

TURKCELL ILETISIM HIZMETLERI A S
Form 6-K
November 09, 2006

REPORT OF FOREIGN PRIVATE ISSUER

**PURSUANT TO RULE 13a-16 or 15d-16 OF
THE SECURITIES EXCHANGE ACT OF 1934**

Report on Form 6-K dated November 9, 2006

TURKCELL ILETISIM HIZMETLERI A.S.

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Istanbul, Turkey

(Address of Principal Executive Offices)

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

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Enclosures: Turkcell Iletisim Hizmetleri A.S. Reports Q3 2006 Results

FOR IMMEDIATE RELEASE

TURKCELL ILETISIM HIZMETLERI A.S. REPORTS Q3 2006 RESULTS

STRONG OPERATIONAL PERFORMANCE MAINTAINED

Istanbul, Turkey, November 8, 2006 Turkcell (NYSE:TKC, ISE:TCELL), (www.turkcell.com.tr), the leading provider of mobile communications services in Turkey, today announced results for the quarter ended September 30, 2006. All financial results in this press release are unaudited, prepared in accordance with International Financial Reporting Standards (IFRS) and expressed in US\$.

Figures in parentheses following the operational and financial results for the third quarter of 2006 refer to the same item in the second quarter of 2006. For further details, please refer to the consolidated interim financial statements and notes for the quarter ended September 30, 2006 which can be accessed at our web site on our investor relations pages.

Please note that all financial data are consolidated and comprise Turkcell Iletisim Hizmetleri A.S., (the Company , Turkcell) and its subsidiaries and its associates (together referred to as the Group) whereas non-financial data are unconsolidated. The terms we , us , and our in this press release refer only to the Company, except in discussions of financial data, where such terms refer to the Group, and where context otherwise requires.

Highlights of the Quarter

- Turkcell added approximately 1.0 million (1.1 million) net new subscribers in the third quarter of 2006. The subscriber base grew by 3.4% to 30.8 million (29.8 million) as of September 30, 2006
 - Minutes of usage per subscriber (MoU) in the third quarter of 2006 increased by 21% to 81.8 minutes (67.5 minutes) mainly due to the introduction of new incentive programs as well as seasonality
 - Turkcell recorded quarterly churn rate of 4.1% (3.6%) in the third quarter of 2006 mainly due to overall high market growth in the previous quarters and competition
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- Turkcell recorded average revenue per user (ARPU) of US\$12.1 (US\$12.5) in the third quarter of 2006. The decrease was mainly due to the loyalty programs, and 4% depreciation of TRY against US\$ on an average basis combined with the dilutive impact of prepaid subscribers
- Revenue increased to US\$1,199.4 million (US\$1,165.3 million) in the third quarter of 2006 mainly due to the higher MoU and increasing subscriber base, despite the 4% depreciation of TRY against US\$
- Turkcell recorded EBITDA* of US\$477.1 million (US\$463.5 million) in the third quarter of 2006 as a result of maintained operational efficiency in line with increased revenues
- Net income increased to US\$311.8 million (US\$86.8 million) in the third quarter of 2006 mainly due to strong operational performance, the absence of second quarter s one-time deferred tax charge and foreign exchange losses incurred during the second quarter

**EBITDA is a non-GAAP financial measure. See page 19 for the reconciliation of EBITDA to net cash used for operating activities.*

QUARTER OVERVIEW

The macroeconomic volatility in global markets during the second quarter of 2006, which also led to foreign currency exchange rate fluctuations in Turkey stabilized during the third quarter of the year to a large extent.

During the third quarter of 2006, the Turkish GSM market continued its strong growth trend in number of subscribers through customer acquisition based campaigns and community offers.

Our continued actions led us to maintain strong operational performance during the third quarter of 2006 given our on-going focus on maintaining the right balance between customer expectations and profitability margins, as well as high seasonal trends.

