(Convenience translation of a report and financial statements originally issued in Turkish)

Türk Telekomünikasyon Anonim Şirketi

Consolidated financial statements as at 31 December 2010 and independent auditors’ report

(Convenience translation of a report and financial statements originally issued in Turkish (See Note 2.1))

Türk Telekomünikasyon Anonim Şirketi and Its Subsidiaries

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(Convenience translation of a report originally issued in Turkish - See additional paragraph below for convenience translation and Note 2.1)

Independent auditors' report

To the Shareholders of Türk Telekomünikasyon Anonim Şirketi;

We have audited the accompanying consolidated balance sheet of Türk Telekomünikasyon A.Ş. (the Company) and its Subsidiaries as at 31 December 2010 and the related consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and explanatory notes.

Management's Responsibility for the Financial Statements

The Company's management is responsible for the preparation and fair presentation of financial statements in accordance with financial reporting standards published by the Capital Market Board in Turkey (the CMB). This responsibility includes; designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to error and/or fraud; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Independent Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Our audit was conducted in accordance with standards on auditing issued by the CMB. Those standards require that ethical requirements are complied and independent audit is planned and performed to obtain reasonable assurance whether the financial statements are free from material misstatement.

An independent audit involves performing independent audit procedures to obtain independent audit evidence about the amounts and disclosures in the financial statements. The independent audit procedures selected depend on our professional judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to error and/or fraud. In making those risk assessments, the Company's internal control system is considered. Our purpose, however, is not to express an opinion on the effectiveness of internal control system, but to design independent audit procedures that are appropriate for the circumstances in order to identify the relation between the financial statements prepared by the Company and its internal control system. Our independent audit includes also evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Company's management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained during our independent audit is sufficient and appropriate to provide a basis for our audit opinion.

(Convenience translation of a report originally issued in Turkish - See additional paragraph below for convenience translation and Note 2.1)

Opinion

In our opinion, the accompanying financial statements present fairly the financial position of Türk Telekomünikasyon A.Ş. and its Subsidiaries as at 31 December 2010 and their financial performance and cash flows for the year then ended in accordance with financial reporting standards published by the Capital Market Board in Turkey.

Additional paragraph for convenience translation to English:

As at 31 December 2010, the accounting principles described in Note 2.1 (defined as CMB Accounting Standards) to the accompanying financial statements differ from International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board with respect to the application of inflation accounting and also for certain disclosures requirement of the CMB. Accordingly, the accompanying financial statements are not intended to present the financial position and results of operations in accordance with IFRS.

Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi
A member firm of Ernst & Young Global Limited

Metin Canoğulları, SMMM

8 February 2011
İstanbul, Turkey

Türk Telekomünikasyon Anonim Şirketi and Its Subsidiaries

Consolidated balance sheet
as at 31 December 2010
(Currency - in Thousands of Turkish Lira ("TL"))

	Notes	Current period Audited 31 December 2010	Prior period Audited (Restated Note 2.2) 31 December 2009	Prior period Audited (Restated Note 2.2) 31 December 2008
Assets				
Current assets		**3.712.265**	2.844.599	2.998.480
Cash and cash equivalents	6	**1.219.007**	753.693	1.041.982
Trade receivables				
- Due from related parties	10	**134.513**	90.992	92.944
- Other trade receivables	8	**1.586.921**	1.396.175	1.324.986
Financial investments	17	**-**	-	793
Other receivables	12	**34.417**	33.309	67.188
Inventories	13	**81.444**	62.920	49.080
Other current assets	15	**655.963**	507.510	414.147
		3.712.265	2.844.599	2.991.120
Asset held for sale		**-**	-	7.360
Non-current assets		**11.387.756**	10.556.763	9.660.966
Trade receivables	8	**48.890**	-	-
Other financial assets	17	**3.586**	-	-
Other receivables	12	**2.148**	676	669
Financial investments	16	**11.840**	11.840	11.840
Investment property	19	**274.237**	291.001	310.654
Property, plant and equipment	20	**7.161.063**	6.629.328	6.277.125
Intangible assets	21	**3.516.788**	3.286.440	2.734.374
Goodwill	18	**52.873**	49.172	48.735
Deferred tax asset	14	**258.650**	245.125	272.894
Other non-current assets	15	**57.681**	43.181	4.675
Total assets		**15.100.021**	13.401.362	12.659.446

The accompanying policies and explanatory notes on pages 9 through 98 form an integral part of these consolidated financial statements.

Türk Telekomünikasyon Anonim Şirketi and Its Subsidiaries

Consolidated balance sheet
as at 31 December 2010
(Currency - in Thousands of Turkish Lira ("TL"))

		Current period	Prior period	Prior period
		Audited	Audited (Restated Note 2.2)	Audited (Restated Note 2.2)
	Notes	**31 December 2010**	31 December 2009	31 December 2008
Liabilities				
Current liabilities		**4.820.529**	4.664.947	3.548.688
Financial liabilities				
- Bank borrowings	7	**1.863.186**	2.154.838	1.285.578
- Obligations under finance leases	9	**5.726**	5.446	5.233
Other financial liabilities	17	**46.011**	58.835	-
Trade payables				
- Due to related parties	10	**44.061**	23.820	21.517
- Other trade payables	8	**1.267.044**	858.058	881.319
Other payables	12	**291.518**	304.269	329.234
Income tax payable	32	**142.405**	149.982	93.882
Provisions	22	**282.396**	248.595	232.075
Other current liabilities	15	**878.182**	861.104	699.850
Non-current liabilities		**4.104.735**	3.314.449	3.997.152
Financial liabilities				
- Bank borrowings	7	**2.300.849**	1.777.309	2.122.904
- Obligations under finance leases	9	**29.628**	36.483	41.527
Other financial liabilities				
- Minority put option liability	11	**525.894**	543.103	586.439
- Derivative financial instruments	17	**27.779**	48.179	209.515
Trade payables	8	**80.561**	-	-
Other payables				
- Due to related parties	10	**-**	-	336
- Other payables	12	**13.761**	8.942	16.094
Provisions	22	**9.329**	7.139	5.126
Provisions for employee termination benefits	22	**606.606**	634.171	667.148
Deferred tax liability	14	**301.551**	252.638	338.504
Other non-current liabilities	15	**208.777**	6.485	9.559
Equity		**6.174.757**	5.421.966	5.113.606
Equity attributable to parent				
Paid-in share capital	23	**3.500.000**	3.500.000	3.500.000
Inflation adjustments to paid in capital	23	**(239.752)**	(239.752)	(239.752)
Other reserves				
- Minority put option liability reserve	11	**(582.848)**	(488.749)	(386.719)
- Fair value difference arising from acquisition of subsidiary	23	**(308.634)**	(308.634)	(294.065)
- Hedging reserve		**(37.711)**	(86.441)	(169.957)
- Actuarial loss arising from employee benefits	22	**(201.884)**	(128.826)	(100.808)
- Share based payment reserve	24	**9.528**	9.528	9.528
Currency translation reserve		**9.885**	(188)	(57)
Restricted reserves allocated from profits		**1.446.210**	1.204.192	1.231.408
Retained earnings / (accumulated deficit)	23	**129.106**	101.088	(160.891)
Net income for the year		**2.450.857**	1.859.748	1.724.919
Total liabilities and equity		**15.100.021**	13.401.362	12.659.446

The accompanying policies and explanatory notes on pages 9 through 98 form an integral part of these consolidated financial statements.

Türk Telekomünikasyon Anonim Şirketi and Its Subsidiaries

Consolidated income statement
for year ended 31 December 2010
(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

	Notes	Current period Audited 1 January 2010 - 31 December 2010	Prior period Audited Restated (Note 2.2) 1 January 2009 - 31 December 2009
Continuing operations			
Sales	5	**10.852.470**	10.568.461
Cost of sales (-)	5, 28	**(4.917.512)**	(5.081.802)
Gross profit		**5.934.958**	5.486.659
Marketing, sales and distribution expenses (-)	5, 28	**(1.571.606)**	(1.302.532)
General administrative expenses (-)	5, 28	**(1.493.116)**	(1.695.001)
Research and development expenses (-)	5, 28	**(23.633)**	(29.332)
Other operating income	5, 30	**563.267**	493.581
Other operating expense (-)	5, 30	**(98.704)**	(155.032)
Operating profit		**3.311.166**	2.798.343
Financial income	31	**424.405**	295.438
Financial expense (-)	31	**(608.565)**	(733.814)
Profit before tax from continuing operations		**3.127.006**	2.359.967
Tax expense from continuing operations			
- Period tax expense	32	**(765.343)**	(731.035)
- Deferred tax income	14, 32	**(33.240)**	51.343
Profit for the year		**2.328.423**	1.680.275
Attribution of period income			
Attributable to equity holders of the parent		**2.450.857**	1.859.748
Minority interest	23	**(122.434)**	(179.473)
Earnings per share attributable to equity holders of the parent from continuing operations (in full Kuruş)	23	**0,7002**	0,5314
Earnings per diluted share attributable to equity holders of the parent from continuing operations (in full Kuruş)	23	**0,7002**	0,5314

The accompanying policies and explanatory notes on pages 9 through 98 form an integral part of these consolidated financial statements.

Türk Telekomünikasyon Anonim Şirketi and Its Subsidiaries

Consolidated statement of comprehensive income for year ended 31 December 2010

(Currency - in Thousands of Turkish Lira ("TL"))

	Current period	Prior period
	Audited	Audited
	1 January 2010 - 31 December 2010	1 January 2009 - 31 December 2009
Profit for the year	**2.328.423**	1.680.275
Other comprehensive income:		
Fair value loss on hedge instruments transferred to consolidated income statement (Note 17)	**84.521**	105.264
Change in fair value of derivative financial instruments	**(24.452)**	(1.980)
Change in currency translation differences	**10.073**	(131)
Actuarial loss arising from employee benefits	**(91.336)**	(35.002)
Deferred tax effect of actuarial loss	**18.065**	6.754
Other comprehensive income/(loss) (after tax)	**(3.129)**	74.905
Total comprehensive income	**2.325.294**	1.755.180
Appropriation of total comprehensive income:		
Attributable to equity holders of the parent	**2.436.602**	1.915.115
Minority interest	**(111.308)**	(159.935)

The accompanying policies and explanatory notes on pages 9 through 98 form an integral part of these consolidated financial statements.

Türk Telekomünikasyon Anonim Şirketi and Its Subsidiaries

Consolidated statement of changes in equity
for the year ended 31 December 2010
(Currency - in Thousands of Turkish Lira ("TL"))

				Other Reserves										
	Paid-in share capital	Inflation adjustment to paid in capital	Restricted reserves allocated from profits	Minority put option liability reserve	Share based payment reserve (Note 24)	Difference arising from acquisition of subsidiary	Hedging reserve	Actuarial loss arising from employee benefits	Currency translation reserve	Retained earnings/ (accumulated deficit)	Net income for the year	Total	Minority interest	Total equity
Balance as at 31 December 2008 (previously reported)	3.500.000	(239.752)	1.231.408	(386.719)	9.528	(294.065)	(169.957)	-	(57)	(288.991)	1.752.212	5.113.607	-	5.113.607
Accounting policy change (Note 2.2)	-	-	-	-	-	-	-	(100.808)	-	128.100	(27.292)	--	-	-
Balance as at 31 December 2008 (restated)	3.500.000	(239.752)	1.231.408	(386.719)	9.528	(294.065)	(169.957)	(100.808)	(57)	(160.891)	1.724.920	5.113.607	-	5.113.607
Net profit for the year	-	-	-	-	-	-	-	-	-	-	1.859.748	1.859.748	(179.473)	1.680.275
Other comprehensive income/(loss)	-	-	-	-	-	-	83.516	(28.018)	(131)	-	-	55.367	19.538	74.905
Total comprehensive income	-	-	-	-	-	-	83.516	(28.018)	(131)	-	1.859.748	1.915.115	(159.935)	1.755.180
Transfer to retained earnings	-	-	-	-	-	-	-	-	-	-	-	--	-	-
Transfer to restricted reserves allocated from profits	-	-	261.775	-	-	-	-	-	-	(27.012)	(234.763)	--	-	-
Transfer of accumulated deficit to restricted reserves allocated from profits (Note 23)	-	-	(288.991)	-	-	-	-	-	-	288.991	-	--	-	-
Minority interest before classification to minority put option liability (Note 23)	-	-	-	-	-	-	-	-	-	-	-	--	199.720	199.720
Minority put option liability	-	-	-	(102.030)	-	-	-	-	-	-	-	(102.030)	(54.354)	(156.384)
Difference due to the change in shareholding rate in a subsidiary	-	-	-	-	-	(14.569)	-	-	-	-	-	(14.569)	14.569	-
Dividends paid (Note 23)	-	-	-	-	-	-	-	-	-	-	(1.490.157)	(1.490.157)	-	(1.490.157)
Balance as at 31 December 2009 (restated)	3.500.000	(239.752)	1.204.192	(488.749)	9.528	(308.634)	(86.441)	(128.826)	(188)	101.088	1.859.748	5.421.966	-	5.421.966
Balance as at 31 December 2009 (restated)	**3.500.000**	**(239.752)**	**1.204.192**	**(488.749)**	**9.528**	**(308.634)**	**(86.441)**	**(128.826)**	**(188)**	**101.088**	**1.859.748**	**5.421.966**	**-**	**5.421.966**
Net profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2.450.857**	**2.450.857**	**(122.434)**	**2.328.423**
Other comprehensive income/(loss)	**-**	**-**	**-**	**-**	**-**	**-**	**48.730**	**(73.058)**	**10.073**	**-**	**-**	**(14.255)**	**11.126**	**(3.129)**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**48.730**	**(73.058)**	**10.073**	**-**	**2.450.857**	**2.436.602**	**(111.308)**	**2.325.294**
Transfer of accumulated deficit to restricted reserves allocated from profits (Note 23)	**-**	**-**	**242.018**	**-**	**-**	**-**	**-**	**-**	**-**	**28.018**	**(270.036)**	**--**	**-**	**-**
Minority interest before classification to minority put option liability (Note 23)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**--**	**54.354**	**54.354**
Minority put option liability	**-**	**-**	**-**	**(94.099)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(94.099)**	**56.954**	**(37.145)**
Dividends paid (Note 23)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(1.589.712)**	**(1.589.712)**	**-**	**(1.589.712)**
Balance as at 31 December 2010	**3.500.000**	**(239.752)**	**1.446.210**	**(582.848)**	**9.528**	**(308.634)**	**(37.711)**	**(201.884)**	**9.885**	**129.106**	**2.450.857**	**6.174.757**	**-**	**6.174.757**

The accompanying policies and explanatory notes on pages 9 through 98 form an integral part of these consolidated financial statements.

Türk Telekomünikasyon Anonim Şirketi and Its Subsidiaries

Consolidated statement of cash flows for the year ended 31 December 2010

(Currency - in Thousands of Turkish Lira ("TL"))

	Notes	Current period Audited 1 January 2010 - 31 December 2010	Prior period Audited Restated (Note 2.2) 1 January 2010 - 31 December 2009
Profit for the period before income tax		**3.127.006**	2.359.967
Adjustments to reconcile profit before tax to cash provided by operating activities:			
Depreciation and amortisation and impairment expense	29	**1.523.538**	1.557.418
IFRIC 12 revenue		**(16.193)**	(14.186)
Gain on sale of property, plant and equipment		**(26.340)**	(4.657)
Foreign currency exchange income / (expense), net		**1.071**	(6.008)
Interest expense and income, net		**(1.546)**	90.022
Reversal of doubtful receivables	8, 30	**(185.691)**	(179.862)
Allowance for doubtful receivables	8, 12	**277.349**	362.547
Provision for employee termination benefits	22	**108.187**	111.945
Curtailment and settlement gain	22, 30	**(88.657)**	(52.140)
Litigation provision	22	**64.360**	92.534
Unused vacation provision, net	22	**(7.816)**	8.614
Loss on derivative financial instruments		**102.285**	215.874
Obselete inventory provision		**16.080**	-
Other provisions		**1.891**	2.012
Operating profit before working capital changes		**4.895.524**	4.544.080
Net working capital changes in:			
Trade receivables		**(348.416)**	(248.863)
Restricted cash		**(185.738)**	(27.886)
Other current assets and inventories		**(163.232)**	(76.354)
Trade payables		**497.829**	(20.975)
Other non-current assets		**(46.756)**	(38.441)
Provisions, other liabilities and other non-current liabilities		**44.185**	(6.469)
Other non-current liabilities and provisions		**88.257**	(3.073)
Payments made for long-term employee benefits		**(138.821)**	(127.785)
Provisions paid	22	**(25.885)**	(84.628)
Taxes paid	22	**(772.721)**	(674.935)
Net cash provided by operating activities		**3.844.226**	3.234.671
Investing activities			
Interest received		**199.933**	201.879
Acquisition of subsidiary, net of cash acquired	16	**(237.871)**	(331)
Proceeds from sale of property, plant, equipment and intangible assets		**82.086**	40.179
Purchase of property, plant and equipment, investment property and intangible assets	19, 20, 21	**(1.804.974)**	(2.320.927)
Net cash used in investing activities		**(1.760.826)**	(2.079.200)
Cash flow from financing activities			
Proceeds from bank borrowings		**15.354.674**	21.205.005
Repayment of bank borrowings		**(15.283.572)**	(20.659.828)
Repayment of obligations under financial leases		**(5.007)**	(5.199)
Interest paid		**(191.511)**	(307.169)
Dividends paid	23	**(1.589.712)**	(1.490.157)
Derivative instrument payments		**(79.192)**	(214.298)
Net cash used in financing activities		**(1.794.320)**	(1.471.646)
Foreign exchange differences from balance sheet		**(11.140)**	-
Net increase / (decrease) in cash and cash equivalents		**277.940**	(316.175)
Foreign exchange differences on cash and cash equivalents at the beginning of the year		**1.087**	-
Cash and cash equivalents at the beginning of the year	6	**110.600**	426.775
Cash and cash equivalents at the end of the year	6	**389.627**	110.600

The accompanying policies and explanatory notes on pages 9 through 98 form an integral part of these consolidated financial statements.

1. Corporate organization and activities

Türk Telekomünikasyon Anonim Şirketi ("Türk Telekom" or "the Company") is a joint stock company incorporated in Turkey. The Company has its history in the Posthane-i Amirane (Department of Post Office) which was originally established as a Ministry on 23 October 1840. On 4 February 1924, under the Telephone and Telegraph Law No. 406, the authorization to install and operate telephone networks throughout Turkey was given to the General Directorate of Post, Telegraph and Telephone ("PTT"). The Company was founded on 24 April 1995 as a result of the split of the telecommunication and postal services formerly carried out by the PTT. All of the personnel, assets and obligations of the PTT pertaining to telecommunication services were transferred to the Company, the shares of which were fully owned by the Prime Ministry Under secretariat of Treasury ("the Treasury").

On 24 August 2005, Ojer Telekomünikasyon A.Ş. ("OTAŞ"), entered into a Share Sale Agreement with the Turkey's Privatization Authority for the purchase of a 55% stake in the Company. A Shareholders Agreement and a Share Pledge Agreement for the block sale of the Company were signed on 14 November 2005 and then after, OTAŞ became the parent company of the Company.

According to the permission of the Capital Market Board ("CMB") numbered 22/256, out of TL 3.500.000 nominal amount of capital, 15% of the Company's shares owned by the Treasury corresponding to a nominal amount of TL 525.000 has been issued to the public through an initial public offering with the permission of Directorate of Istanbul Stock Exchange on 15 May 2008.

Oger Telecom Limited (Oger Telecom) owns 99% of the shares of OTAŞ, which in turn owns 55% of the Company. Oger Telecom is an entity incorporated in August 2005 as a limited liability company under the laws of the Dubai International Financial Centre.

As at 31 December 2010 and 312009, the ultimate parent and controlling party of the Company is Saudi Oger Ltd ("Saudi Oger"), because of its controlling ownership in Oger Telecom.

A concession agreement ("the Concession Agreement") was signed by the Company and the Information and Communication Technologies Authority ("ICTA") (formerly named Turkish Telecommunication Authority ("TA") as at 14 November 2005 (Note 25). The Concession Agreement covers the provision of all kinds of telecommunication services, establishment of necessary telecommunications facilities and the use of such facilities by other licensed operators and the marketing and supply of telecommunication services. The term of the Concession Agreement is 25 years starting from 28 February 2001.

On 30 July 2010, the Company incorporated TT International Holding B.V. ("TT International") in the Netherlands, with 100% ownership interest. On 3 October 2010, TT International acquired TT Global Services B.V. ("TT Global") (formerly named as Maturus Holding B.V.), which is incorporated in Holland.

On 7 October 2010, TT International has completed the 100% share purchase of Pantel International AG (including its subsidiaries) (formerly named Invitel International AG), Pantel International Hungary Kft (formerly named Invitel International Hungary Kft), and S.C. Euroweb Romania S.A (collectively "Pantel Group"), following the fulfilment of the conditions that were included in the preliminary share purchase agreement signed on 18 May 2010 with Invitel International and following grant of the legal approvals. Türk Telekom through its subsidiaries has paid Euro 135.591 for the acquisition. At the date of the acquisition, Pantel Group had a borrowing from its former shareholders at the amount Euro 71.834. At the date of the acquisition, TT Global has repaid the borrowing in the name of Pantel Group so Pantel Group became liable to TT Global at the amount of Euro 71.834. During consolidation corresponding receivable and payable balances are eliminated.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

1. Corporate organization and activities (continued)

The details of the Company's subsidiaries as at 31 December 2010 and 2009 are as follows:

Name of Subsidiary	Place of incorporation and operation	Principal activity	Functional Currency	Effective ownership of the Company (%) 31 December 2010	31 December 2009
TTNet Anonim Şirketi ("TTNet")	Turkey	Internet Service Provider	Turkish Lira	99,96	99,96
Avea İletişim Hizmetleri A.Ş.("Avea")	Turkey	GSM Operator	Turkish Lira	81,37	81,37
Argela Yazılım ve Bilişim Teknolojileri Sanayi ve Ticaret Anonim Şirketi ("Argela")	Turkey	Telecommunications Solutions	Turkish Lira	99,96	99,96
Innova Bilişim Çözümleri Anonim Şirketi ("Innova")	Turkey	Telecommunications Solutions	Turkish Lira	99,99	99,96
Assistt Rehberlik ve Müşteri Hizmetleri Anonim Şirketi ("AssisTT")	Turkey	Call Centre and Customer Relations	Turkish Lira	99,96	99,96
Sebit Eğitim ve Bilgi Teknolojileri A.Ş. ("Sebit")	Turkey	Web Based Learning	Turkish Lira("TL")	99,96	99,96
Argela - USA. Inc.	USA	Telecommunication Solutions	USD	99,96	99,96
Sebit LLC	USA	Web Based Learning	USD	99,96	99,96
IVEA Software Solutions FZ-LLC ("IVEA")	UAE	Telecommunication Solutions	USD	99,96	99,96
SOBEE Yazılım Ticaret Limited Şirketi ("Sobee")	Turkey	Software gaming services	Turkish Lira	99,99	99,99
TT International Holding B.V. ("TT International")	Holland	Holding company	Euro	100	-
TT Global Services B.V. ("TT Global")	Holland	Service company	Euro	100	-
Pantel International AG ("Pantel Avusturya")	Austria	Internet/data services, infrastructure and wholesale voice services provider	Euro	100	-
Pantel International Hungary Kft ("Pantel Macaristan")	Hungary	Internet/data services, infrastructure and wholesale voice services provider	Euro	100	-
Euroweb Romania S.A. ("Pantel Romanya")	Romania	Internet/data services, infrastructure and wholesale voice services provider	Euro	100	-
Pantel International Bulgaria EODD ("Pantel Bulgaristan")	Bulgaria	Internet/data services, infrastructure and wholesale voice services provider	Euro	100	-
Pantel International CZ s.r.o ("Pantel Çek Cumhuriyeti")	Czech Republic	Internet/data services, infrastructure and wholesale voice services provider	Euro	100	-
Pantel Telcom d.o.o Beograd ("Pantel Sırbistan ")	Serbia	Internet/data services, infrastructure and wholesale voice services provider	Euro	100	-
Pantel Telcomunikacije d.o.o ("Pantel Slovenya ")	Slovenia	Internet/data services, infrastructure and wholesale voice services provider	Euro	100	-
Pantel International SK s.r.o ("Pantel Slovakya ")	Slovakia	Internet/data services, infrastructure and wholesale voice services provider	Euro	100	-
MTCTR Memorex Telekomunikasyon Sanayi ve Ticaret Limited Şirketi ("Pantel Türkiye")	Turkey	Internet/data services, infrastructure and wholesale voice services provider	Turkish Lira	100	-
Memorex Telex Communications UA Ltd. ("Pantel Ukrayna")	Ukraine	Internet/data services, infrastructure and wholesale voice services provider	Euro	100	-
Pantel International Italia S.R.L. ("Pantel İtalya)	Italy	Internet/data services, infrastructure and wholesale voice services provider	Euro	100	-
Pantel International DOOEL Skopje ("Pantel Makedonya")	Macedonia	Internet/data services, infrastructure and wholesale voice services provider	Euro	100	-

1. Corporate organization and activities (continued)

Hereinafter, Türk Telekom and its subsidiaries together will be referred to as "the Group".

