turkish population living in cities of 5,000 or more and 99.84% of the Turkish population living in cities of 3,000 or more. Coverage also includes substantially the entire Mediterranean and Aegean coastline of Turkey. We meet the coverage requirements of our license.

Our Turkish GSM subscriber base has expanded from 63,500 at year-end 1994 to 26.7 million as of September 30, 2005. Based on the announcements of the Telecommunications Authority, there are approximately 39.6 million subscribers in the Turkish GSM market as of June 30, 2005. The penetration rate in the Turkish GSM market was approximately 55% as of June 30, 2005. The market is expected to continue to grow at a slower pace in 2005 compared to that in 2004. The penetration rate is expected to reach 70% levels within 2007. In 2005, we expect to achieve continued subscriber growth but at a slower pace compared to that in 2004. For 2006, we expect to achieve continued double digit subscriber growth of subscriber base but at a slower pace compared to that in 2005.

Our prepaid mobile service increases our market penetration and limits our credit risk. This service permits access to our GSM services to subscribers who prefer to avoid monthly billing or to better control their mobile communication expenses. As of September 30, 2005, we had 21.4 million prepaid subscribers to our Turkish GSM network. Average minutes of use per prepaid subscriber and average revenue per prepaid subscriber tend to be lower than for postpaid subscribers.

Our average monthly minutes of use per subscriber has increased 3% to 66.9 minutes for the nine month period ended September 30, 2005 from 65.2 minutes for the same period in 2004, mainly due to the favorable effect of the improving Turkish macroeconomic environment on consumer sentiment along with our efforts to promote usage through segmented and volume based incentives. Our average revenue per user increased 10% to $13.6 for the nine month period ended September 30, 2005 from $12.4 for the same period in 2004. The increase was mainly due to increasing minutes of usage and two tariff raises in November 2004 and May 2005 and favorable effect of USD exchange rate, despite the price discount initiatives and renewed loyalty programs and retention campaigns which started in 2004 and the dilutive impact of our prepaid subscriber base. Our competitive environment is likely to change as both of our competitors are going through a structural change in their ownership. Irrational price based competition has been a reality of our market for the last couple of years. However, the implementations of our competitors in regards to tariffs are yet to seen, hence there is uncertainty in this area. However with our strong customer focused and segmented offers, we believe that the blended minutes of usage will slightly improve in 2005 compared to 2004. We expect further improvement in 2006 along with continuing initiatives, which will strengthen loyalty as well as promote usage. We expect average revenue per subscriber to increase in 2005 compared to 2004. Favourable USD exchange, improving usage, increasing VAS and data revenue are positive factors while expected decrease in interconnection revenue due to decrease in interconnection rates and price discount initiatives (PSTN=Onnet, Options, Yarisi Bizden, Dakika Bizden) are expected to impact ARPU negatively. We believe that in 2006, average revenue per subscriber is likely to decrease mainly due to dilutive impact of prepaid subscriber base and campaigns. See Item 5D. Trend Information in our 20-F.

Churn is the percentage calculated by dividing the total number of subscriber disconnections, both voluntary and involuntary during a period by the average number of subscribers for the period. In addition to voluntary disconnections, under our disconnection process, subscribers who do not pay their bills are disconnected from our network and included in churn upon the commencement of the legal process to disconnect them, which occurs approximately 180 days from the due date of the unpaid bill. Pending disconnection, non-paying subscribers are suspended from service (but are still considered subscribers) and receive a suspension warning, which in some cases results in payment and reinstatement of service. Also, prepaid subscribers who do not fill in airtime for a period of four months are disconnected from our network. During the year ended December 31, 2004, in addition to voluntary disconnections, we involuntarily disconnected 123,038 additional Turkish GSM subscribers for nonpayment of bills and our annual churn rate was 9.1%. For the nine month period ended September 30, 2005, in addition to voluntary disconnections, we disconnected 97,926 subscribers for nonpayment of bills. Our churn rate was 7.4% for the nine month period ended September 30, 2005.

We have a bad debt provision in our financial statements for such non-payments and disconnections which amounted to $133.9 million and $149.3 million as of December 31, 2004 and September 30, 2005, respectively, which we believe is adequate. Prior to 2003, the majority of subscriber disconnections were due to non payment of bills. However, starting from 2003, the majority of involuntary subscriber disconnections were prepaid subscribers disconnections as a result of the increased number of prepaid subscribers in our subscriber base. We expect our churn rate in 2005 overall to increase slightly as a result of the increase in competition in the GSM mobile market in 2005. We expect a slight increase in 2006 on top of that in 2005.

International and Other Domestic Operations

Our operations in Iran have not commenced. We expected that any operations we conduct in Iran would be conducted through our 85% majority-owned subsidiary, East Asian Consortium B.V. (Eastasia) as a participant in the Irancell Consortium (Irancell or the Consortium). On April 25, 2005, the Iranian Parliament approved a revised proposal, which suggests a reduction of Eastasia s stake in Irancell to 49% and includes several other amendments to the terms of the license agreement originally agreed, and submitted these amendments to the Guardian Council for their consent. In May 2005, the Guardian Council gave their consent. The consent was approved by the Iranian President.

