COMMUNITY TRUST BANCORP INC /KY/
Form 10-Q
November 09, 2011

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

[X]	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the quarterly period ended September 30, 2011
	Or
[ ]	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the transition period from _____________ to _____________

Commission file number 0-11129

COMMUNITY TRUST BANCORP, INC.
(Exact name of registrant as specified in its charter)

Kentucky	61-0979818
(State or other jurisdiction of incorporation or organization)	IRS Employer Identification No.
346 North Mayo Trail Pikeville, Kentucky (address of principal executive offices)	41501 (Zip Code)

(606) 432-1414
(Registrant’s telephone number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes ü	No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.)

Yes ü	No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "accelerated filer, large accelerated filer, and smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer ü	Non-accelerated filer	Smaller reporting company
		(Do not check if a smaller reporting company)	

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes	No ü

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date.

Common stock – 15,428,177 shares outstanding at October 31, 2011

PART I - FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

The accompanying information has not been audited by independent registered public accountants; however, in the opinion of management such information reflects all adjustments necessary for a fair presentation of the results for the interim period. All such adjustments are of a normal and recurring nature.

The accompanying condensed consolidated financial statements are presented in accordance with the requirements of Form 10-Q and consequently do not include all of the disclosures normally required by accounting principles generally accepted in the United States of America or those normally made in the Registrant's annual report on Form 10-K. Accordingly, the reader of the Form 10-Q should refer to the Registrant's Form 10-K for the year ended December 31, 2010 for further information in this regard.

Community Trust Bancorp, Inc.
Condensed Consolidated Balance Sheets

(dollars in thousands)	(unaudited) September 30 2011	December 31 2010
Assets:		
Cash and due from banks	$73,236	$62,559
Interest bearing deposits	172,075	70,086
Federal funds sold	5,095	26,338
Cash and cash equivalents	250,406	158,983
Certificates of deposits in other banks	13,279	14,762
Securities available-for-sale at fair value (amortized cost of $447,891 and $332,658, respectively)	463,610	338,675
Securities held-to-maturity at amortized cost (fair value of $1,663 and $1,662, respectively)	1,662	1,662
Loans held for sale	826	455
Loans	2,573,557	2,605,180
Allowance for loan losses	(34,999)	(34,805)
Net loans	2,538,558	2,570,375
Premises and equipment, net	55,168	55,343
Federal Home Loan Bank stock	25,673	25,673
Federal Reserve Bank stock	4,883	4,434
Goodwill	65,490	65,499
Core deposit intangible (net of accumulated amortization of $7,446 and $7,260, respectively)	1,170	1,342
Bank owned life insurance	43,126	39,697
Mortgage servicing rights	2,400	3,161
Other real estate owned	58,004	42,935
Other assets	32,406	32,876
Total assets	$3,556,661	$3,355,872
Liabilities and shareholders' equity:		
Deposits:		
Noninterest bearing	$602,061	$525,478
Interest bearing	2,206,761	2,180,639
Total deposits	2,808,822	2,706,117
Repurchase agreements	229,000	188,275
Federal funds purchased and other short-term borrowings	16,345	9,680
Advances from Federal Home Loan Bank	21,658	21,238
Long-term debt	61,341	61,341
Other liabilities	58,217	30,583
Total liabilities	3,195,383	3,017,234

Shareholders' equity:		
Preferred stock, 300,000 shares authorized and unissued	-	-
Common stock, $5 par value, shares authorized 25,000,000; shares outstanding 2011 – 15,414,993; 2010 – 15,334,410	76,592	76,408
Capital surplus	156,172	154,880
Retained earnings	118,296	103,439
Accumulated other comprehensive income, net of tax	10,218	3,911
Total shareholders' equity	361,278	338,638
Total liabilities and shareholders' equity	$3,556,661	$3,355,872

See notes to condensed consolidated financial statements.

Community Trust Bancorp, Inc.
Condensed Consolidated Statements of Income and Other Comprehensive Income
(unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
(in thousands except per share data)	2011	2010	2011	2010
Interest income:				
Interest and fees on loans, including loans held for sale	$36,180	$35,402	$109,048	$105,718
Interest and dividends on securities				
Taxable	2,598	2,308	7,631	6,916
Tax exempt	455	388	1,263	1,206
Interest and dividends on Federal Reserve and Federal Home Loan Bank stock	329	65	1,042	1,027
Other, including interest on federal funds sold	146	152	425	389
Total interest income	39,708	38,315	119,409	115,256
Interest expense:				
Interest on deposits	5,193	7,454	16,534	22,687
Interest on repurchase agreements and other short-term borrowings	397	466	1,251	1,513
Interest on advances from Federal Home Loan Bank	23	18	77	56
Interest on long-term debt	1,000	1,000	3,000	3,000
Total interest expense	6,613	8,938	20,862	27,256
Net interest income	33,095	29,377	98,547	88,000
Provision for loan losses	2,515	3,676	10,222	12,504
Net interest income after provision for loan losses	30,580	25,701	88,325	75,496
Noninterest income:				
Service charges on deposit accounts	6,681	5,920	18,999	17,166
Gains on sales of loans, net	438	575	1,166	1,354
Trust income	1,597	1,492	4,790	4,374
Loan related fees	250	862	1,609	1,748
Bank owned life insurance	433	451	1,269	1,263
Other noninterest income	1,543	1,297	4,440	3,975
Total noninterest income	10,942	10,597	32,273	29,880
Noninterest expense:				
Officer salaries and employee benefits	2,087	2,193	6,597	6,039
Other salaries and employee benefits	10,153	9,367	30,444	28,598
Occupancy, net	2,013	1,725	6,043	5,208
Equipment	1,008	950	2,781	2,892
Data processing	1,550	1,759	4,992	5,042
Bank franchise tax	1,120	1,002	3,403	2,957
Legal fees	631	700	2,131	1,980
Professional fees	285	315	970	873
FDIC insurance	591	1,118	2,554	3,257

Other real estate owned provision and expense	1,465	584	4,497	2,062
Other noninterest expense	4,924	4,285	15,108	12,186
Total noninterest expense	25,827	23,998	79,520	71,094
Income before income taxes	15,695	12,300	41,078	34,282
Income taxes	5,030	3,850	12,139	10,488
Net income	10,665	8,450	28,939	23,794
Other comprehensive income, net of tax:				
Unrealized holding gains on securities available-for-sale	2,661	2,225	6,307	3,506
Comprehensive income	$13,326	$10,675	$35,246	$27,300
Basic earnings per share	$0.70	$0.55	$1.89	$1.56
Diluted earnings per share	$0.70	$0.55	$1.89	$1.56
Weighted average shares outstanding-basic	15,318	15,239	15,307	15,223
Weighted average shares outstanding-diluted	15,339	15,275	15,331	15,260
Dividends declared per share	$0.310	$0.305	$0.920	$0.905

See notes to condensed consolidated financial statements.

Community Trust Bancorp, Inc.
Condensed Consolidated Statements of Cash Flows
(unaudited)

	Nine Months Ended September 30	
(in thousands)	2011	2010
Cash flows from operating activities:		
Net income	$28,939	$23,794
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,123	3,366
Deferred taxes	(3,373)	1,709
Stock-based compensation	589	597
Excess tax benefits of stock-based compensation	(122)	3
Dividends on restricted stock	90	0
Provision for loan losses	10,222	12,504
Fair value adjustments to other real estate owned	2,890	478
Gains on sale of mortgage loans held for sale	(1,166)	(1,354)
Losses on sale of assets, net	80	4
Proceeds from sale of mortgage loans held for sale	53,986	66,971
Funding of mortgage loans held for sale	(53,191)	(65,022)
Amortization of securities premiums and discounts, net	2,430	1,587
Change in cash surrender value of bank owned life insurance	(1,051)	(1,240)
Death benefits received on bank owned life insurance	79	0
Mortgage servicing rights:		
Fair value adjustments	1,139	1,194
New servicing assets created	(378)	(433)
Changes in:		
Other assets	508	(1,533)
Other liabilities	27,312	5,398
Net cash provided by operating activities	72,106	48,023
Cash flows from investing activities:		
Certificates of deposit in other banks:		
Purchase of certificates of deposit	0	(16,363)
Maturity of certificates of deposit	1,483	955
Securities available-for-sale (AFS):		
Purchase of AFS securities	(188,002)	(133,604)
Proceeds from prepayments and maturities of AFS securities	70,341	75,413
Securities held-to-maturity (HTM):		
Purchase of HTM securities	0	(480)
Proceeds from prepayments and maturities of HTM securities	0	13,154
Change in loans, net	(2,666)	(29,409)
Purchase of premises and equipment	(2,806)	(1,540)
Proceeds from sale of premises and equipment	39	9
Additional investment in Federal Reserve Bank stock	(449)	(9)
Proceeds from sale of other real estate and other repossessed assets	6,437	4,788
Additional investment in other real estate and other repossessed assets	(254)	(203)

Additional investment in bank owned life insurance	(2,458)	0
Net cash used in investing activities	(118,335)	(87,289)
Cash flows from financing activities:		
Change in deposits, net	102,705	113,086
Change in repurchase agreements, federal funds purchased, and other short-term borrowings, net	47,390	8,137
Proceeds from Federal Home Loan Bank advances	571	0
Payments on advances from Federal Home Loan Bank	(151)	(615)
Issuance of common stock	1,009	1,263
Excess tax benefits of stock-based compensation	122	(3)
Dividends paid	(13,994)	(13,683)
Net cash provided by financing activities	137,652	108,185
Net increase in cash and cash equivalents	91,423	68,919
Cash and cash equivalents at beginning of period	158,983	142,129
Cash and cash equivalents at end of period	$250,406	$211,048
Supplemental disclosures:		
Income taxes paid	$8,380	$12,550
Interest paid	18,841	22,767
Non-cash activities:		
Loans to facilitate the sale of other real estate and other repossessed assets	1,375	577
Common stock dividends accrued, paid in subsequent quarter	4,749	4,667
Real estate acquired in settlement of loans	25,551	9,105

See notes to condensed consolidated financial statements.

Community Trust Bancorp, Inc.
Notes to Condensed Consolidated Financial Statements (unaudited)

Note 1 - Summary of Significant Accounting Policies

In the opinion of management, the unaudited condensed consolidated financial statements include all adjustments (which consist of normal recurring accruals) necessary, to present fairly the condensed consolidated financial position as of September 30, 2011, the results of operations for the three and nine months ended September 30, 2011 and 2010, and the cash flows for the nine months ended September 30, 2011 and 2010. In accordance with accounting principles generally accepted in the United States of America for interim financial information, these statements do not include certain information and footnote disclosures required by accounting principles generally accepted in the United States of America for complete annual financial statements. The results of operations for the three and nine months ended September 30, 2011 and 2010, and the cash flows for the nine months ended September 30, 2011 and 2010, are not necessarily indicative of the results to be expected for the full year. The condensed consolidated balance sheet as of December 31, 2010 has been derived from the audited consolidated financial statements of Community Trust Bancorp, Inc. ("CTBI") for that period. For further information, refer to the consolidated financial statements and footnotes thereto for the year ended December 31, 2010, included in CTBI's Annual Report on Form 10-K.

Principles of Consolidation – The unaudited condensed consolidated financial statements include the accounts of CTBI and its separate and distinct, wholly owned subsidiaries Community Trust Bank, Inc. (the "Bank") and Community Trust and Investment Company. All significant intercompany transactions have been eliminated in consolidation.

Reclassifications – Certain reclassifications considered to be immaterial have been made in the prior year condensed consolidated financial statements to conform to current year classifications. These reclassifications had no effect on net income.

New Accounting Standards –

Ø Improving Disclosures about Fair Value Measurements – In January 2010, the FASB released Accounting Standards Update (ASU) 2010-06, Improving Disclosures about Fair Value Measurements. ASU 2010-06 amends Accounting Standards Codification (ASC) Subtopic 820, Fair Value Measurements and Disclosures, and Subtopic 715-20, Compensation—Retirement Benefits—Defined Benefit Plans. This ASU expanded the existing fair value disclosures required by these two subtopics. Additional disclosures required by the new standard must be made for each period beginning after the effective date. Expansion of disclosures for prior periods to include those required by the ASU is optional.

Disclosure changes made by ASU 2010-06 include:

- The amounts of and reasons for significant transfers in and out of Level 1, Level 2 and Level 3 fair value measurements and the accounting policy for the date used to recognize such transfers, e.g., actual transaction date, beginning of reporting period date or end of reporting period date

- Presentation of purchases, sales, issuances and settlements as separate lines, rather than one net number, in the table reconciling activity for assets and liabilities measured at fair value on a recurring basis using Level 3 inputs

- Provision of fair value measurement disclosures for each class of assets and liabilities with a class often being a subset of assets or liabilities within a balance sheet line item. Class should be determined on the basis of the nature and risks of investments in debt and equity securities and generally will not require change from the classifications already employed in disclosures for those investments

- Provision of explanations about the valuation techniques and inputs used to determine fair value for both recurring and nonrecurring fair value measurements falling in either Level 2 or Level 3

- Revision of the existing disclosures made by a plan sponsor about fair value for assets of defined benefit pension and other postretirement benefit plans to require those disclosures be made by asset class instead of asset category

ASU 2010-06 was effective for interim and annual reporting periods beginning after December 15, 2009, with early adoption permitted. The one exception involves reporting certain items gross instead of net in the existing activity table for items measured at fair value on a recurring basis using Level 3 inputs, which was effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years and may be adopted earlier if desired. Except for the Level 3 table item, each SEC issuer must apply the ASU starting with its first interim period beginning after December 15, 2009. CTBI did not elect to early adopt the provisions which were effective for years beginning after December 15, 2009 or the December 15, 2010 provisions. ASU 2010-06 has not had a material impact on CTBI’s consolidated financial statements.

Ø Effect of a Loan Modification When the Loan is Part of a Pool that is Accounted for as a Single Asset – a consensus of the FASB Emerging Issues Task Force – In April 2010, the FASB issued ASU No. 2010-18, Receivables (Topic 310) – Effect of a Loan Modification When the Loan is Part of a Pool that is Accounted for as a Single Asset – a consensus of the FASB Emerging Issues Task Force. ASU 2010-18 provides guidance on account for acquired loans that have evidence of credit deterioration upon acquisition. It allows acquired assets with common risk characteristics to be accounted for in the aggregate as a pool. ASU 2010-18 was effective for modifications of loans accounted for within pools under Subtopic 310-30 in the first interim or annual reporting period ending on or after July 15, 2010. ASU 2010-18 did not have an impact on our financial condition, results of operations, or disclosures.

Ø Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses – In July 2010, the FASB released ASU 2010-20, Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses. The standard will help investors assess the credit risk of a company's receivables portfolio and the adequacy of its allowance for credit losses held against the portfolios by expanding credit risk disclosures. Companies will be required to provide more information about the credit quality of their financing receivables in the disclosures to financial statements, such as aging information and credit quality indicators. Both new and existing disclosures must be disaggregated by portfolio segment or class. The disaggregation of information is based on how a company develops its allowance for credit losses and how it manages its credit exposure.

The standard requires CTBI to expand disclosures about the credit quality of our loans and the related reserves against them. The additional disclosures include details on our past due loans, credit quality indicators, and modifications of loans, and are included in note 4. CTBI adopted the standard beginning with our December 31, 2010 financial statements.

Ø Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings – In January 2011, the FASB released ASU 2011-01, Receivables (Topic 310): Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings. The amendments in this ASU temporarily delayed the effective date of the disclosures about troubled debt restructurings in ASU 2010-20 discussed above. The delay was intended to allow the Board time to complete its deliberations on what constitutes a troubled debt restructuring. CTBI adopted the new disclosures effective for the reporting period ending September 30, 2011 with no significant impact on our consolidated financial statements.

Ø A Creditor’s Determination of Whether a Restructuring is a Troubled Debt Restructuring – In April 2011, the FASB issued ASU No. 2011-02, A Creditor’s Determination of Whether a Restructuring is a Troubled Debt Restructuring. The provisions of ASU No. 2011-02 provide additional guidance related to determining whether a creditor has granted a concession, include factors and examples for creditors to consider in evaluating whether a restructuring results in a delay in payment that is insignificant, prohibit creditors from using the borrower's effective rate test to evaluate whether a concession has been granted to the borrower, and add factors for creditors to use in determining whether a borrower is experiencing financial difficulties. A provision in ASU No. 2011-02 also ends the FASB's deferral of the additional disclosures about troubled debt restructurings as required by ASU No. 2010-20. The provisions of ASU No. 2011-02 were effective for CTBI's reporting period ending September 30, 2011. The adoption of ASU No. 2011-02 did not have a material impact on CTBI's consolidated financial statements.

Ø Reconsideration of Effective Control for Repurchase Agreements – In April 2011, the FASB issued ASU 2011-03, Reconsideration of Effective Control for Repurchase Agreements. The main objective in developing this ASU is to improve the accounting for repurchase agreements and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. The amendments in this ASU remove from the assessment of effective control (1) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and (2) the collateral maintenance implementation guidance related to that criterion. Other criteria applicable to the assessment of effective control are not changed by the amendments in this Update. The guidance in this Update is effective for the first interim or annual period beginning on or after December 15, 2011. The guidance should be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. Early adoption is not permitted. The adoption of ASU No. 2011-03 is not expected to have a material impact on CTBI's consolidated financial statements.

Ø Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs – In May 2011, the FASB issued ASU No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. The amendments in this ASU generally represent clarifications of Topic 820, but also include some instances where a particular principle or requirement for measuring fair value or disclosing information about fair value measurements has changed. This ASU results in common principles and requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. GAAP and IFRSs.

The amendments in this ASU are to be applied prospectively. For public entities, the amendments are effective during interim and annual periods beginning after December 15, 2011. Early application by public entities is not permitted. CTBI will adopt the methodologies prescribed by this ASU by the date required and does not anticipate that the ASU will have a material effect on our financial position or results of operations.

Ø Amendments to Topic 220, Comprehensive Income – In June 2011, the FASB issued ASU No. 2011-05, Amendments to Topic 220, Comprehensive Income. Under the amendments in this ASU, an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. This ASU eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. The amendments in this ASU do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income.

The amendments in this ASU should be applied retrospectively. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Early adoption is permitted, because compliance with the amendments is already permitted. The amendments do not require any transition disclosures. In October 2011, the FASB decided that the specific requirement to present items that are reclassified from other comprehensive income to net income alongside their respective components of net income and other comprehensive income will be deferred. Therefore, those requirements will not be effective for public entities for fiscal years and interim periods within those years beginning after December 15, 2011. CTBI will adopt ASU 2011-05 retrospectively by the due date and does not anticipate that it will have a material impact on our consolidated financial statements.

Ø Testing Goodwill for Impairment – In September 2011, the FASB issued ASU No. 2011-08, Intangibles-Goodwill and Other (Topic 350): Testing Goodwill for Impairment. The amendments in this ASU will allow an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Under these amendments, an entity would not be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. The amendments include a number of events and circumstances for an entity to consider in conducting the qualitative assessment. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011, if an entity's financial statements for the most recent annual or interim period have not yet been issued. CTBI will adopt this ASU by the date required and does not anticipate that it will have a material effect on our consolidated financial statements.