The Group's principal activities include the provision of local, national, international and mobile telecommunication services, internet products and services, as well as call centre and customer relationship management, technology and information management.

The Company's registered office address is Turgut Özal Bulvarı, 06103 Aydınlıkevler, Ankara.

The numbers of personnel of the Group as at 31 December 2010, 2009 and 2008 are disclosed in Note 22.

Consolidated financial statements were approved by the Board of Directors of the Company and authorized for issue on 8 February 2011. The general assembly and certain regulatory bodies have the power to amend the statutory financial statements after issue.

2. Basis of preparation financial statements

The main accounting policies used for preparing the Group's consolidated financial statements are stated below:

2.1 Basis of presentation of the consolidated financial statements

The consolidated financial statements and disclosures have been prepared in accordance with the format that must be applied according to the communiqué numbered XI-29 announced by the CMB (hereinafter will be referred to as "the CMB Accounting Standards") on 9 April 2008.

Excluding the subsidiaries incorporated outside of Turkey which are Argela - USA. Inc., IVEA, Sebit LLC, TT International, TT Global and Pantel Group, Group's functional currency is Turkish Lira ("TL") and the Group maintains its books of account and prepares its statutory financial statements in Turkish Lira ("TL") in accordance with Turkish Commercial Code and Tax Legislation and the Uniform Chart of Accounts issued by the Ministry of Finance.

Financial statements of the subsidiaries incorporated outside of Turkey, are prepared according to acts and regulations in which those subsidiaries operate, and to represent in accordance with CMB Accounting Standards necessary changes and classifications are reflected to those financial statements.

The consolidated financial statements are based on the statutory records, with adjustments and reclassifications for the purpose of fair presentation in accordance with the Accounting Standards of the CMB and are presented in TL. Such adjustments mainly comprise the effect of accounting for deferred taxation, provision for doubtful receivables, accounting for the depreciation charge of property, plant and equipment according to lower of useful life and concession periods, accounting for expense accruals, accounting of property, plant and equipment and intangible assets in accordance with International Financial Reporting Interpretations Committee ("IFRIC") 12, effects of application for long-term employee benefits according to International Accounting Standards ("IAS") 19 "Benefits Provided to Employees", and the effects of application of International Financial Reporting Standards ("IFRS") 3 "Business Combinations".

2.1 Basis of presentation of the consolidated financial statements (continued)

As at 31 December 2010, 2009 and 2008, the consolidated financial statements have been prepared on the historical cost basis except with for the property, plant and equipment and investment property for which the deemed cost method was applied in accordance with IAS 16 "Property, Plant and Equipment" for acquisitions prior to 1 January 2000, derivative financial instruments and minority put option liability which have been reflected at their fair values.

In order to prepare financial statements in accordance with IFRSs, certain assumptions affecting notes to the financial statements and critical accounting estimations related to assets, liabilities, contingent assets and contingent liabilities are required to be used. Although these estimations are made upon the best afford of the Management by interpreting the cyclical circumstances, actual results may differ from the forecasts. Issues that are complex and needs further interpretation, which might have a critical impact on financial statements, are disclosed in Note 4.

In accordance with article 5 of the CMB Accounting Standards, companies should apply IFRS as adopted by the European Union (EU). However, again in accordance with the provisional clause 2 of the same standards adoption of the IFRS as adopted by the EU is postponed until the Turkish Accounting Standards Board declares the differences between the IFRS as adopted by the EU and the IFRS as adopted by the International Accounting Standards Board (IASB). Thus, as at and for the year ended 31 December 2010, the Group prepared its consolidated financial statements in accordance with IFRS adopted by the IASB.

Additional paragraph for convenience translation to English:

As at 31 December 2010, the accounting principles described in Note 2 (defined as CMB Accounting Standards) to the accompanying financial statements differ from International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board with respect to the application of inflation accounting and also for certain disclosures requirement of the CMB. Accordingly, the accompanying financial statements are not intended to present the financial position and results of operations in accordance with IFRS.

Classifications applied to financial statements as of 31 December 2009

In order to be comparable with the balance sheet and income statement dated 31 December 2010, below explained classifications are made to the comparative consolidated balance sheets and income statement.

Interest cost related with defined benefit obligation which was classified under cost of sales, marketing, sales and distribution and general administration expenses in the consolidated income statement as of 31 December 2009 at the amount of TL 47.787, TRY 4.966 and TL 18.864, respectively, is reclassified to financial expense.

Due to personnel amounting to TL 23.624 (2008 – TL 30.800), taxes and duties payable amounting to TL 221.436 (2008 – TL 247.035) and social security premiums payable amounting to TL 19.306 (2008 – TL 22.105) that were included in other current liabilities account in the consolidated balance sheet as of 31 December 2009 are reclassified to other payables account.

As of 31 December 2009 and 2008, Group reclassified the free deposits amounting to TL 207.081 and TL 189.334, respectively to restricted deposits.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

2. Basis of preparation financial statements (continued)

2.2 Changes in accounting policies

The Group has started to account actuarial gain and loss in the consolidated statement of comprehensive income which was previously presented in consolidated income statement. Accordingly, due this accounting policy change financial statements as of 31 December 2009 and 2008 have been restated. Since the Group has accounted all actuarial gains and losses related with the defined benefit plans according to paragraph 93 A of IAS 19, the Group has right to account actuarial gain and in consolidated statement of comprehensive income. The Group decided to account actuarial gains and losses in the consolidated statement of comprehensive income with the belief that such presentation is more reliable and accurate and taking into consideration the final exposure draft "Defined Benefit Plans - Proposed amendments to IAS 19" released by the IASB in April 2010 which propose recognition of actuarial gains and losses in consolidated statement of comprehensive income and, however, the monetary effect of this change on future financial statements could not be estimated.

Due to change in accounting of actuarial gains in the consolidated statement of comprehensive income, restatement effects in consolidated financial statements as of 31 December 2009 and 2008 are summarized below.

	December 31, 2009	December 31, 2009		December 31, 2008	December 31, 2008	
	Before Accounting Policy Change	After Accounting Policy Change	Difference	Before Accounting Policy Change	After Accounting Policy Change	Difference
Actuarial gain/loss reserve due to retirement plan	-	(128.826)	(128.826)	-	(100.808)	(100.808)
Retained earnings	280	101.088	100.808	(288.991)	(160.891)	128.100
Net income	1.831.730	1.859.748	28.018	1.752.212	1.724.919	(27.293)
Other operating income	493.581	493.581	-	310.726	274.955	(35.771)
Other operating expense (-)	(190.034)	(155.032)	35.002	(54.291)	(52.659)	1.632
Deferred tax expense	58.097	51.343	(6.754)	134.954	142.108	7.154
Profit for the year attributable to equity holders of the parent	1.831.730	1.859.748	28.018	1.752.212	1.724.919	(27.293)
Profit for the year attributable to minority interest	(179.703)	(179.473)	230	(124.842)	(124.534)	308

New standards and interpretations:

The accounting policies adopted in the preparation of the consolidated financial statements as at 31 December 2010 are consistent with those followed in the preparation of the consolidated financial statements of the prior year, except for the adoption of new standards and IFRIC interpretations summarized below. The effects of these standards and interpretations on the Group's financial position and performance have been disclosed in the related paragraphs.

2. Basis of preparation financial statements (continued)

2.2 Changes in accounting policies

The new standards, amendments and interpretations which are effective as at 1 January 2010 are as follows:

- *IFRIC 17 "Distributions of Non-cash Assets to Owners"*,
- *Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" – "Eligible Hedged Items"*,
- *IFRS 2 Group Cash-settled Share-based Payment Transactions (Amended)*
- *IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended)*
- *Improvements to IFRSs, May 2008*
- Improvements to IFRSs, April 2009

***IFRIC 17 "Distributions of Non-cash Assets to Owners"*,**

The interpretation provides guidance on how to account for non-cash distributions to owners. The interpretation clarifies when to recognize a liability, how to measure it and the associated assets, and when to derecognize the asset and liability. The interpretation does not have any effect on Group's financial position or performance.

Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" – "Eligible Hedged Items",

The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The interpretation does not have any effect on the Group's financial position or performance.

IFRS 2 Group Cash-settled Share-based Payment Transactions (Amended)

This amendment clarifies the accounting for group cash-settled share-based payment transactions and how such transactions should be arranged in the individual financial statements of the subsidiary. The interpretation does not have any effect on Group's financial position or financial performance.

2. Basis of preparation financial statements (continued)

2.2 Changes in accounting policies

IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended)

The revised IFRS 3 introduces a number of changes in the accounting for business combinations which will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. Such changes include the expensing of acquisition-related costs and recognising subsequent changes in fair value of contingent consideration in the profit or loss (rather than by adjusting goodwill). The amended IAS 27 requires that a change in ownership interest of a subsidiary is accounted for as an equity transaction. Therefore such a change will have no impact on goodwill, nor will it give raise to a gain or loss. Furthermore the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Group's acquisitions occurred during 2010 are accounted in accordance with revised IFRS 3. Also, the consolidated financial statements as of 31 December 2010 have been prepared in accordance with revised IAS 27.

Amendments resulting from improvements to IFRSs (April 2009) to the following standards which had or did not have an effect on the accounting policies, financial position or performance of the Group:

- **IFRS 2 Share-based Payment**
- **IFRS 5 Non-current Assets Held for Sale and Discontinued Operations**
- **IFRS 8 Operating Segment Information**
- **IAS 1 Presentation of Financial Statements**
- **IAS 7 Statement of Cash Flows**
- **IAS 17 Leases**
- **IAS 36 Impairment of Assets**
- **IAS 38 Intangible Assets**

  Clarifies that if an intangible asset acquired in business combination is identifiable only with another intangible asset, the acquirer may recognise the group of intangible assets as a single asset provided the individual assets have similar useful lives. Also, clarifies that the valuation techniques presented for determining the fair value of intangible assets acquired in a business combination that are not traded in active markets are only examples and are not restrictive on the methods that can be used. If an entity applies IFRS 3 (revised) for an earlier period, the amendment shall also be applied for that earlier period. Group has considered effects of improvements on standards during purchase of Pantel Group.

- **IAS 18 Revenue**

  The Board has added guidance (which accompanies the standard) to determine whether an entity is acting as a principal or as an agent. The features to consider are whether the entity:

  1. Has primary responsibility for providing the goods or service
  2. Has inventory risk
  3. Has discretion in establishing prices
  4. Bears the credit risk

  Group decides whether it acted as agent or principle when recognizing revenues related to equipments sales considering the improvements in appliance guide.

2. Basis of preparation financial statements (continued)

2.2 Changes in accounting policies

- **IFRIC 9 Reassessment of Embedded Derivatives**
- **IAS 39 Financial Instruments: Recognition and Measurement – Items Accepted as Protected From Financial Risk**
- **IFRIC 16 Hedges of a Net Investment in a Foreign Operation**

  The amendment states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of IAS 39 that relate to a net investment hedge are satisfied. The interpretation does not have any effect on Group's consolidated financial position or performance.

Standards issued but not yet effective and not early adopted

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

The interpretation is effective for annual periods beginning on or after 1 July 2010. This interpretation addresses the accounting treatment when there is a renegotiation between the entity and the creditor regarding the terms of a financial liability and the creditor agrees to accept the entity's equity instruments to settle the financial liability fully or partially. IFRIC 19 clarifies such equity instruments are "consideration paid" in accordance with paragraph 41 of IAS 39. As a result, the financial liability is derecognised and the equity instruments issued are treated as consideration paid to extinguish that financial liability. The interpretation does not have any effect on Group's financial position or performance.

IFRIC 14 Prepayments of a Minimum Funding Requirement (Amended)

The amendment is effective for annual periods beginning on or after 1 January 2011. The purpose of this amendment was to permit entities to recognise as an asset some voluntary prepayments for minimum funding contributions. This Earlier application permitted and must be applied retrospectively. The Group is in the process of assessing the impact of the new standard on the financial position or performance of the Group.

IFRS 9 Financial Instruments – Phase 1 financial assets, classification and measurement

The new standard is effective for annual periods beginning on or after 1 January 2013. Phase 1 of this new IFRS introduces new requirements for classifying and measuring financial assets. Early adoption is permitted. This standard has not yet been endorsed by the EU. The Group is in the process of assessing the impact of the new standard on the financial position or performance of the Group.

IAS 32 Classification on Rights Issues (Amended)

The amendment is effective for annual periods beginning on or after 1 February 2010. This amendment relates to the rights issues offered for a fixed amount of foreign currency which were treated as derivative liabilities by the existing standard. The amendment states that if certain criteria are met, these should be classified as equity regardless of the currency in which the exercise price is denominated. The amendment is to be applied retrospectively The Group does not expect that this amendment will have an impact on the financial position or performance of the Group.

2. Basis of preparation financial statements (continued)

2.2 Changes in accounting policies

IAS 24 Related Party Disclosures (Revised)

The revision is effective for annual periods beginning on or after 1 January 2011.This revision relates to the judgment which is required so as to assess whether a government and entities known to the reporting entity to be under the control of that government are considered a single customer. In assessing this, the reporting entity shall consider the extent of economic integration between those entities. Early application is permitted and adoption shall be applied retrospectively. The Group does not expect that this amendment will have an impact on the financial position or performance of the Group.

IAS 12 Deferred Tax: Recovery of Underlying Assets (Amendment)

The amendments are mandatory for annual periods beginning on or after 1 January 2012, but earlier application is permitted. IAS 12 has been updated to include i) a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale and ii) a requirement that deferred tax on non-depreciable assets, measured using the revaluation model in IAS 16, should always be measured on a sale basis. .This standard has not yet been endorsed by the EU. The Group does not expect that this amendment will have an impact on the financial position or performance of the Group.

In May 2010 the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. The effective dates of the improvements are various and the earliest is for the financial year beginning 1 July 2010. Early application is permitted in all cases and this annual improvements project has not yet been endorsed by the EU.

IFRS 3 Business Combinations, effective for annual periods beginning on or after 1 July 2010

This improvement clarifies that the amendments to IFRS 7 Financial Instruments: Disclosures, IAS 32 Financial Instruments: Presentation and IAS 39 Financial Instruments: Recognition and Measurement, that eliminate the exemption for contingent consideration, do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of IFRS 3 (as revised in 2008).

Moreover, this improvement limits the scope of the measurement choices (fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets) only to the components of non-controlling interest that are present ownership interests that entitle their holders to a proportionate share of the entity's net assets.

Finally, it requires an entity (in a business combination) to account for the replacement of the acquiree's share-based payment transactions (whether obliged or voluntarily), i.e., split between consideration and post combination expenses. The Group does not expect that this amendment will have an impact on the financial position or performance of the Group.
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2. Basis of preparation financial statements (continued)

2.2 Changes in accounting policies

IFRS 7 Financial Instruments: Disclosures, effective for annual periods beginning on or after 1 January 2011

This improvement gives clarifications of disclosures required by IFRS 7 and emphasises the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instruments. The Group does not expect that this amendment will have an impact on the financial position or performance of the Group.

IAS 1 Presentation of Financial Statements, effective for annual periods beginning on or after 1 January 2011

This amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. The Group does not expect that this amendment will have an impact on the financial position or performance of the Group.

IAS 27 Consolidated and Separate Financial Statements, effective for annual periods beginning on or after 1 July 2010

This improvement clarifies that the consequential amendments from IAS 27 made to IAS 21 "The Effect of Changes in Foreign Exchange Rates", IAS "28 Investments in Associates" and IAS 31 "Interests in Joint Ventures" apply prospectively for annual periods beginning on or after 1 July 2009 or earlier when IAS 27 is applied earlier. The Group does not expect that this amendment will have an impact on the financial position or performance of the Group.

IAS 34 Interim Financial Reporting, effective for annual periods beginning on or after 1 January 2011

This improvement provides guidance to illustrate how to apply disclosure principles in IAS 34 and add disclosure requirements. The Group does not expect that this amendment will have an impact on the financial position or performance of the Group.

IFRIC 13 Customer Loyalty Programmes, effective for annual periods beginning on or after 1 January 2011

This improvement clarifies that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken into account. The Group does not expect that this amendment will have an impact on the financial position or performance of the Group.

IFRS 7 Financial Instruments: Disclosures as part of its comprehensive review of off balance sheet activities (Amended) (*The amendment is effective for annual periods beginning on or after 1 July 2011)*

The purpose of this amendment is to allow users of financial statements to improve their understanding of transfer transactions of financial assets (e.g. securitisations), including understanding the possible effects of any risks that may remain with the entity which transferred the assets. The amendment also requires additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. The amendments broadly align the relevant disclosure requirements of IFRSs and US GAAP. This amendment has not yet been endorsed by the EU. The Group does not expect that this amendment will have an impact on the financial position or performance of the Group.

2. Basis of preparation financial statements (continued)

2.3 Basis of consolidation

As at 31 December 2010, the consolidated financial statements include the financial results of Türk Telekom, TTNet, Avea, Innova, Argela, AssisTT, Sebit, Sobee, Argela - USA, Inc, IVEA, Sebit LLC, TT International, TT Global, Pantel Austria, Pantel Hungary, Pantel Romania, Pantel Bulgaria, Pantel Czech Republic, Pantel Serbia, Pantel Slovenia, Pantel Slovakia, Pantel Turkey, Pantel Ukraine, Pantel Italy and Pantel Macedonia. Control is normally evidenced when the Company owns, either directly or indirectly, more than 50% of the voting rights of a subsidiary's share capital and is able to govern the financial and operating policies of an enterprise so as to benefit from its activities. The results of subsidiaries acquired during the year are included in the consolidated statements of income from the effective date of acquisition as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other Group Companies. The consolidated financial statements are prepared using uniform accounting policies for similar transactions and events and are prepared for the same chart of accounts of the Company.

All intra-group transactions and balances including intra-group unrealized profits and losses are eliminated.

Minority interest in the net assets of consolidated subsidiaries is identified separately from the Group's equity therein. Minority interest consists of the amount of those interests at the date of the original acquisition and the minority's share of changes in equity since the date of the acquisition. Loses within a subsidiary are attributed to minority interest even if that result in deficit balance. As at 31 December 2010, minority interest in Innova, Argela, AssisTT, Sebit, Sobee, Argela - USA, Inc, IVEA and Sebit LLC have not been recognised in the consolidated financial statements due to their immateriality.

On 15 September 2006, the Company, Türkiye İş Bankası A.Ş. (İş Bank) and the companies controlled by İş Bank (altogether will be referred as İş Bank Group) signed an "Amendment Agreement" to the "Shareholder Agreement" and the "IPO and Put Option Agreement" originally dated 15 February 2004. In accordance with the Amendment Agreement, the Company has granted a put option to İş Bank Group, the minority shareholder in Avea, on the shares owned by İş Bank Group. In order to reflect the minority put option liability in the consolidated financial statements, the minority interest is reclassified as minority put option liability as ''long term liabilities' after appropriation to the minority interest of its share of recognized income and expense for the year. The value of the minority interest before the fair value calculation and the fair value amount is classified as 'minority put option liability reserve' based on the Group accounting principles applied for the acquisition of the minority shares (Notes 11 and 23).

3. Valuation basis and Significant accounting policies applied

Business combinations

Before 1 January 2010, business combinations are accounted using the acquisition method. Accordingly, acquisitions are recognised at cost. Transaction costs that are directly attributable to the acquisition formed part of the acquisition cost. Acquisition method requires allocation of the acquisition cost to the assets acquired and liabilities assumed at their fair values on the date of acquisition. Accordingly, acquired assets and liabilities assumed are recognised at IFRS 3 fair values on the date of acquisition. Acquired company is consolidated starting from the date of acquisition. Purchase consideration is the sum of fair values of assets transferred by Group and liabilities assumed against the former shareholders of the acquired company as of the date of the acquisition.

If the fair values of the assets and liabilities are based on provisional assessment as at the balance sheet date, the Group made provisional accounting.

For acquisitions occurred after 1 January 2010, the Group implemented revised IFRS 3 "Business Combination" which is effective as of 1 January 2010. In comparison to the above mentioned requirements, the following differences applied:

All transaction costs incurred by the Group have been recognized in general administrative expenses.

Acquisition of Pantel Group on 7 October 2010 has been accounted in accordance with revised IFRS 3 and acquired assets and assumed liabilities are recognised in consolidated financial statements based on fair values. As disclosed in Note 26, on the acquisition date, Euro 71.834 was paid to former shareholders for the transfer of shareholder loan to the Group. The paid amount to the former shareholders has not been included purchase price since it will be collected from Pantel Group.

Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Whenever the carrying amount exceeds the recoverable amount, an impairment loss is recognized in the consolidated statement of income.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the cash-generating units or groups of cash-generating units that are expected to benefit from the synergies of the acquisition, irrespective of whether other assets or liabilities are assigned to these units or groups of units. Each unit or group of units to which the goodwill is so allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amounts of the net assets assigned to the cash-generating unit, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

3. Valuation basis and Significant accounting policies applied (continued)

Investment in an associate

As of 31 December 2010, 2009 and 2008, the Group accounted its 20% shareholding in Cetel as financial investments in the consolidated financial statements. As of 31 December 2010, 2009 and 2008, Cetel is carried at cost after discounting impairment, if any, since financial information for equity accounting is not achieved on a timely basis.

Property, plant and equipment

Property, plant and equipment ("PPE") of the Group is carried at cost less accumulated depreciation and any accumulated impairment losses. The Group elected to measure property, plant and equipment of the Company on a deemed cost basis in the first period of application of IAS 29 "Financial Reporting in Hyper Inflationary Economy" since detailed records of the acquisition date and costs of items of PPE were not available for the Company prior to 1 January 2000. The Group used independent professional assessments of the fair value of PPE as the basis for their restatement. The deemed cost values as at 1 January 2000 for land and buildings were appraised by CMB licensed real-estate valuation companies in 2006 on a retrospective basis. The network equipment and vehicles values as at 31 December 1999 were appraised by Detecon International GmbH (a subsidiary of Deutsche Telecom AG). Other than the PPE for which cost was determined on a deemed cost basis, the cost of PPE generally comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditures incurred after the PPE has been put into operation, such as repairs and maintenance, are normally charged to the statement of income in the year the costs are incurred. The Group recognizes in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if the recognition criteria are met

Depreciation is charged so as to write off the cost less residual value (if any) of PPE, other than land and construction in progress, over their estimated useful economic lives using the straight-line method.

The useful lives for PPE are as follows:

	Years (*)
Buildings	21-25 years
Outside plant	5-21 years
Transmission equipment	5-21 years
Switching equipment	5-8 years
Data networks	3-10 years
Vehicles	5 years
Furniture and fixtures	3-5 years
Other property, plant and equipment	2-8 years

(*) The remaining useful lives of the PPE are limited to the concession periods. Considering the Concession Agreement useful lives of purchases made in 2010 are limited to 16 years.

Assets held under finance leases are depreciated over their expected useful economic lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an item of PPE is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the consolidated statement of income.

3. Valuation basis and Significant accounting policies applied (continued)

Revenue sharing projects

Payments are made to contractors, as consideration for the construction of telephone exchanges under revenue sharing projects, based on a percentage of revenues generated once the project has been completed and taken into operations and up to an agreed upon level. Revenue sharing projects are accounted for using a method similar to a finance lease, where assets are recognized as assets of the Group at their fair value at the time the project is completed and put in operation or, if lower, at the present value of the minimum payments. The corresponding liability is included in the balance sheet as an obligation. Payments are apportioned between finance charges, maintenance expense where material, and reduction of the obligation so as to achieve a constant rate of interest on the remaining balances of the liability. Finance charges are charged to the consolidated statement of income.

Investment property

Investment properties, which are properties held to earn rent and/or for capital appreciation are measured initially at cost, including transaction costs and subsequent to initial recognition, investment properties, are stated at their cost less accumulated depreciation and any accumulated impairment losses. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property. The Group decided to measure investment property on a deemed cost basis in the first period of application of IAS 16, since detailed records of the acquisition date and costs of items of investment property were not available prior to 1 January 2000. Professional assessments of the 1 January 2000 market values were conducted by CMB licensed independent real-estate appraisers in 2006 on a retrospective basis. Following initial recognition, investment properties are carried at cost less any accumulated amortization and any accumulated impairment losses.