On September 2, 2005, our Board of Directors decided to continue with the Irancell project and approved the ownership structure of Irancell with a stake of 49% in Irancell for Eastasia. However, it has been stated that 21% of the shares of Irancell should be transferred to the National Bank of Iran, Bank Melli, and the parties should agree that these shares shall be publicly offered in the third year following the initiation of the Irancell operations and these agreed terms should be reflected into all agreements between the parties in Irancell. The Iranian Ministry of Communication and Information Technology has set November 21, 2005 as the deadline with respect to the finalization of the shareholder structure of the Consortium. However, no notification has been made by the Iranian Authorities regarding any resolution of the first private GSM operator tender in Iran, which was won by the Consortium.

Meanwhile, in various news sources, it has been reported that the first private GSM operator tender in Iran has been provided to the Consortium, in which we do not have a stake. Currently, we have not been notified by the Iranian Authorities regarding this matter.

Notwithstanding the foregoing, we believe the Iranian Ministry of Communication and Information Technology has not properly implemented the laws and regulations passed by the Iranian Parliament in connection with the GSM tender process, which was won by the Consortium. As a result, we have brought a claim in Iranian courts seeking to compel the Ministry to implement the laws and regulations passed by the Iranian Parliament in connection with the GSM tender process.

In the meantime, Eastasia has deposited EUR 172.7 million in Bank Saderat Plc. located in London as its potential contribution to the GSM network license fee and a portion of the initial capital, to show its willingness to invest in Irancell. We have provided a deposit pledge with Garanti Bankasi in the amount of EUR 91.6 million, and Garanti Bankasi provided a bank loan to Eastasia for the same amount. The maturity of this loan is set as November 21, 2005 which is also the proposed deadline for the completion of the negotiations over the shareholder structure of the Consortium. Since no notification has been made by the Iranian Authorities as of November 21, 2005, maturity of the loan was extended to December 28, 2005.

For a description of, and additional information regarding our international and other domestic operations see Item 4B. Business Overview International Operations and Other Domestic Operations in our 20-F.

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 the 20-F. There have been no material changes in our critical accounting policies since the date of the 20-F.

Revenues

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

We recognize SIM card sales as revenue upon initial entry of a new subscriber into the GSM network only to the extent of the direct costs associated with providing these services. Excess SIM card sales are deferred and recognized over the estimated effective subscription contract life. In connection with postpaid and prepaid subscribers, we currently incur costs for activation fees to dealers and other promotional expenses, which historically offset all or substantially all of the subscription fees. We charge a usage fee for certain services we offer, such as SMS, voicemail and data and facsimile transmission. Our revenues depend on the number of subscribers, call volume and tariff pricing.

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

We and other operators have entered into interconnection agreements which set out the terms and conditions regarding the price terms as well as periodical revision of such terms. However, revisions of the pricing terms of the interconnection agreements have been pending as we have not been able to agree on the pricing terms with other operators through our discussions. As per the Access and Interconnection Regulation, the issue has been escalated to the Telecommunications Authority by Turk Telekom and Telsim. Meanwhile, the Telecommunications Authority issued reference interconnection rates during the fourth quarter of 2004, which indicate pricing terms. Consequently, on August 10, 2005, the Telecommunications Authority issued a temporary interconnection price schedule for the interconnection between Turk Telekom and us which are in line with the reference tariff structure defined by the Telecommunications Authority during the fourth quarter of 2004. The Telecommunications Authority is expected to issue a final price structure.

We expect our revenues to increase at a slower pace in 2005 overall compared to 2004, mainly due to the increase in our subscriber base and appreciation of TRY, together with the improvement in the macroeconomic indicators and improving minutes of usage. In 2006, we expect our revenues to increase at a slower pace compared to 2005 mainly derived from increase in subscriber base, together with the improvement in the macroeconomic indicators and improving usage.

Operating Costs

Direct Cost of Revenues

Direct cost of revenues includes mainly ongoing license fees, transmission fees, base station rents, billing costs, depreciation and amortization charges, repair and maintenance expenses directly related to services rendered, roaming charges paid to foreign GSM operators for calls made by our subscribers while outside Turkey, interconnection fees mainly paid to Turk Telekom, Telsim, AVEA, Milleni.com and Globalstar and wages, salaries and personnel expenses for technical personnel. Direct cost of revenues also includes costs arising from legal disputes, which relates to items included in direct cost of revenues. For a detailed discussion of our legal and arbitration proceedings, see Item.8A. Consolidated Statements and Other Financial Information- Legal Proceedings in our 20-F.

General and Administrative

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

Selling and Marketing

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

The average Turkish GSM subscriber acquisition cost was approximately $24.7 and $21.3 per new subscriber for the nine month periods ended September 30, 2005 and 2004, respectively. We compute average acquisition cost per new subscriber by adding sales promotion expenses, SIM card subsidies, activation fees and the special transaction tax and dividing the sum by the gross number of new subscribers for the related period. These costs are recorded as either selling and marketing expense or reduction of revenue in our statements of operations. We believe the average acquisition cost will increase in 2005 overall as a result of increasing competition. We expect the average acquisition cost may further increase in 2006 in line with developing competitive environment. However we expect the proportion of selling and marketing expenses as a percentage of revenues to remain stable in 2006.