Note 2 – Stock-Based Compensation

CTBI's compensation expense related to stock option grants was $72 thousand and $324 thousand for the nine months ended September 30, 2011 and 2010, respectively. Restricted stock expense for the first nine months of 2011 and 2010 was $517 thousand and $273 thousand, respectively. As of September 30, 2011, there was a total of $0.1 million of unrecognized compensation expense related to unvested stock option awards that will be recognized as expense as the awards vest over a weighted average period of 1.6 years and a total of $1.8 million of unrecognized compensation expense related to restricted stock grants that will be recognized as expense as the awards vest over a weighted average period of 2.7 years.

There were no shares of restricted stock granted during the three months ended September 30, 2011, and 45,542 shares granted during the nine months ended September 30, 2011. The restrictions on the restricted stock will lapse at the end of five years. However, in the event of a change in control of CTBI or the death of the participant, the restrictions will lapse. In the event of the disability of the participant, the restrictions will lapse on a pro rata basis (with respect to 20% of the participant's restricted stock for each year since the date of award). The Compensation Committee of the Board of Directors will have discretion to review and revise restrictions applicable to a participant's restricted stock in the event of the participant's retirement. There were no options granted to purchase shares of CTBI common stock during the three or nine months ended September 30, 2011. There were options to purchase 4,525 shares of CTBI common stock and 44,996 shares of restricted stock granted during the nine months ended September 30, 2010.

The fair values of options granted during the nine months ended September 30, 2010, were established at the date of grant using a Black-Scholes option pricing model with the weighted average assumptions as follows:

	Nine Months Ended September 30 2010	
Expected dividend yield	4.78	%
Risk-free interest rate	3.14	%
Expected volatility	39.12	%
Expected term (in years)	7.5	

Weighted average fair value of options $6.53

Note 3 – Securities

Securities are classified into held-to-maturity and available-for-sale categories. Held-to-maturity securities are those that CTBI has the positive intent and ability to hold to maturity and are reported at amortized cost. Available-for-sale securities are those that CTBI may decide to sell if needed for liquidity, asset-liability management or other reasons. Available-for-sale securities are reported at fair value, with unrealized gains or losses included as a separate component of equity, net of tax.

The amortized cost and fair value of securities at September 30, 2011 are summarized as follows:

Available-for-Sale

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and government agencies	$32,093	$1,275	$0	$33,368
State and political subdivisions	60,342	3,151	(9)	63,484
U.S. government sponsored agency mortgage-backed securities	334,874	10,322	(42)	345,154
Total debt securities	427,309	14,748	(51)	442,006
Marketable equity securities	20,582	1,022	0	21,604
Total available-for-sale securities	$447,891	$15,770	$(51)	$463,610

Held-to-Maturity

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
State and political subdivisions	$1,182	$1	$0	$1,183
Other debt securities	480	0	0	480
Total held-to-maturity securities	$1,662	$1	$0	$1,663

The amortized cost and fair value of securities as of December 31, 2010 are summarized as follows:

Available-for-Sale

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and government agencies	$29,154	$330	$(230)	$29,254
State and political subdivisions	52,017	690	(842)	51,865
U.S. government sponsored agency mortgage-backed securities	230,905	6,690	(352)	237,243
Total debt securities	312,076	7,710	(1,424)	318,362
Marketable equity securities	20,582	41	(310)	20,313
Total available-for-sale securities	$332,658	$7,751	$(1,734)	$338,675

Held-to-Maturity

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
State and political subdivisions	$1,182	$0	$0	$1,182
Other debt securities	480	0	0	480
Total held-to-maturity securities	$1,662	$0	$0	$1,662

The amortized cost and fair value of securities at September 30, 2011 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-Sale		Held-to-Maturity	
(in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$5,700	$5,768	$0	$0
Due after one through five years	20,145	20,752	0	0
Due after five through ten years	39,743	41,368	1,182	1,183
Due after ten years	26,847	28,964	0	0
U.S. government sponsored agency mortgage-backed securities	334,874	345,154	0	0
Other securities	0	0	480	480
Total debt securities	427,309	442,006	1,662	1,663
Marketable equity securities	20,582	21,604	0	0
Total securities	$447,891	$463,610	$1,662	$1,663

There were no pre-tax gains or losses as of September 30, 2011 and December 31, 2010.

The amortized cost of securities pledged as collateral, to secure public deposits and for other purposes, was $160.5 million at September 30, 2011 and $106.2 million at December 31, 2010.

The amortized cost of securities sold under agreements to repurchase amounted to $229.0 million at September 30, 2011 and $188.3 million at December 31, 2010.

CTBI evaluates its investment portfolio on a quarterly basis for impairment. The analysis performed as of September 30, 2011 indicates that all impairment is considered temporary, market driven, and not credit-related. The percentage of total investments with unrealized losses as of September 30, 2011 was 4.2% compared to 18.9% as of December 31, 2010. The following tables provide the amortized cost, gross unrealized losses, and fair market value, aggregated by investment category and length of time the individual securities have been in a continuous unrealized loss position as of September 30, 2011 that are not deemed to be other-than-temporarily impaired.

Available-for-Sale

(in thousands)	Amortized Cost	Gross Unrealized Losses	Fair Value
Less Than 12 Months			
U.S. Treasury and government agencies	$0	$0	$0
State and political subdivisions	1,318	(4)	1,314
U.S. government sponsored agency mortgage-backed securities	17,796	(42)	17,754
Total debt securities	19,114	(46)	19,068
Marketable equity securities	0	0	0

Total securities	19,114	(46)	19,068
12 Months or More			
U.S. Treasury and government agencies	0	0	0
State and political subdivisions	590	(5)	585
U.S. government sponsored agency mortgage-backed securities	0	0	0
Total debt securities	590	(5)	585
Marketable equity securities	0	0	0
Total securities	590	(5)	585
Total			
U.S. Treasury and government agencies	0	0	0
State and political subdivisions	1,908	(9)	1,899
U.S. government sponsored agency mortgage-backed securities	17,796	(42)	17,754
Total debt securities	19,704	(51)	19,653
Marketable equity securities	0	0	0
Total securities	$19,704	$(51)	$19,653

As of September 30, 2011, there were no held-to-maturity securities with unrealized losses.

The analysis performed as of December 31, 2010 indicated that all impairment was considered temporary, market driven, and not credit-related. The following tables provide the amortized cost, gross unrealized losses, and fair market value, aggregated by investment category and length of time the individual securities have been in a continuous unrealized loss position as of December 31, 2010 that are not deemed to be other-than-temporarily impaired.

Available-for-Sale

(in thousands)	Amortized Cost	Gross Unrealized Losses	Fair Value
Less Than 12 Months			
U.S. Treasury and government agencies	$10,384	$(230)	$10,154
State and political subdivisions	24,624	(826)	23,798
U.S. government sponsored agency mortgage-backed securities	30,016	(352)	29,664
Total debt securities	65,024	(1,408)	63,616
Marketable equity securities	42	(17)	25
Total securities	65,066	(1,425)	63,641
12 Months or More			
U.S. Treasury and government agencies	0	0	0
State and political subdivisions	590	(16)	574
U.S. government sponsored agency mortgage-backed securities	0	0	0
Total debt securities	590	(16)	574
Marketable equity securities	329	(293)	36
Total securities	919	(309)	610
Total			
U.S. Treasury and government agencies	10,384	(230)	10,154
State and political subdivisions	25,214	(842)	24,372
U.S. government sponsored agency mortgage-backed securities	30,016	(352)	29,664

Total debt securities	65,614	(1,424)	64,190
Marketable equity securities	371	(310)	61
Total securities	$65,985	$(1,734)	$64,251

As of December 31, 2010, there were no held-to-maturity securities with unrealized losses.

Note 4 – Loans

Major classifications of loans, net of unearned income and deferred loan origination costs, are summarized as follows:

(in thousands)	September 30 2011	December 31 2010
Commercial construction	$121,142	$135,091
Commercial secured by real estate	806,178	807,049
Equipment lease financing	10,765	14,151
Commercial other	376,890	388,746
Real estate construction	50,450	56,910
Real estate mortgage	644,779	623,851
Home equity	84,173	85,103
Consumer direct	124,441	126,046
Consumer indirect	354,739	368,233
Total loans	$2,573,557	$2,605,180

Not included in the loan balances above were loans held for sale in the amount of $0.8 million and $0.5 million at September 30, 2011 and December 31, 2010, respectively. The amount of capitalized fees and costs related to origination of loans under ASC 310-20, included in the above loan totals were $0.9 million and $0.8 million at September 30, 2011 and December 31, 2010, respectively.

CTBI acquired loans through the acquisition of First National Bank of LaFollette in the fourth quarter 2010. At acquisition, the transferred loans with evidence of deterioration of credit quality since origination were not significant; therefore, none of the loans acquired were accounted for under the guidance in ASC 310-30.

Credit discounts representing principal losses expected over the life of the loans are a component of the initial fair value for purchased loans acquired that are not deemed impaired at acquisition. Accordingly, an allowance for credit losses related to these loans is not carried over and recorded at the acquisition date. Subsequent to the acquisition date, the methods used to estimate the required allowance for credit losses for these loans is similar to originated loans; however, the Bank records a provision for loan losses only when the required allowance exceeds any remaining credit discounts. The remaining difference between the purchase price and the unpaid principal balance at the date of acquisition is recorded in interest income over the life of the loans. Management estimated the cash flows expected to be collected at acquisition using a third party that incorporated estimates of current key assumptions, such as default rates, severity, and prepayment speeds. The carrying amounts of those loans included in the balance sheet are $93.6 million and $115.7 million at September 30, 2011 and December 31, 2010, respectively.

Changes in accretable yield for the nine months ended September 30, 2011 and the year ended December 31, 2010 are as follows:

(in thousands)	September 30 2011	December 31 2010
Beginning balance	$2,995	$0

Additions	0	3,152
Accretion	(806)	(126)
Disposals	(1,033)	(31)
Ending balance	$1,156	$2,995

The amount of loans on a non-accruing income status was $28.0 million at September 30, 2011 and $45.0 million at December 31, 2010. The total of loans on non-accrual that were in homogeneous pools and not evaluated individually for impairment were $6.5 million, and $7.6 million at September 30, 2011 and December 31, 2010, respectively. Additional interest which would have been recorded during the quarter ended September 30, 2011 was $0.2 million compared to $0.3 million and $0.4 million for quarters ended December 31, 2010 and September 30, 2010, respectively. Any loan greater than 90 days past due must be well secured and in the process of collection to continue accruing interest. The amount of loans 90 days or more past due and still accruing interest was $9.5 million, $17.0 million, and $20.3 million at September 30, 2011, December 31, 2010, and September 30, 2010, respectively. Refer to note 1 to the consolidated financial statements for the year ended December 31, 2010 included in CTBI's Annual Report on Form 10-K for further information regarding our nonaccrual policy. Nonaccrual loans segregated by class of loans were as follows:

(in thousands)	September 30 2011	December 31 2010
Commercial:		
Commercial construction	$10,078	$13,138
Commercial secured by real estate	9,235	15,608
Commercial other	2,131	9,338
Residential:		
Real estate construction	873	636
Real estate mortgage	5,484	6,137
Home equity	185	164
Total nonaccrual loans	$27,986	$45,021

The following tables present the Bank's loan portfolio aging analysis, segregated by class, as of September 30, 2011 and December 31, 2010:

	September 30, 2011						
(in thousands)	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans	90+ and Accruing*
Commercial:							
Commercial construction	$1,140	$0	$12,355	$13,495	$107,647	$121,142	$2,821
Commercial secured by real estate	7,119	2,432	12,434	21,985	784,193	806,178	3,327
Equipment lease financing	0	0	0	0	10,765	10,765	0
Commercial other	3,270	275	1,950	5,495	371,395	376,890	667
Residential:							
Real estate construction	179	281	885	1,345	49,105	50,450	26
Real estate mortgage	1,555	3,622	6,802	11,979	632,800	644,779	1,912

Home equity	1,075	196	421	1,692	82,481	84,173	287
Consumer:							
Consumer direct	1,347	241	87	1,675	122,766	124,441	87
Consumer indirect	2,808	809	416	4,033	350,706	354,739	416
Total	$18,493	$7,856	$35,350	$61,699	$2,511,858	$2,573,557	$9,543

	December 31, 2010						
(in thousands)	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans	90+ and Accruing*
Commercial:							
Commercial construction	$1,800	$545	$14,290	$16,635	$118,456	$135,091	$1,178
Commercial secured by real estate	6,382	8,618	22,195	37,195	769,854	807,049	9,641
Equipment lease financing	0	0	0	0	14,151	14,151	0
Commercial other	6,737	539	5,039	12,315	376,431	388,746	1,692
Residential:							
Real estate construction	109	767	1,009	1,885	55,025	56,910	372
Real estate mortgage	1,478	3,764	8,844	14,086	609,765	623,851	3,337
Home equity	885	276	295	1,456	83,647	85,103	226
Consumer:							
Consumer direct	1,569	242	70	1,881	124,165	126,046	70
Consumer indirect	2,851	684	498	4,033	364,200	368,233	498
Total	$21,811	$15,435	$52,240	$89,486	$2,515,694	$2,605,180	$17,014

*90+ and Accruing are also included in 90+ Days Past Due column.

Bank procedures for assessing and maintaining adequate credit quality grading differ slightly depending on whether a new or renewed loan is being underwritten, or whether an existing loan is being re-evaluated for potential credit quality concerns. The latter usually occurs upon receipt of updated financial information, or other pertinent data, that would potentially cause a change in the loan grade.

The Bank categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, public information, and current economic trends. The Bank also considers the fair value of the underlying collateral and the strength and willingness of the guarantor(s). The Bank analyzes loans individually and based on this analysis, establishes a credit risk rating. The Bank uses the following definitions for risk ratings:

Ø Pass grades include investment grade, low risk, moderate risk, and acceptable risk loans. The loans range from loans that have no chance of resulting in a loss to loans that have a limited chance of resulting in a loss. Customers in this grade have excellent to fair credit ratings. The cash flows are adequate to meet required debt repayments.

Ø Watch graded loans are loans that warrant extra management attention but are not currently criticized. Loans on the watch list may be potential troubled credits or may warrant “watch” status for a reason not directly related to the asset quality of the credit. The watch grade is a management tool to identify credits which may be candidates for future classification or may temporarily warrant extra management monitoring.

Ø Other assets especially mentioned (OAEM) reflects loans that are currently protected but are potentially weak. These loans constitute an undue and unwarranted credit risk but not to the point of justifying a classification of substandard. The credit risk may be relatively minor yet constitute an unwarranted risk in light of circumstances surrounding a specific asset. Loans in this grade display potential weaknesses which may, if unchecked or uncorrected, inadequately protect the Bank's credit position at some future date. The loans may be adversely affected by economic or market conditions.

Ø Substandard grading indicates that the loan is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged. These loans have a well-defined weakness or weaknesses that jeopardize the orderly liquidation of the debt with the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

Ø Doubtful graded loans have the weaknesses inherent in the substandard grading with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. The probability of loss is extremely high, but because of certain important and reasonably specific pending factors which may work to the Bank's advantage or strengthen the asset(s), its classification as an estimated loss is deferred until its more exact status may be determined. Pending factors include proposed merger, acquisition, or liquidation procedures, capital injection, perfecting liens on additional collateral, and refinancing plans.

Ø A loss grading applies to loans that are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the asset has absolutely no recovery value, but rather it is not practical or desirable to defer writing off the asset. Losses must be taken in the period in which they surface as uncollectible, or in the case of collateral-dependent loans, a specific reserve in the amount of the expected loss is applied to the loan until the collateral is liquidated or we have taken possession and moved it into other real estate owned.

The following tables present the credit risk profile of the Bank's commercial loan portfolio based on rating category and payment activity, segregated by class of loans, as of September 30, 2011 and December 31, 2010:

(in thousands)	Commercial Construction	Commercial Secured by Real Estate	Commercial Other	Equipment Leases	Total
September 30, 2011					
Pass	$ 80,207	$ 650,654	$ 322,494	$ 10,765	$ 1,064,120
Watch	18,079	76,034	38,392	0	132,505
OAEM	998	15,663	1,559	0	18,220
Substandard	10,949	53,926	10,086	0	74,961
Doubtful	9,857	8,985	1,879	0	20,721
Loss	1,052	916	2,480	0	4,448
Total	$ 121,142	$ 806,178	$ 376,890	$ 10,765	$ 1,314,975
December 31, 2010					
Pass	$ 80,064	$ 651,281	$ 313,444	$ 14,151	$ 1,058,940
Watch	27,510	80,128	57,716	0	165,354
OAEM	853	8,163	731	0	9,747
Substandard	13,987	53,141	7,348	0	74,476
Doubtful	12,506	13,813	7,456	0	33,775
Loss	171	523	2,051	0	2,745
Total	$ 135,091	$ 807,049	$ 388,746	$ 14,151	$ 1,345,037

The following tables present the credit risk profile of the Bank's residential real estate and consumer loan portfolios based on performing or nonperforming status, segregated by class, as of September 30, 2011 and December 31, 2010:

(in thousands)	Real Estate Construction	Real Estate Mortgage	Home Equity	Consumer Direct	Consumer Indirect
September 30, 2011					
Performing	$ 49,551	$637,383	$83,701	$124,354	$354,323
Nonperforming	899	7,396	472	87	416
Total	$ 50,450	$644,779	$84,173	$124,441	$354,739
December 31, 2010					
Performing	$ 55,902	$614,377	$84,713	$125,976	$367,735
Nonperforming	1,008	9,474	390	70	498
Total	$ 56,910	$623,851	$85,103	$126,046	$368,233

A loan is considered nonperforming if it is 90 days or more past due or on nonaccrual.

A loan is considered impaired, in accordance with the impairment accounting guidance (ASC 310-10-35-16), when based on current information and events, it is probable the Bank will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Impaired loans include nonperforming commercial loans but also include loans modified in troubled debt restructurings where concessions have been granted to borrowers experiencing financial difficulties. These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection.