Depreciation is charged so as to write off the cost of investment properties other than land, over their estimated useful economic lives, using the straight-line method. The lower of concession period and useful life for buildings belonging to the Group is 21 years (considering the Concession Agreement, 2010 acquisitions' useful lives are limited to 16 years).

Assets held for sale

The Group measures assets held for sale at the lower of its carrying amount and fair value less costs to sell. When the sale is expected to occur beyond one year, the Group determines the net present value of the selling price. Any increase in the present value arises from the passage of time is presented in the consolidated statement of income as a finance cost. The Group does not depreciate a non-current asset while it is classified as held for sale.

The Group classifies a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset (or the group of assets held for sale) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable. For the sale to be highly probable management must be committed to a plan to sell the asset (or the group of assets held for sale) and an active program to locate a buyer and complete the plan must have been initiated. Furthermore, the asset (or the group of assets held for sale) must be actively marketed for sale at a price that is reasonable in relation to its fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification and actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

3. Valuation basis and Significant accounting policies applied (continued)

Assets held for sale (continued)

In case the period to complete sale of assets is extended due to circumstances which are not under the control of the Group, the assets will continue to be classified as assets held for sale provided that the Group has still an active sales program.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is charged to the consolidated statement of income in the year in which the expenditure is incurred. The useful lives of intangible assets are assessed to be either finite or infinite. The Group does not have any intangibles with infinite useful lives. Intangible assets with finite lives are amortized on a straight line basis over their useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as changes in estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statement of income. The amortization periods for intangible assets are between 3 and 20 years. The remaining useful lives of the intangible items are limited to the concession periods. Considering the Concession Agreement, 2010 acquisitions’ useful lives are limited to 16 years.

Research and development costs

Research costs are expensed as incurred. Development expenditure on an individual project is recognized as an intangible asset when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset and the ability to measure reliably the expenditure during development.

Impairment test is performed annually in order to identify whether there is any impairment in the development stage. After initial recognition, development costs are recognized at cost less amortization and impairment. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. Periodic impairment tests are applied to the assets in order to foresee any probable impairment on the assets in the period that they are not ready for utilization yet.

Impairment of property, plant and equipment and intangible assets excluding goodwill

At each balance sheet date, the Group assesses whether there is an indication that any of its PPE and intangible assets may be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

3. Valuation basis and Significant accounting policies applied (continued)

Impairment of property, plant and equipment and intangible assets excluding goodwill (continued)

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the consolidated statement of income.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in the consolidated statement of income.

Inventories

Inventories are stated at the lower of cost and net realizable value. Costs comprise purchase cost and, where applicable and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale.

Net realizable value is the estimated selling price in the ordinary course of business, less marketing, selling and other various expenses to be incurred in order to realize sale.

Financial instruments

Financial assets consist of cash and cash equivalents, trade receivables, financial assets, other receivables, derivative financial instruments and receivable from related parties. Financial liabilities consist of trade payables, payable to related parties, financial debt and other payables.

Financial assets and financial liabilities are recognized on the Group balance sheet when the Group becomes a party to the contractual provisions of the instrument.

When a financial instrument gives rise to a contractual obligation on the part of the Group to deliver cash or another financial asset or to exchange another financial instrument under conditions that are potentially unfavourable, it is classified as a financial liability. The instrument is an equity instrument if, are met:

a) The instrument includes no contractual obligation to deliver cash or another financial asset to another entity; or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the issuer.

b) If the instrument will or may be settled in the Group's own equity instruments, it is a non-derivative that includes no contractual obligation for the Group to deliver a variable number of its own equity instruments; or a derivative that will be settled only by the Group exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

3. Valuation basis and Significant accounting policies applied (Continued)

Financial instruments (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and other short-term highly liquid investments where their original maturities are three months or less, that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Trade and other receivables and allowances for doubtful receivables

Trade receivables are recognized at original invoice amount however subsequently they are carried at original invoice amount less allowance for any uncollectible amounts. Subsequent to initial recognition, trade receivables are measured at amortized cost. None interest rate bearing short term receivables are measured at original invoice amount unless the effect of imputing interest is significant.

Trade and other payables

Trade and other payables are initially measured at fair value. None interest rate bearing short term payables are measured at original invoice amount unless the effect of imputing interest is significant.

Financial borrowings

Interest-bearing financial borrowings are initially measured at the fair value of the consideration received, less directly attributable costs and are subsequently measured at amortized cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognized over the term of the borrowings through the amortization process, using the effective interest rate method as explained above.

Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the amortization process.

Derivative financial instruments

The Group uses derivative financial instruments to hedge its interest rate and foreign currency risk exposures arising from its long term borrowings. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Any gains or losses arising from changes in fair value on derivatives during the year that do not qualify for hedge accounting are taken directly to profit or loss.

The fair value of option contracts is calculated by reference to current option rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market value for similar instruments.

For the purpose of hedge accounting, hedges are classified as; cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment.

3. Valuation basis and Significant accounting policies applied (Continued)

Financial instruments (continued)

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Company assesses the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. It is expected that hedge transaction is to be effective in stabilize changes between changes in fair value or cash flow. During all financial reporting periods in which it is defined, hedge transaction is evaluated continuously for identification of effectiveness and it is expected to be consistent with documented risk management strategy.

Cash flow hedges

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

The effective portion of the gain or loss on the hedging instrument is recognized directly in consolidated statement of comprehensive income, while any ineffective portion is recognized immediately in the consolidated statement of income.

Amounts taken to the consolidated statement of comprehensive income are transferred to the consolidated statement of income when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognized or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts taken to the consolidated statement of comprehensive income are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction or commitment is no longer expected to occur, amounts previously recognized in the consolidated statement of comprehensive income are transferred to consolidated income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognized in other comprehensive income remains in other comprehensive income until the forecast transaction or firm commitment affects profit or loss.

Equity instruments

Equity instruments issued by the Group are recorded at the proceeds received, net of direct issuance costs.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a company of similar financial assets) is derecognized where the rights to receive cash flows from the asset have expired, the Group retains the right to receive cash flows from the asset but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement or the Group has transferred its rights to receive cash flows from the asset and either has transferred substantially all the risks and rewards of the asset or has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

3. Valuation basis and Significant accounting policies applied (Continued)

Derecognition of financial assets and liabilities **(continued)**

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of income.

Impairment of financial assets

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired. If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss is recognized in the consolidated statement of income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of income.

Provision for impairment is provided when there is an objective evidence of uncollectibility. Reserve is provided for the overdue uncollectible receivables. Also portfolio reserve is provided for the not due receivables based on certain criteria. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognized when they are assessed as uncollectible.

3. Valuation basis and Significant accounting policies applied (Continued)

Related parties

Parties are considered related to the Group if;

(a) directly, or indirectly through one or more intermediaries, the party:
  (i) controls, is controlled by, or is under common control with, the Group (this includes parents, subsidiaries and fellow subsidiaries);
  (ii) has an interest in the Group that gives it significant influence over the Group; or
  (iii) has joint control over the Group;
(b) the party is an associate of the Group;
(c) the party is a joint venture in which the Group is a venturer;
(d) the party is member of the key management personnel of the Group or its parent;
(e) the party is a close member of the family of any individual referred to in (a) or (d);
(f) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
(g) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

A related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged.

Long-term employee benefits

Payments to defined contribution retirement benefit plans are charged as an expense in the year in which the contributions relate to. Payments made to the Social Security Institution of Turkey and Turkish Republic Retirement Fund are dealt with as payments to defined contribution plans where the Group's obligations under the plans are equivalent to those arising in a defined contribution retirement benefit plan. The Group pays contributions to the Social Security Institution of Turkey on a mandatory basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as an employee benefit expense in the period to which the employees' service relates.

For defined benefit plans and other long-term employment benefits, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each balance sheet date. Past service cost is recognized immediately to the extent that the benefits are already vested, and otherwise is amortized on a straight-line basis over the average period until the benefits become vested. The retirement benefit obligation recognized in the balance sheet represents the present value of the defined benefit obligation as adjusted for any unrecognized past service cost. There is no funding requirement for defined benefit plans. The Group recognizes actuarial gains and losses in the consolidated statement of comprehensive income.

Provisions

Provisions are recognized when the Group has a present obligation as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

3. Valuation basis and Significant accounting policies applied (Continued)

Contingent assets and liabilities

Possible assets or obligations that arise from past events and which existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group are treated as contingent assets or liabilities.

A contingent liability is disclosed, unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed, where an inflow of economic benefits is probable.

Taxation and deferred income taxes

Turkish tax legislation does not permit a parent company and its subsidiary to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the consolidated financial statements, have been calculated on a separate-entity basis.

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

The Company and the other consolidated subsidiaries have reflected their deferred tax asset and liabilities by netting their individual balances; however, there is no netting on a consolidation basis. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to consolidated statement of income, except when it relates to items charged or credited directly to the equity in which case the deferred tax is also dealt within the equity.

Prepaid corporation taxes and corporate tax liabilities are offset when they relate to income taxes levied by the same taxation authority.

3. Valuation basis and Significant accounting policies applied (Continued)

Leasing - the Group as lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

Leasing - the Group as lessee

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to the consolidated statement of income.

Rentals payable under operating leases are charged to the consolidated statement of income on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes. Service revenues are recorded at the time services are rendered.

Fixed-line revenues

Revenues from fixed-line telecommunication services like network access, local usage, domestic and international long distance and infrastructure leases are recognized on an accrual basis as services are provided. Connection fees are immediately recognized as revenue since the fees are below the cost of connection which is also recognized immediately as an expense.

Revenues from sale of Indefeasible Right of Use are accounted over the term of the contract.

3. Valuation basis and Significant accounting policies applied (continued)

Revenue recognition (continued)

GSM revenues

Revenues generated from mobile telecommunication services such as outgoing and incoming traffic, roaming revenues, revenues from value added services and monthly fees which are recognised at the time services are rendered. With respect to prepaid outgoing revenues, the Group generally collects cash in advance by selling scratch cards to dealers and distributors. In such cases, the Group does not recognize revenues until the subscribers use the service and present such amounts under deferred revenues in the consolidated financial statements.

The Group recognizes content revenue based on the agreement between the Group and the content providers. As the Group is the primary obligor of the service, the revenue received from the subscribers is presented on gross basis and the portion paid to the content providers is recognized as operating expense.

Equipment sales revenues

Revenues from sales of phone device, modem and other network equipments are recorded as revenue at the time of delivery of equipments to customers.

In connection with campaigns, other telecommunication services may be bundled with phone devices and modems. Total arrangement consideration relating to the bundled contract are allocated among the different units if the component has standalone value to the customer and the fair value of the component can be measured reliably. The arrangement consideration is allocated to each deliverable in proportion to the fair value of the individual deliverables Revenue attributed to delivered component is limited with the amount not contingent to the undelivered component. Equipment revenues are presented in other revenues. Cost of products and services are recorded as expense when related revenue recorded.

Borrowing costs

Borrowing costs that directly attributable to the acquisition, building or manufacturing of a specific asset are recognized as a part of the cost of the related asset, whereas other borrowing costs are recognized as expense in the consolidated income statement in the period they are incurred.

Other income

Interest income is recognized as interest accrues (using the effective interest rate that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

Subscriber acquisition costs

The Group recognizes subscriber acquisition costs in the consolidated statement of income in the year which they are incurred. Subscriber acquisition costs include subsidization of the handset, taxes on subscription and dealer commissions incurred for acquisitions.

3. Valuation basis and Significant accounting policies applied (continued)

Effects of changes in exchange rates

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency at the exchange rate at the reporting date. Foreign currency differences arising on translation of foreign currency transactions are recognised in the income statement. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when fair value is determined.

For the subsidiaries whose functional currency is not TL assets and liabilities are retranslated to TL at the exchange rate ruling at the reporting date. The income and expenses are translated to TL at exchange rates approximating to the exchange rates at the dates of the transactions. Foreign currency differences arising on retranslation are recognised directly in equity under currency translation reserve.

Goodwill and fair value differences that arose as a result of acquisition of foreign operation is determined as asset and liability of the foreign operation and translated to TL using the exchange rate at the reporting date.

4. Critical accounting judgments and key sources of estimation uncertainty

In the process of applying the Group's accounting policies, the Management has made the following judgments that have the most significant effect on the amounts recognized in the consolidated financial statements (apart from those involving estimations).

Operating Lease Commitments – Group as Lessor: The Group has entered into a cross-occupation agreement with the PTT. The Group has determined that it retains all the significant risks and rewards of ownership of its properties subject to the agreement which are leased out on operating leases.

Minority Put Option Liability – On valuing the minority put option liability; the Group considered that there will be no Initial Public Offering ("IPO") for Avea before 1 January 2015 and, therefore, expects that the put option will be exercisable at the earliest as at 1 January 2015.

Sales Campaign Income: Group makes campaigns with suppliers under which they bundle telecommunication services with equipments supplied by the suppliers. There is no definite guidance to determine whether the Group is acting as an agent or principle under IFRS. Accordingly, Group management accounts bundled offers as an agent if the sale transaction satisfies the below conditions:

- Group, has no inventory risk.
- Group has no responsibility on technical qualifications of equipments delivered to customers. Responsibility after sale belongs to supplier.
- Group does not make any modification on the equipments.
- Group shares credit risk with the supplier.
- Group earns either a fixed rate of commission or zero profit on the transaction.

Prepaid Card Sales Agent - Principal Analysis: Since Avea is primarily responsible for providing the service, has credit and inventory risk and determinant in setting prices; starting from April 2010, Avea recognizes prepaid card incomes on gross basis.

4. Critical accounting judgments and key sources of estimation uncertainty (continued)

Content Sales- Since Avea is primarily responsible for providing the service, has credit and determinant in setting prices; Avea recognizes content revenues on gross basis

Critical judgments of the Group in relation with IFRIC 12 are explained in "key sources of estimation uncertainty" in IFRIC 12 section.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

a) The Group determines whether property, plant and equipment is impaired by estimating the recoverable amount of the assets whenever there is an indication of impairment. This requires an estimation of the value in use of the cash-generating units. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

b) The estimates used by the Company in the application of IFRIC 12 are as follows:

  i) As of 31 December 2010, the Company considers that approximately 30% of the foreseen network investments related with the replacement of the network equipments that are reclassified to intangible assets at 1 January 2007 and then are recorded to financial statements as intangible assets, are the contractual replacements as required by the concession agreement. The Group has provided provision amounting to TL 9.328 (Note 22) in the consolidated financial statements for the foreseen contractual replacements in the future. Aforementioned provision is the present value as at 31 December 2010 of the contractual replacement expenses that will be realized in the future. Discount rate used in provision calculation is determined as 16%.

  ii) In accordance with IFRIC 12, the Company has determined the cost of the investments in intangible assets recognized under the scope of IFRIC 12 by adding the profit margin, which is applied in the market for similar construction services, to the cost of acquiring the related network equipment. The estimated profit margin used in construction services provided in exchange for concession right is 13% for the year ended as of 31 December 2010. The profit margin of property, plant and equipment accounted within the scope of IFRIC 12 amounting to TL 140.755 (2009 – TL 123.305) (Note 21) is TL 16.193 for the year ended as of 31 December 2010 (2009 – TL 14.186).

4. Critical accounting judgments and key sources of estimation uncertainty

Key sources of estimation uncertainty (continued)

c) A deferred tax asset is recognized only to the extent that it is probable that a tax benefit will be realized in the future. If it is probable that a tax benefit will be realized, a deferred tax asset is recognized on unused tax losses, unused tax credits and other deductible temporary differences. With the expectation to recover certain part of its tax losses carried forward in Avea, the Group has recognized deferred tax assets on statutory tax losses available for offsetting with future statutory taxable profits amounting to TL 245.000. Every year, the Group re-assesses its tax loss carry forwards and if there is a material change in the deferred tax asset recognized in the consolidated financial statements, the deferred tax assets are also changed.

d) Assumptions used in the impairment test of property, plant and equipment and intangible assets have been explained in Notes 18 and 20.

e) The impairment losses in trade and other receivables are based on management's evaluation of the volume of the receivables outstanding, historical collection trends and general economic conditions. The Group follows collection of trade receivables periodically and on the basis of previous years collection ratios, records provisions in case of losses due to trade receivables Should economic conditions, collection trends or any specific industry trend worsen compared to management estimates, allowance for doubtful receivables recognised in consolidated financial statements may not be sufficient to cover bad debts.

f) Assumptions used by Company during Pantel valuation of tangible and intangible assets, financial liabilities and indefeasible usage rights agreements are explained in Note 26.

g) Assumptions used by Company in goodwill impairment test are explained in Note 18. The Group determines the useful life of an asset by considering its future economic benefit. This evaluation is driven by the Group's previous experience on similar experiences. The Group also considers useful life of the asset from technical and commercial perspectives due to changes and developments in market in order to assess whether additional impairment is required or not.

h) There are other estimations made by the management during the determination of useful lives and provisions for litigations (Note 22).

Significant accounting judgments and changes in use of estimates

The Group calculates market value of minority share put opinion liability, based on discounted cash flow method after 1 January 2015. Value of the liability is determined as of 1 January 2015 and discounted to 31 December 2010 (The details have been explained in Note 11).

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

5. Segment reporting

The Group has two main segments: Fixed line and GSM. Fixed line services are provided by Türk Telekom, TTNet, Argela, Innova, Sebit, Sobee, AssisTT and Pantel Group whereas GSM service is provided by Avea. Group management assesses segment performance over earnings before interest, tax, depreciation and amortization ("EBITDA"). EBITDA is calculated by adding interest, tax, depreciation, amortization, and impairment over operating income. Group management uses EBITDA as it is comparable with other companies in the sector. As Group management does not monitor Group's performance over geographical segments, geographical segment reporting is not presented. The segment results, balance sheet items and the cash flows are presented below:

	Fixed line		Mobile		Eliminations		Consolidated	
	1 January- 31 December 2010	1 January- 31 December 2009	**1 January- 31 December 2010**	1 January- 31 December 2009	**1 January- 31 December 2010**	1 January- 31 December 2009	**1 January- 31 December 2010**	1 January- 31 December 2009
Revenue								
Domestic PSTN	**4.254.609**	4.580.892	**-**	-	**-**	-	**4.254.609**	4.580.892
ADSL	**2.473.009**	2.140.167	**-**	-	**-**	-	**2.473.009**	2.140.167
GSM	**-**	-	**2.646.343**	2.504.083	**-**	-	**2.646.343**	2.504.083
IFRIC 12 revenue	**140.755**	123.305	**-**	-	**-**	-	**140.755**	123.305
Data service revenue	**364.451**	302.134	**-**	-	**-**	-	**364.451**	302.134
International sales	**228.566**	193.951	**-**	-	**-**	-	**228.566**	193.951
Interconnection revenue	**283.401**	244.210	**-**	-	**-**	-	**283.401**	244.210
Leased lines	**485.602**	578.567	**-**	-	**-**	-	**485.602**	578.567
Rent income from GSM operators	**100.535**	115.429	**-**	-	**-**	-	**100.535**	115.429
Other	**180.186**	107.796	**-**	-	**-**	-	**180.186**	107.796
Eliminations	**-**	-	**-**	-	**(304.987)**	(322.073)	**(304.987)**	(322.073)
Total revenue	**8.511.114**	8.386.451	**2.646.343**	2.504.083	**(304.987)**	(322.073)	**10.852.470**	10.568.461
Cost of sales and operating expenses (excluding depreciation and amortization)	**(4.439.190)**	(4.436.075)	**(2.349.982)**	(2.437.247)	**306.843**	322.073	**(6.482.329)**	(6.551.249)
Other operating income / (expense)	**434.752**	351.486	**35.579**	(11.519)	**(5.768)**	(1.418)	**464.563**	338.549
Depreciation and amortization and impairment	**(891.956)**	(980.018)	**(633.230)**	(577.400)	**1.648**	-	**(1.523.538)**	(1.557.418)
Earnings before interest, tax, depreciation and amortization ("EBITDA")	**4.506.676**	4.301.862	**331.940**	55.317	**(3.912)**	(1.418)	**4.834.704**	4.355.761
Doubtful receivable provision expense	**200.394**	268.254	**76.955**	94.293	**-**	-	**277.349**	362.547
Capital expenditure	**1.263.118**	1.326.614	**470.225**	1.154.503	**(68)**	(10.925)	**1.733.275**	2.470.192

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

5. Segment reporting (continued)

	1 January-31 December 2010	1 January-31 December 2009
Fixed line segment EBITDA	**4.506.676**	4.301.862
Mobile segment EBITDA	**331.940**	55.317
Inter-segment eliminations	**(3.912)**	(1.418)
Consolidated EBITDA	**4.834.704**	4.355.761
Financial income	**424.405**	295.438
Financial expenses (-)	**(608.565)**	(733.814)
Depreciation and amortisation	**(1.523.538)**	(1.557.418)
Consolidated profit before tax	**3.127.006**	2.359.967

31 December 2010

	Fixed line	Mobile	Eliminations	Other unallocated amounts	Total
Total segment assets	**13.624.941**	**4.926.645**	**(3.504.438)**	**52.873 (*)**	**15.100.021**
Total segment liabilities	**(7.200.372)**	**(4.736.921)**	**3.537.924**	**(525.894) (**)**	**(8.925.263)**

31 December 2009

	Fixed line	Mobile	Eliminations	Other unallocated amounts	Total
Total segment assets	11.042.021	4.878.136	(2.567.967)	49.172(*)	13.401.362
Total segment liabilities	(5.405.444)	(4.044.274)	2.013.425	(543.103)(**)	(7.979.396)

31 December 2008

	Fixed line	Mobile	Eliminations	Other unallocated amounts	Total
Total segment assets	8.343.568	4.403.650	(136.507)	48.735(*)	12.659.446
Total segment liabilities	(3.748.375)	(2.759.373)	(451.653)	(586.439)(**)	(7.545.840)

(*) Includes goodwill amounting to TL 52.873 (2009 – TL 49.172, 2008 – TL 48.735).
(**) Includes minority put option liability amounting to TL 525.894 (2009 - 543.103, 2008 – TL 586.439).

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

6. Cash and cash equivalents

	31 December 2010	31 December 2009	31 December 2008
Cash on hand	**1.094**	964	1.305
Cash at banks – Demand deposits	**397.065**	276.441	246.452
Cash at banks – Time deposits	**820.483**	476.168	793.776
Other	**365**	120	449
	1.219.007	753.693	1.041.982

As of 31 December 2010, time deposits are all short-term, maturing within one month and denominated in both foreign currencies and TL. The interest rates are between 4,00% - 9,50% for TL deposits, between 0,25% - 2,90% for USD deposits and between 0,50% - 3,60% for Euro deposits. (31 December 2009 – for TL deposits between 4,00% and 10,80% for TL deposits, for USD deposits between 0,17% and 1,50% and for Euro deposits between 0,29% and 0,29%).

As of 31 December 2010, TL 169.821 (2009 - TL 189.404; 2008 - TL 258.092) of time deposits represents advances received from the Turkish Armed Forces for Turkish Armed Forces Integrated Communication Systems ("TAFICS") projects. The interest income from these time deposits are added to the advances received and not reflected in the consolidated statement of income as per agreement between parties (Note 15). These time deposits are restricted and can only be used for payments related to TAFICS projects.

Cash and cash equivalents included in the statement of cash flows are as follows:

	31 December 2010	31 December 2009	31 December 2008
Cash and cash equivalents	**1.219.007**	753.693	1.041.982
- TAFICS projects	**(169.821)**	(189.404)	(258.092)
- Collection protocols	**(308.128)**	(254.807)	(155.794)
- Restricted deposits in relation to bank borrowings	**(332.851)**	(188.508)	(189.334)
- ATM collection	**(5.227)**	(3.480)	(3.722)
- Other	**(13.353)**	(6.894)	(8.265)
	389.627	110.600	426.775

As of 31 December 2010, demand deposits amounting to TL 308.128 (2009 - TL 254.807; 2008 - TL 155.794) is restricted due to collection protocols signed with banks for receipts from the subscribers, under which proceeds are made available to the Group a certain number of days after the cash is collected. As of 31 December 2010, TL 219.938 (2009 - TL 188.508; 2008 - TL 189.334) of restricted deposits in relation to bank borrowings consist of blocked time deposits related to Avea's bank borrowing agreements and remaining Euro 55.104 (equivalent to TL 112.914) represent the Company's deposits that are restricted as a guarantee of TT Global's bank borrowing. An additional amount of TL 5.227 arising from collections through automated teller machine ("ATM") is not available for use at 31 December 2010 (2009 - TL 3.469; 2008 - TL 3.722).