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

	Three Months ended September 30,		**Nine Months ended September 30,**	
	2004	**2005**	**2004**	**2005**
Revenues	969.3	1,249.1	2,321.2	3,193.1
Direct cost of revenues	(549.2)	(649.6)	(1,523.5)	(1,750.5)
Gross profit	**420.1**	**599.5**	**797.7**	**1,442.6**
General and administrative expenses	(26.5)	(36.9)	(94.0)	(107.9)

	Three Months ended September 30,		Nine Months ended September 30,	
Selling and marketing expenses	(89.1)	(118.4)	(242.0)	(348.6)
Operating income	**304.5**	**444.2**	**461.7**	**986.1**
Income (expense) from related parties, net	0.5	(0.2)	1.4	0.8
Interest income (expense), net	78.0	(3.3)	76.4	(28.4)
Other income, net	1.6	1.2	2.4	5.4
Equity in net income of unconsolidated investees	15.4	18.9	31.7	45.3
Minority interest in income at consolidated subsidiaries	1.8	5.6	4.5	6.0
Translation gain (loss)	12.9	2.5	21.6	(8.4)
Income before taxes	**414.7**	**468.9**	**599.7**	**1,006.8**
Income tax expense	(264.0)	(141.5)	(226.5)	(337.3)
Net income	**150.7**	**327.4**	**373.2**	**669.5**

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

	Three Months ended September 30,		Nine Months ended September 30,	
	2004	**2005**	**2004**	**2005**
Statement of Operations (% of revenue)				
Revenues				
Communication fees	96.8	95.7	96.7	95.2
Commission fees on betting business	0.4	2.1	0.3	2.3
Monthly fixed fees	1.5	1.1	1.7	1.3
SIM card sales	1.0	0.6	0.9	0.8
Call center revenues	0.2	0.3	0.3	0.2
Other	0.1	0.2	0.1	0.2
Total revenues	100.0	100.0	100.0	100.0
Direct cost of revenues	(56.7)	(52.0)	(65.6)	(54.8)
Gross margin	43.3	48.0	34.4	45.2
General and administrative expenses	(2.7)	(3.0)	(4.1)	(3.4)
Selling and marketing expenses	(9.2)	(9.5)	(10.4)	(10.9)
Operating income	31.4	35.5	19.9	30.9

Nine month period ended September 30, 2005 compared to nine month period ended September 30, 2004 and three month period ended September 30, 2005 compared to the three month period ended September 30, 2004

We had 26.7 million Turkish GSM subscribers, including 21.4 million prepaid subscribers, as of September 30, 2005, compared to 22.3 million Turkish GSM subscribers, including 17.3 million prepaid subscribers, as of September 30, 2004. During the first nine months of 2005 and 2004, we added approximately 3.3 million net new Turkish GSM subscribers. We added 1.1 million net new Turkish GSM subscribers to our network for the three month period ended September 30, 2005 compared to 1.5 million net new subscribers for the same period in 2004.

Revenues

Total revenues for the nine month period ended September 30, 2005 increased 38% to $3,193.1 million from $2,321.2 million for the same period in 2004. The increase in revenues is mainly due to the growth in the number of subscribers, increased usage, and tariff increases. Revenue increased 29% to $1,249.1 million for the three month period ended September 30, 2005 from $969.3 million for the same period in 2004 for the same reasons.

Revenues from communication fees for the nine month period ended September 30, 2005 increased 35% to $3,043.0 million from $2,246.8 million for the same period in 2004 mainly due to increased usage, the increase in the subscriber base and the increase in tariffs. Revenues from communication fees increased 27% to $1,195.4 million for the three month period ended September 30, 2005 from $944.3 million for the same period in 2004 for the same reasons. Communication fees include SMS revenue, which amounted to $333.1 and $256.2 million for the nine month periods ended September 30, 2005 and 2004, $131.7 million for the three month period ended September 30, 2005 and $93.9 million for the three month the same period in 2004. Main reasons for the increase in SMS revenue are the increase in the number of subscribers, improvement in macroeconomic indicators and enhanced purchasing power of subscribers.

Our majority-owned subsidiary Inteltek commenced its operations of fixed odds betting games in April 2004, pursuant to the agreement signed with Genclik ve Spor Genel Mudurlugu on October 2, 2003 and started to generate commission revenue from betting business. Commission revenue from betting business amounted to $72.9 million for the nine month period ended September 30, 2005 compared to $5.8 million for the same period in 2004. In addition, commission revenue from our betting business amounted to $25.9 million for the three month period ended September 30, 2005, compared to $3.7 million for the same period in 2004. Commission fees on betting business is increasing as the games becoming widespread among people.

Revenues from monthly fixed fees for the nine month period ended September 30, 2005 increased 6% to $40.8 million from $38.4 million for the same period in 2004 mainly due to the increase in our subscriber base and commencement of operations in Ukraine. However, monthly fixed fees decreased 3% to $13.8 million for the three month period ended September 30, 2005 from $14.2 million for the same period in 2004.

SIM card revenues for the nine month period ended September 30, 2005 increased 11% to $23.8 million from $21.5 million for the same period in 2004. SIM card revenues increased 4% to $7.0 million for the three month period ended September 30, 2005 from $6.7 million for the same period in 2004.