As far as the competitive environment is concerned, the change in Avea s shareholder structure continued with Telecom Italia s exit from Avea and our competitors continued to emphasize their lower prices while introducing some upward price adjustments or limiting some of the usage incentive campaigns.

In this environment, we continued to build on our areas of strength and continued to differentiate Turkcell as the leading GSM operator in Turkey through various proactive offerings and campaigns while continuing to benefit from a high quality network and extensive capabilities of our sales channels.

While it is very early and many uncertainties remain regarding the competitive outlook in our market for next year, looking into 2007, we intend to keep our leading position in the market. While providing differentiated services for different subscribers' needs and expectations and we intend to maintain our operational efficiency. In 2007, we expect the subscriber market to continue to grow and we estimate that the mobile line penetration rate may reach above 80% levels at the end of the year from approximately 69% based on operators' announcements as of September 30, 2006. We intend to maintain our leading position in the gross subscriber additions market next year. Our on-going emphasis on retention will remain. We intend to continue to highlight better value for money advantages that we have been providing to our customers, while aiming to achieve our earnings objectives.

BUSINESS REVIEW

The Competitive Landscape and Our Offerings

The growth in the Turkish GSM market continued in the third quarter of 2006 with efforts of GSM operators to increase their share of the new subscriptions as well as to increase the usage of mobile services. During this quarter, we grew our subscriber base to 30.8 million (29.8 million) with 1.0 million net new additions as the leading GSM operator. Our incentive programs designed for different segments as well as seasonality resulted in usage levels of 81.8 minutes (67.5 minutes) on a monthly average basis per subscriber; representing the highest levels we have achieved since 2002.

In the third quarter of 2006, one of the shareholders of Avea, Telecom Italia Mobile, announced the decision to sell and completed the sale of its stake in Avea to Turk Telekom. Our competitors in general remained vocal and continued with their price-based offerings while remaining focused on improving their infrastructure related capabilities as one of their high priorities. We believe price-based competition did not intensify during the quarter.

As far as our actions are concerned, we continued our initiatives to increase usage and strengthen loyalty. Meanwhile, in line with developments in our market, we made another upward price adjustment of 5.1% for scratch cards on September 28, 2006,

which corresponds to a 2.8% price adjustment on a blended average basis. To date in 2006, we have realized a 9.3% cumulative average upward price adjustment.

We continued, renewed or introduced some actions and campaigns during this quarter for loyalty and retention as well as acquisition purposes based on our well developed Customer Relationship Management (CRM) infrastructure.

In line with our strategy to balance customer satisfaction and revenue goals, we have launched "Connect to Life with Turkcell" campaign from July to September for all of our individual customers granting a 75% discount after the first minute. The campaign had a positive impact on the MoU as well as on Turkcell's perception and brand image. The campaign was seen as a long term investment in customers and a tool to build on customer loyalty by us. "Connect to Life with Turkcell" has positively affected Turkcell's main brand attributes such as leadership, trustworthiness, dynamism, popularity, and sincerity which are all in an increasing trend. Starting from October, the campaign was converted into a prepaid option.

We also continued our offers to the youth segment through GNÇTRKCLL - Turkcell youth club - offering free minutes and SMS based on counter refills, as well as co-branding offers with fashion brands in order to meet the needs of youngsters.

In line with our strategy to maintain our leading position in the subscriber acquisition market, we carried out an acquisition campaign in Anatolia and provided various offers with starter packs.

All in all, our well developed CRM infrastructure and our segmented approach make it possible for us to design and offer our subscribers customized offers on a timely basis remaining sensitive to their usage patterns and preferences. We believe our ability to proactively tailor offers to the needs and expectations of our customers will continue to set us apart from our competitors, and we will continue with similar offerings in the near term and during 2007 while emphasizing our "Better Value for Money" approach.