Within the context of the Bank Account Pledge Agreement signed by Avea and its lenders, Avea provided an account pledge over all of its bank accounts (amounting to 609.236 TL at 31 December 2010 ; 2009 - TL 337.947; 2008 – TL 550.480) in favour of Security Trustee. Avea is required to pledge any new bank account as they are opened and also to inform the Security Trustee on a monthly basis about such new accounts as well as the closed accounts.

Out of TL 1.219.007, cash and cash equivalents amounting to TL 609.271 (2009 – TL 338.053; 2008 – TL 550.576) belongs to Avea.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

7. Financial liabilities - Net

	31 December 2010			31 December 2009			31 December 2008		
	Weighted average nominal interest rate%	**Original amount**	**TL equivalent**	Weighted average nominal interest rate%	Original amount	TL equivalent	Weighted average nominal interest rate%	Original amount	TL equivalent
Short-term borrowings:									
TL bank borrowings with fixed interest rates	**6,39%**	**669.284**	**669.284**	7,54%	1.571.182	1.571.182	22,80%	738.281	738.281
USD bank borrowings with variable interest rates	**-**		**-**	3,23%	70.000	105.399	4,52%	185.000	279.776
Euro bank borrowings with fixed interest rates	**4,00%**	**55.104**	**112.914**		-	-		-	-
Interest accruals:									
TL bank borrowings with fixed interest rates		**231**	**231**		22.087	22.087		17.034	17.034
USD bank borrowings with fixed interest rates		**1.098**	**1.698**		140	211		-	-
USD bank borrowings with variable interest rates		**7.686**	**11.883**		5.705	8.590		25.563	38.659
Euro bank borrowings with fixed interest rates		**248**	**508**		**-**	**-**		-	-
Euro bank borrowings with variable interest rates		**4.432**	**9.082**		389	840		1.532	3.279
Short-term portion of long-term bank borrowings:									
USD bank borrowings with fixed interest rates	**2,94%**	**132.936**	**205.519**	2,90%	12.994	19.565	-	-	-
USD bank borrowings with variable interest rates (*)	**3,15%**	**301.683**	**466.402**	3,14%	168.523	253.745	6,23%	129.069	195.190
Euro bank borrowings with variable interest rates (**)	**4,07%**	**188.212**	**385.665**	4,44%	80.183	173.219	7,84%	6.240	13.359
Total short-term borrowings			**1.863.186**			2.154.838			1.285.578
Long-term borrowings:									
USD bank borrowings with fixed interest rates	**2,94%**	**125.576**	**194.140**	2,90%	80.038	120.513	-	-	-
USD bank borrowings with variable interest rates (*)	**3,15%**	**669.271**	**1.034.693**	3,14%	632.005	951.610	6,23%	1.304.882	1.973.373
Euro bank borrowings with fixed interest rates	**6,83%**	**11.378**	**23.315**		-	-	-	-	-
Euro bank borrowings with variable interest rates (**)	**4,07%**	**511.786**	**1.048.701**	4,44%	326.430	705.186	7,84%	69.848	149.531
Total long-term borrowings			**2.300.849**			1.777.309			2.122.904

(*) Libor + (varies between 1,70 – 3,75) spread
(**) Euribor + (varies between 0,93 – 3,75) spread

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

7. Financial Liabilities - Net (continued)

As of 31 December 2010 the fair value of the bank borrowings is TL 4.149.376 (2009 - TL 3.953.298; 2008 - TL 3.403.356). Avea's total borrowings included in the consolidated financial statements amount to TL 923.825 (2009 - TL 1.141.454 ; 2008 - TL 2.369.672).

The contractual maturities of financial liabilities in equivalent of TL are as follows:

	31 December 2010					31 December 2009					31 December 2008				
	Up to 3 months	**3 months to 1 year**	**1year to 5 years**	**More than 5 year**	**Total**	Up to 3 months	3 months to 1 year	1year to 5 years	More than 5 year	Total	Up to 3 months	3 months to 1 year	1year to 5 years	More than 5 year	Total
TL bank borrowings with fixed interest rates	**666.708**	**2.807**	**-**	**-**	**669.515**	1.593.269	-	-	-	1.593.269	755.315	-	-	-	755.315
USD bank borrowings with fixed interest rates	**2.983**	**204.234**	**120.690**	**73.450**	**401.357**	466	19.310	120.513	-	140.289	-	-	-	-	-
USD bank borrowings with variable interest rates	**181.015**	**297.270**	**1.023.959**	**10.734**	**1.512.978**	119.414	248.320	951.610	-	1.319.344	133.498	380.128	1.973.372	-	2.486.998
EUR bank borrowings with variable interest rates	**113.422**	**-**	**23.315**	**-**	**136.737**	-	-	-	-	-	-	-	-	-	-
Euro bank borrowings with variable interest rates	**20.896**	**373.851**	**952.573**	**96.128**	**1.443.448**	7.580	166.479	705.186	-	879.245	9.958	6.679	149.532	-	166.169
	985.024	**878.162**	**2.120.537**	**180.312**	**4.164.035**	1.720.729	434.109	1.777.309	-	3.932.147	898.771	386.807	2.122.904	-	3.408.482

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

7. Financial Liabilities - Net (continued)

The re-pricing or the earlier contractual maturities of bank borrowings in equivalent of TL are as follows:

	31 December 2010					31 December 2009					31 December 2008				
	Up to 3 months	**3 months to 1 year**	**1year to 5 years**	**More than 5 year**	**Total**	Up to 3 months	3 months to 1 year	1year to 5 years	More than 5 year	Total	Up to 3 months	3 months to 1 year	1year to 5 years	More than 5 year	Total
TL bank borrowings with fixed interest rates	**666.708**	**2.807**	-	-	**669.515**	1.593.269	-	-	-	1.593.269	755.315	-	-	-	755.315
USD bank borrowings with fixed interest rates	**2.983**	**204.234**	**120.690**	**73.450**	**401.357**	466	19.310	67.754	52.759	140.289	-	-	-	-	-
USD bank borrowings with variable interest rate	**1.325.946**	**187.032**	-	-	**1.512.978**	1.053.464	265.880	-	-	1.319.344	2.204.466	282.532	-	-	2.486.998
Euro bank borrowings with fixed interest rates	**113.422**	-	**23.315**	-	**136.737**	-	-	-	-	-	-	-	-	-	-
Euro bank borrowings with variable interest rates	**569.950**	**873.498**	-	-	**1.443.448**	80.553	798.692	-	-	879.245	166.169	-	-	-	166.169
	2.679.009	**1.267.571**	**144.005**	**73.450**	**4.164.035**	2.727.752	1.083.882	67.754	52.759	3.932.147	3.125.950	282.532	-	-	3.408.482

The following borrowings of Avea as of 31 December 2010, 2009 and 2008 are secured by a security package:

	31 December 2010			31 December 2009			31 December 2008		
	USD	**Euro**	**TL Equivalent**	USD	Euro	TL Equivalent	USD	Euro	TL Equivalent
Borrowings secured by security package	**554.284**	**30.988**	**920.420**	701.490	37.228	1.136.658	1.451.856	76.440	2.359.285

7. Financial liabilities (continued)

Before the merge of the Company's former subsidiary of Aycell Haberleşme ve Pazarlama Hizmetleri A.Ş. ("Aycell") with Aria İletişim Hizmetleri A.Ş. ("Aria", former subsidiary of İş-TIM Telekomünikasyon Hizmetleri A.Ş.), Aria was granted financing from its network suppliers in 2001 for the acquisition of its property and equipment secured with a security package created in favor of the Security Agent acting on behalf of the Senior Secured Creditors of Avea. In 2004, subsequent to merger of Aria and Aycell, the security package was revised. Accordingly, the revised security package consists of:

- Commercial Enterprise Pledge on all movable fixed assets of commercial enterprise of İş-TIM and the trade name of Avea, (excluding the movable fixed assets of commercial enterprise of Aycell). The Commercial Enterprise Pledge secures the Senior Secured Financial Indebtedness of Avea up to a maximum amount of TL 1.000.000 (equivalent to USD 646.831 as at 31 December 2010). At 31 December 2010, the total Senior Secured Financial Indebtedness of Avea amounts to approximately TL 920.420 (2009 - TL 1.136.658; 2008 - TL 2.359.285).

- Account pledges on all the bank accounts of Avea, which do not restrict operational usage of the accounts in the normal course of business (31 December 2010 - TL 609.236; 2009 - TL 337.947; 2008 - TL 550.480) (Note 6).

- Mortgage on the building of AVEA in Ümraniye amounting up to USD 40.600 in favor of the Security Agent.

- Assignment of Receivables: The material contracts entered into by Avea that results in a revenue or cost to Avea over USD 20.000 per annum are assigned as security in favor of the Lenders as part of Security Package. In case of an event of default, Avea counterparties under material contracts will perform any of their obligations towards Lenders in the same conditions as they were valid to Avea during the normal course of business.

- Debt Service Reserve Fund: Restricted accounts used to ensure that in order to meet debt service after six months.(Note 6)

In accordance with Amendment Agreement signed between Avea and the lenders on June 25, 2009, undertaking and the financial covenants (ratios) mentioned below was abolished as effective from June 30, 2009 upon Avea has paid USD 621.297 and Euro 32.972 as early payment as of 30 June 2009. Instead, these financial covenants are agreed to be tested at Group level. Avea's early payment has been financed by shareholder loan obtained from the Company.

1. Financial covenants (ratios):

   a) Based on the consolidated financial statements, Debt Service Coverage Ratio should be 5 at minimum. (The ratio is calculated by dividing income before interest, tax, depreciation, and amortization,(''Türk Telekom consolidated EBITDA) to the payment obligations in the related period excluding the principal repayments.

   b) Türk Telekom consolidated net debt to Türk Telekom consolidated EBITDA Ratio should be 2 at maximum.

7. Financial liabilities (continued)

2. General undertakings, among others, are:

   a) License agreement (Avea's Concession Agreement) must be maintained in full force and effect.

   b) To keep Avea's business unaffected from any sale or disposal of any assets, there is an annual limitation of USD 10.000 for selling, leasing or disposing of its assets, with some exceptions determined in the Finance Documents.

   c) Avea created security over its assets in favour of the lenders as collateral that should not be diluted with new securities created over the same assets.

The Company also supports the long-term financing of Avea in the form of:

a) USD 300.000 "Contingent Equity Support" to be drawn when cash generated by Avea is insufficient to pay its debt service,

b) USD 500.000 "Corporate Guarantee" to be called in an event of default,

c) Pledging shares it owns in Avea,

d) Assignment of Receivables: As a condition to the facilities being made available to Avea, the Company is obliged to assign its rights, titles, interests and benefits in, to and under its receivables and the claims arising from Subordinated Loan Agreements made towards Avea and in respect of each condemnation event, in favour of the Security Trustee as a continuing security for the fulfilment of the secured obligations.

e) Company also provides extra support on demand of Avea due to operational or financial shortage amounting to USD 450.000. (additional support)

   The support has been wholly used as of 31 December 2010.

f) Türk Telekom provides support amounting to Euro 214.000 for financing of 3G licence fee. (the support has been wholly used as of 31 December 2010)

g) Türk Telekom provides support amounting to USD 250.000 for financing acquisition of assets under Ericsson 2G and 3G contract. (the support has been wholly used as of 31 December 2010)

Pantel Turkey borrowed Euro 10.000 loan in total from a Turkish bank's Bahrain Branch for the investment of construction of fiber optic lines.

Pantel Turkey, in return for this loan, assigned its receivables amounting to its outstanding loan balance to the corresponding bank. As of 31 December 2010 loan payable amounts to Euro 5.775.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

8. Trade receivables and payables

a) Trade receivables

	31 December 2010	31 December 2009	31 December 2008
Short-term			
Trade receivables	**2.879.916**	2.594.579	2.341.608
Other trade receivables	**24.075**	30.252	42.296
Allowance for doubtful receivables (-)	**(1.317.070)**	(1.228.656)	(1.058.918)
Total short-term trade receivables	**1.586.921**	1.396.175	1.324.986
Long-term			
Trade receivables	**48.890**	-	-
Total long-term trade receivables	**48.890**	-	-

Trade receivables generally have 30 day terms (2009 – 30 days, 2008 – 30 days).

As of 31 December 2010, long-term trade receivables are comprised of receivables from equipment sales in connection with campaigns with collection term over one year. Short term receivables from equipment sales amounts to TL 118.112. (2009 – TL 46.181)

The movement of the allowance for doubtful receivables is as follows:

	31 December 2010	31 December 2009	31 December 2008
At January 1	**(1.228.656)**	(1.058.918)	(890.069)
Provision for the year	**(277.349)**	(359.489)	(252.452)
Reversal of provision - collections (Note 30)	**185.691**	179.862	80.513
Write off doubtful receivables	**3.244**	9.889	3.090
At 31 December	**(1.317.070)**	(1.228.656)	(1.058.918)

As of 31 December 2010, 2009 and 2008, the analysis of trade receivables that were past due but not impaired is as follows:

			Past due but not impaired				
	Total	**Neither past due nor impaired**	**>30 days**	**30-60 days**	**60-90 days**	**90-120 days**	**>120 days**
31 December 2010	**1.635.811**	**998.387**	**362.359**	**95.274**	**34.733**	**25.062**	**119.996**
31 December 2009	1.396.175	880.925	254.961	113.149	68.291	30.856	47.993
31 December 2008	1.324.986	871.988	257.321	105.129	52.375	8.060	30.113

Receivables guaranteed from dealers of Avea are amounting to TL 22.541 (2009 – TL 28.446).

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

8. Trade receivables and payables (continued)

b) Trade payables

	31 December 2010	31 December 2009	31 December 2008
Short- term			
Trade payables	**1.266.886**	855.047	881.130
Notes payable	**-**	3.011	61
Other trade payables	**158**	-	128
Total short term trade payables	**1.267.044**	858.058	881.319
Long- term			
Trade payables	**80.561**	-	-
Total long term trade payables	**80.561**	-	-

Trade payables amounting to TL 11.914 as at 31 December 2010 (2009 - TL 2.773; 2008 – TL 1.244) represent payable to suppliers due to TAFICS projects (Notes 6).

The average term of trade payables is between 30 and 90 days (2009 – 30 and 90 days, 2008 – 30 and 90 days).

As of 31 December 2010, long-term trade payables represent payables to suppliers of equipments that are purchased in connection with sale campaigns and will be paid when collected from the subscribers.

9. Obligations under finance and operational leases and finance lease receivables

Financial leases:

The Group has no financial lease receivables as of 31 December 2010, 2009 and 2008.

Finance lease obligations, Group has entered into for acquisition of network equipment and a building are as follows:

	31 December 2010	31 December 2009	31 December 2008
Within one year	**5.726**	5.446	5.233
Between one to two years	**5.615**	5.592	5.068
Between two to five years	**19.223**	18.607	17.330
Later than five years	**4.790**	12.284	19.129
	35.354	41.929	46.760

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

9. Obligations under finance and operational leases and finance lease receivables (continued)

A summary of minimum payments for commitments in relation to finance leases is as follows:

	31 December 2010	31 December 2009	31 December 2008
Within one year	**7.526**	7.509	8.416
Between one to two years	**6.975**	7.372	7.618
Between two to five years	**21.699**	22.116	22.854
Later than five years	**4.922**	12.926	20.895
Less: Future finance charges	**(5.768)**	(7.994)	(13.023)
Present value of finance lease liabilities	**35.354**	41.929	46.760

Operating leases:

After the foundation of the Company, an agreement was signed between PTT and the Company in 1997 to grant the right of free use of buildings occupied by both parties for 49 years. In 2005, an amendment was made to the agreement requiring the Company to pay TL 35.000 per year for ten years (which will be escalated based on rent increase rate determined by Ministry of Finance) to PTT in exchange for the use of net m^2 of building space owned by the PTT but occupied by the Company or vice versa. The parties will renegotiate the term of the agreement at the end of ten years. Since the transaction between PTT and the Company is not an arms-length transaction, it has been reflected on a net cash basis in the consolidated financial statements, instead of grossed up fair value (Note 10).

At the balance sheet date, the Group has outstanding commitments under non-cancellable operating leases, which fall due as follows:

a)

	31 December 2010 (*)	31 December 2009 (*)	31 December 2008 (*)
Within one year	**49.121**	46.210	42.827
In the second to fifth years (inclusive)	**196.484**	184.840	171.308
After fifth year	**1.473.630**	1.432.510	1.370.464
	1.719.235	1.663.560	1.584.599

(*) Future escalations have not been considered and future payments calculated based on current years rent amount.

b) The Company has operating lease agreements with respect to leased lines. The revenue from leased lines for the year ended 31 December 2010 is TL 369.993 (2009 – TL 436.759).

Group entered into operating lease agreements with respect to base stations and leased lines. Total operating lease expense for the year ended 31 December 2010 amounts to TL 187.059 TL (2009 –160.767).

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

9. Obligations under finance and operational leases and finance lease receivables (continued)

A summary of commitments in relation to base station leases and leased lines are as follows:

	31 December 2010	31 December 2009	31 December 2008
Within one year	**88.083**	81.977	56.578
Between one to two years	**50.897**	47.772	40.299
Between two to five years	**61.118**	69.970	60.486
Later than five years	**21.136**	25.607	21.048
	221.234	225.326	178.411

10. Due from/Due to related parties

All intra-group transactions and balances including intra-group unrealized profits and losses are eliminated in the consolidated statement of income for consolidation purposes and are not disclosed in this note. Sales of goods or services to related parties were made at the Group's usual list prices. Institutions under state control are defined as related parties due to 30% ownership and the golden share of the Treasury.

Details of balances and transactions between the Group and other related parties as at 31 December 2010, 2009 and 2008 are disclosed below:

	31 December 2010	31 December 2009	31 December 2008
Due from related parties			
State controlled entities	**110.216**	80.122	84.747
Cell-C Ltd. (1)	**2**	2	96
PTT	**2.890**	3.051	4.303
Oger Telecom	**8.640**	-	-
Oger Telecom Yönetim Hizmetleri Limited Company ("OTYH") (2)	**84**	-	-
Saudi Telecom Company ("STC") (3)	**12.675**	7.050	3.702
Other	**6**	767	96
	134.513	90.992	92.944
Due to related parties			
State controlled entities	**19.356**	18.811	14.288
OTYH (2)	**3.904**	3.558	4.457
PTT	**20.466**	1.063	1.973
Other	**335**	388	799
	44.061	23.820	21.517

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

10. Due from/Due to related parties (continued)

	31 December 2010	31 December 2009	31 December 2008
Amounts owed to related parties (non-current liabilities)			
State controlled entities	-	-	336
	-	-	336

(1) a subsidiary of Oger Telecom
(2) an affiliate of Oger Telecom
(3) shareholder of Oger Telecom

Transactions with shareholders:

The Company paid dividends to the Treasury at the amount of TL 476.914 (2009 - TL 447.047) during 2010. During 20010, dividends paid to OTAŞ amounted to TL 874.342 (2009 - TL 819.586).

Furthermore, Avea is required under the terms of the Avea Concession Agreement, to pay 15% of its monthly gross revenue to the Treasury (the Treasury Share). As of 31 December 2010 unpaid but accrued treasury share is TL 35.236 (2009 – TL 35.444) and the amount of treasury share payment is TL 376.867 in 2010 (2009 – 361.530).

Transactions with other related parties:

Postage services rendered in 2010 by PTT to the Group amounted to TL 102.600 (2009 - TL 110.869) while commission for collection of invoices and other services in 2010 amounted to TL 27.552 (2009 - TL 30.015).

Operational lease payment made to PTT by the Company in 2010 as part of the lease agreement (Note 9) amounts to TL 49.121 (2009 – TL 46.210).

Compensation of key management personnel

The remuneration of directors and other members of key management were as follows:

	31 December 2010	31 December 2009
Short-term benefits	**43.674**	29.278
Long-term defined benefit plans	**824**	652
	44.498	29.930

10. Related party balances and transactions (continued)

Furthermore, OTMSC charged to the Company a management fee amounting to TL 12.948 and an expense fee for an amount of TL 328 for the year ended 31 December 2010 (2009 – TL 18.103 and TL 1.763), based on the contract between OTMSC and the Company. OTMSC's ultimate shareholder is Saudi Oger. The contract has been renewed on 20 October 2009 for an annual charge of USD 8.500 for the three years.

Guarantees provided to related parties:

The guarantees given by the Company to support the long term financing of Avea is explained in Note 7.

The Company has given guarantees to Cetel at the amount of Euro 8.000 as a financial support.

11. Minority put option liability

On 15 September 2006, the Company, İş Bank Group and other Avea shareholders signed an "Amendment Agreement" to the "Shareholder Agreement" and the "IPO and Put Agreement" originally dated 2004. The "Amendment Agreement" outlines the rights and obligations of the parties. In accordance with the Amendment Agreement, the Company grants a put option to İş Bank Group on the shares of Avea owned by İş Bank Group. The put option is exercisable under the following conditions:

a) If an IPO for Avea does not take place before 1 January 2011, then starting from 1 January 2011 until 31 December 2014 ("First Period") İş Bank Group at any time during the First Period shall have the right to demand that the Company initiate and execute an IPO to be concluded within nine months starting from the date of the demand. However, the Company may decide, within thirty days following the date of the demand for IPO, to postpone the IPO until the end of the First Period.

b) If an IPO does not take place by the end of the "First Period" then starting from 1 January 2015 until 31 December 2015, İş Bank Group shall have the right to demand that the Company initiate and execute an IPO.

c) Within one month following the execution of an IPO, via any of the methods described above and regardless of the timing of the IPO, İş Bank Group shall have the right to sell to the Company all of their outstanding shares in Avea at a price equal to the IPO price less a five percent discount.

While determining fair value of minority put option liability as of 31 December 2009, it had been assumed that İş Bankası Group would exercise its option on 1 January 2011, which is the earliest exercisable date. As of 31 December 2010 the Company has changed this assumption and determined the fair value of the option based on the assumption that İş Bank Group will exercise its option on 1 January 2015. The Company has estimated a value based discounted cash flows after 31 December 2010. The value determined as at 1 January 2015 is then discounted back to 31 December 2010. The fair value of the put option liability as at 31 December 2010 amounts to TL 525.894 (2009 – TL 543.103, 2008 – TL 586.439). In accordance with Group accounting policies, the change between fair values of minority put option liabilities as of 31 December 2010 and 2009 has been accounted in other reserves under equity.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

11. Minority put option liability (continued)

In order to reflect the minority put option liability in the consolidated financial statements, the minority interest (after giving the effect of loss) as at 31 December 2010, amounting to negative TL 56.954 (2009 – TL 54.354; 2008 - TL 199.720), has been reclassified from equity to "minority put option liability" under long-term liabilities after appropriation of profit / loss to the minority interest for the year. The fair value of minority put option liability, has been determined as TL 525.894 (2009 - TL 543.103), and the difference of TL 582.848 (2009 - TL 488.749, 2008 – TL 586.439) is reflected in equity as "minority put option liability reserve", based on the Group's accounting policy for the acquisition of minority interest (Note 23).

12. Other receivables and payables

Other current assets

	31 December 2010	31 December 2009	31 December 2008
Other current assets	**33.117**	32.662	52.458
Deposits and guarantees given	**1.300**	647	14.730
Other doubtful receivables	**24.532**	24.891	21.833
Allowance for other doubtful receivables	**(24.532)**	(24.891)	(21.833)
	34.417	33.309	67.188

Other long term assets

As at 31 December 2010 Group's other long term receivables amount of TL 2.148 (2009 – TL 676, 2008 – TL 669).

Other current liabilities

	31 December 2010	31 December 2009	31 December 2008
Due to personnel	**5.392**	23.624	30.800
Taxes and duties payable	**226.546**	221.436	247.035
Social security premiums payable	**30.623**	19.306	22.105
Deposits and guarantees taken	**161**	41	-
Other payables	**28.796**	39.862	29.294
	291.518	304.269	329.234

Other non-current liabilities

	31 December 2010	31 December 2009	31 December 2008
Deposits and guarantees taken	**13.761**	8.942	15.143
Other payables	**-**	-	951
	13.761	8.942	16.094

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

13. Inventories

The Group has an inventory balance of TL 81.444 as at 31 December 2010 (2009- TL 62.920, 2008 – TL 49.080). Major part of this balance is composed of modems, dect phones, cable box and consumables such as linkage block and SIM cards.

14. Deferred tax assets and liabilities

Deferred tax

The Group calculates deferred tax assets and liabilities based on temporary differences arising between the carrying amount of assets and liabilities as reported for CMB purposes and their tax base for statutory purposes. These temporary differences are mainly due to the timing differences of certain income and expense items in statutory and CMB financial statement as disclosed below.