On December 24, 2004, we signed settlement agreements with the Turkish Treasury and Turk Telekom to settle our disputes on the calculation and payment of our 15% ongoing license fees from April 1998 through May 2004 and to settle our interconnection dispute regarding call termination pricing for the period between April 1998 and September 2003, respectively and to end several other related lawsuits. According to the agreements, we agreed to pay TRY 866.5 trillion (equivalent to $645.6 and $646.4 at December 31, 2004 and September 30, 2005, respectively) to the Turkish

Treasury and TRY 997.6 trillion (equivalent to $743.3 and $744.1 at December 31, 2004 and September 30, 2005, respectively) to Turk Telekom, on installment basis. We also provided a letter of guarantee to the Turkish Treasury for the unpaid amounts. Payments are deducted from the remaining portion of the letter of guarantee. As of September 30, 2005, this letter of guarantee has been released upon completion of the payments. As a result of these lawsuits, for the nine month periods ended September 30, 2004, we have deducted revenues and interconnection costs by $227.1 million and $25.5 million, respectively. In addition, for the nine month and three month periods ended September 30, 2004, we have increased ongoing license fees and infrastructure costs by $133.8 million, $36.4 million and $13.7 million, $23.9 million, respectively. As a result of the settlement agreements, interest expense is also deducted by $26.3 million and $56.9 million for the nine month and three month periods ended September 30, 2004 because of the change in interest computation method. For a description of these claims please see Item 8A. Consolidated Statements and Other Financial Information Legal Proceedings in our 20-F.

Direct cost of revenues

Direct cost of revenues increased 15% to $1,750.5 million for the nine month period ended September 30, 2005 from $1,523.5 million for the same period in 2004 mainly due to the increase in interconnection fees paid to Turk Telekom and the increase in revenue-based costs such as the ongoing license fee paid to the Turkish Treasury. Direct cost of revenues increased 18% to $649.6 million for the three month period ended September 30, 2005 from $549.2 million in the same period of 2004 due to the increase in interconnection fees paid to Turk Telekom and the increase in revenue-based costs such as the ongoing license fee paid to the Turkish Treasury.

Interconnection costs increased 53% to $309.4 million for the nine month period ended September 30, 2005 from $202.0 million for the same period in 2004 mainly due to the increase in usage and the appreciation of TRY against US dollar. Interconnection costs increased 39% to $124.4 million for the three month period ended September 30, 2005 from $89.5 million for the same period of 2004 due to the increase in the usage.

Ongoing license fees paid to the Turkish Treasury increased only 10% to $620.9 million for the nine month period ended September 30, 2005 from $564.6 million for the same period in 2004. Increase in revenues and the appreciation of TRY against US dollars have increasing effect on our ongoing license fees to be paid to the Turkish Treasury. Ongoing license fees increased 22% to $241.5 million for the three month period ended September 30, 2005 compared to $198.5 million for the same period in 2004 due to the increase in revenues and the appreciation of TRY against US dollars.

Transmission costs, site costs, information technology, network maintenance expenses and infrastructure cost decreased approximately 35% to $100.3 million for the nine month period ended September 30, 2005 from $155.3 million for the same period in 2004 mainly due to the effect of legal dispute as discussed at revenue section. For this reason, these expenses decreased 32% to $35.0 million for the three month period ended September 30, 2005 from $51.7 million in the same period of 2004. In addition, uncapitalizable antenna site costs and expenses increased 23% to $112.6 million for the nine month period ended September 30, 2005 from $91.4 million for the same period in 2004 mainly due to the increase in radio network operations. For the same reasons, uncapitalizable antenna site costs and expenses increased 8% to $37.1 million for the three month period ended September 30, 2005 from $34.3 million for the same period in 2004.

Roaming expenses increased 30% to $50.0 million for the nine month period ended September 30, 2005 from $38.4 million for the same period in 2004, mainly due to the increase in roaming revenue generated from the calls made by our subscribers while outside Turkey, primarily reflecting better economic conditions and the fact that between September 30, 2004 and September 30, 2005 we added 47 new roaming operators for GSM, 94 for GPRS and 71 for Active Customised Applications for Mobile Network Enhanced Logic (active CAMEL) technologies which enable our pre-paid subscribers to be able to roam on foreign operators networks. For the same reasons, roaming expenses

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increased 21% to $17.6 million for the three month period ended September 30, 2005 from $14.6 million for the same period in 2004.

Billing costs increased 3% to $21.1 million for the nine month period ended September 30, 2005 from $20.4 million for the same period in 2004 mainly due to the increase in subscriber number despite the decreasing effect of costs related to printing of inserts. In addition billing costs increased 4% to $7.2 million for the three month period ended September 30, 2005 from $6.9 million for the same period in 2004.

Depreciation and amortization charges increased 7% to $340.0 million for the nine month period ended September 30, 2005 from $317.0 million for the same period in 2004 mainly due to the increase in the capital expenditures, in particular with respect to Ukranian operations. Depreciation and amortization expenses increased 10% to $115.7 million for the three month period ended September 30, 2005 from $105.4

million in the same period of 2004. The amortization expense for our GSM license and other telecommunication licenses was $24.2 million and $15.0 million for the nine month periods ended September 30, 2005 and 2004 and $9.5 million and $5.0 million for the three month periods ended September 30, 2005 and 2004, respectively.