Our value added services (VAS) revenue which constituted approximately 13% (13%) of our total net revenue in the third quarter of 2006, increased in nominal terms mainly due to our offers and campaigns and enriched content. In the third quarter of 2006, we launched our new portal "turkcell-im", which is positioned as the single point of access to all VAS services of Turkcell. Through agreements with major global and local content providers, such as EMI, MTV, Universal, Warner Bros and Sony BMG, we provide our subscribers with a choice from 300,000 content pieces. With its rich content, simplicity of use, Turkcell-im is currently visited by 2.4 million users per month.

In line with our strategy to increase revenue through new services, we launched "Pay for me from abroad" service, again a first in Turkey. "Pay for me from abroad" offers an alternative choice for Turkcell roamers to make calls from abroad, by enabling the called party to pay for the call. We have also introduced volume and time based internet flat rate packages to our individual and corporate subscribers in order to increase mobile data usage.

In the third quarter, we also introduced an operator-branded PDA (Personal Digital Assistant) for the first time in Turkey. Turkcell PDA enables users to view their e-mails in real time, as well as making access to the internet possible from virtually anywhere, anytime.

We intend to continue to keep our leading edge on Value Added Services as well as underlining technologies to continue to offer cutting edge products and services to our relatively young customer base. On the VAS front, in 2007, our focus to grow VAS revenues through the penetration and usage of value added services and products remains, while we believe that creating customer loyalty through our portfolio of value added services will play an important part in our future retention efforts.

Regulatory Environment and Legal Developments

During the third quarter of 2006, there were no major developments in the regulatory environment regarding the issuance of any 3G licenses, or regulations on Mobile Virtual Network Operators (MVNO) or Mobile Number Portability (MNP). Regarding the 3G tender process, despite previous announcements made by the Telecommunications Authority that had pointed to a time frame towards the end of 2006, we now expect the tender process to take place in the first half of 2007. With respect to the MNP, the Telecommunications Authority is expected to issue the final regulation soon, whereas implementation may be expected possibly towards the second half of 2007.

Regarding our interconnection agreement with other operators, revised lower pricing terms were issued by the Telecommunications Authority in June 2006. Recently, we agreed on new pricing terms for the interconnection agreement with Vodafone which contains higher rates than the revised pricing terms previously issued by the Telecommunications Authority. These rates agreed with Vodafone are applied retroactively starting from May 2006. All in all, we believe the direct impact of the decline in call termination charges going forward will be limited, given the relatively small percentage of our revenue derived from interconnection revenues.

There was a recent court ruling regarding a lawsuit initiated by Avea against us relating to SMS interconnection termination fees. Although Avea alleged that there was an agreement between us not to charge any SMS interconnection termination fees, we had been making interconnection payments to Avea after deducting the net balance of SMS interconnection revenues and costs. A recent court ruling was in favor of Avea who requested reimbursement of its net SMS interconnection charge for the period between February 2005 and December 2005 with accrued interest till payment. Consequently, we retroactively reversed all SMS revenues and SMS interconnect expenses for the period between February 2005 and June 2006 regarding the dispute, which is reflected in the third quarter 2006 financial statements. The net impact on our financial statements was immaterial. Since we believe that our claim relating to this issue has a fair basis, we will continue to take further legal steps regarding the dispute. We have already applied to the Telecommunications Authority to set SMS interconnection prices between Turkcell and Avea.

International Operations

Fintur

We hold a 41.45% stake in Fintur, which currently holds our entire interest in our international GSM investments other than our Turkish Republic of Northern Cyprus and Ukraine operations.

Fintur operations in Kazakhstan, Azerbaijan, Moldova, and Georgia continued their solid growth trend during the third quarter of 2006. Fintur operations added approximately 298,000 (166,000) net new subscribers, growing the total number of subscribers to approximately 6.9 million (6.6 million) as of September 30, 2006. Furthermore, in the third quarter of 2006 consolidated revenues of Fintur increased to US\$320.5 million (US\$279.2 million) mainly due to seasonality.