The Group perpetually reassesses unrecognized deferred tax assets and decided to account for deferred tax assets (resulting from Avea and Pantel) arising from the tax losses carried forward based on the estimated taxable profits according to Avea's business plan. As of 31 December 2010 and 2009, the deferred tax asset recognized for Avea's carried forward tax losses amounted to TL 245.000.

As of 31 December 2010, deferred tax asset arising from tax losses of Pantel Group is amounting to TL 19.419. Taxable losses of Pantel Group are amounting to TL 84.573 and they do not expire.

As of 31 December 2010, Avea's deductable tax losses that will be utilized upon the existence of a tax base and the expiration dates are as follows:

Expiration years	**31 December 2010**
2011	1.081.953
2012	867.899
2013	757.127
2014	781.115
2015	213.196
	3.701.290

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

14. Deferred tax assets and liabilities (continued)

Deferred tax (continued)

For the calculation of deferred tax asset and liability, a rate of 20% for the companies established in Turkey was used as at 31 December 2010, 2009 and 2008.

Deferred tax asset / liability	**Base for deferred tax calculation 31 December 2010**	**Deferred tax assets / (liabilities) 31 December 2010**	Base for deferred tax calculation 31 December 2009	Deferred tax assets / (liabilities) 31 December 2009	Base for deferred tax calculation 31 December 2008	Deferred tax assets / (liabilities) 31 December 2008
Temporary differences on property, plant and equipment	**(2.228.748)**	**(452.287)**	(2.377.025)	(475.405)	(2.802.105)	(560.421)
Income accruals	**(198.785)**	**(39.757)**	(71.505)	(14.301)	(80.050)	(16.010)
Other	**(152.270)**	**(30.455)**	(525)	(105)	(230)	(46)
	(2.579.803)	**(552.499)**	(2.449.055)	(489.811)	(2.882.385)	(576.477)
Deferred tax asset recognized from tax losses carried forward	**1.316.117**	**264.027**	1.225.000	245.000	1.352.035	270.407
Provision for long-term employee benefits	**599.571**	**119.918**	629.270	125.854	664.170	132.834
Provision for unused vacation	**63.240**	**12.650**	93.080	18.616	85.945	17.189
Expense accruals	**58.930**	**11.786**	117.125	23.425	21.460	4.292
Provision for doubtful receivables	**201.090**	**40.208**	160.655	32.131	269.960	53.992
Universal service fund and other contributions	**125.790**	**25.158**	128.465	25.693	121.205	24.241
Other	**24.657**	**5.851**	57.895	11.579	39.565	7.912
	2.398.395	**479.598**	2.411.490	482.298	2.554.340	510.867
Deferred tax liability, net		**(42.901)**		(7.513)		(65.610)
Deferred tax asset, net		**258.650**		245.125		272.894
Deferred tax liability, net		**(301.551)**		(252.638)		(338.504)

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

14. Deferred tax assets and liabilities (continued)

Deferred tax (expenses) / income	1 January - 31 December 2010	1 January - 31 December 2009
Temporary differences of property, plant and equipment	65.031	85.016
Tax losses carried forward	(959)	(25.407)
Provision for long-term employee benefits	(24.027)	(13.734)
Provision for unused vacation	(5.991)	1.427
Income accruals	(25.456)	1.709
Expense accruals	(11.639)	19.133
Provision for doubtful receivables	7.908	(21.861)
Universal service fund and other contributions	(535)	1.452
Currency translation differences	933	-
Other	(38.505)	3.608
Deferred tax (expense) / income	(33.240)	51.343

Movement of deferred tax liability	31 December 2010	31 December 2009
Opening balance, 1 January	(252.638)	(338.504)
Business combination effect	(32.971)	-
Currency translation differences	(210)	-
Actuarial gain	18.065	6.754
Reflected to period profit or loss	(33.797)	79.112
Closing balance	(301.551)	(252.638)

Movement of deferred tax asset	31 December 2010	31 December 2009
Opening balance, 1 January	245.125	272.894
Business combination effect	12.968	-
Reflected to period profit or loss	557	(27.769)
Closing balance	258.650	245.125

	1 January - 31 December 2010	1 January - 31 December 2009
Reflected to period profit or loss		
- Deferred tax liability (expense) / income	(46.765)	79.112
- Deferred tax asset income / (expense)	13.525	(27.769)
Deferred tax income (Note 32)	(33.240)	51.343

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

15. Other current / non-current assets

Other current assets

	31 December 2010	31 December 2009	31 December 2008
Prepaid rent expense	**68.830**	59.761	49.073
Other prepaid expenses	**133.158**	162.164	137.300
Income accrual	**347.996**	151.351	96.663
Advances given	**65.526**	36.053	15.800
VAT and SCT receivable	**30.992**	91.127	97.254
Other current assets	**9.461**	7.054	18.057
	655.963	507.510	414.147

Prepaid rent expenses consist mainly of the prepaid rents paid for Avea's base stations. As of 31 December 2010 income accrual mainly consists of GSM and ADSL post-paid subscription income accruals and unbilled equipment sales income within the context of campaigns.

Advances given consist of advances for inventory, tangible and intangible assets purchases and advances given to personnel.

Other non-current assets

	31 December 2010	31 December 2009	31 December 2008
Prepaid loan upfront fees	**-**	26.832	-
Prepaid rent expense	**4.177**	6.023	518
Income accruals	**31.672**	-	-
Other	**21.832**	10.326	4.157
	57.681	43.181	4.675

As of 31 December 2010 non-current income accruals include amounts related with equipment sales to subscribers under campaigns, which have not been invoiced yet and will be collected later than 1 year.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

15. Other current / non-current assets (continued)

Other current liabilities

	31 December 2010	31 December 2009	31 December 2008
Advances received (3)	**214.901**	205.061	273.853
Expense accruals (5)	**296.352**	202.690	121.602
Deferred revenue (2)	**109.070**	102.752	103.571
Accrual for Universal Service Fund (1)	**99.615**	97.364	94.133
Accrual for capital expenditures (4)	**72.180**	162.072	26.993
Accrual for contribution to the ICTA	**43.105**	49.348	45.564
Accrual for the Treasury Share	**35.236**	35.444	29.238
Other payables	**7.723**	6.373	4.896
	878.182	861.104	699.850

1) According to the law numbered 5369 published on 16 June 2005, Türk Telekom and TTNet will contribute 1% of their net revenues of each year to the Ministry of Transportation as Universal Service Fund. The contribution is payable by the end of April of the following year.

2) Deferred revenue is composed of the invoiced but unconsumed minutes sales value.

3) The Company acts as an intermediary of Ministry of Defence and North Atlantic Treaty Organization (NATO) projects by transferring advances received to the contractors and supports the management of the projects. Expenditures arising from the projects are deducted from the advances received at the date of the expenditure. Advances not used are held as time deposits and the interest earned is credited to the advances received in accordance with the agreement between the parties (Note 6).

4) Capital expenditure accruals represent the unreceived invoices for the fixed asset purchases that have been received within the agreement.

5) Income accruals mainly result from provision for dealer commissions and interconnection provisions.

	31 December 2010	31 December 2009	31 December 2008
Deferred income (*)	**137.499**	6.485	9.559
Advances taken (**)	**69.278**	-	-
Other	**2.000**	-	-
	208.777	6.485	9.559

(*) Deferred revenues mainly result from Pantel's indefeasible right of use contracts.
(**) Advances taken mainly result from the advances taken by Pantel according to indefeasible right of use contracts.

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16. Financial investments

Cetel

	31 December 2010	31 December 2009	31 December 2008
Balance at 1 January	**11.840**	11.840	11.200
Contribution to share capital increase	**-**	-	640
Balance at 31 December	**11.840**	11.840	11.840

As of 31 December 2010, 2009 and 2008 due to the lack of significant influence, financial information for equity accounting cannot be achieved timely and as a result Cetel is carried at cost.

17. Other financial investments and other financial liabilities

Cash flow hedges

Interest rate swaps

Avea has entered into three separate interest rate hedging transactions as the First Hedge, Overlay 1 and Overlay 2 to control its exposure to interest rate risk of expected future cash outflows in relation to its floating rate debt in 2007 and 2008.

As of 28 September 2009, Avea has entered into restructuring interest hedging transaction for the critical term match of the early payment as of 30 September 2009 which has replaced the current interest hedging transaction.

Nominal amounts have been decreased and interest rates have been restructured in order to match the nominal amounts as a result of the early payment made as of 30 September 2009 amounting to USD 621.297 ve Euro 32.973. USD and Euro denominated principal balances of MTPF have been wholly covered by this new interest rate hedging transaction.

As of 31 December 2010, notional amount that will be due till 30 September 2013 amounts to USD 554.284 and Euro 34.108.

Amendment and restructuring has been designated as cash flow hedge transaction. Avea will pay fixed and receive floating interest for the periods between 31 March 2009 and 30 September 2013.

As of 31 December 2010, fair value of realized interest rate swap transactions amount to TL 72.358 (2009 – TL 106.233; 2008 – TL 209.515). As of 31 December 2010, the amount of TL 45.609 unrealized interest rate swap loss has been recognized under equity reserves. For the period ended 31 December 2010, realized interest rate swap loss amounting to TL 58.326 (2009 – TL 105.263; 2008 – TL 15.370) and unrealized interest rate swap loss amounting to TL 27.149 has been classified to consolidated income statements.

17. Other financial investments and other financial liabilities (continued)

Cash flow hedges (continued)

***Interest rate swaps* (continued)**

As the Amended and Restated Transaction resulted in a change in the hedge structure the effect of the old hedge (which leads to significant negative fair value of the hedge as of inception date-30 September 2009) and new hedge is separated and the effect of old hedge relating to outstanding borrowing after prepayment is followed up separately. The new hedge is found as effective as result of effectiveness test and fair value of the new hedge with an amount of TL 10.031 is continued to be recognized under other comprehensive income. The fair value of old hedge as of September 28, 2009, which being recognized under other comprehensive income, (USD 31.8 million) will be amortized until 2015 which is the residual maturity of original hedge relationship. The unamortized portion of old hedge which is recognized under other comprehensive income amounts to TL 35.178. Accordingly the total unrealized loss recognized under other comprehensive income amounts to TL 45.209.

The Company has entered into a five-part interest rate swap transaction between 28 July 2010 and 3 August 2010 with a maturity date on 4 March 2015 and a total notional amount of USD 255.000, in order to hedge a portion of its variable rate long term bank borrowings. Due to the results of the effectiveness test, unrealized interest rate swap gain amounting to TL 185 has been classified to consolidated income statement.

Forward contracts

The Company has entered forward contracts with nominal values of USD 176.000 and Euro 200.000 with maturity of 24 January 2011. A portion of the forward contract with nominal value of Euro 200.000 is used to hedge the Group's net investment in a foreign operation. The amount of TL 2.894 fair value income has been classified consolidated income statement and 925 TL that is related with hedge of a net investment in a foreign operation is recognized under equity in other reserves.

Option contracts

In 2009, Avea entered into foreign currency option transactions for which the total current outstanding nominal amount is USD 110.000 and the exercise dates are 26 – 30 March 2010.

Avea does not designate option contracts for hedge accounting. Accordingly, at 31 March 2010 a cumulative net realized profit of TL 660 is included in the consolidated income statement.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

18. Goodwill

The movement of goodwill is as follows:

Opening balance, 1 January 2008 (related to Avea)	29.695
Acquisition of Argela	7.943
Acquisition of Innova	11.097
Acquisition of Sebit (*)	-
Opening balance, 1 January 2009	48.735
Acquisition of Sobee	437
Opening balance, 1 January 2010	**49.172**
Acquisition of Pantel (Note 26)	**3.701**
Carrying amount at 31 December 2010	**52.873**

(*) As of 31 December 2008 negative goodwill amounting to TL 3.967 from Sebit acquisition has been recognized in the consolidated income statement.

Avea acquisition and goodwill related to Avea

The acquisition of Avea shares has been effected through three steps in different years (40% in February 2004 through the merger of Aycell with Aria, 0,56% through an equity increase in May 2005 and finally 40,56% through the acquisition of TIM shares on 15 September 2006. Therefore, during the accounting of the latest acquisition of 40,56% shares on 15 September 2006, the first two acquisitions comprising a total shareholding of 40,56%, which have been accounted for using the equity method in the financial statements prior to 15 September 2006 have been re-measured to their fair values based on the fair value financial statements of Avea prepared as of 15 September 2006 for the purpose of the purchase price allocation. The result of the re-measurement amounting to TL 294.065 has been reflected as "Fair value difference arising from acquisition of subsidiary" in equity .

The goodwill impairment test has been performed as of 31 December 2010, based on the value in use study. Avea, at the corporate level, has been accepted as one cash generating unit for the purposes of determining the value in use for the impairment testing of the TL 29.695 goodwill arising from the acquisition of Avea shares. The enterprise value used as a base for the impairment test has been calculated using cash flow projections from the business plan of Avea approved by the Board of Directors in December 2010 covering a five-year plan. WACC used for the discount of cash flows for the period that Avea will pay income tax is 14,5% and 15.4% for non-taxable period. Cash flow beyond the ten years are extrapolated using a 3,4% growth rate for TL and USD denominated cash flow projections that is driven by the estimated inflation in the business plan and estimated population growth of the country. The valuation is tested with a sensitivity of weighted average capital cost (WACC) by -/+ 2%. As a result of the impairment testing, it has been noted that there is no impairment on goodwill arising on the Avea acquisition. The value in use projections are based on a discounted cash flow (DCF) study implemented until 2029.

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18. Goodwill (continued)

Innova and Argela acquisition

The goodwill impairment tests of Innova and Argela as of 31 December 2010 have been performed based on the enterprise values of Innova and Argela. Since the capital expenditures and income and expenses in the business plan are US Dollars denominated, the estimated value of the projected cash flows consists of the discounted cash flows denominated in US Dollars until 2015. The valuation has been tested with a WACC rate of 18,4% and 18,5% Innova and Argela, respectively with sensitivity of -/+ 2%. For the WACC calculation, technology companies have been taken as a benchmark for the calculation of the beta coefficient. As a result o the impairment test, no impairment, is noted for the goodwill arising from the acquisition of Argela and Innova.

Sobee acquisition

The goodwill impairment tests of Sobee as of 31 December 2010 have been performed based on the enterprise value of Sobee. Since the capital expenditures and income and expenses in the business plan are US Dollars denominated, the estimated value of the projected cash flows consists of the discounted cash flows denominated in US Dollars until 2015. The valuation has been tested with a WACC rate of 19,2%, respectively with sensitivity of -/+ 2%. For the WACC calculation, technology companies have been taken as a benchmark for the calculation of the beta coefficient. As a result o the impairment test, no impairment, is noted for the goodwill arising from the acquisition of Sobee.

19. Investment property

The movement of investment property and the related accumulated depreciation for the years ended 31 December 2010, 2009 and 2008 is given below:

	1 January - 31 December 2010	1 January - 31 December 2009	1 January - 31 December 2008
Cost			
Opening balance	**384.981**	384.981	384.981
Additions	**-**	-	-
Disposals	**(500)**	-	-
Closing balance	**384.481**	384.981	384.981
Accumulated depreciation and impairment			
Opening	**93.980**	74.327	57.690
Depreciation charge for the year	**16.636**	16.632	16.637
Disposal	**(372)**	-	-
Impairment	**-**	3.021	-
Closing balance	**110.244**	93.980	74.327
Carrying amount	**274.237**	291.001	310.654

19. Investment property (continued)

Investment property represents building space owned by the Group but occupied by the PTT under a cross-occupation agreement between the parties (Notes 10).

The Group assesses whether there is any impairment indicator in investment properties. If such indicator exists the Group compares fair values and carrying values of the investment properties on an individual asset basis and records identified impairment of the investment properties. In 2009, the management has analyzed whether there is any circumstance for the impairment of these assets and additional TL 3.021 impairment included in consolidated income statement in 2009. As of 31 December 2010, the Group has assessed whether there is any indicator that there is impairment on investment property and following the test performed it has concluded that there is no impairment.

The Group's investment properties consist of number of buildings and lands. In accordance with balance between cost and benefit principle the fair values of all investment properties are not determined in each year, instead selected investment properties' fair values have been determined. In this context, fair value of the investment properties as of consolidated balance sheet date are not available.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

20. Property, plant and equipment (PPE)

The movement of PPE and the related accumulated depreciation for the years ended 31 December 2010, 2009 and 2008 is given below:

	Land and buildings	Network and other equipment	Vehicles	Furniture and fixtures	Other fixed assets	Construction in progress	Total
Cost							
Opening balance, 1 January 2010	1.659.385	34.561.813	151.757	236.491	233.273	433.080	37.275.799
Transfers	10.682	124.707	-	1.024	(17.299)	(121.373)	(2.259)
Additions	68.691	1.029.691	7.095	73.545	25.050	131.516	1.335.588
Addition due to acquisition of a subsidiary	5.753	334.315	1.795	929	11	12.185	354.988
Disposals	(20.575)	(120.560)	(3.996)	(3.285)	(6.140)	(15.591)	(170.147)
Currency translation differences	203	9.427	43	20	7	(1.237)	8.463
Closing balance, 31 December 2010	1.724.139	35.939.393	156.694	308.724	234.902	438.580	38.802.432
Opening balance, 1 January 2010	508.075	29.673.685	133.826	142.112	188.773	-	30.646.471
Disposals	(3.760)	(108.393)	(3.926)	(424)	(4.203)	-	(120.706)
Depreciation charge for the year	69.508	979.935	5.171	38.883	19.446	-	1.112.943
Transfers	(1)	3.127	-	251	(1.094)	-	2.283
Currency translation differences	3	364	8	3	-	-	378
Closing balance, 31 December 2010	573.825	30.548.718	135.079	180.825	202.922	-	31.641.369
Carrying amount at 31 December 2010	1.150.314	5.390.675	21.615	127.899	31.980	438.580	7.161.063

At 31 December 2010, the Group has performed a value in use study in order to test whether there is any impairment on the tangible and intangible assets. For the value in use test, the cash flow projections are denominated in TL and the "Weighted Average Capital Cost" (WACC) rate used is 12,6%. For the periods beyond ten years, 1% growth rate has been projected, considering the estimated inflation in the business plan and estimated population growth of the country. Based on the impairment test, the Company has concluded that there is no impairment on carrying amounts of tangible and intangible assets. Additionally, there is no impairment on the tangible and intangible assets of Avea. The valuation work has been performed by the professional independent valuation firm; KPMG Akis Bağımsız Denetim ve SMMM A.Ş.

As of 31 December 2010, net book value of leased assets of Group is amounting to TL 42.307 (2009 – TL 42.353). There are no new leased assets for the year ended 31 December 2010. As disclosed in Note 7, there is a commercial enterprise pledge on all the moveable assets of Aria (except for the movables of Aycell). The commercial enterprise pledge secures the Senior Secured Financial Indebtness commercial of Avea up to a maximum amount of TL 1.000.000.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

20. Property, plant and equipment (PPE) (continued)

	Land and buildings	Network and other equipment	Vehicles	Furniture and fixtures	Other fixed assets	Construction in progress	Total
Cost							
Opening balance, 1 January 2009	1.520.363	33.629.202	148.225	180.510	167.129	197.541	35.842.970
Transfers	52.532	(34.536)	976	3.934	49.491	(37.060)	35.337
Additions	87.871	1.180.641	4.720	60.461	17.475	272.599	1.623.767
Disposals	(1.381)	(213.494)	(2.164)	(8.414)	(822)	-	(226.275)
Closing balance, 31 December 2009	1.659.385	34.561.813	151.757	236.491	233.273	433.080	37.275.799
Opening balance, 1 January 2009	444.333	28.747.330	130.849	120.397	122.936	-	29.565.845
Disposals	(46)	(182.353)	(2.003)	(5.941)	(437)	-	(190.780)
Depreciation charge for the year	63.788	1.115.265	4.459	23.145	21.997	-	1.228.654
Transfers	-	(6.557)	521	4.511	44.277	-	42.752
Closing balance, 31 December 2009	508.075	29.673.685	133.826	142.112	188.773	-	30.646.471
Carrying amount at 31 December 2009	1.151.310	4.888.128	17.931	94.379	44.500	433.080	6.629.328

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

20. Property, plant and equipment (PPE) (continued)

	Land and buildings	Network and other equipment	Vehicles	Furniture and fixtures	Other fixed assets	Construction in progress	Total
Cost							
Opening balance, 1 January 2008	1.430.773	32.605.199	143.034	139.864	153.862	129.671	34.602.403
Transfers	85.600	919.805	7.446	39.134	8.989	(1.092.452)	(31.478)
Additions	4.071	308.280	29	3.960	8.774	1.160.322	1.485.436
Disposals	(81)	(204.082)	(2.284)	(2.448)	(4.496)	-	(213.391)
Closing balance, 31 December 2008	1.520.363	33.629.202	148.225	180.510	167.129	197.541	35.842.970
Opening balance, 1 January 2008	386.273	27.649.222	130.539	112.673	105.056	-	28.383.763
Disposals	(18)	(169.113)	(2.271)	(2.294)	(4.288)	-	(177.984)
Depreciation charge for the year	58.078	1.267.221	2.581	10.018	22.409	-	1.360.307
Transfers	-	-	-	-	(241)	-	(241)
Closing balance, 31 December 2008	444.333	28.747.330	130.849	120.397	122.936	-	29.565.845
Carrying amount at 31 December 2008	1.076.030	4.881.872	17.376	60.113	44.193	197.541	6.277.125

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

21. Intangible assets

	License	**Customer relationships**	**Brand**	**Other intangible assets**	**Concession right**	**Total**
Cost						
Opening balance, 1 January 2010	**1.477.929**	**879.377**	**302.379**	**908.381**	**840.239**	**4.408.305**
Transfers (Note 20)	**-**	**3.504**	**161**	**2.373**	**-**	**6.038**
Disposals	**-**	**-**	**-**	**(6.371)**	**-**	**(6.371)**
Additions (*)	**-**	**-**	**-**	**256.932**	**140.755**	**397.687**
Additions due to acquisition of subsidiary	**-**	**101.228**	**-**	**117.713**	**-**	**218.941**
Currency translation difference	**-**	**3.783**	**-**	**5.647**	**-**	**9.430**
Closing balance, 31 December 2010	**1.477.929**	**987.892**	**302.540**	**1.284.675**	**980.994**	**5.034.030**
Accumulated amortization						
Opening balance, 1 January 2010	**182.290**	**287.308**	**51.373**	**495.638**	**105.256**	**1.121.865**
Disposals	**-**	**-**	**-**	**(194)**	**-**	**(194)**
Transfers		**978**	**-**	**518**	**-**	**1.496**
Amortization charge for the year	**76.092**	**89.760**	**15.606**	**166.743**	**45.758**	**393.959**
Currency translation difference	**-**	**60**	**-**	**56**	**-**	**116**
Closing balance, 31 December 2010	**258.382**	**378.106**	**66.979**	**662.761**	**151.014**	**1.517.242**
Carrying amount at 31 December 2010	**1.219.547**	**609.786**	**235.561**	**621.914**	**829.980**	**3.516.788**

	License	Customer relationships	Brand	Other intangible assets	Concession right	Total
Cost						
Opening balance, 1 January 2009	1.000.945	879.377	302.379	648.326	716.934	3.547.961
Transfers (Note 20)	-	-	-	13.946	-	13.946
Disposals	-	-	-	(27)	-	(27)
Additions (*)	476.984	-	-	246.136	123.305	846.425
Closing balance, 31 December 2009	1.477.929	879.377	302.379	908.381	840.239	4.408.305
Accumulated amortization						
Opening balance, 1 January 2009	118.389	200.264	35.766	393.124	66.044	813.587
Disposals	-	-	-	(4)	-	(4)
Transfers	-	-	-	(829)	-	(829)
Amortization charge for the year	63.901	87.044	15.607	103.347	39.212	309.111
Closing balance, 31 December 2009	182.290	287.308	51.373	495.638	105.256	1.121.865
Carrying amount at 31 December 2009	1.295.639	592.069	251.006	412.743	734.983	3.286.440

(*) Additions amounting to TL 140.755 (2009 – 123.305, 2008 - TL 100.383) comprise intangible assets under scope of IFRIC 12.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

21. Intangible assets (continued)

	License	Customer relationships	Brand	Other intangible assets	Concession right	Total
Cost						
Opening balance, 1 January 2008	1.000.945	879.377	302.379	450.649	616.551	3.249.901
Transfers (Note 21)	-	-	-	31.478	-	31.478
Disposals	-	-	-	(4.158)	-	(4.158)
Additions	-	-	-	170.357	100.383	270.740
Closing balance, 31 December 2008	1.000.945	879.377	302.379	648.326	716.934	3.547.961
Accumulated amortization						
Opening balance, 1 January 2008	66.729	112.281	20.160	327.345	32.450	558.965
Disposals	-	-	-	(441)	-	(441)
Transfers	-	-	-	241	-	241
Amortization charge for the year	51.660	87.983	15.606	65.979	33.594	254.822
Closing balance, 31 December 2008	118.389	200.264	35.766	393.124	66.044	813.587
Carrying amount at 31 December 2008	882.556	679.113	266.613	255.202	650.890	2.734.374

As of 31 December 2010, 2009 and 2008, the Group performed impairment test on intangible assets and it has been concluded that there is no impairment.