The cost of SIM cards sold increased 21% to $35.1 million for the nine month period ended September 30, 2005 from $29.1 million for the same period in 2004, reflecting primarily growth in the number of subscribers in 2005 mainly as a result of operations in Ukraine. The cost of SIM cards sold increased 8% to $12.4 million for the three month period ended September 30, 2005 from $11.5 million for the same period in 2004 for the same reasons.

Wages, salaries and personnel expenses for technical personnel increased 33% to $92.8 million for the nine month period ended September 30, 2005 from $69.6 million for the same period in 2004 mainly due to the appreciation of TRY against US dollars, periodic increase in salaries, increase in headcount and commencement of operations in Ukraine. For the same reasons, wages and salaries and personnel expenses for technical personnel increased 37% to $31.9 million for the three month period ended September 30, 2005 from $23.3 million for the same period in 2004.

As a percentage of revenue, direct cost of revenues decreased to 55% for the nine month period ended September 30, 2005 from 66% for the same period in 2004 mainly due to additional legal provisions recorded in the first and the second quarter of 2004. In addition, as a percentage of revenue, direct cost of revenues decreased to 52% for the three month period ended September 30, 2005 from 57% for the same period in 2004 as the non-revenue based operational expenses remained almost stable.

Gross profit increased to $1,442.6 million for the nine month period ended September 30, 2005 from $797.7 million for the same period in 2004 mainly due to the growth in the number of subscribers and the increase in usage in 2005. Gross profit increased to $599.5 million for the three month period ended September 30, 2005 from $420.1 million for the same period in 2004 mainly for the same reasons.

General and administrative expenses

General and administrative expenses increased 15% to $107.9 million for the nine month period ended September 30, 2005 from $94.0 million for the same period in 2004, mainly due to the increases in wages, salaries and personnel expenses and bad debt expense despite expenses paid in connection with the Iran GSM license tender and the impact of early extinguishment of Cellco Finance N.V. (Cellco) debt in the first half of 2004. General and administrative expenses increased 39% to $36.9 million for the three month period ended September 30, 2005 from $26.5 million for the same period in 2004. As a percentage of revenues, general and administrative expenses slightly decreased to 3% for the nine month period ended September 30, 2005 from 4% for the same period in 2004. In addition, as a percentage of revenues, general and administrative expenses remained stable at 3% for

the three month period ended September 30, 2005 and 2004.

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

Bad debt expenses increased 88% to $19.5 million for the nine month period ended September 30, 2005 from $10.4 million for the same period in 2004. Since the implementation of improved collection activities in 2004 such as credit scoring, a new option whereby subscribers can make payments under an installment plan and new collection channels and improvement in the legal follow-up system to decrease fraud, the positive impact of this new system decreased the bad debt expense in the first quarter of 2004. Bad debt expenses increased 121% to $7.3 million for the three month period ended September 30, 2005 from $3.3 million for the same period in 2004 mainly due to the increase in revenues and the decreasing effects of collection activities in the three month period ended September 30, 2005. We provided an allowance of $149.3 million and $121.9 million for doubtful receivables for the nine month period ended September 30, 2005 and 2004, respectively, identified based upon past experience.

In the first quarter of 2004, Turkcell made a payment to BNP Paribas relating to the GSM license tender on behalf of Irancell. According to the tender conditions, the Consortium that acquires the license will pay the consultancy fees of BNP Paribas (which acts as consultant to the Iranian Authorities). In the first quarter of 2004, we paid such consultancy fees and charged $8.9 million, which represents our share of the total fee, to general and administrative expenses.

Wages, salaries and personnel expenses for non-technical and non-marketing employees increased 40% to $39.9 million for the nine month period ended September 30, 2005 from $28.5 million for the same period in 2004 mainly due to increase in headcount, periodic increase in salaries, appreciation of TRY against US dollars and the commencement of operations in Ukraine. For the same reasons, these expenses increased 33% to $14.1 million for the three month period ended September 30, 2005 from $10.6 million for the same period in 2004.

Consulting expenses increased 4% to $9.7 million for the nine month period ended September 30, 2005 from $9.3 million for the same period in 2004, mainly due to consulting services related with the operations in Ukraine. However, consulting expenses decreased 23% to $2.4 million for the three month period ended September 30, 2005 from $3.1 million in the same period of 2004 because we required more consultancy services for the three month period ended September 30, 2004 to initiate the operations in Ukraine.

Selling and marketing expenses

Selling and marketing expenses increased 44% to $348.6 million for the nine month period ended September 30, 2005 from $242.0 million for the same period in 2004, mainly due to the increase in prepaid subscribers frequency usage fees, increased advertising expenses resulting from intensifying competition and increased activation fees. For the same reason, selling and marketing expenses increased 33% to $118.4 million for the three month period ended September 30, 2005 from $89.1 million for the same period in 2004. As a percentage of revenues, selling and marketing expenses were 11% and 10% for the nine month periods ended September 30, 2005 and 2004, respectively. In addition, as a percentage of revenues, selling and marketing expenses were 10% and 9% for the three month periods ended September 30, 2005 and 2004, respectively.