We own 41.45% of Fintur and account for our investment in Fintur using the equity method. Fintur's contribution to income totaled US\$27.2 million (US\$19.9 million) in the third quarter of 2006.

Ukraine - life:)

In Ukraine, we have operated through our indirect subsidiary, Astelit, under the brand life:) since February 2005. We hold our interest in Astelit through our subsidiary, Turkcell Uluslararası Yatırım Holding A.S. (Turkcell Uluslararası), which holds an interest in Astelit's immediate parent, Euroasia Telecommunications Holdings B.V. (Euroasia). Euroasia currently holds a 100% interest in Astelit. In April 2006, Astelit

announced the merger with CJSC Digital Cellular Communications (DCC) a wholly owned subsidiary of Euroasia, in order to optimize the internal business processes of both companies. The merger was finalized as of August 2006. As of September 30, 2006, Turkcell holds 54.8% stake in Astelit.

Since its inception in February 2005, having invested more than US\$400 million, Astelit has established more than 3,500 base stations ensuring a rapid roll-out of its infrastructure. Accordingly, life:), the first on the market to introduce EDGE and GPRS services, which provide the highest data transfer speed available in GSM network, currently covers 82% of the Ukrainian population. Astelit through its distribution channel of approximately 19,750 sales points and high brand recognition in the market, grew its subscriber base to 4.7(1) million (3.9 million) by the end of the third quarter of 2006. The mobile line penetration in Ukraine has come to 85% levels by the end of the third quarter along with multiple SIM Card usage trends. Parallel to the market characteristics, life:) grew its market share to about 12%.

During the third quarter of 2006, Euroasia recorded net revenue of US\$20.7 million (US\$19.7 million), gross loss of US\$26.4 million (US\$23.4 million) including depreciation and amortisation of US\$25.5 million (US\$24.6 million) and net loss of US\$57.9 million (US\$54.3 million). Also during this quarter, US\$27.4 million (US\$34.0 million) of capital expenditure was recorded for the Ukrainian operations.

Based on Astelit s interim financial statements as at and for the three months ended March 31, 2006, Astelit was in breach of its covenants contained in its syndicated long term project financing. The lenders of Astelit s long term project financing agreed to waive such breach on conditional basis that the main shareholders of Astelit, Turkcell and System Capital Management Limited (SCM) commit to contribute to Astelit their respective share of a total amount of approximately US\$150 million.

Consequently, we participated in the first and second tranche payments of US\$50 million in the form of a capital increase to Astelit in July and October proportionate to our shareholding and the third tranche is due in January 2007.

Based on Astelit s interim financial statements as at and for the six months ended June 30, 2006 and the nine months ended September 30, 2006, Astelit was also in breach of its covenants contained in its syndicated long term project financing. Therefore, Astelit s long term debt amounting to US\$457.8 million (including its junior loan) is classified as short term debt as at September 30, 2006. Astelit requested the facility agent, the senior creditors and Export Credit Agencies (ECA) to waive the breach under the syndicated long term

(1) Please note as the merger of Astelit and DCC completed as of August 2006, starting from third quarter 2006 all financial and operational results for Astelit will include the TDMA business that was previously under under DCC

financing subject to entering into Restructuring Agreements. On October 31, 2006, Astelit has obtained a waiver letter from the facility agent bank and the deadline granted to make the Restructuring Agreements has been extended to November 30, 2006.

Based on Astelit's financial status and discussions held with the lenders, significant additional shareholder contribution may be needed in the coming quarters.

Despite the challenging conditions in the market, we believe Astelit's efforts will result positively towards achieving a sound business model in the longer-term.

Investments

Purchase of A-Tel

We exercised an option to purchase the 50% stake of shares of A-Tel Pazarlama ve Servis Hizmetleri A.S. (A-Tel) owned by Yapı ve Kredi Bankası A.S., completing the transaction as of August 9, 2006 by paying US\$150 million in cash. Since August, 2006, A-Tel is accounted under the equity method.