The following table presents impaired loans at September 30, 2011:

	September 30, 2011		
(in thousands)	Recorded Balance	Unpaid Principal Balance	Specific Allowance
Loans without a specific valuation allowance:			
Commercial construction	$5,748	$5,748	$0
Commercial secured by real estate	31,308	32,483	0
Commercial other	2,996	3,091	0
Real estate construction	28	28	0
Real estate mortgage	83	83	0
Consumer direct	78	78	0
Consumer indirect	121	121	0
Loans with a specific valuation allowance:			
Commercial construction	9,247	10,756	3,714
Commercial secured by real estate	4,619	4,754	1,826
Commercial other	1,793	4,373	765
Commercial	55,711	61,205	6,305
Residential	111	111	0
Consumer	199	199	0
Total	$56,021	$61,515	$6,305

The following table presents the average investment in impaired loans and interest income recognized on impaired loans for the three and nine months ended September 30, 2011:

(in thousands)	Three Months Ended September 30, 2011 Average Investment in Impaired Loans	Three Months Ended September 30, 2011 Interest Income Recognized	Nine Months Ended September 30, 2011 Average Investment in Impaired Loans	Nine Months Ended September 30, 2011 Interest Income Recognized
Loans without a specific valuation allowance:				
Commercial construction	$5,733	$ 76	$9,239	$ 193
Commercial secured by real estate	30,910	666	31,901	1,239
Commercial other	3,129	38	3,677	126
Real estate construction	28	0	19	1
Real estate mortgage	83	1	84	4
Consumer direct	79	2	78	6
Consumer indirect	124	3	101	8
Loans with a specific valuation allowance:				
Commercial construction	9,440	0	8,614	0
Commercial secured by real estate	4,632	0	5,025	23
Commercial other	1,873	0	4,666	0
Commercial	55,717	780	63,122	1,581
Residential	111	1	103	5
Consumer	203	5	179	14
Total	$56,031	$ 786	$63,404	$ 1,600

The following table presents impaired loans at December 31, 2010 and the average investment in impaired loans and interest income recognized on impaired loans for the year ended December 31, 2010:

	December 31, 2010				
(in thousands)	Recorded Balance	Unpaid Contractual Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized
Loans without a specific valuation allowance:					
Commercial construction	$6,313	$ 6,313	$0	$6,262	$ 43
Commercial secured by real estate	23,503	24,034	0	23,629	330
Commercial other	4,357	4,616	0	4,407	71
Real estate construction	790	790	0	790	0
Real estate mortgage	950	950	0	950	0
Loans with a specific valuation allowance:					
Commercial construction	9,528	10,813	2,554	9,686	0
Commercial secured by real estate	9,188	9,358	2,575	9,191	2
Commercial other	8,680	10,338	3,093	8,090	85
Commercial	61,569	65,472	8,222	61,265	531
Residential	1,740	1,740	0	1,740	0
Total	$63,309	$ 67,212	$8,222	$63,005	$ 531

The recorded investments in impaired loans at September 30, 2010 are summarized below:

(in thousands)	September 30 2010
Impaired loans without specific reserves	$26,871
Impaired loans with specific reserves	19,070
Restructured loans	6,377
Total	$52,318

The average investment in impaired loans for the nine months ended September 30, 2010 was $56.3 million and interest income recognized on impaired loans was $0.4 million for the same period.

Included in certain loan categories of impaired loans are certain loans and leases that have been modified in a troubled debt restructuring, where economic concessions have been granted to borrowers who have experienced financial difficulties. These concessions typically result from our loss mitigation activities and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance or other actions. Modifications of terms for our loans and their inclusion as troubled debt restructurings are based on individual facts and circumstances. Loan modifications that are included as troubled debt restructurings may involve either an increase or reduction of the interest rate, extension of the term of the loan, or deferral of principal payments, regardless of the period of the modification. All of the loans were modified due to financial stress of the borrower.

When we modify loans and leases in a troubled debt restructuring, we evaluate any possible impairment similar to other impaired loans based on the present value of expected future cash flows, discounted at the contractual interest rate of the original loan or lease agreement, or use the current fair value of the collateral, less selling costs for collateral dependent loans. If we determined that the value of the modified loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), impairment is recognized through a specific reserve or a charge-off to the allowance. In periods subsequent to modification, we evaluate all troubled debt restructuring, including those that have payment defaults, for possible impairment and recognize impairment through the allowance.

Restructured loans segregated by class of loans were as follows:

(in thousands)	September 30 2011	December 31 2010
Commercial:		
Commercial construction	$5,388	$2,973
Commercial secured by real estate	18,871	2,511
Commercial other	2,320	1,156
Residential:		
Real estate construction	28	0
Real estate mortgage	83	0
Consumer:		
Consumer direct	78	0
Consumer indirect	121	0
Total restructured loans	$26,889	$6,640

Presented below, segregated by class of loans, are troubled debt restructurings that occurred during the three and nine months ended September 30, 2011:

	Three Months Ended September 30, 2011			Nine Months Ended September 30, 2011		
(in thousands)	Number of Loans	Post-Modification Outstanding Balance	Net Charge-offs Resulting from Modification	Number of Loans	Post-Modification Outstanding Balance	Net Charge-offs Resulting from Modification
Commercial:						
Commercial construction	5	$ 138	$ 0	7	$ 3,372	$ 0
Commercial secured by real estate	7	6,949	0	17	17,626	0
Commercial other	1	3	(1)	9	1,977	(1)
Residential:						
Real estate construction	0	0	0	1	28	0
Real estate mortgage	0	0	0	2	88	0
Consumer:						
Consumer direct	1	6	0	6	82	0
Consumer indirect	2	41	0	8	131	0
Total	16	$ 7,137	$ (1)	50	$ 23,304	$ (1)

Loan modifications resulted in no additional specific reserve allocations during the three months ended September 30, 2011 and an additional specific reserve allocation of $200 thousand during the nine months ended September 30, 2011 as a result of a loan modification in the commercial other loan classification.

Presented below, segregated by class of loans, are troubled debt restructurings that were performing in accordance with their modified terms. CTBI considers a troubled debt restructuring to be performing in accordance with its modified terms if the loan is not past due 30 days or more as of the reporting date.

(in thousands)	September 30 2011	December 31 2010
Commercial:		
Commercial construction	$ 1,324	$ 1,633
Commercial secured by real estate	16,066	2,427
Commercial other	393	771
Residential:		
Real estate construction	0	0
Real estate mortgage	67	0
Consumer:		
Consumer direct	48	0
Consumer indirect	121	0
Total current restructured loans	$ 18,019	$ 4,831

Loans retain their accrual status at the time of their modification. As a result, if a loan is on nonaccrual at the time it is modified, it stays as nonaccrual, and if a loan is on accrual at the time of the modification, it generally stays on accrual. Commercial and consumer loans modified in a troubled debt restructuring are closely monitored for delinquency as an early indicator of possible future default. If loans modified in a troubled debt restructuring subsequently default, CTBI evaluates the loan for possible further impairment. The allowance for loan losses may be increased, adjustments may be made in the allocation of the allowance, or partial charge-offs may be taken to further write-down the carrying value of the loan. Presented below, segregated by class of loans, are loans that were modified as troubled debt restructurings within the previous 12 months which have subsequently defaulted. CTBI considers a loan in default when it is 90 days or more past due or transferred to nonaccrual.

(in thousands)	Three Months Ended September 30 2011		Nine Months Ended September 30 2011	
	Number of Loans	Recorded Balance	Number of Loans	Recorded Balance
Commercial:				
Commercial construction	2	$ 3,913	2	$3,913
Commercial secured by real estate	0	0	0	0
Commercial other	0	0	2	83
Residential:				
Real estate construction	0	0	0	0
Real estate mortgage	0	0	0	0
Consumer:				
Consumer direct	1	7	1	7
Consumer indirect	0	0	0	0
Total defaulted restructured loans	3	$ 3,920	5	$4,003

The following tables present the activity in the allowance for loan losses and the recorded investment in loans based on portfolio segment and impairment method for the three and nine months ended September 30, 2011 and the year ended December 31, 2010:

	Three Months Ended September 30, 2011									
(in thousands)	Commercial Construction	Commercial Secured by Real Estate	Commercial Other	Equipment Lease Financing	Real Estate Construction	Real Estate Mortgage	Home Equity	Consumer Direct	Consumer Indirect	Total
Allowance for loan losses										
Beginning balance	$4,637	$13,202	$5,452	$123	$296	$3,938	$514	$1,067	$5,923	$35,152
Provision charged to expense	1,162	(134)	366	0	261	692	56	(6)	118	2,515
Losses charged off	304	369	856	0	244	566	44	261	716	3,360
Recoveries	16	27	127	0	6	17	7	141	351	692
Ending balance	$5,511	$12,726	$5,089	$123	$319	$4,081	$533	$941	$5,676	$34,999
Ending balance:										
Individually evaluated	$3,714	$1,826	$765	$0	$0	$0	$0	$0	$0	$6,305

for impairment										
Collectively evaluated for impairment	$1,797	$10,900	$4,324	$123	$319	$4,081	$533	$941	$5,676	$28,694
Loans										
Ending balance:										
Individually evaluated for impairment	$14,995	$35,927	$4,789	$0	$28	$83	$0	$78	$121	$56,021
Collectively evaluated for impairment	$106,147	$770,251	$372,101	$10,765	$50,422	$644,696	$84,173	$124,363	$354,618	$2,517,536

	Nine Months Ended September 30, 2011									
(in thousands)	Commercial Construction	Commercial Secured by Real Estate	Commercial Other	Equipment Lease Financing	Real Estate Construction	Real Estate Mortgage	Home Equity	Consumer Direct	Consumer Indirect	Total
Allowance for loan losses										
Beginning balance	$4,332	$12,327	$7,392	$148	$271	$2,982	$407	$1,169	$5,777	$34,805
Provision charged to expense	1,958	2,858	1,039	(25)	347	2,247	282	70	1,446	10,222
Losses charged off	808	2,582	3,691	0	319	1,217	171	670	2,630	12,088
Recoveries	29	123	349	0	20	69	15	372	1,083	2,060
Ending balance	$5,511	$12,726	$5,089	$123	$319	$4,081	$533	$941	$5,676	$34,999
Ending balance:										
Individually evaluated for impairment	$3,714	$1,826	$765	$0	$0	$0	$0	$0	$0	$6,305
Collectively evaluated for impairment	$1,797	$10,900	$4,324	$123	$319	$4,081	$533	$941	$5,676	$28,694
Loans										

Ending balance:										
Individually evaluated for impairment	$14,995	$35,927	$4,789	$0	$28	$83	$0	$78	$121	$56,021
Collectively evaluated for impairment	$106,147	$770,251	$372,101	$10,765	$50,422	$644,696	$84,173	$124,363	$354,618	$2,517,536

	Twelve Months Ende							
(in thousands)	Commercial Construction	Commercial Secured by Real Estate	Commercial Other	Equipment Lease Financing	Real Estate Construction	Real Estate Mortgage	Home Equity	
Allowance for loan losses								
Beginning balance	$3,381	$10,961	$7,472	$221	$291	$3,041	$455	$
Provision charged to expense	2,640	5,029	4,416	(73)	(17)	526	287	
Losses charged off	1,695	3,826	5,184	0	22	684	358	
Recoveries	6	163	688	0	19	99	23	

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Indirect Payments made by J.P. Morgan to Turkcell

As part of its service to Turkcell, J.P. Morgan has agreed to waive f
expenses estimated to total $50,000. The table below sets forth the f
ended December 31, 2010.

Category of Expenses
Third-party expenses paid directly
Fees waived

ITEM 13 DEFAULTS, DIVIDEND ARREARAGES AND

Not Applicable.

ITEM 14 MATERIAL MODIFICATIONS TO THE RIGI

Not applicable.

ITEM 15 CONTROLS AND PROCEDURES

(a) *Disclosure Controls and Procedures*. The Chief Executive Offic
and procedures (as defined in U.S. Exchange Act Rule 13a-15(e)) a
disclosure controls and procedures were effective.

(b) *Management s Annual Report on Internal Control Over Financ*
control over financial reporting (as defined in Rules 13a-15(f) and 1
of internal control over financial reporting as of December 31, 2010
assurance regarding the reliability of financial reporting and the pre
accounting principles. The Company s internal control over financ

1. Pertain to the maintenance of records that, in reasonab

2. Provide reasonable assurance that transactions are rec
accepted accounting principles, and that receipts and
directors of the Company; and

3. Provide reasonable assurance regarding prevention or
material effect on the financial statements.

Internal control over financial reporting has inherent limitations. It i
breakdowns resulting from human failures. In addition, it can be cir
material misstatements will not be prevented or detected on a timely
of the financial reporting process. Therefore, it is possible to design

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Management assessed the effectiveness of the internal control over
Framework, issued by the Committee of Sponsoring Organizations
concluded that the Company s internal control over financial repor

The effectiveness of our internal control over financial reporting as
A.S. (Deloitte), our independent registered public accounting fir
Registered Public Accounting Firm.

(c) Attestation Report of the Independent Public Accounting Firm.

REPORT OF INDE

To the Board of Directors and Shareholders of

Turkcell İletişim Hizmetleri AŞ.

We have audited the internal control over financial reporting of Tur
criteria established in Internal Control-Integrated Framework issued
responsible for maintaining effective internal control over financial
the accompanying Management s Report. Our responsibility is to e

We conducted our audit in accordance with the standards of the Pub
perform the audit to obtain reasonable assurance about whether effe
obtaining an understanding of internal control over financial reporti
effectiveness of internal control based on the assessed risk, and perf
provide a reasonable basis for our opinion.

A company s internal control over financial reporting is a process
persons performing similar functions, and effected by the company
reliability of financial reporting and the preparation of financial stat
internal control over financial reporting includes those policies and
reflect the transactions and dispositions of the assets of the company
financial statements in accordance with generally accepted accounti
authorizations of management and directors of the company; and (3
disposition of the company s assets that could have a material effec

Because of the inherent limitations of internal control over financial
misstatements due to error or fraud may not be prevented or detecte
financial reporting to future periods are subject to the risk that the c
policies or procedures may deteriorate.

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In our opinion, based on our audit, the Group maintained, in all mat
criteria established in Internal Control-Integrated Framework issued

We have also audited, in accordance with the standards of the Publi
the year ended December 31, 2010 of the Group and our report date
report of the other auditors.

Istanbul, Turkey

April 18, 2011

/s/ DRT BAĞIMSIZ DENETİM VE SERBEST MUHASEBECİ M

Member of **DELOITTE TOUCHE TOHMATSU LIMITED**

(d) *Changes in Internal Control Over Financial Reporting*. There w
Company s internal control over financial reporting that occurred c
affect, the Company s internal control over financial reporting. Thi

ITEM 16 AUDIT COMMITTEE FINANCIAL EXPE
Currently no independent audit committee member is an audit com
committee members did not consider themselves, individually, as a
believe that our audit committee members are qualified to carry out

ITEM 16B. CODE OF ETHICS
We have adopted a code of ethics that applies to our Chief Executiv
posted on our website, www.turkcell.com.tr.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND S
Deloitte served as our independent registered public accountant for
Mali Musavirlik A.S. served as our independent registered public a
the three year period ended December 31, 2010 appear in this annua
2010, Deloitte was appointed as our independent auditors for our 20

The following table presents the aggregate fees for professional serv

Audit Fees(1)
Audit-Related Fees(2)
Tax Fees
All Other Fees(3)
Total

(1)

Audit Fees consist of fees billed for professional services per
provided by the principal accountant in connection with statu

Table of Contents

(2) Audit-Related Fees consist of fees billed for assurance and r
financial statements.

(3) All Other Fees consist of fees billed for products and service

Audit Committee Pre-approval Policies and Procedures

Our audit committee has determined that all work performed by ou
adopted blanket pre-approval policies and procedures.

ITEM 16D. EXEMPTIONS FROM THE LISTING ST

One of our audit committee members, Mr. Khudyakov, is a represe
considered independent under Rule 10A-3(b) of the Exchange Act.
contained in Rule 10A-3(b)(1)(iv)(D). We do not believe that such
satisfy other requirements of Rule 10A-3.

ITEM 16E. PURCHASES OF EQUITY SECURITIES

To our best knowledge and in accordance with the official Share B
during the fiscal year ended December 31, 2010.

ITEM 16F. CHANGE IN REGISTRANT S CERTIFY

Incorporated by reference to our annual report on Form 20-F filed

ITEM 16G. CORPORATE GOVERNANCE

Significant Differences in Corporate Governance Practices

Matters related to corporate governance in Turkey are regulated by
Markets Board of Turkey (the CMB), the regulatory and supervi

In addition, corporate governance practices in Turkey are also guid
comply-or-explain basis on January 1, 2004. Effective from 2005, t
Report which compares the CMB Principles to the Corporate Gov
www.turkcell.com.tr.

We believe that we have, in all cases, either followed the recomme
thus, we believe that we are in compliance with the CMB Principle
according to the criteria set forth therein. In Turkey, other than the
communiqué, which only requires that committee members be com
accordance with these principles, we disclose in our Corporate Gov

Table of Contents

Below is a summary of the significant differences between our corp
governance rules:

NYSE Corporate Governance Rule for U.S. Issuers
Listed companies must have a majority of independent directors.

The non-management directors of each company must meet at regu
executive sessions without management.

Listed companies must have a nominating/corporate governance co
entirely of independent directors, with a written charter that provid
duties, which are to identify individuals qualified to become board
with criteria approved by the board, and to select, or to recommend
the director nominees for the next annual meeting of shareholders;
recommend to the board a set of corporate governance guidelines a
corporation; and oversee the evaluation of the board and managem
annual performance evaluation of the committee.

Listed companies must have a compensation committee composed e
directors, with a written charter that covers certain minimum speci

Table of Contents

NYSE Corporate Governance Rule for U.S. Issuers

Listed companies must have an audit committee that satisfies requi
Exchange Act Rule 10A-3 and additional requirements, including: (
members; (ii) independence as defined in NYSE Rule 303A.02; (iii)
addresses minimum duties in addition to those required by Exchang

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NYSE Corporate Governance Rule for U.S. Issuers

Table of Contents

NYSE Corporate Governance Rule for U.S. Issuers

*Listed companies must adopt and disclose corporate governance gu
certain minimum specified subjects.*

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ITEM 17 FINANCIAL STATEMENTS

We have responded to Item 18 in lieu of responding to this item.

ITEM 18 FINANCIAL STATEMENTS

Our audited consolidated financial statements as of December 31, 2
annual report, on pages F-4 through F-111.

ITEM 19 EXHIBITS

EXHIBIT NUMBER	DESCRIPTION
1.1	Articles of Association of Turkcell Iletisir
8.1	Subsidiaries of Turkcell.
12.1	Certification of Sureyya Ciliv, Chief Exec 2002.
12.2	Certification of Serkan Okandan, Chief Fi 2002.
13.1	Certification pursuant to 18 U.S.C. Sectio
15.1	Consent of Independent Registered Public
15.2	Consent of Independent Registered Public
15.3	Consent of Independent Registered Public
15.4	Auditor Letter Pertaining to Item 16F (inc

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The registrant hereby certifies that it meets all of the requirements f
annual report on its behalf.

Date: April 20, 2011

Date: April 20, 2011

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In

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REPORT OF INDE

To the Board of Directors and Shareholders of

Turkcell İletişim Hizmetleri A.Ş.