Total prepaid advertising, market research, product management, public relations expenses and prepaid subscribers frequency usage fee expenses increased 62% to $181.6 million for the nine month period ended September 30, 2005 from $112.2 million for the same period in 2004. The increase in 2005 stemmed mainly from the increase in prepaid subscribers frequency usage fees and advertising expenses. For the same reasons, total prepaid advertising, market research, product management, public relations expenses and prepaid subscribers frequency usage fee expenses increased 48% to $60.2 for the three month period ended September 30, 2005 from $40.7 million in the same period of 2004.

Total postpaid advertising, market research, product management, public relations and call center expenses increased slightly 6% to $60.8 million for the nine month period ended September 30, 2005 from $57.2 million for the same period in 2004. Total postpaid advertising, market research, product management, public relations and call center expenses decreased 9% to $20.4 million for the three month period ended September 30, 2005 from $22.4 million in the same period of 2004 due to the decrease at corporate and social sponsorships in 2005.

Activation fees increased 66% to $36.9 million for the nine month period ended September 30, 2005 from $22.2 million for the same period in 2004 mainly due to the increase in the number of activations and the increase in premiums per activation. For the same reason, activation fees increased 39% to $12.2 million for the three month period ended September 30, 2005 from $8.8 million in the same period of 2004.

Wages, salaries and personnel expenses for selling and marketing employees increased 42% to $38.1 million for the nine month period ended September 30, 2005 from $26.9 million for the same period in 2004 mainly due to the increase in the headcount, periodic increase in salaries, appreciation of TRY against US dollars and commencement of operations in Ukraine. Wages, salaries and personnel expenses for selling and marketing employees increased 49% to $14.0 million for the three month period ended September 30, 2005 from $9.4 million in the same period of 2004.

Operating income (loss)

Operating income increased to $986.1 million for the nine month period ended September 30, 2005 from $461.7 million for the same period in 2004, mainly due to the increase in revenues and the impact of the additional legal provisions recorded in the second and third quarters of 2004. Operating income was $444.2 million for the three month period ended September 30, 2005 compared to $304.5 million for the same period in 2004 mainly due to the increase in revenues.

Interest income (expense), net

Interest expense net of interest income increased to $28.4 million for the nine month period ended September 30, 2005 compared to $76.4 million interest income net of interest expense for the same period in 2004. The increase in net interest expense was mainly due to the effect of legal provisions as discussed at revenues section of this document. For the same reasons, net interest

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expense was $3.3 million for the three month period ended September 30, 2005 compared to $78.0 million net interest income for the same period in 2004.

Translation gain (loss)

We recorded a translation loss of $8.4 million for the nine month period ended September 30, 2005, compared to a translation gain of $21.6 million for the same period in 2004. Translation loss experienced for the nine month period ended September 30, 2005 stemmed from the appreciation of TRY against the US dollar for the first quarter of 2005. The translation gain experienced for the nine month period ended September 30, 2004 stemmed from the 7% devaluation of the TRY against the US dollar for the nine month period ended September 30, 2004. As we recorded a significant amount of accruals against legal disputes on our balance sheet in 2004 and nearly all of the accruals are in terms of TRY, the devaluation of TRY resulted in a translation gain. We recorded a $2.5 million translation gain for the three month period ended September 30, 2005 compared to $12.9 million for the same period in 2004 for the same reasons.

Income tax expense

Income tax expense for the nine month period ended September 30, 2005 was $337.3 million and $226.5 million for the same period in 2004. We establish valuation allowances in accordance with the provisions of SFAS No. 109. We regularly review the adequacy of the valuation allowance based on changing conditions in the market place in which we operate and our projections of future taxable income, among other factors. We expect to have taxable income in 2005 and onwards and have generated taxable income for the past two years. Recently, the economic and political situation in Turkey has become more stable and there are positive expectations about the near-term future. Further, there are positive developments regarding the talks for Turkey s accession to the European Union. On October 3, 2005, the member states of the European Union decided to start accession discussions with Turkey. This decision is expected to have certain political and economic benefits for Turkey in the near future. Furthermore, our settlement agreements with Turk Telekom and the Turkish Treasury were signed in the fourth quarter of 2004. As a result, as of September 30, 2005, our assessment of the realizability of the deferred tax assets and related valuation allowance requirements is consistent with that made at December 31, 2004. We concluded that it was more likely than not that the deferred tax assets of $120.7 million were realizable. Turkish tax legislation does not allow companies to file tax returns on a consolidated basis. Therefore, we believe a valuation allowance should continue to be provided on a portion of the deferred tax assets, resulting from certain consolidated subsidiaries, as we are unable to conclude that the likelihood of realizing these deferred tax assets is more likely than not. Accordingly, a valuation allowance of approximately $17.5 million is recorded as of September 30, 2005 (December 31, 2004: $17.2 million) for such amounts. We believe that it is more likely than not that the net deferred tax asset of approximately $120.7 million as of September 30, 2005 will be realized through reversal of taxable temporary differences as well as future taxable income exclusive of reversing taxable temporary differences. We will continue to evaluate the realizability of our deferred tax assets including net operating loss and tax credit carryforwards and the related impact on the valuation allowance.