A-Tel is involved in the marketing, selling and distributing of Turkcell's prepaid systems. A-Tel acts as our exclusive dealer for the Muhabbet Kart (a prepaid card), and receives dealer activation fees and simcard subsidies for the sale of Muhabbet Kart.

Since 1999, the business cooperation between Turkcell and A-Tel has provided important support to Turkcell's sales and marketing activities. With the brand name Muhabbet Kart, A-Tel has proven effective in a competitive environment through well structured campaigns. With the acquisition of a 50% stake in A-Tel, management believes that Turkcell will be better positioned in the changing competitive environment and achieve increased benefits by optimizing sales and marketing efforts.

During September 2006, A-Tel's General Assembly decided to distribute dividends. Accordingly, Turkcell received a dividend of approximately US\$20 million in October.

Our efforts to selectively seek and evaluate new international investment opportunities continue. These opportunities could include the purchase of licences and acquisitions in markets outside of Turkey in which we currently do not operate.

Operational and Financial Review of Third Quarter of 2006

The following discussion focuses principally on the developments and trends in our business in the third quarter of 2006. Selected financial information for the third quarter of 2005, second quarter of 2006 and third quarter of 2006 is included at the end of this press release.

All financial results in this press release are unaudited, prepared in accordance with International Financial Reporting Standards (IFRS) and expressed in US\$.

Macroeconomic Information

US\$1.00 equaled TRY1.4971 as of September 30, 2006, while US\$1 equaled TRY1.6029 on June 30, 2006, which implies a quarter on quarter 7% appreciation of TRY against US\$ in the third quarter of 2006. However, during the third quarter, there was approximately 4% depreciation of TRY against US\$ on a quarterly average basis. In the second quarter of 2006, on a quarter on quarter basis there was approximately 19% depreciation of TRY against US\$, and there was approximately a 9% depreciation of TRY against US\$ on a quarterly average basis. The consumer price index and producer price index in Turkey increased by 6.7% and 11.5%, respectively, in the first nine months of 2006.

For the next year, we estimate US\$1.00 to equal TRY1.725 at the end of 2007 and we estimate US\$1.00 to equal TRY1.648 on an average basis. The purpose of this estimation is not intended as guidance on certain macroeconomic indicator, but rather, these estimates are provided to help clarify the basis of our guidance on certain key performance indicators.

For your information, you can find below the exchange rates used in translating our consolidated financial statements and results of operations into US\$:

TRY / US\$ rate	Q3 2005	Q2 2006	Q3 2006	% Chg
Used in Balance Sheet (Closing)	1.3406 *	1.6029	1.4971	(7)%
Used in Profit and Loss Statement (Average)	1.3377	1.4417	1.5045	4%

(*) Since Turkey was accepted as a hyperinflationary economy until the end of December 31, 2005, the closing rate was used for the translation of the income statement, which was restated to account for changes in general purchasing power of the local currency, as well as balance sheet.

OPERATIONAL REVIEW

Summary of Operational Data	Q3 2005	Q2 2006	Q3 2006	Q2-Q3 2006 % Chg	
Number of total subscribers (million)	26.7	29.8	30.8	3.4	%
Number of post-paid subscribers (million)	5.3	5.6	5.7	1.8	%
Number of pre-paid subscribers (million)	21.4	24.2	25.1	3.7	%
ARPU (Average Monthly Revenue per User)					
ARPU, blended (US\$)	16.9	12.5	12.1	(3.2)	%
ARPU, postpaid (US\$)	40.9	32.1	30.3	(5.6)	%
ARPU, prepaid (US\$)	10.8	8.0	8.0		
Churn (%)	2.5	3.6	4.1		
MOU (Average Monthly Minutes of usage per subscriber), blended	73.4	67.5	81.8	21.2	%

Subscribers

Turkcell's total number of subscribers reached 30.8 million as of September 30, 2006. This corresponds to an increase of 3.4% from 29.8 million as of June 30, 2006 and an increase of 15.4% from 26.7 million as of September 30, 2005. Turkcell's subscriber base consists of 5.7 million (5.6 million) postpaid and 25.1 million (24.2 million) prepaid subscribers.