We have audited the accompanying consolidated statement of finan
December 31, 2010 and the related consolidated statement of incom
consolidated statement of cash flows for the year ended December 3
responsibility is to express an opinion on these consolidated financi
a 41.45 percent owned equity accounted investee of the Group. The
$153 million, for the year 2010. Those statements were audited by o
included for Fintur, is based solely on the report of the other audito

We conducted our audits in accordance with the standards of the Pu
perform the audit to obtain reasonable assurance about whether the
supporting the amounts and disclosures in the financial statements.
management, as well as evaluating the overall financial statement p
opinion.

In our opinion, based on our audits and the report of the other audito
Group as of December 31, 2010 and the results of their operations a
Reporting Standards as issued by the International Accounting Stan

We have also audited, in accordance with the standards of the Publi
as of December 31, 2010 based on the criteria established in Interna
Commission and our report dated April 18, 2011 expressed an unqu

Istanbul, Turkey

April 18, 2011

/s/ DRT BAĞIMSIZ DENETİM VE SERBEST MUHASEBECİ

Member of **DELOITTE TOUCHE TOHMATSU LIMITED**

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Report of

The Board of Directors and Shareholders

Turkcell Iletisim Hizmetleri A.S.:

We have audited the accompanying consolidated statements of fina
and the related consolidated income statements, consolidated statem
ended December 31, 2009. These consolidated financial statements
consolidated financial statements based on our audits. We did not au
accounted investee company. The Group s investment in Fintur at
the years 2009, and 2008, respectively. Those consolidated financia
as it relates to the amounts included for Fintur, is based solely on th

We conducted our audits in accordance with the standards of the Pu
perform the audit to obtain reasonable assurance about whether the
supporting the amounts and disclosures in the financial statements.
management, as well as evaluating the overall financial statement p

In our opinion, based on our audits and the report of the other audito
financial position of Turkcell Iletisim Hizmetleri A.S. and its subsid
in the two-year period ended December 31, 2009, in conformity wit

/s/ Akis Bagimsiz Denetim ve Serbest

Muhasebeci Mali Müsavirlik A.S.

Istanbul, Turkey

April 26, 2010

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TURKCELL IL

CONSOLID

(Amounts expressed in thou

Assets	
Property, plant and equipment	
Intangible assets	
GSM and other telecommunication operating licenses	
Computer software	
Other intangible assets	
Investments in equity accounted investees	
Other investments	
Due from related parties	
Other non-current assets	
Trade receivables	
Deferred tax assets	
Total non-current assets	
Inventories	
Other investments	
Due from related parties	
Trade receivables and accrued income	
Other current assets	
Cash and cash equivalents	
Total current assets	
Total assets	
Equity	
Share capital	
Share premium	
Capital contributions	
Reserves	
Retained earnings	
Total equity attributable to equity holders of Turkcell Iletisim Hizmetleri AS	
Non-controlling interests	
Total equity	
Liabilities	
Loans and borrowings	
Employee benefits	
Provisions	

Other non-current liabilities
Deferred tax liabilities
Total non-current liabilities
Bank overdraft
Loans and borrowings
Income taxes payable
Trade and other payables
Due to related parties
Deferred income
Provisions
Total current liabilities
Total liabilities
Total equity and liabilities

The notes on page F-10 to

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TURKCELL IL

CON

(Amounts expressed in thou

Revenue
Direct costs of revenue
Gross profit
Other income
Selling and marketing expenses
Administrative expenses
Other expenses
Results from operating activities
Finance income
Finance costs
Net finance income
Share of profit of equity accounted investees
Profit before income tax
Income tax expense
Profit for the year
Profit attributable to:
Owners of Turkcell Iletisim Hizmetleri AS
Non-controlling interest
Profit for the year
Basic and diluted earnings per share (in full USD)

The notes on page F-10 to

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TURKCELL IL

CONSOLIDAT

(Amounts expressed in thou

Profit for the year	
Other comprehensive income/(expense):	
Foreign currency translation differences	
Net change in fair value of available-for-sale securities	
Income tax on other comprehensive (expense)/income	
Other comprehensive income/(expense) for the year, net of inco	
Total comprehensive income for the year	
Total comprehensive income/(expense) attributable to:	
Owners of Turkcell Iletisim Hizmetleri AS	
Non-controlling interest	
Total comprehensive income for the year	

The notes on page F-10 to

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TURKCELL IL

CONSOLID

(Amounts expressed in thou

	Share Capital	Capital ContributionP
Balance at 1 January 2008	1,636,204	
Total comprehensive income		
Profit for the year		
Other comprehensive income/(expense)		
Foreign currency translation differences, net of tax		
Net change in fair value of available-for-sale securities, net of tax		
Total other comprehensive income/(expense)		
Total comprehensive income/(expense)		
Increase in legal reserves		
Dividends paid		
Change in non-controlling interest		
Change in reserve for non-controlling interest put option		
Capital contribution granted		18,202
Balance at 31 December 2008	**1,636,204**	**18,202**
Balance at 1 January 2009	1,636,204	18,202
Total comprehensive income		
Profit for the year		
Other comprehensive income/(expense)		
Foreign currency translation differences, net of tax		
Net change in fair value of available-for-sale securities, net of tax		
Total other comprehensive income/(expense)		
Total comprehensive income/(expense)		
Increase in legal reserves		
Dividends paid		
Change in non-controlling interest		
Change in reserve for non-controlling interest put option		
Capital contribution granted		4,570

Balance at 31 December 2009	**1,636,204**	**22,772**

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TURKCELL IL

CONSOLIDATEI

(Amounts expressed in thou

	Share Capital	Capital Contributio
Balance at 1 January 2010	1,636,204	22,772
Total comprehensive income		
Profit for the year		
Other comprehensive income/(expense)		
Foreign currency translation differences, net of tax		
Net change in fair value of available-for-sale securities, net of tax		
Total other comprehensive income/(expense)		
Total comprehensive income/(expense)		
Increase in legal reserves		
Dividends paid		
Change in non-controlling interest		
Change in reserve for non-controlling interest put option		
Balance at 31 December 2010	**1,636,204**	**22,772**

The notes on page F-10 to

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TURKCELL IL

CONSC

(Amounts expressed in thou

Cash flows from operating activities
Profit for the year
Adjustments for:
Depreciation and impairment of fixed assets
Amortization of intangible assets
Net finance (income)
Income tax expense
Share of profit of equity accounted investees
(Gain)/loss on sale of property, plant and equipment
Gain on sale of subsidiary
Unrealized foreign exchange gain and loss on operating assets
Impairment losses on goodwill
Provision for impairment of trade receivables
Deferred income

Change in trade receivables
Change in due from related parties
Change in inventories
Change in other current assets
Change in other non-current assets
Change in due to related parties
Change in trade and other payables
Change in other current liabilities
Change in other non-current liabilities
Change in employee benefits
Change in provisions

Interest paid
Income tax paid
Dividends received

Net cash generated by operating activities

Cash flows from investing activities
Acquisition of property, plant and equipment
Acquisition of intangible assets
Proceeds from sale of property, plant and equipment
Proceeds from currency option contracts
Payment of currency option contracts premium
Acquisition of available-for-sale securities
Proceeds from sale of available-for-sale securities
Acquisition of subsidiary, net of cash acquired
Interest received

Net cash used in investing activities

Cash flows from financing activities

Proceeds from issuance of loans and borrowings
Loan transaction costs
Repayment of borrowings
Change in non-controlling interest
Proceeds from capital contribution
Dividends paid

Net cash used in financing activities

Net decrease/(increase) in cash and cash equivalents
Cash and cash equivalents at 1 January
Effects of foreign exchange rate fluctuations on cash and cash equivaler

Cash and cash equivalents at 31 December

The notes on page F-10 to

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TURKCELL IL

NOTES TO T

As a

(Amounts expressed in thou

Notes to the consolidated financial statements

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TURKCELL IL

NOTES TO THE CO

As a

(Amounts expressed in thou

1. Reporting entity

Turkcell Iletisim Hizmetleri Anonim Sirketi (the Company) was
Company s registered office is Turkcell Plaza, Mesrutiyet Caddesi
Communications (GSM) network in Turkey and regional states.

In April 1998, the Company signed a license agreement (the 2G L
which it was granted a 25 year GSM license in exchange for a licen
it from some of the operating constraints in the Revenue Sharing Ag
revenue generated from the operations of its GSM network and pay
from Turkish GSM operations. The Company continues to build an
charge peak and off-peak rates, offer a variety of service and pricin
Following the 3G tender held by the Information Technologies and
infrastructure, the Company has been granted the A-Type license (t
Added Tax (VAT)). Payment of the 3G license was made in cas

On 25 June 2005, the Turkish Government declared that GSM oper
service fund contribution in accordance with Law No: 5369. As a re
10% to the Turkish Ministry as universal service fund.

In July 2000, the Company completed an initial public offering wit
on the New York Stock Exchange.

As at 31 December 2010, two significant founding shareholders, So
respectively of the Company s share capital and are ultimate count
available information, Alfa Group, which previously held, indirectl
has reduced its stake to 4.99% following litigation with Telenor AS
62.2% of its holdings in Alfa Telecom Turkey Limited (ATTL) t
Limited (HSL) and in July 2010, redeemed these shares.

The consolidated financial statements of the Company as at and for
Group) and the Group s interest in one associate and one joint v
each of its subsidiaries , associate s and joint venture s financial s

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TURKCELL IL

NOTES TO THE CO

As a

(Amounts expressed in thou

2. Basis of preparation

(a) Statement of compliance

The consolidated financial statements have been prepared in accord
Standards Board (IASB).

The Company selected the presentation form of function of expen

The Company reports cash flows from operating activities by using
for the effects of transactions of a non-cash nature, any deferrals or
with investing or financing cash flows.

The consolidated financial statements as of and for the year ended 3
the management for any subsequent events up until 18 April 2011.

Authority for restatement and approval of consolidated financial sta
Directors by the recommendation of Audit Committee of the Comp

(b) Basis of measurement

The accompanying consolidated financial statements are based on t
with IFRSs as issued by the IASB. They are prepared on the historic
2005, except that the following assets and liabilities are stated at the
available-for-sale. The methods used to measure fair value are furth

(c) Functional and presentation currency

The consolidated financial statements are presented in US Dollars (
(TL), Euro (EUR), Ukranian Hryvnia (HRV) and Swedish
subsidiaries located in Turkey and Turkish Republic of Northern Cy
BV (Financell) is USD. The functional currency of East Asian C
Astelit (Astelit), LLC Global Bilgi (Global LLC) and UkrTow
Telecom) and FLLC Global Bilgi (Global FLLC) is Belarusian

(d) Use of estimates and judgments

The preparation of the consolidated financial statements in conform
application of accounting policies and the reported amounts of asse

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TURKCELL IL

NOTES TO THE CO

As a

(Amounts expressed in thou

Estimates and underlying assumptions are reviewed on an ongoing
in any future periods affected.

Information about significant areas of estimation, uncertainty and cr
recognized in the consolidated financial statements are described in
allowance for doubtful receivables, useful lives or expected patterns
recognition and income taxes are provided below:

Key sources of estimation uncertainty

In Note 29, detailed analysis is provided for the foreign exchange ex

Critical accounting judgments in applying the Group s account

Certain critical accounting judgments in applying the Group s acco

Allowance for doubtful receivables

During the current year, the Group has changed its accounting estim
receivables was based on management s evaluation of the volume o
accounting estimate, the Group maintains an allowance for doubtful
make required payments. The Group bases the allowance on the like
collection trends and general economic conditions. The allowance i
calculated as a specified percentage of the outstanding balance in ea
longer.

This change is accounted as a change in accounting estimates in acc
evaluation performed, the change in the estimates regarding the dete

Bad debt expense for the year ended 31 December 2010
Due to the impracticability, the Group has not disclosed the effect o

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TURKCELL IL

NOTES TO THE CO

As a

(Amounts expressed in thou

Useful lives of assets

The economic useful lives of the Group s assets are determined by
useful life of its assets in terms of the assets expected utility to the
life of an asset, the Group also follows technical and/or commercial
licenses are based on the duration of the license agreements.

In accordance with IAS 16 *Property, Plant and Equipment* and I
financial year-end and, if expectations differ from previous estimate
Accounting Policies, Changes in Accounting Estimates and Errors
current technologic and economic conditions and recent business pl
on depreciation and amortization charges;

Depreciation and amortization charge for the year ended 31 Decem
Due to the impracticability, the Group has not disclosed the effect o

Commission fees

Commission fees relate to services performed in relation to betting
issued amendments to the illustrative guidance in the appendix to IA
Based on this guidance; management considered the following facto

The Group does not take the responsibility fo

The Group does not collect the proceeds fron

The Group earns a pre-determined percentag

Revenue recognition

In arrangements which include multiple elements, the Group consid
relating to the bundled contracts is allocated among the different un

the component has standalone value to the cu

the fair value of the component can be measu

The arrangement consideration is allocated to each deliverable in pr
separately identifiable component, then it is accounted for as an inte

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TURKCELL IL

NOTES TO THE C

As a

(Amounts expressed in thou

Income taxes

The calculation of income taxes involves a degree of estimation and
been reached with the relevant tax authority or, as appropriate, thro

As part of the process of preparing the consolidated financial statem
they operate. This process involves estimating the actual current tax
deferred revenue and reserves for tax and accounting purposes. The
income and to the extent the recovery is not considered probable th

The recognition of deferred tax assets is based upon whether it is pr
Recognition, therefore, involves judgment regarding the future fina

Changes in accounting policies

Changes to the accounting policies are applied retrospectively and t
accounting policies during the current year.

Changes in accounting estimates

If the application of changes in the accounting estimates affects the
period, if they affect the financial results of current and following p
change in the measurement basis applied is a change in an accounti
accounting policy from a change in an accounting estimate, the cha

The Group did not have any major changes in the accounting estima
plant and equipment and intangible assets.

Comparative information and revision of prior period fi

The consolidated financial statements of the Group have been prepa
position and performance. If the presentation or classification of the
periods are also reclassified in line with the related changes.

The Company has for 2010 revised the manner in which it accounts
presentation of prior periods, resulting in a change in the allocation
statement of financial position items and Effect of foreign excha

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TURKCELL IL

NOTES TO THE CO

As a

(Amounts expressed in thou

underlying functional currency cash flows into the presentation curr
statement of cash flows will not impact the Company s previously
and cash equivalents at the end of any period. The effect of the ch

Net cash from operating activities
Effects of foreign exchange on statement of financial position it
Effects of foreign exchange rate changes on cash
Cash and cash equivalents

Net cash from operating activities
Effects of foreign exchange on statement of financial position it
Effects of foreign exchange rate changes on cash
Cash and cash equivalents

3. Significant accounting policies

The accounting policies set out below have been applied consistentl
the Group entities.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists wh
from its activities. In assessing control, potential voting rights that c
included in the consolidated financial statements from the date that
necessary to align them with the policies adopted by the Group.

(ii) Acquisition from entities under common control

Business combinations arising from transfers of interests in entities
Business Combinations . In business combinations under commo
consolidated financial statements. Statements of income are

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TURKCELL IL

NOTES TO THE CO

As a

(Amounts expressed in thou

consolidated starting from the beginning of the financial year in wh
same manner in order to maintain consistency and comparability. A
consolidated financial statements. Residual balance calculated by no
transactions (i.e. transactions with owners in their capacity as owne

(iii) Associates and jointly controlled entities (equity accounted i
Associates are those entities in which the Group has significant infl
when the Group holds between 20 and 50 percent of the voting pow
established by contractual agreement and requiring unanimous cons

Associates and jointly controlled entities (equity accounted investee
includes goodwill identified on acquisition, net of any accumulated
expenses and equity movements of equity accounted investees, afte
influence or joint control commences until the date that significant i
investee, the carrying amount of that interest (including any long-te
the Group has an obligation or has made payments on behalf of the
and A-Tel Pazarlama ve Servis Hizmetleri AS (A-Tel).

(iv) Transactions eliminated on consolidation
Intragroup balances and transactions and any unrealized income and
statements. Unrealized gains arising from transactions with equity a
Unrealized losses are eliminated in the same way as unrealized gain

(v) Non-controlling interests
Where a put option is granted by the Group to the non-controlling in
the Group recognizes a liability for the present value of the estimate
are derecognized when the financial liability is recognized. The cor
attributable to the equity holders of the parent and not as attributabl
and the amount of non-controlling interests shareholders derecogn
non-controlling shareholders in existing subsidiaries are also recogn
income.

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TURKCELL IL

NOTES TO THE CO

As a

(Amounts expressed in thou

(b) Foreign currency

(i) Foreign currency transactions
Transactions in foreign currencies are translated to the respective fu
liabilities denominated in foreign currencies at the reporting date ar
on translation of foreign currency transactions are recognized in the
amortized cost in the functional currency at the beginning of the per
currency translated at the exchange rate at the end of the period.

Non-monetary assets and liabilities denominated in foreign currenci
that the fair value was determined. Foreign currency differences ari
retranslation of available-for-sale equity instruments, which are rec

(ii) Foreign operations
The assets and liabilities of foreign operations, including goodwill a
foreign operation at foreign exchange rates ruling at the reporting d

Foreign currency differences arising on retranslation are recognized
2005, the Group s date of transition to IFRSs, such differences hav
partially or fully, the relevant amount in the foreign currency transla

Foreign exchange gains and losses arising from a monetary item rec
foreseeable future, are considered to form part of a net investment i

(iii) Translation from functional to presentation currency
Items included in the financial statements of each entity are measure
their local currencies.

The consolidated financial statements are presented in USD, which
convenience of investor and analyst community.

Assets and liabilities for each statement of financial position presen
date. Income and expenses for each statement of income (including

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TURKCELL IL

NOTES TO THE CO

As a

(Amounts expressed in thou

Foreign currency differences arising on retranslation are recognized

(iv) Net investment in foreign operations

Foreign currency differences arising from the translation of the net transferred to the statement of income upon disposal of the foreign

(c) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equit and other payables.

Non-derivative financial instruments which are not recognized or d any directly attributable transaction costs. Subsequent to initial reco

Cash and cash equivalents comprise cash balances and call deposits integral part of the Group s cash management are included as a co

Financial assets and liabilities are offset and the net amount present amounts and intends either to settle on a net basis or to realize the a

Accounting for finance income and costs is discussed in Note 3(m).

Financial assets at fair value through profit or loss

An instrument is classified as financial asset at fair value through pr designated at fair value through profit or loss if the Group manages Group s risk management or investment strategy. Upon initial reco instruments at fair value through profit or loss are measured at fair v

Held-to-maturity financial assets

If the Group has the positive intent and ability to hold debt securitie initially at fair value plus any directly attributable transaction costs. the effective interest method, less any impairment losses.

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TURKCELL IL

NOTES TO THE CO

As a

(Amounts expressed in thou

Any sale or reclassification of a more than insignificant amount of h
held-to-maturity investments as available-for-sale, and prevent the G
financial years.

Available-for-sale financial assets
Available-for-sale financial assets are non-derivative financial asset

The Group s investments in equity securities and certain debt secur
fair value and changes therein, other than impairment losses (see no
recognized directly in equity. When an investment is derecognized,

Estimated exercise price of put options
Under the terms of certain agreements, the Group is committed to a
non-controlling interests wish to sell their share of interests.