Equity in net income of unconsolidated investees

Our share of the net income of unconsolidated investees was $45.3 million for the nine month period ended September 30, 2005 compared $31.7 million for the same period in 2004. The increase in net income of unconsolidated investees was mainly due to an increase in Fintur s net income to $109.4 million for the nine month period ended September 30, 2005 from $76.6 million for nine month period ended September 30, 2004. Net income of unconsolidated investees was $18.9 million for the three month period ended September 30, 2005 compared to $15.4 million in the same period of 2004.

Net income

Net income increased to $669.5 million for the nine month period ended September 30, 2005 compared to net income of $373.2 million for the same period in 2004. The increase was mainly due to the increase in operating income despite the negative effect of increase in net interest expense for the nine month period ended September 30, 2005 compared to the same period of 2004. Mainly due to the same reasons, net income was $327.4 million for the three month period ended September 30, 2005 compared to a net income of $150.7 million in the same period of 2004.

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. Other than as disclosed herein, 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, 2001 and 2004, the Under Secretariat of the Treasury approved investment incentive certificates for a program of capital expenditures made by us and our subsidiaries in our mobile communications operations, call center operations and betting games 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 were subject to withholding tax at a rate of 19.8% (for expenditures made after April 24, 2003, the investment tax benefit equals 40% of qualifying expenditures but it is not subject to any withholding tax). As of September 30, 2005, investment incentive certificates provide for tax benefits on cumulative purchases of up to approximately $4.5 billion in qualifying expenditures as defined in the certificates. As of September 30, 2005, we had unused tax credit carryforwards under the certificates of approximately $263.6 million ($313.1 million as of December 31, 2004) which can be carried forward indefinitely. The certificates are denominated in TRY. However, approximately $0.5 billion of qualifying expenditures through September 30, 2005 ($0.7 billion as of December 31, 2004) under the certificates are indexed against future inflation.

Law No. 4842, which made changes in certain taxation matters, was announced on April 24, 2003. For a discussion of these changes, see Item 5A. Operating Results Investment Incentive Certificates in our 20-F.

Capital Transactions

On April 5, 2005, our board of directors declared that our statutory paid-in capital would be increased from TRY 1,474.6 million to TRY 1,854.9 million by adding TRY 234.1 million out of the total dividend for 2004 and the statutory capital inflation adjustment included in the financial statements prepared in accordance with the accounting standards promulgated by the Capital Markets Board of Turkey (the CMB) amounting to TRY 146.2 million for 2004. The increase of TRY 380.3 million was distributed to our shareholders in the form of a stock split. The capital increase was accounted for as a stock split in our accompanying consolidated financial statements. As a result of the aforesaid transactions, we issued new shares with a total nominal value of TRY 380,247,980.

All share amounts and per share figures reflected in our historical financial statements have been retroactively restated for the stock splits discussed above.

On March 25, 2005, Cukurova Holding announced that it had an intention to sell approximately 53% of its directly and indirectly held shares in Turkcell Holding for a cash

consideration of $3.1 billion to Sonera Holding BV (Sonera). However, on May 23, 2005, Cukurova Holding announced that the negotiations were finalized without an agreement. Following Cukurova Holding s announcement, Sonera filed a request for arbitration at the International Court of Arbitration of the International Chamber of Commerce (the ICC). Sonera also filed a request for interim measures at a civil court in Geneva. Sonera demanded that the court prohibit Cukurova Holding from initiating or continuing negotiations to sell or pledge shares in Turkcell Holding with third parties other than Sonera. By the letter dated October 24, 2005, ICC declared that Cukurova Holding is prohibited from initiating or continuing contacts with third parties other than Sonera, with a view to the sale or pledge of shares in Turkcell Holding during the interim measures. On November 23, 2005, the court informed Cukurova Holding that prohibition of Cukurova Holding to initiate or continue contacts with third parties other than Sonera, with a view to the sale or pledge of shares in Turkcell Holding is not valid effective from November 22, 2005. On August 19, 2005, Sonera also announced that they filed lawsuit against Cukurova Holding in the ICC at Vienna claiming that the shareholder agreement between Sonera and Cukurova Holding has been violated.

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

Upon agreement of Banking Regulation and Supervision Agency (the BRSA) and the Cukurova Group on debt restructuring discussions, on September 28, 2005, transfer of Yapi Kredi shares to Koc Group was completed. This share transfer did not have a significant effect on our ownership structure. As a result, direct ownership of Yapi Kredi has been decreased to 0.01%.

As a result of these share transfers, direct and indirect ownership of Cukurova Group has been decreased to 27.05%.

Effects of Inflation

The annual inflation rates in Turkey were 29.7%, 18.4% and 9.3% for the years ended December 31, 2002, 2003 and 2004, respectively, based on the Turkish consumer price index. Annualized inflation rates were 8.0% for the nine-month period ended September 30, 2005 and 9.0% for the same period in 2004. With the help of tight monetary policy followed by the Central Bank of Turkey and 6.5% target primary budget balance required by the IMF program, inflation has decreased to single digit numbers. The current inflation target set by the Central Bank of Turkey is 8% for 2005. With adherence to the IMF program and implementation of structural reforms, inflation could be decreased further in 2005. Furthermore, the Central Bank of Turkey announced that it will start inflation targeting from 2006. In addition to the IMF Program, negotiations for the accession of Turkey to the European Union started on October 3, 2005, which will also be a very important factor in the macro economic policies intended to decrease inflation. For additional information about the effects of inflation, see Item 3A. Selected Financial Data Exchange Rate Data and Item 3D. Risk Factors in our 20-F.