Turkcell added approximately 1.0 million (1.1 million) net new subscribers in the third quarter of 2006. New gross subscribers acquired in the third quarter of 2006 consisted of 91% (90%) prepaid and 9% (10%) postpaid subscribers. During this period, Turkcell introduced several campaigns and programs targeting various segments in line with its strategy.

Turkcell continues its focus of maintaining its leading position in the market through underlining its brand values and better value for money propositions.

Looking into 2007, we intend to maintain our leading position in gross additions market.

Turkcell Group Subscribers

We have approximately 37.4 million (35.6 million) proportionate GSM subscribers as of September 30, 2006, which is calculated by taking the number of GSM subscribers in Turkcell and each of our subsidiaries and multiplying the numbers unconsolidated

investees by our percentage ownership interest in each subsidiary. This figure includes the proportionate rather than total number of Fintur's GSM subscribers of 1.7 million (1.6 million) subscribers. However, it includes the total number of GSM subscribers in Ukraine (we have a 54.8% direct and indirect stake in the Ukrainian subsidiary) and in our operations in Turkish Republic of Northern Cyprus (Northern Cyprus) (we have a 100% stake in Northern Cyprus) amounting to 4.7 million including TDMA subscribers (3.9 million⁽²⁾) and 0.2 million (0.2 million) subscribers respectively, because the financials of our subsidiaries in Ukraine and Northern Cyprus are consolidated with Turkcell's financial statements.

Turkcell Group Subscribers (million)	Q3 2005	Q2 2006	Q3 2006	Q2-Q3 2006 % Chg	
Turkcell	26.7	29.8	30.8	3.4	%
Ukraine*	1.3	3.9	4.7	20.5	%
Fintur (pro rata)	1.3	1.6	1.7	6.3	%
Northern Cyprus	0.2	0.2	0.2	0	%
TURKCELL GROUP	29.5	35.6	37.4	5.4	%

Churn Rate

Churn refers to disconnected subscribers, whether disconnected voluntarily or involuntarily. In the third quarter of 2006, Turkcell's churn rate increased to 4.1%, compared to 3.6% in the second quarter of 2006, mainly due to overall high market growth in the previous quarters and competition. In the fourth quarter of 2006, we expect our churn rate to slightly increase compared to third quarter 2006 churn level, concluding the year overall, with higher annualized churn rate in comparison to last year, in line with our expectations.

While our on-going emphasis on retention remains a high priority, we expect our churn rate in 2007 to be higher than 2006.

MoU

Our blended MoU in the third quarter of 2006 increased by 21% to 81.8 minutes (67.5 minutes) mainly due to the loyalty program for the youth club and the introduction of the incentive programs in July for both the consumer and the corporate segment, as well as seasonality.

(2) Figure excludes TDMA subscribers

In 2007, we expect our blended MoU to increase with our continued emphasis on segmented incentives and loyalty programs.

ARPU

ARPU decreased to US\$12.1 (US\$12.5) in the third quarter of 2006 mainly due to the introduction of strengthened incentives and loyalty programs combined with the 4% depreciation of TRY against US\$ on an average basis, as well as the dilutive impact of growing prepaid subscriber base, despite the higher MoU during the third quarter of 2006.

Our blended ARPU is expected to decrease in 2007 mainly due to the depreciation of TRY, combined with the dilutive impact of prepaid subscribers.

FINANCIAL REVIEW

Profit and Loss Statement Analysis

Please find below some explanation on major P&L items:

Profit & Loss Statement (million US\$)	Q3 2005	Q2 2006	Q3 2006	Q2 06-Q3 06 % Chg
Total revenues	1,384.4			