Remaining amortization periods of significant intangible assets are as follows:

Avea License	15,1 years
Avea customer relationships	5,8 year
Avea brand name	15,1 years
Pantel customer relationships	14,8 years
Pantel other	19,8 years

There is no restriction or pledge on the intangible assets except for the Avea brand as at 31 December 2010.

3G Licence Tender

The tender for authorization of IMT-2000 / UMTS services has been held on 28 November 2008 with the participation of all three GSM operators operating in Turkey.

On 3 December 2008, following the approval of the ICTA, a draft Concession Agreement has been initiated by Avea and ICTA and delivered to the Council of State to receive its opinions. Subsequent to receiving the opinion of the Council of State, the Concession Agreement is amended accordingly and approved by ICTA. The license fee (including 18% VAT) amounting to TL 539.332 has been paid by Avea in April 2009 and ultimately the Concession Agreement has been signed on 30 April 2009.

The net book value of the 3G licence as at 31 December 2010 is TL 438.854 (2009 – TL 462.578).

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

21. Intangible assets (continued)

GSM 900 Additional Frequency Band Tender

The tender for the reallocation of unused 900 MHz Frequency Bands had been held on 20 June 2008 and Avea had obtained C band with the minimum fee of TL 128 /year /channel (excluding VAT).

Avea had been granted 5,5 additional GSM 900 MHz frequency channels as a result of the tender and ultimately total number of GSM 900 MHz frequency channels has reached to 12 together with previously-held 6,5 channels.

After receiving State Council's opinions and approval of the board of ICTA, Avea made TL 14.122 (including VAT) payment as the tender fee for the remaining GSM license duration and amended license agreement has been signed between Avea and ICTA on 25 February 2009.

The net book value of the GSM 900 band licence as at 31 December 2010 is TL 10.671 (2009 – TL 11.378).

22. Provisions

a) Short term provisions

The breakdown of provisions as at 31 December 2010, 2009 and 2008 is as follows:

	31 December 2010	31 December 2009	31 December 2008
Litigation provision	**210.065**	147.609	124.301
Unused vacation	**72.271**	100.648	92.034
Others	**60**	338	15.740
	282.396	248.595	232.075

The movement of provisions is as follows:

	Litigation provision	**Unused vacation provision**	**Other**
Provisions at 1 January 2010	**147.609**	**100.648**	**338**
Settled provisions	**(4.333)**	**(21.214)**	**(338)**
Provisions for the period	**90.485**	**17.062**	**60**
Reversals (Note 30)	**(26.125)**	**(24.878)**	
Effect of business combinations	**2.337**	**615**	
Foreign currency translation difference	**92**	**38**	
Provisions at 31 December 2010	**210.065**	**72.271**	**60**

	Litigation provision	Unused vacation provision	Other
Provisions at 1 January 2009	124.301	92.034	15.740
Settled provisions	(84.628)	-	-
Provisions for the period (Note 30)	127.190	8.614	-
Reversals	(19.254)	-	(15.402)
Provisions at 31 December 2009	147.609	100.648	338

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

22. Provisions (continued)

b) Long term provisions

	31 December 2010	31 December 2009	31 December 2008
Provision for the investments under the scope of IFRIC 12	**9.329**	7.139	5.126
	9.329	7.139	5.126

c) Long-term employee benefits

In accordance with existing social legislation in Turkey, companies are required to make lump-sum payments to employees whose employment is ended due to retirement or for reasons other than resignation or misconduct. The liability is not funded and accordingly there are no plan assets for the defined benefits as there is no funding requirement.

Before privatization, the Company had four different types of employment status (employees in scope of collective labor union contract, employees out of scope of collective labor union contract, contracted employees and permanent employees). These employees were within the scope of two different social security systems. The civil servants were within the scope of the Turkish Republic Retirement Fund ("TRRF") and workers were within the scope of Social Security Institution ("SSI"). The Group was liable to pay retirement premiums to the civil servants and retirement benefit to workers upon meeting the conditions mentioned in the first paragraph above. The parameters and scales used for the calculation of retirement premium and retirement benefit were different and were regulated by the related laws.

In 2004, a law was enacted regulating the status of the Company's employees after possible privatization. This law stated that subsequent to privatization, Labor Law became effective for all employees of the Company. According to this law, the retirement benefits of all the civil servants who were previously (before 2004) eligible for retirement premiums will be calculated in accordance with labor law considering all of their service periods. Hence, since the privatization process has been completed as at 31 December 2005, instead of reflecting the retirement obligations of the white and blue collar personnel separately, the Company calculated the total retirement obligation for all personnel. The retirement pay liability as at 31 December 2010 is subject to a ceiling of full TL 2.517 (2009 – full TL 2.365) per monthly salary for each service year.

The number of personnel as at 31 December 2010, 2009 and 2008 were 34.138, 34.086 and 34.025, respectively.

In addition to retirement benefits, the Company was liable for certain other long-term employment benefits: death payment position, job and representation indemnity, social aid increase and jubilee awards. Upon privatization, the death payment and social aid increase benefits have been ceased.

The above described amendment to the benefits of the civil servants with respect to the defined benefit plan resulted in past service cost, while the ceasing of certain other long-term employment benefits has resulted in plan curtailments. The effect of the plan curtailments has been reflected fully in the consolidated statement of income in 2005, the year of privatization. Past service cost amounting to TL 58.737 is being amortized over seven years, the period over which benefits become vested, which is the expected average future service life of the employees.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

22. Provisions (continued)

c) Long-term employee benefits (continued)

i) Transfer of Employees to Other State Enterprises after Privatization

In accordance with the related laws, the civil servants and workers were granted the right to ask for a transfer to other state companies. As a result of the Company's privatization on 14 November 2005, some of the employees have used this right to ask for employment from other state enterprises or governmental organizations within 180 days starting from the privatization date. Additionally, in 9 February 2006, another law was enacted which extended this duration from 180 days to five years. As of 31 December 2010. The Company has no the civil servants and workers that were granted the right to ask for a transfer to other state companies.

Upon these transfers, the long-term employee benefit liabilities of the employees are also transferred to other state enterprises with no cost to the Group. Therefore, the long-term employee benefits for these employees were not taken into account in determination of the Group's obligation as at 31 December 2010 and 2009. The decrease in liability has been presented in the reconciliation of defined benefit obligations separately as a settlement gain.

ii) Reconciliation of opening and closing balances of defined benefit obligation

	1 January - 31 December 2010	1 January - 31 December 2009	1 January - 31 December 2008
Defined benefit obligation at January 1	**658.755**	700.476	1.007.149
Current service cost	**36.067**	31.294	35.979
Interest cost	**62.639**	71.907	99.457
Actuarial (loss)/gain (*)	**91.336**	35.002	(34.139)
Benefits paid by the Group	**(137.672)**	(127.784)	(360.715)
Transfers - net (employees transferred to state enterprises) (Note 30)	**(88.657)**	(52.140)	(47.255)
Effect of business combinations	**376**	-	-
Foreign currency translation difference	**15**	-	-
Provisions	**622.859**	658.755	700.476

(*) As at 31 December 2010, actuarial gain amounting to TL 91.336 (2009 - TL 35.002) have been reflected to other comprehensive income.

iii) Analysis of the present value of the defined benefit obligation to the liabilities recognized in the balance sheet:

	31 December 2010	31 December 2009	31 December 2008
Present value of defined benefit obligations	**622.859**	658.755	700.476
Unrecognized past service cost	**(16.253)**	(24.584)	(33.328)
Net liability recognized in the balance sheet	**606.606**	634.171	667.148

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

22. Provisions (continued)

c) Long-term employee benefits (continued)

ıv) Total expense recognized in the consolidated statement of income:

	1 January - 31 December 2010	1 January - 31 December 2009	1 January - 31 December 2008
Current service cost	**36.067**	31.294	35.979
Interest cost	**62.639**	71.907	99.457
Past service cost	**9.481**	8.744	8.333
Total net cost recognized in the consolidated statement of income	**108.187**	111.945	143.769
Settlement gain recognized (Note 30)	**(88.657)**	(52.140)	(47.255)
Total net income recognized in the consolidated statement of income	**(88.657)**	(52.140)	(47.255)

v) Principal actuarial assumptions use:

	31 December 2010	31 December 2009	31 December 2008
Discount rate	**10%**	%11	12%
Expected rate of ceiling increases	**5.1%**	%4,8	5,40%

The average voluntary withdrawal rate for the next year for the remaining employees is estimated to be 3% (2009 - 3%).

23. Paid in capital, reserves and retained earnings / (accumulated deficit)

As of 31 December 2010, 2009 and 2008, the shareholders of the Company with their shareholding percentage are as follows:

	31 December 2010		31 December 2009		31 December 2008	
	%	**TL**	%	TL	%	TL
The Treasury	30	**1.050.000**	30	1.050.000	30	1.050.000
OTAŞ	55	**1.925.000**	55	1.925.000	55	1.925.000
Public share	15	**525.000**	15	525.000	15	525.000
		3.500.000		3.500.000		3.500.000
Inflation adjustment to share capital		**(239.752)**		(239.752)		(239.752)
		3.260.248		3.260.248		3.260.248

23. Paid in capital, reserves and retained earnings / (accumulated deficit) (continued)

The Company's share capital is fully paid and consists of 350.000.000.000 shares of 1 kuruş nominal value . OTAS is the holder of Group A shares and the Treasury is the holder of group B and C shares. Group C share consists only of a single preferred stock .

The Treasury is the holder of the preferred stock (Golden Share) as per the law. This share is non-transferable. It provides certain rights to Treasury in order to protect national interests regarding economy and security. The holder of the Golden Share has the right to approve any proposed amendments to the Company articles of association, the transfer of any registered shares in the Company which would result in a change in the management control of the Company and the registration of any transfer of registered shares in the Company's shareholders' ledger. The holder of the Golden Share, the Treasury, has one member, representing the Golden Share, among the Board of Directors.

As of 31 December 2010, Citicorp Trustee Company Limited has a pledge over 192.500.000.000 group A shares belonging to OTAŞ which represent 55% of the total company shares.

Shares were pledged to Citicorp Trustee for the term loan agreement between OTAŞ and Citicorp Trustee. The OTAŞ Term Loan agreement provides certain limitations with respect to dilution, sale and transfer of shares in OTAŞ, the Company and Avea.

Based on the Shareholders Agreement signed between OTAŞ and the Treasury on 14 November 2005 and the articles of association, the board of the directors of the Company shall consist of ten directors.

The board of directors is composed of ten directors nominated by the shareholders as follows:

(a) the group A shareholder shall be entitled to nominate 6 persons for election as directors;
(b) provided that the Treasury shall hold:
  - 30% or more of the shares, the Treasury shall be entitled to nominate 3 persons for election as directors; or
  - 15% or more of the shares (but less than 30% of the Shares) the Treasury shall be entitled to nominate 2 persons for election as directors;
(c) as long as the Treasury holds 15% or more of the shares (but less than 30% of the shares), the group A shareholder and the Treasury shall be entitled to nominate a person who is unanimously agreed for the election as an independent director.
(d) while the Treasury holds the C group Golden Share, the Treasury shall be entitled to nominate a further one person for election as director for the C group Golden Share.

The chairman of the board of directors shall be nominated by the directors nominated by the group A shares from among the directors and be elected and removed by the simple majority votes of those present at the meeting of the board of directors.

Board resolutions shall be passed by a simple majority of the votes of the directors present at such meeting unless the resolution requires a higher majority vote.

23. Paid in capital, reserves and retained earnings / (accumulated deficit) (continued)

The board of directors shall propose the distribution of the maximum of the Company's profits lawfully available for distribution in each financial year subject to the board of directors making reasonable provisions and transfers to reserves. Provided that it is not against the legislation regarding capital markets, the net profit may not be distributed, if:

a) the distribution would result in a breach of any covenant or undertaking given by any group company (group companies are defined in the articles of association) to any lender or would, in the opinion of the simple majority of those present at the relevant meeting of the board of directors , be likely to cause such breach within the following 12 months; or

b) the board of directors resolves by way of a simple majority of those present at the relevant meeting of the board that the distribution is materially prejudicial to the interests of any group company defined in the articles of association having regard to: (i) implementation of the investment programme approved by the board of directors in the business plan or the budget; or (ii) the trading prospects of the group companies defined in the articles of association and the need to maintain the sound financial standing of the group companies.

In accordance with the Turkish Commercial Code, companies are required to assign legal reserves before profit appropriations. The legal reserve consists of first and second legal reserves, allocated in accordance with the Turkish Commercial Code. The first legal reserve is allocated out of last period's statutory profits at the rate of 5% per annum until the total reserve reaches 1/5 of the paid-in share capital (not indexed to the inflation). The second legal reserve is allocated after the first legal reserve and dividends, at the rate of 10% per annum of all cash dividend distributions. The Company's 2010 consolidated net income has been compared with its 2010 statutory net income and after appropriation of first legal reserve, TL 2.450.857 was determined as an amount available for dividend distribution.

Dividends

During the year ended 31 December 2010, remaining balance of 2009 distributable profit after assigning first and second legal reserves, which amounted to TL 1.589.712 (a dividend of full kuruş 0,4542 per share) has been committed to be distributed and distributed in cash to the shareholders.

During the year ended 31 December 2009, remaining balance of 2008 distributable profit after assigning first and second legal reserves, which amounted to TL 1.490.157 (a dividend of full kuruş 0,4258 per share) has been committed to be distributed and distributed in cash to the shareholders.

Prior period losses amount to TL 288.991 in the previously issued 31 December 2008 financial statements prepared in accordance with CMB Accounting Standards. This amount does not represent an actual loss of the Company in previous years; but it is the consequence of the fact and former obligation that the Company used the financial statements prepared in accordance with Turkish Commercial Code (TCC) and Turkish Tax Code (TTC) for the profit distribution prior to the financial year of 2008, when the Company first-time adopted the profit distribution based on CMB financials. In other words, accumulated loss amounting to TL 288.991 resulted from the accounting differences of the financial statements prepared in accordance with TTC and TCC and CMB Standards Accounting. As of 31 December 2009, accumulated loss amounting to TL 288.991 has been offset from restricted reserves allocated from profits.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

23. Paid in capital, reserves and retained earnings / (accumulated deficit) (continued)

Minority interest

The minority interest represents 18,63% shareholding of İş Bank Group in Avea as at 31 December 2010. As of 31 December 2010, minority interests are reflected with their fair values and are classified as other non-current liabilities based on the Group's accounting policy applied during the acquisition of the minority shares. The movement of minority interest is as follows:

As of 31 December 2008	-
Reclassification to minority interest	199.720
Share of profit generated between 1 January 2008 – 31 December 2008	(179.473)
Minority interest share in unrealized loss on derivative financial instruments recognized under equity	19.846
Minority interest share in actuarial gain / (loss) recognized under equity	(308)
Adjustment difference of shareholding rate change	14.569
Reclassification to other non-current liabilities (Note 11)	(54.354)
As of 31 December 2009	**-**
Reclassification to minority interest	**54.354**
Share of profit generated between 1 January 2009 – 31 December 2009	**(122.434)**
Minority interest share in unrealized loss on derivative financial instruments recognized under equity	**11.339**
Minority interest share in actuarial gain / (loss) recognized under equity	**(213)**
Reclassification to other non-current liabilities (Note 11)	**56.954**
As of 31 December 2010	**-**

The calculation of the basic earnings per share attributable to the ordinary equity holders of the Company is as follows:

	1 January – 31 December 2010	1 January – 31 December 2009
Weighted average number of ordinary shares outstanding during the year	**350.000.000.000**	350.000.000.000
Net profit for the year attributable to equity holders of the Company	**2.450.857**	1.859.748
Basic and earnings per share (in full kuruş)	**0,7002**	0,5314

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24. Share based payment

According to the Turkish Council of Ministers decision dated 12 December 2007, which was published in the Turkish Official Gazette on 26 December 2007, 52.500.000.000 shares of Turk Telekom owned by the Treasury, the minority shareholder of Türk Telekom, has been sold as at 15 May 2008, through an initial public offering ("IPO") (such shares correspondence to corresponding to 15% Türk Telekom's shares). During the IPO, 12.299.160.300 of such shares have been allocated to the employees of Türk Telekom, PTT and small investors together with 5.220.503.000 shares allocated to domestic investors with high purchasing power with discounted price varying according to the payment terms and application date (compared to the price applied to the other corporate investors for the remaining shares of 34.980.335.900. The discounts provided to Türk Telekom employees have been considered as within the scope of IFRS 2 ("Share Based Payment") by the management of Türk Telekom considering the fact that Türk Telekom receives services from its employees. The Group has reflected the fair value of the discounts provided to Türk Telekom employees, amounting to TL 9.528, as an expense in the consolidated income statement for year ended 31 December 2008 and credited the same amount into the equity as a share based payment reserve.

The market price during the IPO	TL 4,60
The average price applied to the employees of Türk Telekom	TL 4,2937
The number of shares sold to Türk Telekom's employees (lot)	31.104.948
Total benefits provided to the employees	TL 9.528

The management of Türk Telekom decided that the discounts provided to PTT's employees, small investors and domestic investors with high purchasing power are not within the scope of IFRS 2 by considering the fact that

a) Türk Telekom has not received any benefits (goods and services) in exchange for the discounts provided these groups to and
(b) the Treasury provided these discounts not as a party acting as a shareholder of Türk Telekom but rather as a State Authority in order to increase the number of small investors as it has been done in all other privatization enhanced through an IPO.

The fair value of the discounts provided to these groups amounts to approximately TL 34.000 in 2008, at the year of the transaction.

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25. Commitments and contingencies

Guarantees received and given by the Group are summarized below:

		31 December 2010		31 December 2009		31 December 2008	
		Original currency	**TL**	Original currency	TL	Original currency	TL
Guarantees received	**USD**	**239.378**	**370.078**	186.841	281.326	149.479	226.057
	TL	**582.650**	**582.650**	490.591	490.591	484.991	484.991
	Euro	**86.618**	**177.489**	64.008	138.276	94.073	201.392
	Sterling	**64**	**152**			-	-
			1.130.369		910.193		912.440
Guarantees given (*)	**USD**	**152.265**	**235.402**	151.987	228.847	153.919	232.772
	TL	**156.465**	**156.465**	116.151	116.151	58.809	58.809
	Euro	**17.359**	**35.570**	13.300	28.732	6.589	14.107
			427.437		373.730		305.688

(*) USD 151.500 of the amount (2009 - USD 151.500) is related with the guarantee provided to the ICTA by Avea with respect to the Avea Concession Agreement and Euro 12.840 is related with the guarantee provided for 3G (2009 – Euro 12.840) license.

The Company's guarantee, pledge and mortgage (GPM) position as at 31 December 2010 and 2009, 2008 is as follows:

GPMs given by the Company	**31 December 2010**	31 December 2009	31 December 2008
A. GPMs given on behalf of the Company's legal personality	**2.081.215**	1.772.653	1.595.657
B. GPMs given in favor of subsidiaries included in full consolidation	**1.243.293**	1.417.766	1.211.882
C. GPMS given by the Company for the liabilities of 3rd parties in order to run ordinary course of business	**18.375**	15	-
D. Other GPMs	**16.644**	17.282	17.126
i. GPMs given in favor of parent company	**251**	-	-
ii. GPMs given in favor of Company companies not in the scope of B and C above	**16.393**	17.282	17.126
iii. GPMs given in favor of third party companies not in the scope of C above	-	-	-
Total	**3.359.527**	3.207.716	2.824.665

GPMs given by the Group as at 31 December 2010 are equivalent to 0,27% of the Company's equity (31 December 2009 – 0,32%, 31 December 2008 - %0,33).

25. Commitments and contingencies (continued)

Other commitments

The Group has the commitment for sponsorships and advertising services to purchase amounting to TL 273.443 (31 December 2009 – TL 250.616) as at 31 December 2010. Payments for these commitments are going to be made in an 11-year period.

In accordance with the sponsorship agreement between TTNet and the Turkish Football Federation, TTNet has committed to pay to the Federation total net of USD 300 + VAT in two equal instalments dated 16 January 2012 and 12 March 2012 (each payment of net USD 150 + VAT) in case the Turkish National Football Team qualifies for the FIFA 2012 European Cup.

Türk Telekom concession agreement

The Concession Agreement was entered into between the Company and ICTA on 14 November 2005 following the privatization of the Company and the resultant reduction in the public shareholding to less than 50%. The Concession Agreement covers:

- the provision of all kinds of telecommunications services;
- the establishment of necessary telecommunications facilities and the use of such facilities by other licensed operators;
- the marketing and supply of telecommunications services.

The Concession Agreement does not cover GSM 1800 networks or next generation telecommunications services which require the establishment of an entirely new network. The Concession Agreement also does not cover cable television, satellite services, maritime communications and safety communication services, or services which involve the allocation of scarce resources.

The term of the Concession Agreement is 25 years from 28 February 2001 (i.e., until 27 February 2026), being the date upon which the original authorization agreement was entered into between the Company and the Ministry of Transportation. However, the Company may apply to the ICTA for renewal of the Concession Agreement, with any such renewal to be granted at the discretion of the ICTA. The Concession Agreement places an obligation on the Company, in the event of expiry, non-renewal or termination of the Concession Agreement, to transfer all equipment affecting the operation of the telecommunications network, together with all immovable properties where such equipment is installed, to the ICTA, at no cost, and in good condition.

The ICTA may terminate the Concession Agreement following a court decision on bankruptcy against the Company (or a declaration of concordat by the Group) or an unremedied breach of obligations. However, the Company must be given a grace period of at least 90 days in order to remedy any breach. Within any such grace period granted by the ICTA, the Company must submit to the ICTA a recovery program with respect to its contractual obligations. It is only if this program is not accepted by the ICTA that the ICTA then has the right to terminate the Concession Agreement.

The Concession Agreement places also a number of general obligations on the Company in relation to the provision of telecommunications services.

25. Commitments and contingencies (continued)

Türk Telekom concession agreement (continued)

In relation to fees, the Concession Agreement requires the Company to meet all payments accrued as a result of applicable legislation or agreements with the Government of the Republic of Turkey. This specifically includes license and utilization fees for the use of radio frequencies. In addition, the Company is required to pay the ICTA 0,35% of its annual revenue, as a contribution towards the ICTA's expenses.

Under the Concession Agreement, the Company must comply with requests from other operators for access and/or interconnection without discrimination and to the extent technically possible. The Company is further required to publish a reference access and interconnection offer approved by the ICTA. The Concession Agreement also contains an obligation on the Company to provide universal services in compliance with any regulations made by the ICTA in accordance with the law on the Provision of Universal Services. The Company must pay an annual fee of 1% of revenues for the Universal Service Fund.

The tariffs to be charged by the Company must be calculated on a cost-orientated basis, without discrimination, and are subject to the approval of the ICTA unless expressly provided to the contrary in any regulation issued by the ICTA. The specific content of customer bills is governed by regulation. However, the cost of each service provided to a customer must be identified and a detailed bill must be sent to the customer on request, to the extent technically possible and subject to the payment of a fee.

Other provisions of the Concession Agreement provide for the confidentiality of communications and the establishment of effective methods to answer customer complaints.

Avea concession agreement

A concession agreement was entered into between Avea and the ICTA ("the Avea Concession Agreement") on 12 January 2005 which replaced and superseded the previous GSM 1800 license agreements in place in relation to Aycell and Aria. After GSM 900 Frequency Band bidding done by ICTA on June 20, 2008, agreement was rearranged.

The Avea concession agreement covers the establishment, development and operation of a GSM 1800 network by Avea in the Republic of Turkey, but the appendix to the Avea Concession Agreement also grants Avea six channels in the 900 MHz band.

Pursuant to the Avea Concession Agreement, Avea was granted to use 75 channels in the 1800 MHz band and 12 channels in the 900 MHz band. The term of the Avea Concession Agreement is 25 years from 11 January 2001.

Avea may apply to the ICTA for renewal between dates 24 and 6 months before the end of Avea Concession Agreemnet. ICTA may renew the licence of Avea by evaluating the renewal request according to legislation on that date.