As the Group has unconditional obligations to fulfil its liabilities un
put option to be presented as a financial liability on the statement of
such transactions under the anticipated acquisition method and the i
liability is recognized. The Group accounts for the difference betwe
interests in equity.

Other
Other non-derivative financial instruments are measured at amortize

(ii) Derivative financial instruments
The Group holds derivative financial instruments to hedge its foreig
treasury policy, the Group engages in forward and option contracts.

Embedded derivatives are separated from the host contract and acco
derivative are not closely related, b) a separate instrument with the s
instrument is not measured at fair value through profit or loss.

Derivatives are recognized initially at fair value; attributable transac
derivatives are measured at fair value and changes therein are recog

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(Amounts expressed in thou

(d) Property, plant and equipment

(i) Recognition and measurement
Items of property, plant and equipment are stated at cost adjusted fo
depreciation (see below) and accumulated impairment losses (see n

Cost includes expenditure that is directly attributable to the acquisit
costs directly attributable to bringing the asset to a working conditi
they are located, if any. Borrowing costs related to the acquisition o

Purchased software that is integral to the functionality of the related

When parts of an item of property, plant and equipment have differ

Gains/losses on disposal of an item of property, plant and equipme
equipment and are recognized net within other income or other exp

Changes in the obligation to dismantle, remove assets on sites and t
deducted from the cost of the assets in the period in which they occ
date of change, and any excess balance is recognized immediately i

(ii) Subsequent costs
The cost of replacing part of an item of property, plant and equipme
embodied within the part will flow to the Group and its cost can be
servicing of property, plant and equipment are recognized in the sta

(iii) Depreciation
Depreciation is recognized in the statement of income on a straight-
most closely reflects the expected pattern of consumption of the fut
or their useful lives unless it is reasonably certain that the Group wi

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(Amounts expressed in thou

The estimated useful lives for the current and comparative periods a

Buildings
Mobile network infrastructure
Fixed network infrastructure
Call center equipment
Equipment, fixtures and fittings
Motor vehicles
Central betting terminals
Leasehold improvements

Depreciation methods, useful lives and residual values are reviewed

(e) Intangible assets

(i) GSM and other telecommunication operating licenses

GSM and other telecommunication operating licenses that are acqui
period lasted by 31 December 2005 less accumulated amortization (

Amortization

Amortization is recognized in the statement of income on a straight
telecommunication operating licenses are as follows:

GSM and other telecommunications licenses

In accordance with the new legislation issued by ICTA, the infrastru
(Superonline), has become infinite. As a result, Superonline revi
years.

(ii) Computer Software

Acquired computer software licenses are capitalized on the basis of

Costs associated with maintaining computer software programs are
and unique software products controlled by the Group, and that wil
Costs include the software development employee costs and an app

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(Amounts expressed in thou

Amortization

Amortization is recognized in the statement of income on a straight-
computer software are as follows:

Computer software

(iii) Other intangible assets
Intangible assets that are acquired by the Group which have finite u
by 31 December 2005 less accumulated amortization (see below) ar

Indefeasible Rights of Use (IRU) correspond to the right to use a
when the Group has specific indefeasible right to use an identified p
economic life. IRUs are amortized over the shorter of the expected

Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the fut
which it relates. All other expenditure, including expenditure on int
costs generally relate to the application of development stage; any c
are expensed as incurred.

Amortization

Amortization is recognized in the statement of income on a straight
date that they are available for use. The estimated useful lives for th

Transmission lines
Central betting system operating right
Customer base
Brand name
Customs duty and VAT exemption right

Amortization methods, useful lives and residual values are reviewed

Goodwill

From 1 January 2010 the Group has applied IFRS 3 (2008) *Busine*
prospectively and had no effect as there is no business combination

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(Amounts expressed in thou

For acquisitions on or after 1 January 2010, the Group measures go
equity interest in the acquiree) and the recognized amount of any no
identifiable assets acquired and liabilities assumed, all measured as

When the excess is negative, a bargain purchase gain is recognized

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. I
of the investment and an impairment loss on such an investment is r
investees.

(iv) Internally generated intangible assets research and develop
Expenditure on research activities is recognized as an expense in th

An internally generated intangible asset arising from development (
been demonstrated:

The technical feasibility of completing the in

The intention to complete the intangible asse

The ability to use or sell the intangible asset;

How the intangible asset will generate proba

The availability of adequate technical, financ

The ability to measure reliably the expenditu
The amount initially recognized for internally generated intangible
criteria listed above. Where no internally-generated intangible asset
is incurred.

Subsequent to initial recognition, internally generated intangible ass
as intangible assets acquired separately.

(f) Leased assets

Leases in terms of which the Group assumes substantially all the ris
measured at an amount equal to the lower of its fair value or the pre
accordance with the accounting policy applicable to that asset.

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(Amounts expressed in thou

Other leases are operating leases and the leased assets are not recog

(g) Inventories

Inventories are measured at the lower of cost or net realizable value
The cost of inventory is determined using the weighted average met
location and condition. As at 31 December 2010, inventories mainl

(h) Impairment

(i) Financial assets

A financial asset not carried at fair value through profit or loss is as
financial asset is impaired if objective evidence indicates that a loss
estimated future cash flows of that asset that can be estimated reliab

An impairment loss in respect of a financial asset measured at amor
future cash flows discounted at the original effective interest rate. A
value.

Individually significant financial assets are tested for impairment o
credit risk characteristics.

All impairment losses are recognized in the statement of income. A
transferred to the statement of income.

An impairment loss is reversed if the reversal can be related objecti
amortized cost and available-for-sale financial assets that are debt s
equity securities, the reversal is recognized directly in other compre

(ii) Non-financial assets

The carrying amounts of the Group s non-financial assets, other tha
indication of impairment. If any such indication exists, then the ass
time.

For the purpose of impairment testing, assets are grouped together i
of the cash inflows of other assets or group of assets (the cash-gen
its fair value less costs to sell. In assessing value in use, the estimat
effects

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(Amounts expressed in thou

of tax cash outflows that reflects current market assessments of the
the purpose of impairment testing, is allocated to cash-generating u

The Group s corporate assets do not generate separate cash inflows
from the cash-generating unit to which corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset
the statement of income. Impairment losses recognized in respect o
and then to reduce the carrying amount of the other assets in the uni

An impairment loss in respect of goodwill is not reversed. In respec
indications that the loss has decreased or no longer exists. An impai

An impairment loss is reversed only to the extent that the asset s ca
amortization, if no impairment loss had been recognized.

Goodwill that forms part of the carrying amount of an investment in
entire amount of the investment in an associate is tested for impairm

(i) Employee benefits

(i) Retirement pay liability

In accordance with existing labor law in Turkey, the Company and
year of service and whose employment is terminated without cause
pay maximum full TL 2,623 as at 31 December 2010 (equivalent to
rate of pay applicable at the date of retirement or termination. Rese
The reserve has been calculated by estimating the present value of f
employees.

(ii) Defined contribution plans

A defined contribution plan is a post-employment benefit plan unde
obligation to pay further amounts. Obligations for contributions to c
they are due.

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(Amounts expressed in thou

The assets of the plan are held separately from the consolidated fina
contribution retirement plan are required to contribute a specified pe
Group with respect to the retirement plan is to make the specified co

(j) Provisions
A provision is recognized if, as a result of a past event, the Group h
of economic benefits will be required to settle the obligation. Provis
market assessments of the time value of money and, where appropri

Onerous contracts

Present obligations arising under onerous contracts are recognized a
which the unavoidable costs of meeting the obligations under the co
provision for onerous contracts as at 31 December 2010 (31 Decem

Dismantling, removal and restoring sites obligation

The Group is required to incur certain costs in respect of a liability t
are calculated according to best estimate of future expected paymen
and the risks specific to the liability.

Bonus

Provision for bonus is provided when the bonus is a legal obligation
the obligation.

(k) Revenue
Revenues are recognized as the fair value of the consideration recei
from incoming and outgoing calls, additional services, prepaid reve
services are rendered.

With respect to prepaid revenues, the Group generally collects cash
the subscribers use the telecommunications services. Deferred incor

The Group offers free right of use to its subscribers, and recognizes
Group does not have any other customer loyalty program in the sco

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As a

(Amounts expressed in thou

In connection with campaigns, both postpaid and prepaid services m
consideration in the form of fixed fee or a fixed fee coupled with co
other services. Total arrangement considerations relating to the bun

the component has standalone value to the cu

the fair value of the component can be measu
The arrangement consideration is allocated to each deliverable in pr

If a delivered element of a transaction is not a separately identifiabl

Revenues allocated to handsets given in connection with campaigns
been transferred to the buyer, collection is probable, the associated
with the goods and the amount of revenue can be measured reliably

Monthly fixed fees represent a fixed amount charged to postpaid su
basis when billed.

Commission fees mainly comprised of net takings earned to a maxi
(between 15 March 2007 and 1 March 2009, commission rate was 7
games operated on Central Betting System).

Commission revenues are recognized at the time all the services rel
(Spor Toto), Inteltek Internet Teknoloji Yatirim ve Danismanlik
fees.

Simcard sales are recognized upfront upon delivery to distributors,
the distributors.

Call center revenues are recognized at the time services are rendere

The revenue recognition policy for other revenues is to recognize re

Volume rebates or discounts and other contractual changes in the pr
they have been earned or will take effect. Thus, contractual rebates
definitions of asset and liability would not be met.

(l) Lease payments

Payments made under operating leases are recognized in the statem
an integral part of the total lease expense, over the term of the lease

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(Amounts expressed in thou

Minimum lease payments made under finance leases are apportione
period during the lease term so as to produce a constant periodic rat

Determining whether an arrangement contains a lease

At inception of an arrangement, the Group determines whether such
arrangement is dependent on the use of that specified asset. An arra
use of the underlying asset. At inception or upon reassessment of th
those for the lease and those for other elements on the basis of their

(m) Finance income and costs

Finance income comprises interest income on funds invested (inclu
receivables, gains on the disposal of available-for-sale financial ass
instruments that are recognized in the statement of income. Interest

Finance costs comprise interest expense on borrowings, litigation la
assets at fair value through profit or option premium expense.

Foreign currency gains and losses are reported on a net basis.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, constructio
their intended use or sale, are added to the cost of those assets, unti
the temporary investment of the part of the borrowing not yet used i

All other borrowing costs are recognized in the statement of income

(n) Transactions with related parties

A related party is essentially any party that controls or can significa
prevented from fully pursuing its own interests. For reporting purpo
management personnel, shareholders of the Group and the compani

(o) Income taxes

Income tax expense comprises current and deferred tax. Income tax
directly in equity or in other comprehensive income.

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(Amounts expressed in thou

Current tax is the expected tax payable on the taxable income for th
payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences betw
taxation purposes. Deferred tax is not recognized for the following t
combination and that affects neither accounting nor taxable profit, a
probably will not reverse in the foreseeable future. Deferred tax is n
based on the laws that have been enacted or substantively enacted b

Deferred tax assets and liabilities are offset if there is a legally enfo
authority on the same taxable entity, or on different tax entities, but
realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable th
assets are reviewed at each reporting date and are reduced to the ext

Interest and penalties assessed on income tax deficiencies are prese

(p) Earnings per share

The Group presents basic and diluted earnings per share (EPS) d
shareholders of the Company by the weighted average number of o
have any convertible notes or share options granted to employees.

(q) Operating segment

An operating segment is a component of the Group that engages in
relate to transactions with any of the Group s other components. A
about resources to be allocated to the segment and assess its perform

The Group identified Turkcell, Euroasia and Belarusian Telecom as

(r) Subscriber acquisition costs

The Group capitalizes directly attributable subscriber acquisition co

the capitalized costs can be measured reliabl there is a contract binding the customer for a

it is probable that the amount of the capitaliz
withdraws from the contract in advance, thro

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(Amounts expressed in thou

Capitalized subscriber acquisition costs are amortized on a straight-
are expensed when incurred.

(s) Government grants

Grants from the government are recognized at their fair value where
conditions.

Government grants relating to costs are deferred and recognized in t
compensate.

Government grants relating to property, plant and equipment are inc
a straight-line basis over the expected useful lives of the related ass

(t) New standards and interpretations

The following new and revised Standards and Interpretations have b
statements. Details of other standards and interpretations adopted in
section.

(a) New and Revised IFRSs do not affect presentation and di

Amendments to ***IFRS 5, Non-current Assets Held for Sale and Dis***

The amendments to IFRS 5 clarify that the disclosure requirements
or discontinued operations unless those IFRSs require

(i) specific disclosures in respect of non-current assets (c

(ii) disclosures about measurement of assets and liabilitie
disclosures are not already provided in the consolidat

Since the Group does not have any assets in this context, disclosure

Amendments to ***IAS 7, Statement of Cash Flows*** *(as part of Improv*

The amendments to IAS 7 specify that only expenditures that result
statement of cash flows. The application of the amendments to IAS

meet the criteria in ***IAS 38, Intangible Assets*** for capitalization a

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(Amounts expressed in thou

Since, the development costs, which do not meet the criteria for cap
of the previous periods, this amendment does not affect the consolic

(b) New and Revised IFRSs affecting the reported financial p
IFRS 3 (revised in 2008), Business Combinations and IAS 27 (rev

IFRS 3 (revised), Business Combinations and consequential ame
IAS 31, Interests in Joint Ventures are effective prospectively to
period beginning on or after 1 July 2009. The main impact of the ad

a) to allow a choice on a transaction-by-transaction basi
value or at the non-controlling interests share of the

b) to change the recognition and subsequent accounting

c) to require that acquisition-related costs be accounted
expense in the statement of income as incurred,

d) in step acquisitions, previously held interests are to be
calculation. Gain or loss arising from the re-measuren

The application of IAS 27 (2008) has resulted in changes in the Gro

Specifically, the revised Standard has brought clarification to the G
of control. Under IAS 27 (2008), all such increases or decreases are

When control of a subsidiary is lost as a result of a transaction, even
non-controlling interests at their carrying amount and to recognize t
fair value at the date control is lost. The resulting difference is recog

These changes in accounting policies have been applied prospective

Since the non-controlling interests have a deficit balance, net loss ar
current period. There have been no transactions whereby an interest
non-controlling interests.

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(Amounts expressed in thou

IAS 28 (revised in 2008), Investments in Associates

The principle adopted under IAS 27 (2008) that a loss of control is r
amendments to IAS 28. Therefore, when significant influence over
any consequential gain or loss recognized in profit or loss.

As part of Improvements to IFRSs issued in 2010, IAS 28 (2008) ha
significant influence over an associate should be applied prospectiv
2010 in advance of their effective dates (annual periods beginning o

There have been no transactions whereby an interest in an entity is r
dispose of shares in associates.

IFRIC 18, Transfers of Assets from Customers , is effective for tr
recognition of assets transferred to its customers.

(c) New and Revised IFRSs applied with no material effect o

The following new and revised IFRSs have also been adopted in the
material impact on the amounts reported for the current and prior ye

IFRIC 17, Distributions of non-cash assets to owners , is effectiv
not made any non-cash distributions.

Additional exemptions for first-time adopters (Amendment to IF
after 1 January 2010. This is not relevant to the Group, as it is an ex

IFRS 2, Share-based Payments Group Cash-settled Share Payme
applicable to the Group, as the Group does not have share-based pa

Amendments to IFRS 5, Non-current Assets Held for Sale and Dis
liabilities of a subsidiary should be classified as held for sale when
Group will retain a non-controlling interest in the subsidiary after th

Improvements to International Financial Reporting Standards 2009
Share-based Payments , IFRS 5, Non-current Assets Held for Sa
7, Statement of Cash Flows , IAS 17, Leases , IAS 18, Revenu
Measurement , IFRIC 9, Reassessment of Embedded Derivatives

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(Amounts expressed in thou

IFRIC 16, Hedges of Net Investment in a Foreign Operation . Th

(d) New and Revised IFRSs in issue but not yet effective

IFRS 1 (amendments), First-time Adoption of IFRS Additional

Amendments to IFRS 1 which are effective for annual periods on or
disclosures.

On 20 December, IFRS 1 is amended to provide relief for first-time
IFRSs and to provide guidance for entities emerging from severe hy
for the first time.

These amendments are not relevant to the Group, as it is an existing

IFRS 7, Financial Instruments: Disclosures

In October 2010, IFRS 7, Financial Instruments: Disclosures is a
allow users of financial statements to improve their understanding o
effects of any risks that may remain with the entity that transferred
transactions are undertaken around the end of a reporting period. Th
had an opportunity to consider the potential impact of the adoption

IFRS 9, Financial Instruments: Classification and Measuremen

In November 2009, the first part of IFRS 9 relating to the classificat
Instruments: Recognition and Measurement . The standard require
assets and the contractual cash flow characteristics of the financial a
standard is mandatory for annual periods beginning on or after 1 Ja
standard.

IAS 24 (Revised 2009), Related Party Disclosures

In November 2009, IAS 24 Related Party Disclosures was revised.
disclosure requirements of IAS 24. The revised standard is mandato
adoption of this amendment on the financial statements.

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(Amounts expressed in thou

IAS 32 (Amendments), Financial Instruments: Presentation and

The amendments to IAS 32 and IAS 1 are effective for annual perio
options or warrants) that are denominated in a currency other than t
liabilities. However, the amendment requires that, provided certain
price is denominated. The Group has not yet had an opportunity to c

IFRIC 14 (Amendments), Pre-payment of a Minimum Funding

Amendments to IFRIC 14 are effective for annual periods beginning
contributions to a defined benefit pension plan and choose to pre-pa
voluntary pre-payments made. The Group does not expect any impa

IFRIC 19, Extinguishing Financial Liabilities with Equity Instr

IFRIC 19 is effective for annual periods beginning on or after 1 July
in full or part, a financial liability. The Group has not yet had an op

IAS 12, Income Taxes

In December 2010, IAS 12 is amended. IAS 12 requires an entity to
amount of the asset through use or sale. It can be difficult and subje
value model in IAS 40, Investment Property . The amendment pr
will normally be through sale. The amendment will be effective for
the potential impact of the adoption of this revised standard.

Annual Improvements, May 2010

Further to the above amendments and revised standards, the IASB h
IFRS 1, First-time Adoption of International Financial Reporting
of Financial Statements , *IAS 27, Consolidated and Separate Fin*
exception of amendments to IFRS 3 and IAS 27 which are effective
these amendments is allowed. The Group has not yet had an opport

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(Amounts expressed in thou

4. Determination of fair values

A number of the Group s accounting policies and disclosures requi
been determined for measurement and/or disclosure purposes based
fair values is disclosed in the notes specific to that asset or liability.

(i) Property, plant and equipment

The fair value of property, plant and equipment recognized as a resu
amount for which a property could be exchanged on the date of valu
wherein the parties had each acted knowledgeably, willingly. The m
similar items.