New Accounting Standards Issued

In March 2005, the FASB issued FIN 47, Accounting for Conditional Asset Retirement Obligations an interpretation of SFAS No. 143". FIN 47 clarifies the term conditional asset retirement obligation as used in SFAS No. 143, Accounting for Asset Retirement Obligations . An entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. The fair value of a liability for the conditional asset retirement obligation should be recognized when incurred generally upon acquisition, construction, or development and/or through the normal operation of the asset. FIN 47 also clarifies when an entity

would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. FIN 47 is effective no later than the end of fiscal years ending after December 15, 2005. Retrospective application for interim financial information is permitted but is not required. The adoption of FIN 47 is not expected to have a material effect on our consolidated financial statements.

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

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 finance vehicle, 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, 2005, we do not have any outstanding payables related to the Cellco transaction by the extinguishment of the $400 million senior notes on August 1, 2005.

A summary of our consolidated cash flows for the nine month periods ended September 30, 2005 and 2004 are as follows:

(In millions of USD)	**2004**	**2005**
Net cash provided by operating activities	637.9	894.8

(In millions of USD)	**2004**	**2005**
Net cash used for investing activities	(352.1)	(540.1)
Net cash provided / (used for) financing activities	85.6	(476.6)
Net cash increase / (decrease)	371.4	(121.9)

The net cash provided by our operating activities for the nine month period ended September 30, 2005 and 2004 amounted to $894.8 million and $637.9 million, respectively. The increase in 2005 was primarily due to the increase in revenues in 2005 despite litigation related payments.

The net cash used for investing activities for the nine month periods ended September 30, 2005 and 2004 amounted to $540.1 million and $352.1 million, respectively. Total investments in investees amounted to $243.8 million as of September 30, 2005 compared to $184.1 million as of September 30, 2004. For the nine month period ended September 30, 2005, we spent approximately $540.1 million for capital expenditures compared with $352.1 million for the same period in 2004. The increase in capital expenditures was mainly due to the increase in capital expenditures of Astelit, which is our majority-owned Ukranian subsidiary. The additional capital expenditures made by Astelit

in 2005 mainly represent new network investments. The remaining capital expenditures are primarily due to increased capital expenditures for our GSM network in Turkey. For the full year 2005, we are planning approximately $500.0 million capital expenditures in our network in Turkey in order to improve capacity, replace some of the phased out hardware, provide increased network functionality, and improve network efficiency in order to better serve our customers. In 2006, we expect less capital expenditures compared to that in 2005 not taking 3G implementation into account as there is no visibility regarding the 3G licensing process in Turkey.

The net cash used for financing activities for the nine months period ended September 30, 2005 amounted to $476.6 million and the net cash provided by financing activities for the nine month period ended September 30, 2004 amounted to $85.7 million. As of September 30, 2005, $531.5 million was outstanding as short-term and long-term borrowings. We also entered into lease agreements in the amount of $82.5 million with various leasing companies ($64.9 million for our headquarters and other real estate, $3.5 million for computers installed at the building, office equipment and company cars and $14.1 million for a central betting system). We have extinguished the aggregate principal amount of $400 million plus accrued interest on August 1, 2005. During 2003 and 2004, we have purchased Cellco notes with a nominal value of $65 million. Reacquisition of these bonds is considered an early extinguishment of debt under the provisions of SFAS No. 140 and netted against outstanding payables.

During the first quarter of 2004, we have fully drawn down additional borrowings of $100 million from Akbank in February 2004 and $100 million from Garanti in March 2004. In addition, we have finalized the Syndicated Murabaha facility with Islamic Development Bank and HSCB Bank AS, which became effective on January 16, 2004 with the initial drawdown done on March 3, 2004.

During the first nine months of 2005 Euroasia Telecommunications Holdings B.V. (Euroasia) and its subsidiaries has drawn down additional borrowings from Ericsson Credit AB, ABN Amro NV, HSBC Bank Plc. and various financial institutions to finance capital expenditures and for working capital requirements. During the first nine months of 2005, under the vendor financing agreement signed with Ericsson Credit AB, Astelit has utilized additional borrowings of $51.8 million in respect of equipment and service purchases from Ericsson AB. During the first nine months of 2005, under the vendor financing agreement signed with ABN Amro NV, Astelit has utilized an additional $84.1 million of borrowing in respect of equipment and service purchases from Nokia Corporation. Astelit has also utilized $3.8 million under the vendor financing agreement signed with ABN Amro NV during the first nine months of 2005 in respect of Astelit s purchases of GSM 1800 billing equipment, software and services from Sysdate Pty Ltd. Besides, Astelit utilized $25.5 million from HSBC Bank Plc and $43.3 million from various financial institutions through Euroasia for working capital requirements. During 2005, the full balance of the financing from HSBC

Bank Plc and $5.0 million out of $43.3 million, which were acquired for short term, were repaid. To date Astelit has not encountered any difficulties in attracting short term loans from local banks for short term financing needs. These short term credits will be refina