In the event of expiry or non-renewal, Avea is under an obligation to transfer the network management centre, being the central operation units of the GSM 1800 system, gateway switchboards and central subscription works systems (including all kinds of technical hardware), together with all equipment affecting the operation of the system and the immovable properties used by Avea to the ICTA at no cost.

Avea is also committed to renew the network in line with technological improvements and international agreements.

25. Commitments and contingencies (continued)

Avea concession agreement (continued)

The Avea Concession Agreement provides that the license fees were paid at the time of issuance of the original agreement.

Avea provided a performance bond in the amount of USD 151.500. Avea, additional to that bond, provided performance bond amounting TRY 760.320 corresponding to 6% of bidding amount after GSM 900 Additional Frequency Band bidding by ICTA on June 20, 2008.

The Avea Concession Agreement provides that the license may be transferred with the approval of the ICTA and within the terms of the Authorization Ordinance. However, no transfer may be made to an entity which already has a GSM 900 or GSM 1800 license in Turkey, or to related parties of such an entity, to the companies or subsidiaries which is owned or managed somehow by shareholders of entity. In cases such issues are determinate, GSM 1800 license given to them by ICTA is cancelled.

Regarding transfer of shares regulation clauses at the date of the transaction will be applied . The approval of the Competition Authority is also required for any change of control, being a transfer of the shares.

Fund payable to the Treasury

Avea will pay an amount equal to 15% of the gross sales on a monthly basis to the Treasury, except for the default interest imposed on their subscribers for their late payments, indirect taxes, financial obligations such as charges and fees, and the accrual amounts accounted for reporting purposes.

Contribution share to the ICTA

Avea shall pay 0,35% of the gross sales to the ICTA as contribution share to the ICTA's expenses, latest on the last business day of April of the following year.

Coverage area

Avea has guaranteed and undertook to cover (up to 2 Watt outdoors) at least 50% of the population of Turkey within three years after 11 January 2001 and at least 90% of the population of Turkey within five years after 11 January 2001. However, the localities where there are less than 10.000 inhabitants shall not be taken into consideration. This coverage area refers to the area to be covered by Avea alone, and will not be contributed by national roaming.

Avea has completed its related liabilities with respect to coverage at 31 December 2004.

Service offerings

Avea agrees and undertakes to provide the services specified within the frame of GSM license memorandum of understanding including, but not limited to emergency calls, call forwarding, barring of outgoing and incoming calls, technical assistance for subscribers and free call forwarding to police and other public emergency services.

Service quality

Avea will comply with the telephone service quality standards set down in the International Telecommunication Union ("ITU-T") recommendations in the GSM 1800 international standards. These standards require blocking rate of the licensed network to be 5% and the call failure rate not to be more than 2%.

25. Commitments and contingencies (continued)

Avea License agreement (continued)

Tariffs

Avea may freely determine its tariffs provided that these tariffs are not contrary to the regulations of the ICTA.

Emergencies

Avea will take the necessary measures with priority in order to satisfy the requirements and the needs of subscribers and users in emergencies, provided that the public authorities and enterprises will have priority in the case of health and security emergencies or fire and other disasters. Avea has to provide at least two base stations for the use of the ministry in emergency.

Investment plans

Pursuant to the relevant regulation, by the first day of September every year, Avea will present its investment plan for the following calendar years to the ICTA. These plans will be valid for 3 years and will contain information about the dynamic demand forecasts, and number and locations of the exchange stations, base stations and base control stations to be established, the period of operation, and the investment costs. Within 120 days of receipt of the investment plan, the ICTA will approve the compliance of plans with the commitments given in the Agreement.

National roaming

Avea may enter into contracts with other licensed GSM networks in Turkey for national roaming purposes. Roaming contracts and the financial clause of the contracts has to be presented to ICTA before signature procedures completed.

Suspension of operations

If deemed necessary for public security and national defence in case of war, general mobilization, etc. the Authority may temporarily or permanently suspend all or a part of the operational activities of Avea and may directly operate the network. The period of suspension as above will be added to the term of the license and the income of such a period, if any, will belong to Avea.

25. Commitments and contingencies (continued)

Avea License agreement (continued)

Termination of the agreement by the ICTA

The ICTA may cancel the license or terminate the Agreement for the following reasons, provided, however, that except for point (iv) below, Avea will be given the opportunity to fulfil its obligations within a period not less than 90 days of written notice by the ICTA. During this period of time, Avea will furnish to the ICTA a corrective action programme for fulfilment of its obligations. If this programme is accepted by the ICTA, the points of disagreement will be revised at the end of the programme. If this programme is not acceptable, the ICTA may terminate the Agreement at the end of the 90 days period granted to Avea.

i) A final judgment of the competent courts for insolvency of Avea or its composition with creditors,
ii) Failure of Avea to perform its contractual obligations hereunder and to remedy its default in a reasonable period of time granted,
ii) Determination that Avea extends its activities beyond the frequencies allocated hereunder or other frequencies that may be allocated by the Ministry to Avea for use in the GSM 1800 System, and failure of Avea to cease such activities in a reasonable period of time granted,
iv) Failure of Avea to pay the license fees hereunder.

Upon termination of the Agreement, Avea shall transfer all of the GSM 1800 system equipment to the ICTA without any remuneration.

Insurance

Avea will maintain adequate all risk insurance for the telecommunication facilities and services established and operated until the end of the license term.

3G License authorization

The Concession Agreement with ICTA has been signed on 30 April 2009 and Avea has been granted with 3G license for an amount of Euro 214.000 excluding VAT. The term of the license is 20 years effective from the signature date of the Agreement. 3G services have been launched on 30 July 2009. According to this Agreement;

- Avea shall keep at least 2 units of IMT-2000/UMTS mobile base stations to be used in emergency situations under the request of the Ministry of Transport and Communication.

- Within the first 5 years by the signature of the Agreement, Avea shall obtain the approval of the ICTA for each assignment of Avea shares in ratio exceeding 10% to persons and entities other than the current shareholders and subsidiaries of the current shareholders. Any type of share assignment leading a change in the control of Avea shall be subject to the approval of the ICTA.

- Avea has granted a bank letter of guarantee amounting to Euro 12.840 which is 6% of the license fee, for to act as final guarantee. Should the Avea is understood to not perform its contractual obligations, ICTA shall record and confiscate the final guarantee as income. In such confiscation of final guarantee as income is realised, Avea shall grant new final guarantee within 30 days. Should the new final guarantee not granted within the said period, the Agreement might be terminated.

25. Commitments and contingencies (continued)

3G License authorization (continued)

- During the term of the Agreement, Avea shall each year submit its investment plan related to the subsequent calendar year, till 1 November to the ICTA. This plan shall be prepared for three years and shall include such information as the number, location, coverage areas, investment costs with respect to exchange centers, base stations and control stations to be established, as well as the realization ratio of the previous year's investment plan and reasons of deviation, if any.

- Avea pays every month as the Treasury share, 15% of its monthly gross sales except the default interest imposed to its subscribers for the amounts not paid within the specified term as well as the financial liabilities like excises, duties and charges and the accrual amounts accounted for reporting purposes.

Coverage Area Obligations:

Following the signature of the Agreement, Avea shall have under coverage the population within the borders of;

- metropolitan municipalities within 3 years,
- all the municipalities of all provinces and districts within 6 years,
- all the residential locations having a population of more than 5,000 within 8 years,
- residential locations having a population of more than 1.000 within 10 years.

These are the areas which are to be covered by Avea alone and this obligation shall not be fulfilled through roaming.

Avea should maintain service quality in accordance with ICTA regulations, ETSI (European Telecommunications Standards Institute) standards and standards, decisions and recommendations given by ITU.

Upon request of the ICTA, yearly utmost two settling areas shall be covered with priority by Avea.

If there is any delay in fulfilment of the coverage area obligations, except the force major conditions, an administrative fine shall be applied within the frame of Relevant Legislation. If there is any delay in fulfilment of the coverage area obligations for a period of more than two years, then the Agreement might be terminated by the ICTA.

The Investments for hardware and software being used in the electronic communications network

Except for the investments made in the lease of place, towers, piles, pipes, containers, channels, energy transfer lines and similar infrastructure plants; each year Avea shall fulfil the following requirements for its investments related to electronic communications network (hardware, software etc.);

25. Commitments and contingencies (continued)

The Investments for hardware and software being used in the electronic communications network (continued)

a) To procure at least 40% of such investments from vendor companies employing a R&D centre established in Turkey and engaged in developing R&D projects in relation with the information and communication technologies provided at least 200 engineers functioning in such company in the first year after the signature of the Agreement, at least 300 engineers in the second year and at least 500 engineers for the third and subsequent years or from vendor companies employing a R&D centre with at least 150 engineers functioning in the first year after the signature of the Agreement, at least 250 engineers in the second year and at least 350 engineers for the third and subsequent years however such company to employ also a Technical Assistance Centre with at least 50 engineers in the said first year, at least 100 engineers in the second year and at least 150 engineers in the third and subsequent years.

A vendor company may not establish the R&D centre and Technical Assistance Centre together with another vendor company; but may establish with a company, organization or institution resident in Turkey. The vendor company shall have at least 50% share of such centers. Said organization or institution resident in Turkey shall not employ other R&D centres and Technical Assistance Centres that have been established together with other vendor companies functioning in information and communication technologies area.

The university associates may also be employed part time, as engineers to be employed by the vendor company. The number of the university associates may not exceed 5% of the total number of engineers stated above.

Avea is obliged to perform its investments regarding the electronic communications network by auditing and determining whether vendor companies comply with the foregoing terms and conditions.

b) To procure at least 10% of such investments from the vendors in quality of SME and established in Turkey for the purpose of product and system development.

All the independent software and hardware units to be used in the network of Avea shall have open interface connections with each other.

ICTA may perform audits regarding the execution of this obligation or may commission another organization or institution to perform such auditing when deems necessary. The costs to arise from such audits shall be borne by Avea.

Should Avea is understood to procure goods and services through methods against the foregoing terms and conditions, an administrative monetary penalty shall be applied to Avea up to 1% of its turnover of the previous calendar year.

25. Commitments and contingencies (continued)

Should Avea not perform the said obligations, a penalty as 40% of total amount of its investments in the network (hardware, software etc.), except for the investments for lease of place, towers, piles, pipes, containers, channels, energy transfer lines and similar infrastructure plants, shall be applied separately to Avea for each year. This clause is valid for the first three years following the signature date of the Agreement.

Termination of the Agreement by ICTA:

The Authority might terminate the Agreement for the following reasons;

- A bankruptcy or bankrupt's certificate decision on Avea given by the judicial authorities,
- Avea not performing some of its contractual obligations and not correcting such breach in the given period,
- Avea operating under the frequencies other than the ones allocated to itself by ICTA,
- Termination of Avea Concession Agreement
- Avea not performing national roaming obligation stated in the contract

In such circumstances, ICTA gives Avea the opportunity to fulfil its obligations within 90 days after the written notice. In case Avea cannot fulfil all the obligations within this period, the Agreement will be terminated by ICTA. The licence fee or any other fee is not reimbursable in case of a termination of agreement. In the case of cancellation of agreement by ICTA, Avea will alienate all data and documents which constitute system, softwares affecting the running of system(including (tower, beam, blare, container, channel, energy transmission lines, antenna etc), stated and in the usage of Avea to ICTA or to the entity ICTA enounces by making sure that there is no pledge, mortgage, levy and related legal blockages on them and they are free of cost and works free of problems.

Legal proceedings of Türk Telekom

From time to time the Group has been, and expects to continue to be, subject to legal proceedings and claims arising in the ordinary course of its business.

<u>Disputes between Türk Telekom and Turkcell İletişim Hizmetleri A.Ş ("Turkcell")</u>

Interconnection tariff and leased line disputes:

The Company and Turkcell have disputes over international interconnection and leased line rates charged by the Company. The Company provided a provision for this dispute amounting to TL 28.844 as at 31 December 2010 (2009 - TL 27.826) in the consolidated financial statements.

The Dispute arising out of Turkcell's illegal voice traffic through Millenicom

The lawsuit was filed against Turkcell for the reason that Turkcell carried voice traffic through Milleni.com GmbH, a company based in Germany by breaching the Network Interconnection and Cooperation Agreement between Turkcell and the Company and that caused damage amounting to TL 450.931 to the Company. In the hearing of the lawsuit dated 5 November 2009, the 7th Commercial Court of First Instance of Ankara decided unanimously in favor of the Company and partially accepted the Company's claims.

Consequently, Turkcell was condemned to pay a total of TL 279.227, (TL 137.733 of which is the principal amount and TL 141.494 of which is the default interest) to the Company. Furthermore, beside the default interest to be added to the principal amount which shall be calculated on the basis of Turkish Central Bank commercial advance interest rate as from the filing date namely 5 August 2005, according to clause 12.3 of the Network Interconnection and Cooperation Agreement signed between Turkcell and the Company and amended by clause IX of the Annex Protocol dated 20 September 2003, a default penalty of 10% shall also be applied. In the consolidated financial statements, the Company has not accrued income accrual for this case to be prudent, since the case is subject to appeal. Turkcell has appealed this decision on 28 January 2010.

25. Commitments and contingencies (continued)

Legal proceedings of Türk Telekom

Disputes between the Company and the ICTA

The Company has filed various law suits against ICTA. These lawsuits are related with the sector-specific and tariff legislations and legislations with respect to the other operators in the market. The sector-specific disputes generally stem from the objections with respect to the provisions of interconnection legislation, legislation with respect to telecommunication services and infrastructure.

Disputes between the Company and its former personnel

In the scope of the ongoing restructuring of the personnel organization of the Company in order to achieve the number of personnel identified, the contracts of the employees who are entitled for pension and who are regarded as a surplus to the Company have been terminated based on the Board of Directors Decision. Accordingly, certain part of those employees has filed re-employment lawsuits against the Company. Most of the courts decided against the Company while the remaining cases are still ongoing. Provision amounting to TL 13.908 (2009 - TL 15.350) has been provided in the consolidated financial statements for the ongoing cases.

Disputes between the Company and Istanbul Metropolitan Municipality

Total amount filed against the Company by İstanbul Metropolitan Municipality as contribution to the infrastructure investment and municipality share is TL 23.091. A cumulative provision amounting to TL 58.696 (2009 – TL 66.050) including the nominal amount and legal interest charges has been reflected to consolidated financial statements as at 31 December 2010.

Monetary penalties of Ministry of Finance

The Company's 2005, 2006, 2007 and 2008 financial periods have been tax audited by Ministry of Finance General Directorate of Revenue and tax audit report has been notified to Türk Telekom by 13 September 2010.

Below summarized matters in the tax audit reports have been criticized in terms of Value Added Tax and Withholding Income Tax:

Value Added Tax to be calculated because of International Invoices

For the telecommunication and related services that are rendered to and procured from international customers and suppliers by Turk Telekom within the standards and organizations that have been set by International Telecommunication Union (ITU), international revenues from and expenditures have been subject to "Clearing" process in terms of country and country groups and based on this outstanding receivables and/or debts have been determined. As a result of the tax audit, it has been determined that the Company has calculated the VAT amount emerged consequent to these transactions, using offsetting method instead of taking gross sales revenue and expense into consideration. Total reconciliation before assessment value of Value Added Tax for 2005, 2006, 2007 and 2008 is assumed to be TL 47.554 and it is decided to apply a tax fine of TL 71.331 about these reconciliations before assessment. Once the imposed tax is finalized to be paid during the taxation period, discount will be taken into consideration as Value Added Tax deductible.

25. Commitments and contingencies (continued)

Withholding Income Tax not deducted from Dividend Payments

Withholding income taxes to be imposed to the Company has been fore sighted as a result of the facts that The Company made advance dividend payments to the Treasury, which were not declared or made subject to withholding tax and also net dividend payment has been used as a base for tax calculation instead of the gross payment to the Treasury. Within this frame it has been fore sighted that for the year 2005 TL 90.344 tax to be imposed with TL 135.516 tax fine and for the year 2006 TL 66.667 tax to be imposed with TL 100.000 tax fine. On the other hand, the Company has retrospectively declared the abovementioned taxes in the following years and these extra tax payments have been decided to be refunded to the Company. Within this frame, extra tax amount of TL 36.302 that has been paid in 2005 and TL 131.611 that has been paid in 2006 are fore sighted to be written-off.. When tax amount to be refunded and tax amount to be imposed is compared, it is understood that tax amount to be refunded is TL 10.902 more than tax amount to be imposed thereby this amount should be paid back to the Company.

Donations made to the Ministry of National Education

Based on the protocols that are made between Türk Telekom and Ministry of National Education, the Company has undertaken the construction of schools, sport and conference halls, dormitories and attachments to these which their passion to be given to the Treasury and rights of use to Ministry of National Education free of charge. Value added taxes for the constructed schools that have been donated in 2006, 2007 and 2008, will not be considered as tax discounts and TL 24.393 Value Added Tax conciliation before assessment and TL 36.601 tax fine is foresighted to be imposed. On the other hand, tax amounts in reports that are non-deductible are pointed out that they can be considered to be expense or cost in income and corporate tax applications.

There has been an inquiry for agreement after conciliation before assessment in 22 September 2010 regarding declared tax that has been prepared in 13 September 2010 within the framework of tax audits and about the fine releases on subjects have been pointed out above.

For the above-mentioned cases, provision amounting to TL 62.435 has been booked in the consolidated financial statements as at 31 December 2010.

Legal proceedings of Avea

Fines Issued Against Avea by the Ministry of Industry and Trade

The General Directorate for Protection of Consumers and Competition ran an audit at the end of 2008 depending on the Law No. 4077 (Protection of the Consumer Rights) and relevant regulations. The investigation of Avea lasted until the mid of 2009 as additional data and documents were required. The audit was concluded in 2009 and Avea penalized with two separate administrative monetary fines of TL 51.335 and TL 3.216 related with the Article 9/A and 11/A, respectively, of the Law on Protection of the Consumer Rights.

According to the fines which were served upon Avea by İstanbul Governorship on 6 October 2009. It was notified that annulment of the administrative transaction for a fine of TL 3.216, which was issued due to the Law No.5809, would be repelled and that it was decided that findings of the Ministry the relevant issue would be communicated to ICTA to evaluate the issue.

Avea lodged a lawsuit on 9 October 2009 for stay of execution and annulment of the administrative transaction for a total fine of TL 51.335.

25. Commitments and contingencies (continued)

Legal proceedings of Avea (continued)

Regional Administrative Court rejected the application and the Company received the official notice on 30 June 2010. At July 15th 2010, trial was made. The law suit was accepted and the transaction was cancelled based on the decision declared at October 6th 2010. Therefore, as of 31.12.2010, the management of Avea decided to not to record allowance for the punishment related to law suit.

Monetary penalties of Ministry of Finance

VAT, SCT and reversed charged VAT on international roaming services

In 2006 and 2007 the Ministry of Finance made tax audits on roaming invoices issued to Aycell and İş-Tim. Since Aycell and İş-Tim did not calculate 18% reverse charged VAT over the roaming invoices issued by the foreign roaming operators, the Ministry of Finance criticized Avea in their report and issued tax notifications. The total amount of tax notifications, which were sent to Avea, were in December 2006 full TL 46 and in June 2007 full TL 722. Avea filed court cases against the Ministry of Finance. The cases have not been concluded as at the preparation date of these financial statements. Council of State decided in favor of Avea for 17 court cases. Furthermore, the Ministry of Finance made a tax audit for the period February 2004 - July 2009 and sent tax notifications amounting to TL 18.696 to Avea on 21 and 22 October 2009.

Avea has been compromised with the directorate of VD (Tax Administration Office) in the issue of VAT payments with the title of "responsible". Concerning the same issue, the law suits opened in the terms which are not included in the compromised term will continue. As a result of the compromise, TL 570 was paid to VD Directorate and TL 154 was paid to Istanbul Tax Administration Directorate at the date 20 September 2010.

Based on the Tax Investigation Reports from the Presidency of Large Taxpayers Office on 21 and 22 October 2009. Avea should calculate Value Added Tax ("VAT") on charges paid to international GSM operators for the calls initiated by subscribers abroad (roaming), charge VAT to subscribers and collect them from subscribers. Based on this notification, Avea has been asked to pay for the principal of VAT amounting to TL 4.948 for the period from September 2006 to July 2009. This amount is not deducted from Avea's accumulated VAT receivables, and declaration was not send. Avea opened 5 court cases for VAT on 19 November 2009 (1 court case against Boğaziçi Corporate Tax Office and 4 court cases against Presidency of Large Taxpayers Office). The cases have not been concluded as at the preparation date of these financial statements. Additionally, for the period of September 2006 – July 2009 it is required to be paid original amount of SCT (TL 6.872).

Avea made a settlement request at November 19th 2009 related to SCT (communication tax). Compromise meetings were made with BMVD Directorate and Istanbul Tax Administration Directorate in the dates of 20 August 2010 and 30 September 2010 respectively, and the compromise has been established. As a result of the compromise, TL 819 was paid to VD Directorate and TL 41 was paid to Istanbul Tax Administration Directorate at the date 20 September 2010.

Avea has accounted for a provision for July 2009 – September 2010 period in its books amounting to TL 656 as of 31 December 2010.

25. Commitments and contingencies (continued)

Legal proceedings of Avea (continued)

<u>SCT assessment over Discounts</u>

Revenue Controllers began auditing Avea in October 2009 for the year of 2005 - 2009 on the grounds that discount has been applied for the distributors by the company in the sale of the prepaid cards and that the Special Communication Tax (SCT) has been calculated over the amounts after the discount. On 28 September 2010, Avea representatives have signed statements prepared by Controller. The tax notifications and tax reports were announced officially on 04 November 2010 and 12 November 2010 from İstanbul Tax Office and Large Taxpayers Office to Avea respectively. Avea will apply for settlement regarding this dispute in 1 month from the report dates.

Avea has accounted for a provision for January 2005 – December 2010 period in its books amounting to TL 4.200 as of 31 December 2010.

Other issues

Provision has been provided in the consolidated financial statements for the probable court cases against the Group based on the lawyers' assessments. The provision for such court cases is amounting to TL 41.326 as at 31 December 2010 (2009 – TL 13.281) (Note 22). For the rest of the cases, Group lawyers commented that basis of those cases are not realistic and should be appealed. Therefore, no provision has been provided for these cases.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

26. Business combinations

Pantel Group acquisition

On 7 October 2010, TT International Holding BV ("TT International") which is a subsidiary of the Company acquired the 100% shares of Pantel Group (formerly named "Invitel Group") for a consideration of Euro 135.591, all paid in cash. At the date of acquisition, an additional amount of Euro 71.834 is also paid in cash to the former shareholders to takeover Pantel Group's debt. TT International made this acquisition due to the regional connection center position of the acquired company. The net assets acquired in the transaction and the goodwill arising, are as follows:

Net assets acquired	Carrying amount at the acquisition date	Fair value adjustment	Fair value
Cash and cash equivalents	30.107	-	30.107
Trade and other receivables	27.845	-	27.845
Inventories	531	-	531
Other current and non-current assets	21.197	-	21.197
Property, plant equipment	298.083	56.905	354.988
Intangible assets	135.903	83.038	218.941
Deferred tax asset	31.942	(18.974)	12.968
Financial liabilities	(34.856)	(547)	(35.403)
Trade and other payables	(13.484)	-	(13.484)
Other payables, provisions and accrued expenses	(51.400)	-	(51.400)
Due to related parties	(141.901)	(2)	(141.903)
Deferred tax liability	(19.784)	(13.187)	(32.971)
Other non-Current liabilities	(118.002)	(9.137)	(127.139)
	166.181	98.096	264.277
Acquired net assets (100,00%)			264.277
Goodwill			3.701
Total consideration			267.978
Net cash outflow arising on acquisition			
Cash consideration paid			(267.978)
Cash and cash equivalents acquired			30.107
			(237.871)

The Group used independent professional assessment company Pricewaterhousecoopers Danışmanlık Hizmetleri Limited Şirketi for the valuation of property plant equipment and intangible assets, financial liabilities and IRU's & RoW's. The acquisition accounting has been finalized as of 31 December 2010 and the assets, liabilities and contingent liabilities determined based on IFRS 3, have been recorded based on their fair values at the date of acquisition.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

26. Business combinations

Pantel Group acquisition

During the acquisition period about the assessed assets and liabilities cash flows income and expenses in the business plan with predicted values utilizing financial market data and used for discounting this values after tax effect WACC determined as 11,2 %. When the relative risk factor of the assessed assets and liabilities are added/(deducted) to/ from this rate, the discount rates are as follows:

Asset and liability class	Relative risk factor adjustment	Post – tax rate of return	Base rate
Net working capital	(7,0)%	4,2%	Cost of debt
Tangible assets	(2,3)%	8,8%	Cost of debt
Other long term assets / (liabilities)	(2,3)%	8,8%	Cost of debt
Customer contract	0,7%	11,9%	WACC
Customer relationships	1,0%	12,2%	WACC
Indefeasible right of uses	0,0%	11,2%	WACC
Other intangible assets	0,0%	11,2%	WACC
Assembled workforce	0,0%	11,2%	WACC
Goodwill (excluding assembled workforce)	10,0%	21,2%	WACC

From the date of acquisition, Pantel Group has contributed TL 57.707 of consolidated sales revenue and TL 9.748 losses to the consolidated income statement. If TT International had made the acquisition at the beginning of the year; consolidated sales revenue would have been TL 187.959 and consolidated profit for the year would have been TL 32.044 more.