(ii) Intangible assets

The fair value of the brand acquired in the Superonline Uluslararası
on the discounted estimated royalty payments that have been avoide
combination are valued using the multi-period excess earnings meth
creating the related cash flows.

The fair value of the custom duty and VAT exemption agreement in
approach) and this was used for the valuation analysis.

The fair value of mobile telephony licenses (GSM&UMTS) in the F
to be appropriate and commonly used for the valuation of licenses, a

The fair value of other intangible assets is based on the discounted c

(iii) Investments in equity and debt securities

The fair value of financial assets at fair value through profit or loss,
quoted bid price or over the counter market price at the reporting da

(iv) Trade and other receivables / due from related parties

The fair values of trade and other receivables and due from related p
reporting date.

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As a

(Amounts expressed in thou

(v) Derivatives

The fair value of forward exchange contracts and option contracts a
estimated by discounting the difference between the contractual for
(based on government bonds) or option pricing models.

(vi) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculate
interest at the reporting date. For finance leases, the market rate of i

(vii) Exercise price of financial liability related to non-control

The Group measures the estimated exercise price of the financial lia
option redemption amount. Present value of the estimated option re

The Group has estimated a value based on multiple approaches in g
(comparable market multiples). The average of the values determin
2010.

5. Financial risk management

The Group has exposure to the following risks from its use of finan

Credit risk

Liquidity risk

Market risk

This note presents information about the Group s exposure to each
Group s management of capital. Further quantitative disclosures ar

Risk management framework

The Board of Directors has overall responsibility for the establishm

The Group s risk management policies are established to identify a
adherence to limits. Risk management policies and systems are revi

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As a

(Amounts expressed in thou

The Group Audit Committee oversees how management monitors c
management framework in relation to the risks faced by the Group.

The exchange rates were very volatile in 2009 but with a generally
perception of global risk helped emerging market currencies apprec
HRV depreciated against USD by 3.7% and BYR depreciated again
As at 31 December 2010, TL depreciated against USD by 2.7% and
USD by 4.8% when compared to the exchange rates as at 31 Decem

Credit risk

Credit risk is the risk of a financial loss to the Group if a customer o
the Group s receivables from customers and investment securities.

Management has a credit policy in place and the exposure to credit
the Group may demand letters of guarantee from third parties relate
necessary in return for the credit support it gives related to certain f

In monitoring customer credit risk, customers are grouped accordin
difficulties. Trade receivables and accrued service income are main
mainly by the individual payment characteristics of postpaid subscr
respect of trade receivables.

Investments are preferred to be in liquid securities and mostly with
credit ratings that are lower than the Group s, or they may not be ra
to ensure credit worthiness.

Transactions involving derivatives are with counterparties with who

At the reporting date, there were no significant concentrations of cre
in the statement of financial position.

The Group establishes an allowance for doubtful receivables that re
specific loss component that relates to individual subscribers expos
collection trends.

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(Amounts expressed in thou

The Group s policy is to provide financial guarantees only to whol
$1,102,672).

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its f
possible, that it will always have sufficient liquidity to meet its liabi
damage to the Group s reputation. Typically, the Group ensures tha
obligations.

Market risk

Market risk is the risk that changes in market prices, such as foreign
financial instruments. The objective of market risk management is t
risk.

The Group buys and sells derivatives in order to manage market risk

Currency risk

The Group is exposed to currency risk on certain revenues such as r
and resulting receivables and payables, borrowings, deferred payme
acquisition of non-controlling shares of Belarusian Telecom that are
for operations conducted in Turkey. The currencies in which these t

Derivative financial instruments such as forward contracts and optio
contracts to hedge its currency risk.

The Group s investments in its equity accounted investee Fintur an
currency risk arising from the net assets as those net investments are

Interest rate risk

The Group s exposure to interest rate risk is related to its financial
use of financial derivatives is governed by the Group s policies app
consistent with the Group s risk management strategy. In this respe
31 December 2010.

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(Amounts expressed in thou

6. Operating segments

The Group has three reportable segments, as described below, whic
reporting structure. These strategic segments offer the same types o
are affected by different economical conditions.

The Group comprises the following main operating segments: Turk

Other operations mainly include companies operating in telecommu
value added services.

Information regarding the operations of each reportable segment is
information is the most relevant in evaluating the results of certain s
revenue, direct cost of revenues excluding depreciation and amortiz
measure defined by IFRS as a measurement of financial performanc

The accounting policies of operating segments are the same as thos

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As a

(Amounts expressed in thou

	Turkcell	
	2010	**2009**
Total external revenues	5,294,104	5,176,10
Intersegment revenue	14,682	22,78
Reportable segment adjusted EBITDA	1,751,094	1,819,25
Finance income	255,417	304,32
Finance costs	(34,569)	(162,93
Depreciation and amortization	(474,703)	(396,25
Share of profit of equity accounted investees		
Capital expenditure	538,776	1,239,47
Other material non-cash items:		
Impairment on goodwill		

	Turkcell	
	2009	**2008**
Total external revenues	5,176,105	6,170,41
Intersegment revenue	22,784	41,94
Reportable segment adjusted EBITDA	1,819,250	2,383,94
Finance income	304,321	667,31
Finance cost	(162,939)	(100,71
Depreciation and amortization	(396,259)	(528,46
Share of profit of equity accounted investees		
Capital expenditure	1,239,477	404,65
Other material non-cash items:		
Impairment on goodwill		

	Turkcell	
	2010	**2009**
Reportable segment assets	3,860,173	3,730,42
Investment in associates		
Reportable segment liabilities	1,092,496	1,305,20

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(Amounts expressed in thou

Reconciliations of reportable segment revenues, adjusted EBIT

Revenues
Total revenue for reportable segments
Other revenue
Elimination of inter-segment revenue

Consolidated revenue

Adjusted EBITDA
Total adjusted EBITDA for reportable segments
Other adjusted EBITDA
Elimination of inter-segment adjusted EBITDA

Consolidated adjusted EBITDA

Finance income
Finance costs
Other income
Other expense
Share of profit of equity accounted investees
Depreciation and amortization

Consolidated profit before income tax

Finance income
Total finance income for reportable segments
Other finance income
Elimination of inter-segment finance income

Consolidated finance income

Finance costs
Total finance costs for reportable segments
Other finance costs
Elimination of inter-segment finance costs

Consolidated finance costs

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As a

(Amounts expressed in thou

Depreciation and amortization	
Total depreciation and amortization for reportable segments	
Other depreciation and amortization	
Elimination of inter-segment depreciation and amortization	
Consolidated depreciation and amortization	

Capital expenditure	
Total capital expenditure for reportable segments	
Other capital expenditure	
Elimination of inter-segment capital expenditure	
Consolidated capital expenditure	

Assets	
Total assets for reportable segments	
Other assets	
Investments in equity accounted investees	
Other unallocated assets	
Consolidated total assets	

Liabilities	
Total liabilities for reportable segments	
Other liabilities	
Other unallocated liabilities	
Consolidated total liabilities	

Geographical information

In presenting the information on the basis of geographical segments
geographical location of the assets.

Revenues
Turkey
Ukraine
Belarus
Turkish Republic of Northern Cyprus

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NOTES TO THE CO

As a

(Amounts expressed in thou

Non-current assets
Turkey
Ukraine
Belarus
Turkish Republic of Northern Cyprus
Unallocated non-current assets

7. Revenue

Communication fees
Monthly fixed fees
Commission fees on betting business
Call center revenues
Simcard sales
Other revenues

8. Other Expenses

Other expenses amount to $64,233, $111,220 and $17,990 for the y

Other expenses comprises impairment change recognized on goodw
investigation of ICTA on tariff plans, VAS service subscriptions an
Communication Tax (SCT) and VAT calculated on roaming serv
set for SCT on the discounts applied to distributors for prepaid scrat
gains. Besides, provision set for the SCT on the discounts applied to
However, it has been settled at $2,765 and the difference is reflecte

9. Personnel expenses

Wages and salaries(*)

Increase in employee benefits
Contributions to defined contribution plans

(*) Wages and salaries include compulsory social security co

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TURKCELL IL

NOTES TO THE CO

As a

(Amounts expressed in thou

10. Finance income and costs

Recognized in the statement of income:

Interest income on bank deposits
Late payment interest income
Interest income on contracted receivables
Premium income on option contracts
Interest income on available-for-sale financial assets
Net gain on disposal of available-for-sale financial assets transfe
Discount interest income
Other interest income
Finance income
Litigation late payment interest expense
Interest expense on financial liabilities measured at amortized co
Option premium expense
Net foreign exchange loss
Other
Finance cost
Net finance income

Late payment interest income is interest received from subscribers v

Interest income on contracted receivables is recognized over the am

Litigation late payment interest expense is recognized in relation to calculated over SCT and VAT from roaming services that had to be over SCT on the discounts applied to distributors for prepaid scratch gains. Besides, accrued interests calculated over SCT on the discour 2009. However, after settlement, it has been calculated as $5,671 an given in Note 32.

Borrowings costs capitalized on fixed assets are $11,127, $1,602 an 17.6%, 5.6% and 26.1% for the year ended 31 December 2010, 200

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As a

(Amounts expressed in thou

11. Income tax expense

Current tax expense
Current period

Deferred tax benefit
Origination and reversal of temporary differences
Benefit of investment incentives recognized
Utilization of previously unrecognized tax losses

Total income tax expense

Income tax recognized directly in equity

2010
Foreign currency translation differences
Net change in fair value of available-for-sale securities

2009
Foreign currency translation differences
Net change in fair value of available-for-sale securities

2008
Foreign currency translation differences
Net change in fair value of available-for-sale securities

TURKCELL IL

NOTES TO THE CO

As a

(Amounts expressed in thou

Reconciliation of effective tax rate

The reported income tax expense for the years ended 31 December
before income tax of the Company, as shown in the following recon

Profit for the year
Total income tax expense
Profit before income tax
Income tax using the Company s domestic tax rate
Effect of tax rates in foreign jurisdictions
Tax exempt income
Non-deductible expenses
Tax incentives
Utilization of previously unrecognized tax losses
Unrecognized deferred tax assets
Difference in effective tax rate of equity accounted investees
Other
Total income tax expense

The income taxes payable of $96,080 and $93,260 as at 31 Decemb
profit for the years ended 31 December 2010 and 2009, respectively

The Turkish entities within the Group are subject to corporate tax at
Companies file their tax returns at the end of April following the clo
underlying accounting records and may revise assessments within fi

Corporate tax is applied on taxable corporate income, which is calcu
exempt income.

In Turkey, the transfer pricing provisions have been stated under the
General Communiqué on disguised profit distribution via Transfer P

If a taxpayer enters into transactions regarding sale or purchase of g
then related profits are considered to be distributed in a disguised m
as tax deductible for corporate income tax purposes.

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NOTES TO THE C

As a

(Amounts expressed in thou

12. Property, plant and equipment

	B 1
Cost or deemed cost	
Network infrastructure (All Operational)	4
Land and buildings	
Equipment, fixtures and fittings	
Motor vehicles	
Leasehold improvements	
Construction in progress	
Total	5
Accumulated depreciation	
Network infrastructure (All Operational)	3
Land and buildings	
Equipment, fixtures and fittings	
Motor vehicles	
Leasehold improvements	
Total	3
Total property, plant and equipment	2

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TURKCELL IL

NOTES TO THE CO

As a

(Amounts expressed in thou

Cost or deemed cost
Network infrastructure (All operational) Operational)
Land and buildings
Equipment, fixtures and fittings
Motor vehicles
Leasehold improvements
Construction in progress

Total

Accumulated depreciation
Network infrastructure (All operational)
Land and buildings
Equipment, fixtures and fittings
Motor vehicles
Leasehold improvements

Total

Total property, plant and equipment

Depreciation expenses for the years ended 31 December 2010, 2009
in direct cost of revenues.

The impairment losses on property, plant and equipment for the yea
in depreciation expense.

Leased assets

The Group leases equipment under a number of finance lease agree
beneficial price. As at 31 December 2010, net carrying amount of fi

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TURKCELL IL

NOTES TO THE C

As a

(Amounts expressed in thou

Property, plant and equipment under construction

Construction in progress mainly consisted of capital expenditures in
and Belarusian Telecom and non-operational items as at 31 Decemb

As at 31 December 2010, a mortgage is placed on Izmir building in
amounting to $970 (31 December 2009: $996) and also on Davutpa
2009: $332) due to previous debts of BMC Sanayi ve Ticaret A.S. T
A.S. were paid and the Company has no liability to Savings Deposi
of mortgage on Izmir building on 13 March 2006. However, the mo

13. Intangible assets

In April 1998, the Company signed the License with the Turkish M
of $364,349 as at 31 December 2010 (31 December 2009: $404,636

On 30 April 2009, the Company signed a license agreement with IC
acquired the A type license providing the widest frequency band for
from 30 April 2009. The carrying amount is $456,221 as at 31 Dece

Impairment testing for long-lived assets

The carrying amounts of the Group s non-financial assets are revie
exists, then the asset s recoverable amount is estimated. Long-lived
cash-generating unit are greater than the value in use, no impairmen
together into the smallest group of assets, cash generating units. As
that Astelit and A-Tel are the cash generating unit. As the recoverab
cash-generating units of Astelit and A-Tel, no impairment is recogn

Astelit: A 15.7% post-tax WACC rate and a 2.5% terminal growth
Independent appraisal is obtained for fair value to determine recove

A-Tel: A 14.2% post-tax WACC rate and a 4.0% terminal growth r
appraisal is obtained for fair value to determine recoverable amount

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As a

(Amounts expressed in thou

Cost	
GSM and other telecommunication operating licenses	
Computer software	
Transmission lines	
Central betting system operating right	
Brand name	
Customer base	
Customs duty and VAT exemption right	
Goodwill	
Other	
Construction in progress	
Total	
Accumulated amortization	
GSM and other telecommunication operating licenses	
Computer software	
Transmission lines	
Central betting system operating right	
Brand name	
Customer base	
Customs duty and VAT exemption right	
Other	
Total	
Total intangible assets	

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TURKCELL IL

NOTES TO THE CO

As a

(Amounts expressed in thou

Cost	
GSM and other telecommunication operating licenses	
Computer software	
Transmission lines	
Central betting system operating right	
Indefeasible right of usage	
Brand name	
Customer base	
Customs duty and VAT exemption right	
Goodwill	
Other	
Construction in progress	
Total	
Accumulated amortization	
GSM and other telecommunication operating licenses	
Computer software	
Transmission lines	
Central betting system operating right	
Indefeasible right of usage	
Brand name	
Customer base	
Customs duty and VAT exemption right	
Other	
Total	
Total intangible assets	

Amortization expenses on intangible assets other than goodwill for
including impairment losses and recognized in direct cost of revenu
$61,835 and nil respectively recognized in other expenses in the co

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TURKCELL IL

NOTES TO THE CO

As a

(Amounts expressed in thou

Computer software includes internally generated capitalized softwa
capitalized costs is $29,142 for the year ended 31 December 2010 (

Superonline, a wholly owned subsidiary of the Group, won the tend
for 15 years, including the right to install additional fiber optic cabl
20,900 to BOTAS for the right and this transaction has been consid
cables already installed by BOTAS and Superonline will make sign
a finance lease. The Group recognized indefeasible right of use amo
2024.

Impairment testing for cash-generating unit containing goodwil

Goodwill allocated to cash generating units and carrying values of a
in use and fair value less cost to sell) are normally determined on th
fair values to determine recoverable amounts for Belarusian Teleco

In calculating the net present value of the future cash flows, certain
expectations of growth in EBITDA, calculated as results from opera
future capital expenditure, long term growth rates, and the selection

Belarusian Telecom

As at 31 December 2010, the aggregate carrying amount of goodwi
Telecom was impaired by $23,499 following the adverse movemen
allocated fully to goodwill and is included in other expense. Value i
The calculation of the value in use was based on the following key a

The projection period for the purposes of goodwill impairment testi

Cash flows for further periods (perpetuity) were extrapolated using

A post-tax discount rate WACC of 14.4% was applied in determinin
other future tax cash flows and discrepancies between the cost of th

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TURKCELL IL

NOTES TO THE CO

As a

(Amounts expressed in thou

Superonline

As at 31 December 2010, the aggregate carrying amount of goodwi
generating units is estimated to be higher than carrying amount, no
The calculation of the value in use was based on the following key a

Values assigned to EBITDA for the periods forecasted include the e
assumption reflect past experience except for efficiency improveme
which Superonline recoverable amount is based would not cause Su

The projection period for the purposes of goodwill impairment testi

Cash flows for further periods (perpetuity) were extrapolated using
market in which Superonline operates.

A post-tax discount rate WACC of 15.8% was applied in determinin
discounting pre tax cash flows at pre-tax discount rate give same res
timing of the future tax cash flows. For disclosure purposes pre-tax

After the acquisition of Superonline Uluslararasi Elektronik Bilgile
merged Superonline Uluslararasi s operations with its wholly owne
Uluslararasi and Tellcom seized to be separate cash generating units
used for the purpose of the impairment testing represents the merge
Superonline Iletisim Hizmetleri AS with General Assembly Meetin

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NOTES TO THE CO

As a

(Amounts expressed in thou

14. Equity accounted investees

The Group s share of profit in its equity accounted investees for th
financial information for equity accounted investees adjusted for th
percentage ownership held by the Group is as follows:

	Ownership
31 December 2010	
Fintur (associate)	41.45%
A-Tel (joint venture)*	50.00%
31 December 2009	
Fintur (associate)	41.45%
A-Tel (joint venture)*	50.00%

	Revenues	D of
2010		
Fintur	1,736,576	
A-Tel	63,235	
	1,799,811	
2009		
Fintur	1,605,022	
A-Tel	73,897	
	1,678,919	
2008		
Fintur	1,823,095	
A-Tel	98,129	
	1,921,224	

* Figures mentioned in the above table includes fair value adju

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TURKCELL IL

NOTES TO THE CO

As a

(Amounts expressed in thou

The Company s investment in Fintur and A-Tel amounts to $303,6

During 2009, Fintur distributed a total dividend of $200,000. The G
in Fintur by $82,900.

