AK Securities

CUKUROVA TO RECEIVE US$3.3BN FROM ALFA

Proceeds will be used to buy YKB's Turkcell shares and to pay debt to SDIF

Cukurova Group and Alfa Telekom Turkey Limited agreed on a US$3.3bn financing package. The proceeds will be used to pay back debt to SDIF and to buy Turkcell and Turkcell Holding shares under Yapi Kredi ownership.

Structure of the package:

A foreign based Cukurova Group company, Cukurova Finance International, will receive a 6-year US$1,707mn loan, while another foreign based Cukurova Group company, Cukurova Telecom Holding Limited will issue a US$1,593mn convertible bonds with 2011 maturity. The holder of these bonds will be allowed to convert their bonds to common stock 18 months after the issue date.

Implications for Turkcell:

1. If this conversion takes place, Alfa Group ise expected to have a 13.22% stake in Turkcell. This transaction implies a US$12.05bn value for the Company (Current Mcap: US$9,491mn).

2. Cukurova will remain the main shareholder.

How will Cukurova remain the controlling party?

i) Cukurova currently has a total 40.28% direct and indirect stake in Turkcell (including shares under Yapi Kredi). It will sell 13.22% of this to Alfa Group.

ii) After the sell-off, Cukurova will have a 27.17% stake left. However, the Group will likely to maintain its controlling status, since the 13.22% stake sell-off will be made from Cukurova Group companies' direct stake in Turkcell (Group's direct ownership is 13.3% which perfectly fits with the stake sell-off size).

iii) Since Cukurova will maintain its majority stake in Turkcell Holding, it wil maintain the control of the Company.

3. TeliaSonera is likely to bring up the issue to the International Arbitration Court. However, since this is not a share sell-off and only a bond issue, it may not be fall under the scope of the Arbitration Court.

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Implications for YKB:

Cukurova Group will use the proceeds from the Alfa backed financing plan to pay its US$1.6bn remaining principle debt to the SDIF and to acquire Turkcell shares held by YKB paying a rough US$1.24bn. Turkcell distributed 30% of its 2004 profit and we estimate the Company to stick to this payout policy. However, as Turkcell Holding does not distribute dividends, the only dividend income from Turkcell to YKB comes from the 2.9% direct stake. Therefore, the Bank's only return from its US$1.24bn worth of Turkcell shares (omitting mark to market gains) is a mere US$5mn dividend income.

Assuming that the proceeds from Turkcell share divesture will be directed to consumer lending that yields 12% per annum, we estimate the annual incremental return for YKB to be US$144mn in the following one year after the sale.

Yapi Kredi Bank to Benefit from Divesting Turkcell	US$mn
2.9% Direct Turkcell Stake	275
10.21% Indirect Turkcell	969
Value of Total Turkcell Stake (13.11%)	1,244
Turkcell's 05 Profit F	550
Expected Dividend (30%) from 2.9% direct Turkcell Stake	4.8
Expected Dividend from 10.21% indirect Turkcell Stake	0
Dividend Yield	0.4%
Real Return on Consumer Loans	12.0%
Incramental Return	11.6%
Implied annual after tax incremental real return to YKB after the transaction	**144**

Source: Ak Securities Estimates, Company Data