Total cost of the Pantel Group acquisition amounting to TL 5.407 is recorded under general administration expenses in the consolidated income statement.

27. Events after the balance sheet date

None.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

28. Operating expenses (including cost of sales)

	1 January – 31 December 2010	1 January – 31 December 2009
Cost of sales (-)	**(4.917.512)**	(5.081.802)
Marketing, sales and distribution expenses (-)	**(1.571.606)**	(1.302.532)
General administrative expenses (-)	**(1.493.116)**	(1.695.001)
Research and development expenses (-)	**(23.633)**	(29.332)
	(8.005.867)	(8.108.667)

29. Operating expenses (based on their nature)

	1 January– 31 December 2010	1 January– 31 December 2009
Personnel expenses	**(1.872.633)**	(1.889.121)
Repair and maintenance expenses	**(335.512)**	(383.910)
Domestic interconnection	**(523.728)**	(800.282)
Taxes	**(720.792)**	(705.486)
Commission expenses	**(436.972)**	(391.675)
Advertisement expenses	**(392.799)**	(249.235)
Promotion expenses	**(156.830)**	(131.936)
Utilities	**(287.287)**	(259.914)
Rent expenses	**(311.014)**	(277.584)
Bill distribution expenses	**(108.613)**	(126.734)
International interconnection	**(158.185)**	(149.425)
IFRIC 12 expenses	**(126.752)**	(111.132)
Consulting expenses	**(79.354)**	(94.441)
Court expert expenses	**(50.419)**	(63.277)
Stationary expenses	**(7.607)**	(14.447)
Insurance expenses	**(19.334)**	(25.090)
Satellite expenses	**(13.001)**	(13.493)
Doubtful receivable expenses	**(277.349)**	(362.547)
Other expenses	**(604.148)**	(501.520)
Total operating expenses (excluding depreciation and amortization expense)	**(6.482.329)**	(6.551.249)
Depreciation, amortization and impairment	**(1.523.538)**	(1.557.418)
Total operating expenses	**(8.005.867)**	(8.108.667)

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

30. Other operating income / (expenses)

	1 January– 31 December 2010	1 January– 31 December 2009
Curtailment and settlement gain	**88.657**	52.140
Income from litigation	**26.125**	34.656
Income on release of bad debt provision (Note 8)	**185.691**	179.862
Indemnity income	**64.098**	73.020
Gain on scrap sales	**22.647**	21.295
Other	**176.049**	132.608
Other operating income	**563.267**	493.581
Litigation provision expense	**(57.652)**	(127.190)
Special Consumption Tax and other expenses	**(8.371)**	(7.267)
Other	**(32.681)**	(20.575)
Other operating expense (-)	**(98.704)**	(155.032)

31. Financial income / (expense)

	1 January– 31 December 2010	1 January– 31 December 2009
Interest expense	**(229.230)**	(265.604)
Foreign exchange losses	**(168.839)**	(81.657)
Loss on derivative instruments	**(112.697)**	(225.358)
Other	**(97.799)**	(161.195)
Financial expense	**(608.565)**	(733.814)
Interest income on bank deposits and delay charges	**199.933**	201.860
Foreign exchange gains	**183.466**	60.515
Gain on derivative instruments	**10.412**	9.544
Other	**30.594**	23.519
Financial income	**424.405**	295.438
Financial (expense) net	**(184.160)**	(438.376)

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

32. Taxation on income

	31 December 2010	31 December 2009	31 December 2008
Corporate tax payable:			
Current corporate tax provision	**767.272**	731.035	643.642
Prepaid taxes and funds (-)	**(624.867)**	(581.053)	(549.760)
Tax payable	**142.405**	149.982	93.882

	1 January – 31 December 2010	1 January – 31 December 2009
Tax expense:		
Current income tax expense	**(765.343)**	(731.035)
Deferred income tax credit (Note 14)	**(33.239)**	51.343
	(798.582)	(679.692)

As of 31 December 2010, deferred tax amounting to TL 18.065 (2009 – TL 6.754) were recognized in the consolidated statement of comprehensive income.

The Group is subject to taxation in accordance with the tax regulations and the legislation effective in Turkey where the Group companies operate.

In Turkey, the corporation tax rate is 20% (2009 – 20%). Corporate tax returns are required to be filed by the twenty-fifth day of the fourth month following the balance sheet date and taxes must be paid in one instalment by the end of the fourth month. The tax legislation provides for a temporary tax of 20% (2009 – 20%) to be calculated and paid based on earnings generated for each quarter. The amounts thus calculated and paid are offset against the final corporate tax liability for the year.

In Turkey, the tax legislation does not permit a parent company and its subsidiaries to file a consolidated tax return. Therefore, provision for taxes, as reflected in the consolidated financial statements, has been calculated on a separate-entity basis.

Corporate tax losses can be carried forward for a maximum period of five years following the year in which the losses were incurred. The tax authorities can inspect tax returns and the related accounting records for a retrospective maximum period of five years.

Dividend payments made to resident and non-resident individuals, non-resident legal entities and corporations resident in Turkey (except for the ones exempt from corporate and income tax), are subject to an income tax of 15%. Dividend payments made from a corporation resident in Turkey to a corporation also resident in Turkey are not subject to income tax. Furthermore, income tax is not calculated in case the profit is not distributed or transferred to equity.

The dividend income (excluding the participation certificates of investment funds and profit shares derived from the share certificates of investment trusts) derived by entities from the participation in the capital of another resident entity is exempt from corporate tax. Furthermore, 75% of the income derived by entities from the sale of participation shares, immovable property, preferential rights, founders' shares and redeemed shares is exempt from corporate tax. In order to be able to benefit from the exemption, the relevant income should be kept under a fund account in the liabilities and should not be withdrawn from the enterprise for 5 years. The sales amount should be collected by the end of the second calendar year following the year of sale.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

32. Taxation on income (continued)

The reconciliation between tax expense and the product of accounting profit multiplied by applicable tax is as follows:

	1 January – 31 December 2010	1 January – 31 December 2009
Profit before tax	**3.127.006**	2.359.967
Tax at the corporate tax rate of 20%	**625.401**	471.992
Tax effects of:		
- expenses that are not deductible in determining taxable profit	**29.547**	33.511
- tax rate difference of subsidiaries	**(194)**	
- deferred tax asset recognized from tax losses carried forward by subsidiaries	**(959)**	-
- adjustments and tax losses of subsidiaries not subject to deferred tax	**144.788**	174.188
Tax expense for the year	**798.583**	679.691

Investment Incentives

Avea has obtained investment incentive certificates from the Turkish government authorities in connection with certain major capital expenditures, which entitle Avea, among other things, to:

a) A 100% exemption from customs duty on machinery and equipment to be imported,
b) An investment allowance of 100% on approved capital expenditures,

The investment allowance indicated in (b) above is deductible from current or future taxable profits for the purposes of corporation tax; however, such investment allowances are subject to a withholding tax. At 31 December 2010 investment allowances amount to TL 4.451 (31 December 2009 - TL 4.127) (Note 25).

The Law foresaw that the taxpayers that have investment allowance rights obtained under the scope of the previous provisions valid before 24 April 2003 and the provisions of the amended article 19 of the Income Tax Law (amended with Law No 4842) that were effective until 31 December 2005 would be able to utilize their investment allowance rights only for their income generated in the years 2006, 2007, and 2008.

However on 15 October 2009, the Constitutional Court decided to cancel the phrases which abolish the investment allowances after 2008 and limit the use of investment allowance incentive allowance with the years 2006, 2007 and 2008. The annulment decision is effective after being published in the Official Gazette no 27456 dated 8 January 2010. Accordingly, Avea may utilize those unused incentive in the future.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

33. Financial risk management objectives and policies

Credit risk

	Receivables					
	Trade receivables		Other receivables			
As of 31 December 2010	**Related parties**	**Third parties**	**Related parties**	**Third parties**	**Deposits at banks**	**Other**
Maximum credit risk exposed to as at 31 December 2010 (A+B+C+D+E)	**134.513**	**1.635.811**	**-**	**34.417**	**1.217.548**	**380.630**
- Guaranteed portion of the maximum risk	-	**22.541**	-	-	-	-
A. Carrying amount of financial assets not overdue or not impaired	**134.513**	**1.062.938**	**-**	**34.417**	**1.217.548**	**380.630**
B. Carrying amount of financial assets with rediscussed conditions, that are considered overdue or impaired if not rediscussed	-	-	-	-	-	-
C. Carrying amount of financial assets overdue but not impaired	-	**572.873**	-	-	-	-
- Amount secured via guarantees	-	**-**	-	-	-	-
D. Carrying amount of assets impaired	-	**-**	-	-	-	-
- Overdue (gross book value)	-	**1.315.040**	-	**24.532**	-	-
- Impairment (-)	-	**(1.315.040)**	-	**(24.532)**	-	-
E. Off balance sheet items with credit risk	-		-	-	-	-

	Receivables					
	Trade Receivables		Other receivables			
As of 31 December 2009	Related parties	Third parties	Related parties	Third parties	Deposits at banks	Other
Maximum credit risk exposed to as at 31 December 2009 (A+B+C+D+E)	90.992	1.396.175	-	33.309	752.609	151.726
- Guaranteed portion of the maximum risk	-	28.446	-	-	-	-
A. Carrying amount of financial assets not overdue or not impaired	90.992	880.925	-	33.309	752.609	151.726
B. Carrying amount of financial assets with rediscussed conditions, that are considered overdue or impaired if not rediscussed	-	-	-	-	-	-
C. Carrying amount of financial assets overdue but not impaired	-	515.250	-	-	-	-
- Amount secured via guarantees	-	-	-	-	-	-
D. Carrying amount of assets impaired	-	-	-	-	-	-
- Overdue (gross book value)	-	1.228.656	-	24.891	-	-
- Impairment (-)	-	(1.228.656)	-	(24.891)	-	-
E. Off balance sheet items with credit risk	-	-	-	-	-	-

	Receivables					
	Trade receivables		Other receivables			
As of 31 December 2008	Related Parties	Third parties	Related parties	Third parties	Deposits and banks	Other
Maximum credit risk exposed to as at the reporting date (A+B+C+D+E)	92.944	1.325.873	-	67.188	1.040.228	109.342
- Guaranteed portion of the maximum risk	-	49.227	-	-	-	-
A. Carrying amount of financial assets not overdue or not impaired	92.944	871.988	-	67.188	1.040.228	109.342
B. Carrying amount of financial assets with rediscussed conditions, that are considered overdue or impaired if not rediscussed	-	-	-	-	-	-
C. Carrying amount of financial assets overdue but not impaired	-	452.998	-	-	-	-
- Amount secured via guarantees	-	887	-	-	-	-
D. Carrying amount of assets impaired	-	-	-	-	-	-
- Overdue (gross book value)	-	1.058.918	-	21.833	-	-
- Impairment (-)	-	(1.058.918)	-	(21.833)	-	-
E. Off balance sheet items with credit risk	-	-	-	-	-	-

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

33. Financial risk management objectives and policies (continued)

Credit risk (continued)

Financial losses due to Group's receivables and financial assets which result from not implementing agreement clauses related to financial assets by a customer or other party constitutes credit risk.

When determining the credit risk exposure as at the balance sheet date, items like guarantees received, which increase the credit worthiness have not been considered. The aging for assets overdue but not impaired for has been provided in Note 8.

As of 31 December 2010, there is no significant credit risk of Company. The maximum credit risk Company exposure, is reflected by presenting all financial assets from carrying amount on consolidated balance sheet.

Liquidity risk

Liquidity risk is uncertainty to cover future financial obligations.

The Group's objective is to maintain a balance between current assets and liabilities through close monitoring of payment plans and cash projections.

The Group manages current and long-term funding and liquidity management requirements by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profile of financial assets and liabilities.

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 2010 and 2009 based on contractual undiscounted payments (including interest payments not due yet).

Contract based maturities as at 31 December 2010	**Book value**	**Total contract based cash outflow (=I+II+III+IV)**	**Less than 3 months (I)**	**3 to 12 months (II)**	**1 to 5 Years (III)**	**More than 5 years (IV)**
Non-derivative financial liabilities						
Financial liabilities	**4.164.037**	**4.203.676**	**992.005**	**888.209**	**2.143.150**	**180.312**
Obligations under finance leases	**35.354**	**41.047**	**1.263**	**6.250**	**28.613**	**4.921**
Trade payables	**1.360.757**	**1.360.757**	**1.358.505**	**1.305**	**947**	**-**
Other payables	**29.114**	**29.114**	**29.114**	**-**	**-**	**-**
Related parties	**44.064**	**44.064**	**44.064**	**-**	**-**	**-**
Derivative financial liabilities (net)	**73.790**	**74.340**	**25.549**	**21.876**	**26.915**	**-**
Financial guarantees	**1.686.625**	**1.686.625**	**19.700**	**4.438**	**1.279.466**	**383.021**

Contract based maturities as at 31 December 2009	Book value	Total contract based cash outflow (=I+II+III+IV)	Less than 3 months (I)	3 to 12 months (II)	1 to 5 Years (III)	More than 5 years (IV)
Non-derivative financial liabilities	3.932.147	4.009.136	1.729.150	449.557	1.777.671	52.758
Financial liabilities	41.929	49.923	1.577	5.932	29.488	12.926
Obligations under finance leases	858.058	858.053	854.637	3.416	-	-
Trade payables	39.903	39.903	39.903	-	-	-
Other payables	23.820	23.820	23.820	-	-	-
Derivative financial liabilities (Net)	107.014	107.745	-	58.054	49.691	-
Financial guarantees	1.808.318	1.808.318	4.449	214.028	1.224.614	365.227

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

33. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

Contract based maturities as at 31 December 2008	Book value	Total contract based cash o (=I+II+I	Less than 3 months (I)	3 to 12 months (II)	1 to 5 years (III)	More than 5 years (IV)
Non-derivative financial liabilities						
Financial liabilities	3.408.482	3.998.963	935.057	458.293	1.851.921	753.692
Obligations under finance leases	46.760	59.782	2.064	6.352	30.472	20.894
Trade payables	881.319	881.319	880.524	795	-	-
Other payables	29.294	29.294	29.294	-	-	-
Related parties	21.517	21.517	21.517	-	-	-
Derivative financial liabilities (Net)	208.722	207.361	5.775	29.625	161.888	10.073

Fair value hierarchy table

The group classifies the fair value measurement of each class of financial instruments according to the source, using the three-level hierarchy, as follows:

Level 1: Market price valuation techniques for the determined financial instruments traded in markets (unadjusted)

Level 2: Other valuation techniques includes direct or indirect observable inputs

Level 3: Valuation techniques does not contains observable market inputs

Fair value hierarchy table as at 31 December 2010 is as follows:

Financial assets at fair value through profit or loss:	Level 1	Level 2	Level 3
Swap transactions	-	202	-
Forward transactions	-	3.383	-
Financial liabilities at fair value through profit or loss:			
Swap transactions	-	72.376	-
Forward transactions	-	1.414	-
Minority put option liability (Note 11)	-	-	525.894

Fair value hierarchy table as at 31 December 2009 is as follows:

Financial liabilities at fair value through profit or loss:	Level 1	Level 2	Level 3
Swap transactions	-	106.233	-
Options	-	781	-
Minority put option liability (Note 11)	-	-	543.103

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33. Financial risk management objectives and policies (continued)

Foreign currency risk

The Group has transactional currency exposures mainly with respect to the financial liabilities and trade payables. Foreign currency denominated borrowings are stated in Note 7.

The following table demonstrates the sensitivity to a reasonably possible change in the USD and Euro exchange rate, with all other variables held constant, of the Group's net profit for the year (due to changes in the fair value of monetary assets and liabilities):

As of 31 December 2010	**Profit/Loss**	
	Appreciation of foreign currency	**Depreciation of foreign currency**
Appreciation of USD against TL at 1%:		
1- USD net asset/liability	(18.904)	18.904
2- Portion protected from USD risk (-)		
3- USD net effect (1+2)	**(18.904)**	**18.904**
Appreciation of Euro against TL at 1%:		
4- Euro net asset/liability	(16.857)	16.857
5- Portion protected from Euro risk (-)	-	-
6- Euro net effect (4+5)	**(16.857)**	**16.857**
Appreciation of other foreign currencies against TL at 1%:		
7- Other foreign currency net asset/liability	(2)	2
8- Portion protected from other foreign currency (-)	-	-
9- Other foreign currency net effect (7+8)	**(2)**	**2**
Total (3+6+9)	**(35.763)**	**35.763**

As of 31 December 2009	**Profit/Loss**	
	Appreciation of foreign currency	**Appreciation of foreign currency**
Appreciation of USD against TL at 1%:		
1- USD net asset/liability	**(14.365)**	**14.365**
2- Portion protected from USD risk (-)	**1.656**	**(1.656)**
3- USD net effect (1+2)	**(12.709)**	**12.709**
Appreciation of Euro against TL at 1%:		
4- Euro net asset/liability	**(10.687)**	**10.687**
5- Portion protected from Euro risk (-)	**-**	**-**
6- Euro net effect (4+5)	**(10.687)**	**10.687**
Appreciation of other foreign currencies against TL at 1%:		
7- Other foreign currency net asset/liability	**(13)**	**13**
8- Portion protected from other foreign currency (-)	**-**	**-**
9- Other foreign currency net effect (7+8)	**(13)**	**13**
Total (3+6+9)	**(23.409)**	**23.409**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

33. Financial risk management objectives and policies (continued)

Foreign currency risk (continued)

	31 December 2010					31 December 2009				
	TL equivalent	USD	Euro	GBP	Other	TL equivalent	USD	Euro	GBP	Other
1. Trade receivables	515.749	299.388	25.814	-	-	164.782	70.278	27.294	-	-
2a. Monetary financial assets (Cash and banks accounts included)	440.450	178.209	80.462	27	-	228.426	136.987	10.256	4	-
2b. Non-monetary financial assets	40	-	-	-	27	-	-	-	-	-
3. Other	49.420	27.247	3.426	99	27	32.315	15.967	3.789	34	4
4. Current assets (1+2+3)	1.005.659	504.844	109.702	126	54	425.523	223.232	41.339	38	4
5. Trade receivables	8	4	1	-	-	175	-	81	-	-
6a. Monetary financial assets	-	-	-	-	-	-	-	-	-	-
6b. Non-monetary financial assets	-	-	-	-	-	-	-	-	-	-
7. Other	-	-	4	-	-	2.303	1.447	21	-	179
8. Non-current assets (5+6+7)	8	4	5	-	-	2.478	1.447	102	-	179
9. Total assets (4+8)	1.005.667	504.848	109.707	126	54	428.001	224.679	41.441	38	183
10. Trade payables	591.135	179.230	153.129	105	12	359.943	112.984	87.276	524	12
11. Financial liabilities	1.131.475	471.709	196.287	-	-	567.015	257.703	82.855	-	-
12a. Monetary other liabilities	63.495	15.570	19.239	-	-	159.082	77.392	19.698	-	-
12b. Non-monetary other liabilities	-	-	-	-	-	-	-	-	-	-
13. Short-term liabilities (10+11+12)	1.786.105	666.509	368.655	105	12	1.086.040	448.079	189.829	524	12
14. Trade payables	-	-	-	-	-	-	-	-	-	-
15. Financial liabilities	2.668.028	1.027.942	526.490	-	-	1.813.792	713.244	342.480	-	-
16 a. Monetary other liabilities	78.459	5.941	33.807	-	-	16	11	-	-	-
16 b. Non-monetary other liabilities	-	-	-	-	-	-	-	-	-	-
17. Long-term liabilities (14+15+16)	2.746.487	1.033.883	560.297	-	-	1.813.808	713.255	342.480	-	-
18. Total liabilities (13+17)	4.532.592	1.700.392	928.952	105	12	2.899.848	1.161.334	532.309	524	12
19. Net asset/(liability) position of off balance sheet derivative instruments (19a-19b)	-	-	-	-	-	(107.014)	(65.972)	(3.555)	-	-
19a. Total asset amount hedged **	-	-	-	-	-	-	-	-	-	-
19b. Total liability amount hedged ***	-	-	-	-	-	107.014	65.972	3.555	-	-
20. Net foreign currency asset/(liability) position (9-18+19)	(3.526.925)	(1.195.544)	(819.245)	21	42	(2.578.861)	(1.002.627)	(494.423)	(486)	171
21. Net asset/(liability) position of foreign currency monetary items (IFRS 7.B23) (=1+2a+5+6a-10-11-12a-14-15-16a)*	(3.576.385)	(1.222.791)	(822.675)	(78)	(12)	(2.506.465)	(954.069)	(494.678)	(520)	(12)
22. Fair value of FX swap financial instruments	-	-	-	-	-	-	-	-	-	-

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

33. Financial risk management objectives and policies (continued)

Financial risk factors

The Group's principal financial instruments comprise forward market transactions, bank loans and cash and short-term deposits. The main purpose of these financial instruments is to raise funds for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. It is the Group's policy that no trading in financial instruments shall be undertaken. The main risks arising from the Group's financial instruments are cash flow interest rate risk, liquidity risk, foreign currency risk and credit risk. The board reviews and agrees to policies for managing each of these risks and they are summarised below.

Interest rate risk

The value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The Group's interest rate risk is primarily attributable to its borrowings.

The interest-bearing financial liabilities have variable interest rates, whereas the interest bearing financial assets have a fixed interest rate and future cash flows associated with these financial instruments will not fluctuate in amount. Therefore, the Group is exposed to fair value risk. These exposures are partially managed by interest rate swaps.

The interest rate risk table is presented below:

	31 December 2010	31 December 2009
Financial instruments with fixed interest rate		
Financial liabilities	**1.207.608**	1.733.558
Financial instruments with variable interest rate		
Financial liabilities	**2.956.426**	2.198.589

If the base point of TL denominated interest rates for financial instruments with variable interest rate was higher/lower 0,25%, with all other variables held constant, the Group's income before tax and minority interest would be lower/higher TL 7.391 as of 31 December 2010. (31 December 2009 – TL 5.863)

On the other side because of hedging, if the base point of interest rate higher/lower 0.25%, income before tax and minority interest will be effected by TL 193 and a direct effect on and equity would be higher/lower TL 2.259 (31 December 2009 – TL 4.876).

The Group is subject to interest risk due to financial liabilities and finance lease obligations. In order to cover for these risks, the Group has entered into interest rate swaps. The carrying amount and the maturities of these financial instruments have been presented above.

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33. Financial risk management objectives and policies (continued)

Explanation on the presentation of financial assets and liabilities at their fair values

The below table summarizes the carrying and fair values of financial asset and liabilities not presented at fair value in the Group's consolidated financial statements.

Due to their short-term nature, the fair value of trade and other receivables represents their book value. The fair value of borrowings with fixed interests is obtained by calculating their discounted cash flows using the market interest rate effective at the reporting date. The fair value of foreign currency denominated borrowings with variable interests is obtained by discounting the projected cash flows using estimated market interest rates.

	Book value		**Fair value**	
	Current period	Prior period	**Current period**	Prior period
Financial assets				
Cash and cash equivalents	**1.219.007**	753.693	**1.219.007**	753.693
Trade and other receivables (including related parties)	**1.806.889**	1.520.476	**1.806.889**	1.520.476
Other current and non-current assets	**421.831**	249.298	**421.831**	249.298
Other financial investments	**11.840**	11.840	**(*)**	(*)
Financial liabilities				
Financial liabilities	**4.164.034**	3.932.147	**4.170.459**	3.953.298
Trade and other payables	**1.696.947**	1.195.089	**1.696.947**	1.195.089
Other current and non-current liabilities	**1.082.105**	1.096.404	**1.082.105**	1.096.404

(*) Group's share in Cetel is carried at cost. Information on fair value of share in Cetel is not available.

Capital management policies

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. In this respect the Group restructured its debt obligations through replacing the majority of the short-term loans with long-term ones and further to this rolled over the remaining of short-term loans during the year 2009.

To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or return capital to shareholders. No changes were made in the objectives, policies or processes during the years 2010 and 2009.