In 2010, Fintur has decided to distribute two dividends amounting t
collected dividend of $29,015 and $78,755 on 5 May 2010 and 7 De

In April 2008, the privatization of the Republic of Azerbaijan s 35.
completed. The non-controlling shareholders in Azercell acquired th
the non-controlling shareholders was also granted a put option, givi
regarding significant decisions at the General Assembly. Fintur has
derecognized the non-controlling interest. The difference between th
amounting to $715,126 is accounted under equity, in accordance wi

During April 2010 and December 2009 at the General Assembly me
carrying value of its investments in A-Tel by the dividends declared
31 December 2010) as at 31 December 2010 and 2009, respectively

15. Other investments
Non-current investments:

Aks Televizyon Reklamcilik ve Filmcilik Sanayi ve Ticaret AS (A
T Medya Yatirim Sanayi ve Ticaret AS (T-Medya)

On 2 February 2010, SDIF notified that lien was laid on priority ri
AS. In case that, those shares are sold to third parties other than Cul
determined within the context of the past agreements signed betwee

On 19 July 2010, at T-Medya s General Assembly Meeting, it has b
contribution, accordingly the ownership of the Group in T-Medya d

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TURKCELL IL

NOTES TO THE CO

As a

(Amounts expressed in thou

There is no active market available for investments Aks TV and T M
considering the lower end limits of fair value calculations performe

Current investments:

Available-for-sale financial assets	
Government bonds, treasury bills	
Time deposits	
Deposits maturing after 3 months or more	

There are no government bonds as at 31 December 2010 (31 Decem

As at 31 December 2010, BYR denominated time deposits maturing
deposits maturing after 3 months or more amounting to $8,000 have

The Group s exposure to credit, currency and interest rate risks rela

16. Other non-current assets

VAT receivable	
Prepaid expenses	
Deposits and guarantees given	
Advances given for fixed assets	
Prepayment for subscriber acquisition cost	
Others	

Subscriber acquisition costs are subsidies paid to dealers for engagi

17. Deferred tax assets and liabilities

Unrecognized deferred tax liabilities

At 31 December 2010, a deferred tax liability of $15,687 (31 Decer
investments in subsidiaries was not recognized because the Compar
foreseeable future.

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TURKCELL IL

NOTES TO THE CO

As a

(Amounts expressed in thou

Unrecognized deferred tax assets

Deferred tax assets have not been recognized in respect of the follo

Deductible temporary differences
Tax losses
Total unrecognized deferred tax assets

The deductible temporary differences do not expire under current ta
Therefore, deferred tax assets have not been recognized in respect o
profit will be available against which the Group can utilize the bene

As at 31 December 2010, expiration of tax losses is as follows:

Year Originated
2006
2007
2008
2009
2010

As at 31 December 2010, tax losses which will be carried indefinite

Year Originated
2004
2005
2006
2007
2008
2009
2010

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TURKCELL IL

NOTES TO THE CO

As a

(Amounts expressed in thou

Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities as at 31 December 2010 and 2009

Property, plant & equipment and intangible assets
Investment
Provisions
Trade and other payables
Other items
Tax assets / (liabilities)
Net off of tax
Net tax assets / (liabilities)

Movement in temporary differences as at 31 December 2010 and 2

Property, plant & equipment and intangible assets
Investment
Provisions
Trade and other payables
Other items
Tax credit carry forwards
Total

Property, plant & equipment and intangible assets
Investment

Provisions
Trade and other payables
Other items

Total

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NOTES TO THE CO

As a

(Amounts expressed in thou

18. Trade receivables and accrued income

Receivables from subscribers
Accrued service income
Accounts and checks receivable
Receivables from Turk Telekomunikasyon AS (Turk Telekom)

Trade receivables are shown net of allowance for doubtful debts am
recognized for the years ended 31 December 2010, 2009 and 2008 a

Letters of guarantee received with respect to the accounts and chec

The accrued service income represents revenues accrued for subscri
will be billed within one year. Due to the volume of subscribers, the
rendered but not yet billed. Contracted receivables related to handse
amounting to $35,024.

Receivables from Turk Telekom represent net amounts that are due
Turk Telekom will pay to the Company for Turk Telekom s fixed-

The Group s exposure to credit and currency risks and impairment

19. Other current assets

Prepaid expenses
Receivables from ICTA
VAT receivable
Receivables from Tax Office
Advances to suppliers
Interest income accruals
Restricted cash
Receivables from personnel
Prepayment for subscriber acquisition cost
Other

Receivables from ICTA is related to the fine applied on tariffs abov
27 January 2011. In Note 32, under legal proceedings section, detai

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TURKCELL IL

NOTES TO THE CO

As a

(Amounts expressed in thou

As at 31 December 2010, restricted cash represents amounts deposi

Subscriber acquisition costs are subsidies paid to dealers for engagi

20. Cash and cash equivalents

Cash in hand
Cheques received
Banks
-Demand deposits
-Time deposits
Bonds and bills
Cash and cash equivalents
Bank overdrafts
Cash and cash equivalents in the statement of cash flows

As at 31 December 2010, cash and cash equivalents deposited in ba amounting to $90,000 (31 December 2009: nil).

As at 31 December 2010, average maturity of time deposits is 60 da

The Group s exposure to interest rate risk and a sensitivity analysis

21. Capital and reserves

Share capital

As at 31 December 2010, common stock represented 2,200,000,000 In accordance with the Law No. 5083 with respect to TL, on 9 May

In connection with the redenomination of the TL and as per the rela 1,000 units of shares, each having a nominal value of TL 0.001 shal The Company is still in the process of merging 1,000 existing ordin each. After the share merger which appears as a provisional article i shares will have a value of TL 1. Although the merger process has n consented by Capital Markets Board of Turkey (CMB). Accordi

The holders of shares are entitled to receive dividends as declared a

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TURKCELL IL

NOTES TO THE CO

As a

(Amounts expressed in thou

As at 31 December 2010, total number of pledged shares hold by va

Capital contribution

Capital contribution comprises the contributed assets and certain lia grant which the government is acting in its capacity as a shareholde

Translation reserve

The translation reserve comprises all foreign currency differences a functional currencies to presentation currency of USD.

Fair value reserve

The fair value reserve comprises the cumulative net change in the fa

Legal reserve

Under the Turkish Commercial Code, Turkish companies are requir 5% of the distributable income per statutory accounts each year. Th 20% of paid-up capital level has been reached. Second legal reserve minimum obligatory dividend pay-out (5% of the paid-up capital). T

Reserve for non-controlling interest put option liability

The reserve for non-controlling interest put option liability includes subsidiaries recognized and the amount of non-controlling interest c reserve.

Dividends

The Company has adopted a dividend policy, which is set out in its shareholders with due regard to trends in the Company s operating

The Board of Directors intends to distribute cash dividends in an an prepared in accordance with the accounting principles accepted by t payment of dividends will still be subject to cash flow requirements Directors and the General Assembly of Shareholders.

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TURKCELL IL

NOTES TO THE CO

As a

(Amounts expressed in thou

On 10 March 2010, the Company s Board of Directors has propose
$555,795 and $573,451 as at 31 December 2010 and 29 April 2010
0.3905723 (equivalent to full $0.2526341 and $0.2606596 as at 31
approved at the Ordinary General Assembly of Shareholders held o

Cash dividends

* USD equivalents of dividends are computed by using the
25 April 2008 which are the dates that the General Assem

In the Ordinary General Assembly of Shareholders Meeting of Intel
$36,210 as at 31 December 2010). The dividend was paid on 29 Ap

22. Earnings per share

The calculations of basic and diluted earnings per share as at 31 De
2010, 2009 and 2008 of $1,170,176, $1,093,992 and $1,836,824 res
2009 and 2008 of 2,200,000,000 calculated as follows:

Numerator:
Net profit for the period attributed to owners
Denominator:
Weighted average number of shares
Basic and diluted earnings per share

23. Other non-current liabilities

Consideration payable in relation to acquisition of BeST
Financial liability in relation to put option
Deposits and guarantees taken from agents

Payables to other suppliers
Other

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TURKCELL IL

NOTES TO THE CO

As a

(Amounts expressed in thou

Consideration payable in relation to acquisition of Belarusian Telec
contingent on financial performance of Belarusian Telecom, and ba
the contingent consideration is $78,402 as at 31 December 2010 (31

Non-controlling shareholders in Belarusian Telecom were granted a
AS (Beltel) at fair value during a specified period. The Group ac
non-controlling interest. The Company has estimated a value based
(comparable market multiples). The average of the values determin
2010.

The difference between the present value of the estimated option re
non-controlling interest put option under equity.

24. Loans and borrowings

This note provides information about the contractual terms of the G
about the Group s exposure to interest rate, foreign currency and li

Non-current liabilities

Unsecured bank loans

Secured bank loans

Finance lease liabilities

Current liabilities

Current portion of unsecured bank loans

Current portion of secured bank loans

Unsecured bank facility

Secured bank facility

Current portion of finance lease liabilities

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TURKCELL IL

NOTES TO THE CO

As a

(Amounts expressed in thou

Finance lease liabilities are payable as follows:

	Future minimum lease payments
Less than one year	5,199
More than one year	24,107
	29,306

Superonline, a wholly owned subsidiary of the Group, acquired ind
indefeasible right of use amounting to $22,531 which is calculated a
carrying amount of lease liability related to BOTAS agreement is $

Some of the Group s borrowings are subject to covenant clauses, w
is in compliance with all borrowing covenants.

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TURKCELL IL

NOTES TO THE CO

As a

(Amounts expressed in thou

Terms and conditions of outstanding loans are as follows:

	Currency	Year of maturity	Interest rate type
Unsecured bank loans	USD	2012	Floating
Unsecured bank loans	USD	2011-2012	Floating
Unsecured bank loans	USD	2015	Floating
Unsecured bank loans	USD	2011-2015	Fixed
Unsecured bank loans	USD	2013	Floating
Unsecured bank loans	USD	2009-2014	Fixed
Unsecured bank loans	USD	2013	Fixed
Unsecured bank loans	USD	2011	Fixed
Unsecured bank loans	USD	2010-2016	Fixed
Unsecured bank loans	USD	2011	Floating
Unsecured bank loans	USD	2009-2014	Floating
Secured bank loans**	BYR	2020	Floating
Unsecured bank loans	USD	2010-2012	Fixed
Unsecured bank loans	EUR	2013	Floating
Unsecured bank loans	USD	2011-2013	Fixed
Secured bank loans	USD	2011	Fixed
Unsecured bank loans	USD	2011	
Unsecured bank loans	AZN	2011	Fixed
Secured bank loans	AZN	2011	Fixed
Unsecured bank loans	USD	2010	Floating
Unsecured bank loans	USD	2010	Fixed
Unsecured bank loans	BYR	2010	Floating
Finance lease liabilities	EUR	2011-2024	Fixed
Finance lease liabilities	USD	2010-2011	Fixed

* Refinancing rate of the National Bank of the Republic of Bela

** Secured by Rebuplic of Belarus Government.

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TURKCELL IL

NOTES TO THE CO

As a

(Amounts expressed in thou

25. Employee benefits

International Accounting Standard No. 19 (IAS 19) *Employee B*
benefit plans. The liability for this retirement pay obligation is reco

Movement in the reserve for employee termination benefits as at 31

Opening balance
Provision set/reversed during the period
Payments made during the period
Unwind of discount
Effect of change in foreign exchange rate
Closing balance

Obligations for contributions to defined contribution plans are recog
and $4,182 in relation to defined contribution retirement plan for th

Total charge for the employee termination benefits is included in th

The liability is not funded, as there is no funding requirement.

26. Deferred income

Deferred income primarily consists of right of use sold but not used
income is $164,186 and $248,518 as at 31 December 2010 and 200

27. Provisions

Non-current provisions:

Balance at 1 January 2009
Provision made/used during the year

Unwind of discount
Effect of change in foreign exchange rate

Balance at 31 December 2009

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TURKCELL IL

NOTES TO THE CO

As a

(Amounts expressed in thou

Balance at 1 January 2010
Provision made/used during the year
Unwind of discount
Effect of change in foreign exchange rate

Balance at 31 December 2010

Legal provisions are set for the probable cash outflows related to le

The Group is required to incur certain costs in respect of a liability
are calculated according to best estimate of future expected paymen
and the risks specific to the liability.

The above mentioned additions to obligations for dismantling, remo
equipment.

Current provisions:

Balance at 1 January 2009
Provision made during the year
Provisions used during the year
Unwind of discount
Effect of change in foreign exchange rate

Balance at 31 December 2009

Balance at 1 January 2010
Provision made/(reversed) during the year
Provisions used during the year
Unwind of discount
Effect of change in foreign exchange rate

Balance at 31 December 2010

Legal provisions are set for the probable cash outflows related to leg
legal provisions.

The bonus provision totalling to $42,659 comprises mainly the prov

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TURKCELL IL

NOTES TO THE CO

As a

(Amounts expressed in thou

28. Trade and other payables

The breakdown of trade and other payables as at 31 December 2010

Payables to other suppliers
Taxes and withholdings payable
Payables to Ericsson companies
Selling and marketing expense accrual
License fee accrual
Roaming expense accrual
ICTA share accrual
Interconnection payables
Interconnection accrual
Payables to KKTC Tax Office
Consideration payable in relation to acquisition of Belarusian Tel
Other

Balances due to other suppliers are arising in the ordinary course of

Taxes and withholdings include VAT payable, special communicati

Payables to Ericsson companies comprise due to Ericsson Turkey, E

Turkcell is one of parties of two different signed agreements with E
software responsibility within the scope of Supply Agreement belon
supply responsibility to Ericsson AB with the signed protocol betwe
committed Turkcell to provide GSM network in operating condition
non-exclusive, untransferable and perpetual software license for GS
problem report processing service, consultancy service and emergen
Turkey to Turkcell. For agreements signed between Turkcell and Er
1 January 2010 and extended the period of GSM service agreement

Selling and marketing expense accrual is mainly resulted from servi

In accordance with the license agreement, Turkcell pays 90% of the
fund to the Turkish Ministry.

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TURKCELL IL

NOTES TO THE CO

As a

(Amounts expressed in thou

Payables to interconnection suppliers arise from voice and SMS ter

Interconnection accrual represents net balance of uninvoiced call te

Consideration payable in relation to acquisition of Belarusian Telec
$100,000 was paid as of 31 December 2010. The remaining conside

The Group s exposure to currency and liquidity risk related to trad

29. Financial instruments
Credit risk

Exposure to credit risk:

The carrying amount of financial assets represents the maximum cr

Due from related parties-non current
Other non-current assets*
Available-for-sale financial assets
Due from related parties-current
Trade receivables and accrued income
Other current assets*
Cash and cash equivalents**
Time deposits maturing in 3 months or more

* Non-financial instruments such as prepaid expenses a
** Cash on hand is excluded from cash and cash equival
The maximum exposure to credit risk for trade receivables arising f
customer is:

Receivable from subscribers

Receivables from distributors and other operators
Other

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TURKCELL IL

NOTES TO THE CO

As a

(Amounts expressed in thou

The aging of trade receivables and due from related parties as at 31

Not past due
1-30 days past due
1-3 months past due
3-12 months past due
1-5 years past due

Impairment losses

The movement in the allowance for impairment in respect of trade r

Opening balance
Impairment loss recognized
Write-off
Effect of change in foreign exchange rate
Closing balance

The impairment loss recognized of $126,257 for the period ended 3
related parties.

The allowance accounts in respect of trade receivables and due from
amount owing is possible; at that point the amount considered irrec

Liquidity risk

Current cash debt coverage ratio as at 31 December 2010 and 2009

Cash and cash equivalents
Current liabilities
Current cash debt coverage ratio

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The following are the contractual maturities of financial liabilities, i

	31 December 2010				
	Carrying Amount	**Contractual cash flows**	**6 months or less**	**6-12 months**	**1-2 years**
Non-derivative financial Liabilities					
Secured bank loans	32,627	(48,327)	(2,273)	(9,165)	(5,15
Unsecured bank loans	1,781,199	(1,920,204)	(208,363)	(218,000)	(523,02
Finance lease liabilities	23,695	(29,306)	(3,206)	(1,993)	(1,90
Trade and other payables*	676,187	(681,669)	(681,669)		
Bank overdraft	5,896	(5,896)	(5,896)		
Due to related parties	10,760	(10,787)	(10,787)		
Consideration payable in relation to acquisition of Belarusian Telecom	78,402	(100,000)			
Financial liability in relation to put option	53,435	(58,541)			
TOTAL	**2,662,201**	**(2,854,730)**	**(912,194)**	**(229,158)**	**(530,08**

* Advances taken, taxes and withholding payable are excluded

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Exposure to currency risk

The Group s exposure to foreign currency risk based on notional ar

Foreign currency denominated assets
Due from related parties-non current
Other non-current assets
Other investments
Due from related parties-current
Trade receivables and accrued income
Other current assets
Cash and cash equivalents

Foreign currency denominated liabilities
Loans and borrowings-non current
Other non-current liabilities
Loans and borrowings-current
Trade and other payables
Due to related parties

Net exposure

Foreign currency denominated assets
Due from related parties-non current
Other non-current assets
Other investments
Due from related parties-current
Trade receivables and accrued income
Other current assets
Cash and cash equivalents

Foreign currency denominated liabilities

Loans and borrowings-non current
Other non-current liabilities
Loans and borrowings-current
Trade and other payables
Due to related parties

Net exposure

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The following significant exchange rates are applied during the peri

TL/USD
TL/EUR
TL/SEK
BYR/USD
HRV/USD

Sensitivity analysis

The basis for the sensitivity analysis to measure foreign exchange ri
of all assets and liabilities denominated in foreign currencies. The a

10% strengthening of the TL, HRV, BYR against the following cur
amounts shown below. This analysis assumes that all other variable

USD
EUR
SEK

10% weakening of the TL, HRV, BYR against the following curren
amounts shown below. This analysis assumes that all other variable

USD
EUR
SEK

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Interest rate risk

As at 31 December 2010 and 2009 the interest rate profile of the Gr

Fixed rate instruments
Time deposits
USD
EUR
TL
Other
Available-for-sale securities
Government bonds, treasury bills
TL
Time deposits maturing after 3 months or more
USD
BYR
Finance lease obligations
USD
EUR
Unsecured bank loans
USD fixed rate loans
Secured bank loans
USD fixed rate loans
AZN fixed rate loans
Variable rate instruments
Available-for-sale securities
Government bonds, treasury bills
EUR
Secured bank loans
BYR floating rate loans
Unsecured bank loans
USD floating rate loans
EUR floating rate loans
BYR floating rate loans
AZN fixed rate loans
Sensitivity analysis

Fair value sensitivity analysis for fixed rate instruments:

A change of 1% in interest rates for available for sale financial asse

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A change of 1% in interest rates for time deposits maturing after 3 r

Cash flow sensitivity analysis for variable rate instruments:

A change of 100 basis points in interest rates as at 31 December 20
assumes that all other variables, in particular foreign exchange rates

31 December 2010
Variable rate instruments

Cash flow sensitivity (net)

31 December 2009
Variable rate instruments

Cash flow sensitivity (net)

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Fair values

The fair values of financial assets and liabilities together with the ca

Assets carried at fair value
Available for sale securities

Assets carried at amortized cost
Due from related parties-long term
Other non-current assets*
Due from related parties-short term
Trade receivables and accrued income***
Other current assets*
Cash and cash equivalents
Time deposits maturing after 3 months or more

Liabilities carried at fair value
Put option for Best acquisition

Liabilities carried at amortized cost
Loans and borrowings-long term
Bank overdrafts
Loans and borrowings-short term
Trade and other payables**
Due to related parties
Deferred payments

* Non-financial instruments such as prepaid expenses a
** Advances taken, taxes and withholdings payable are e

*** Includes non-current trade receivables amounting to S

The methods used in determining the fair values of financial instrur

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Fair value hierarchy

The table below analyses financial instruments carried at fair value,

The different levels have been identified as follows:

Level 1: quoted prices (unadjusted) in active markets for identical a

Level 2: inputs other than quoted prices included within Level 1 tha

Level 3: inputs for the asset or liability that are not based on observ

31 December 2010	
Financial liability in relation to put option	
31 December 2009	
Available-for sale financial assets	
Financial liability in relation to put option	

Balance as at 1 January 2010	
Total gains or losses:	
in profit or loss	
in other comprehensive income	
Total recognition in equity	
Balance as at 31 December 2010	

The table above shows a reconciliation from the beginning balances

Total gains or losses included in profit or loss for the period in the f

Total gains or losses included in profit or loss for the period:
Net financing costs
Total gains or losses for the period included in profit or loss for asse
end of the reporting period:
Net financing costs

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30. Operating leases
The Company entered into various operating lease agreements. For
$287,259 and $263,805 respectively.

The future minimum lease payments under non-cancellable leases a

Less than one year
Between one and five years
More than five years

31. Guarantees and purchase obligations
As at 31 December 2010, outstanding purchase commitments with
advertisement services amount to $594,910 (31 December 2009: $2

As at 31 December 2010, the Group is contingently liable in respec
public organizations and provided financial guarantees to subsidiar
1,986,052 equivalent to $1,319,023 as at 31 December 2009).

32. Commitments and Contingencies
License Agreements

Turkcell:

On 27 April 1998, the Company signed the License Agreement wit
license for a license fee of $500,000. The License Agreement perm
the revenue generated from the operations of its GSM network and
equal to 15% of its gross revenues from Turkish GSM operations.
existing treasury share to the Turkish Ministry as a universal servic
pays 90% of the treasury share to the Turkish Treasury and 10% to
gross revenue once a year as ICTA Fee. The Company is authorize
variety of service and pricing packages, issue invoices directly to su

In February 2002, the Company renewed its License with the ICTA
quality and coverage of the Company s GSM network, prohibition
meet any requirement in the renewed License, or the occurrence of

surrender of

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the GSM network without compensation, or limitation of the Comp
conditions of the renewed License Agreement include the following

Coverage: The Company had to attain geographical coverage of 50
respectively, of the License s effective date.

Service offerings: The Company must provide certain services in a
free call forwarding to police and other public emergency services,
identification and restrictions, call forwarding, call waiting, call hol
incoming calls.

Service quality: In general, the Company must meet all the technic
Secretariat of the GSM MoU. Service quality requirements include

Tariffs: ICTA sets the initial maximum tariffs in TL and USD. The
months or, if necessary, more frequently. The Company is free to se

Rights of the ICTA, Suspension and Termination:

The revised License is not transferable without the approval of the I
Company s technical and financial information and allows for insp
obliged to submit financial statements, contracts and investment pla

The ICTA may suspend the Company s operations for a limited or
suspension, the ICTA may operate the Company s GSM network.

The Company is entitled to any revenues collected during such peri
be terminated upon a bankruptcy ruling against the Company or for
such violations can include fines, loss of frequency rights, revocatio
subscription system, including related technical equipment, immova

Based on the enacted law on 3 July 2005 with respect to the regulat
service fund has been changed. According to this new regulation, in
description of gross revenue. Calculation of gross revenue for treasu
approval on 10 March 2006.

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3G License

On 30 April 2009, the Company signed a license agreement with IC
acquired the A type license providing the widest frequency band for
from 30 April 2009. According to the agreement, operators have pr

In accordance with the 3G License Agreement, the Company had to
and municipalities in three and six years, respectively. Moreover, th
and 1,000 within eight and ten years, respectively following the effe

Belarusian Telecom:

Belarusian Telecom owns a license issued on 28 August 2008 for a
the State Property Committee of the Republic of Belarus committed
shall be extended for an additional 10 years for an insignificant con
and Purchase Agreement and submitted the related official documen
will be made upon the expiration of its validity period. Therefore, B
amortization charge is recorded on the assumption that the license w

Under its license, Belarusian Telecom has several coverage requirem
However, Belarusian Telecom s period of execution in relation to c

Astelit:

Astelit owns two GSM activity licenses, one is for GSM 900, the o
microwave Radiorelay frequency licenses which are regional or nat
connection with wireless access using D-AMPS standard, one licen
Astelit holds number range two NDC codes for mobile network an

According to licenses, Astelit should adhere to state sanitary regula
emissions. Licenses require Astelit to inform authorities about start/
present all the required documents for inspection by Ukrainian Tele
operations of Astelit for a limited or an unlimited period if necessar
frequencies use. If such a violation is determined, Ukrainian Teleco
is not met, licenses may be terminated.

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Inteltek:

Inteltek signed a contract on 30 July 2002 which provides for the in
the provision of sport betting games. The Central Betting System C

Inteltek signed another contract with General Directorate of Youth a
center and become head agent for fixed odds betting. The Fixed Od
the operations of Inteltek, GDYS ceased the implementation of the
Inteltek signed a new Fixed Odds Betting Contract on 15 March 200
1 March 2008.

Inteltek signed a new Fixed Odds Betting Contract with Spor Toto,
Contract with Spor Toto, which took effect on 31 March 2008 as ha
until the operation started as a result of the new tender.

On 12 August 2008, Spor Toto conducted a tender which allowed p
for the tender. On 29 August 2008, Inteltek signed a contract with S
which is 1.4% of gross takings (until 1 March 2009, commission ra
guaranteed TRY 1,500,000 (equivalent to $970,246 as of 31 Decem

At 31 December 2010, the total amount of guarantee obtained from
2010) (31 December 2009: TRY 159,752 equivalent to $106,098 as
obliged to pay the difference between the realized and the targeted p

Kibris Telekom:

On 27 April 2007, Kibris Telekom signed the License Agreement fo
Communication License Agreement) with the Ministry of Commu
replacing the existing GSM-Mobile Telephony System Agreement o
was granted an 18 year GSM 900, GSM 1800 and IMT 2000/UMTS
subject to the fulfilment of certain conditions.

On 14 March 2008, Kibris Telekom was awarded a 3G infrastructur
the license, the system had to be operational by mid-October 2008.
voice and data connection with mainland and started using it from t
besides Telecommunication Authority.

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Under the Mobile Communication License Agreement, Kibris Telek
equal to 15% of gross revenues excluding accrued interest charges f
parties for value added services, interconnection revenues, roaming

Superonline:

Superonline was authorized to Fixed Telephony, Satellite Commun
Operator.

Authorization By-Law for Telecommunication Services and Infrastr
for Electronic Communications Sector dated 28 May 2009. Accordi
Internet Service Provision, Satellite Communication Service has be
Provision, Satellite Communication Service, Cable Broadcast Servi
Authority relevant to the Fixed Telephony Services.

In accordance with the new legislation issued by ICTA, the infrastru
expected useful lives of its operating license and related fixed netw

Azerinteltek:

Azerinteltek, in which Inteltek s shareholding is 51%, was establis
para-mutual sports betting games by the Ministry of Youth and Spo
the Ministry of Youth and Sports of Azerbaijan is renewed with the
betting games based on sports on 30 September 2010.

Azerinteltek officially commenced to conduct sports betting games

Interconnection Agreements

The Company has entered into interconnection agreements with a n
Hizmetleri AS (Telsim), Vodafone Telekomunikasyon AS (Vo
Iletisim AS (Globalstar).

The Access and Interconnection Regulation (the Regulation) bec

The Regulation is driven largely by a goal to improve the competiti
another operator s request for use of and access to its network. All
terms and qualifications provided to their shareholders, subsidiaries

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In accordance with the Regulation, the telecommunications provide
months following the issuance of the Regulation. As a result of inte
10 November 2003, Telsim on 21 November 2003, and Globalstar o
with Avea (formerly TT&TIM) was last renewed on 20 January 200
was signed between the Company and Vodafone at the end of July 2

On 21 February 2005, Superonline and Milleni.com GMbH have sig
convey calls to the Company s switch and the Company may conve

In addition, the ICTA has required operators holding significant ma
and to provide co-location on their premises for the equipment of ot
number portability, which means allowing users to keep the same p

Under a typical interconnection agreement, each party agrees, amon
transmitted to, and received from, the GSM system operated by eac
interconnection agreements also establish understandings between t
performance standards, interconnection interfaces and other technic

The Company s interconnection agreements usually provide that ea
responsible for ensuring that its network does not endanger the safe
cause any deterioration in the operation of the other party s networ

Interconnection agreements also specify the amount of the payment
payments vary by contract, and in some cases, may require the Com
on the Company s network but switching to the counterparty s net

There are no minimum payment obligations under the interconnecti
other penalties or loss of interconnection privileges for its own traff

On 10 February 2010, ICTA decreased Standard Interconnection T
0.0313 (equivalent to $0.0202 as at 31 December 2010) for voice ca
video calls, effective from 1 April 2010. The Company started to re
starting from 1 April 2010.

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As at 31 December 2010, the management believes that the Group i
requirements in all material respects.

Legal Proceedings

The Group is involved in various claims and legal actions arising in

Dispute with Turk Telekom with respect to call termination fees

Upon application of Turk Telekom, the ICTA has set temporary (an
from 10 August 2005. However, Turk Telekom did not apply these

Therefore, on 22 December 2005, the Company filed a lawsuit agai
(equivalent to $7,743 as at 31 December 2010) including principal,
reports and supplementary expert reports which are obtained for the

On 19 December 2006, the Company initiated another lawsuit agair
set by ICTA for the period between November 2005 and October 20
and penalty on late payment. The Court decided to consolidate this

On 2 November 2007, the Company initiated another lawsuit agains
by ICTA for the period between November 2006 and 1 March 2007
penalty on late payment. The Court also decided to consolidate this

Since it is not virtually certain that an inflow of economic benefits v
year ended 31 December 2010 (31 December 2009: None).

Dispute on Turk Telekom Transmission Lines Leases

Effective from 1 July 2000, Turk Telekom annulled the discount of
and, at the same time, Turk Telekom started to provide a discount o
application of the agreed 60% discount. However, on 30 July 2001,
allowing Turk Telekom to terminate the 60% discount. Accordingly
Although Turk Telekom did not charge any interest on late paymen
3,023 (equivalent to $1,955 as at 31 December 2010) for possible in
nominal amount of TL 30,068 (equivalent to $19,449 as at 31 Dece

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The Company did not agree with Turk Telekom s interest calculati
collecting any amounts relating to this interest charge. Also, the Co
Court rejected the case. The Company appealed the decision. The S
Court rejected the correction of the decision request and the decisio

Based on the management opinion, the Company accrued provision
amount from the receivables from Turk Telekom as at 31 Decembe

Additionally, a lawsuit is commenced against Turk Telekom on 28
31 December 2010), overdue interest of TL 3,092 (equivalent to $2
with the contractual default interest until payment date on the groun
2000, Turk Telekom has already collected the whole amount which
receivable.

Dispute regarding the Fine Applied by the Competition Board

The Competition Board commenced an investigation of business de
decided that the Company disrupted the competitive environment th
of the Law on the Protection of Competition. As a result, the Comp
and was enjoined to cease these infringements. The Company initia
2005, the Court cancelled the Competition Board s decision.

After the cancellation of the Competition Board s decision, the Co
initiated a lawsuit before Council of State for the injunction and can
dismissed the lawsuit. The Company appealed the decision. Appeal

Based on the decision of Competition Board, Ankara Tax Office re
order dated 4 August 2006. On 25 September 2006, the Company m
dismissed the lawsuit, and the Company appealed this decision. On
with the decision of Council of State. On 18 December 2009, the C
of the Instance Court. The lawsuit is still pending.

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(Amounts expressed in thou

Since it is not virtually certain that an inflow of economic benefits v
year ended 31 December 2010 (31 December 2009: None).

Dispute regarding the Fine Applied by the Competition Board reg

The Competition Board decided to initiate an investigation in order
appropriateness with respect to competition rules. On 23 December
marketing services and fined the Company amounting to TL 36,072
notification of the decision of the Competition Board. Therefore, 25
monetary fine on 25 May 2010. The Company filed a legal case on
rejected the Company s suspension of execution request. The Com

Avea, depending on the Competition Board decision, initiated a law
1,000 (equivalent to $647 as at 31 December 2010), with reservatio

Based on the management opinion, the probability of an outflow of
in the consolidated financial statements as at and for the year ended

Dispute on National Roaming Agreement

The Company conducted roaming negotiations in 2001 with İs-Tim
19 October 2001, upon unsuccessful negotiations, ICTA granted tin
and requested parties to come to an agreement until 15 November 2
are impossible from technical aspects and unacceptable from econo
which is subjected to the lawsuit is cancelled by another state counc
Administrative Divisions decided to uphold the court decision.

In a letter dated 14 March 2002, the ICTA subjected Is-Tim s reque
possible. Nevertheless, the ICTA declared that the Company is unde
initiated a lawsuit against ICTA. On 14 March 2006, Council of Sta
the regulation on procedures and policies with respect to national ro
State has decided to approve the decision of the Council of State.

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The ICTA decided that the Company has not complied with its resp
of approximately TL 21,822 (equivalent to $14,115 as at 31 Decem
2004, the Company filed a lawsuit. On 3 January 2005, with respect
as at 31 December 2010).

On 13 December 2005, Council of State decided the cancellation of
and policies with respect to national roaming. ICTA appealed the de
of State has decided to approve the decision of the Council of State.
(equivalent to $4,600 as at 31 December 2010), the total amount of
ICTA returned the same to the Company as the result of the stay of

Since it is not virtually certain that an inflow of economic benefits w
year ended 31 December 2010 (31 December 2009: None).

On 27 October 2006, Telecom Italia SPA and TIM International N.
demand of roaming has not been met. Telecom Italia SPA and TIM
has been appealed by Telecom Italia SPA and TIM International N.

Based on the management opinion, the probability of an outflow of
in the consolidated financial statements as at and for the year ended

Dispute regarding of the Fine Applied by ICTA on pricing applica

On 7 April 2010, ICTA decided to impose administrative fine to the
Authority and TL 374 (equivalent to $242 as at 31 December 2010)
the decision of the ICTA. Therefore, 25% discount was applied and
2010. The Company filed two lawsuits on 9 July 2010 for the suspe
suspension of execution requests and the Company objected to the c

Since it is not virtually certain that an inflow of economic benefits w
ended 31 December 2010.

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(Amounts expressed in thou

Dispute regarding the Fine applied by ICTA on tariffs above uppe

On 15 October 2009, ICTA decided to initiate an investigation stati
Company initiated a lawsuit for the cancellation of ICTA s decisio

On 21 April 2010, ICTA decided to impose administrative fine to th
Company applied tariffs above the upper limits of GSM-GSM in GS
notification of the decision of the ICTA. Therefore, 25% discount w
on 3 June 2010. The Company filed a lawsuit on 28 June 2010, for t
Company objected to the decision and the Court accepted this objec
$25,938 as at 31 December 2010) on 27 January 2011. An income a
2010 (31 December 2009: None).

Amount to be reimbursed to the subscribers is calculated as TL 46,2
financial statements as at and for the year ended 31 December 2009

Dispute on Deposits at Banks

The Company has disputes in connection with some accounts at two
to each other regarding such disputes. It has been informed that a no
The Company has recorded that amount as expense to its consolidat
31 December 2010), excluding interest, in addition to the aforement
other bank. In the end of the jurisdiction, the Court, on 27 April 200
compensation. Such decision became final on 11 October 2004. The
2004 to 14th Execution Office of Istanbul.

In the lawsuit initiated against the other bank, the Court decided in
same. On 3 April 2006, Supreme Court of Appeals decided the reve
Court of Appeals. The lawsuit is pending. The Company has not ref
for the year ended 31 December 2010.

Dispute on Special Communication Taxation Regarding Prepaid

Tax Office imposed tax penalty in the total amount of TL 47,130 (e
2010) based on the ground that the Company had to pay special con

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wholesales for the years 2003 and 2004, respectively. On 31 Decem
to await until the completion of settlement procedure in the lawsuit
have settled on the amounts subjected to the lawsuits as explained i

According to the settlement made with the Ministry of Finance Sett
(equivalent to $963 as at 31 December 2010) and TL 2,834 (equiva
interest was settled at TL 3,570 (equivalent to $2,309 as at 31 Dece
respectively. The aforementioned amounts were paid on 27 July 20

Provision set for the above mentioned special communication taxes
consolidated financial statements as at and for the year ended 31 De
in the consolidated financial statements as at and for the year ended

Tax Office imposed tax penalty, including actual tax and penalty fo
139,101 (equivalent to $89,975 as at 31 December 2010) based on t
distributors for the wholesales for the years 2005 and 2006, respecti
Lawsuits are still pending.

Company management decided to set provision for the special com
2007 amounting to TL 9,087 (equivalent to $5,878 as at 31 Decemb
consolidated financial statements as at and for the year ended 31 De

On 28 February 2011, Tax Amnesty Law has been approved by the
method for the settlement of previous disputes with the Tax Author
decided to authorize the management to apply to the Turkish Minis
and to pursue related negotiations. As of the date of this report, the

Carrying International Voice Traffic

In May 2003, the Company was informed that the ICTA had initiat
some of its international voice traffic through an operator other tha
voice traffic. On 5 March 2004, ICTA fined the Company a nomina

The Company has initiated a lawsuit with the claim of annulment o
5 November 2004, Council of State gave a

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(Amounts expressed in thou

decision, which is served to the Company, for stay of execution. Wi
26 January 2005 and deduct a sum of TL 13,731 (equivalent to $8,8
Council of State decided to accept the Company s claim and annul
pending.

Turk Telekom initiated a lawsuit against the Company with respect
which TL 219,149 (equivalent to $141,752 as at 31 December 2010
30 June 2005 and requesting a temporary injunction.

Considering the progresses at the court case, provision is set for the
amounting to a nominal amount of TL 84,567 (equivalent to $54,70
2010.

In deciding upon the amount of the provision taking, the Company
the expert report. Specifically, under Turkish Law, a person who is
may only be sought in respect of lost profit. For this reason, the pro
rather than the amounts requested by Turk Telekom and amounts re
which supports the management opinion from an expert who is not

On 5 November 2009, the Court rejected the Turk Telekom s reque
amounting to TL 279,227 (equivalent to $180,613 as at 31 Decembe
still pending.

Dispute with Spor Toto

On 9 November 2005, Spor Toto sent a notification letter to Inteltek
31 December 2010) due to the difference in the reconciliation metho
Inteltek management believes that those periods should be cumulati

Spor Toto, on behalf of GDYS, initiated a declaratory lawsuit again
GDYS and Inteltek is not responsible for the uncollected amount of
period should be six-month independent periods. GDYS appealed th
decision, GDYS applied for the correction of the decision. GDYS s

Based on the decision of Supreme Court, Inteltek reversed the previ
interest accrual amount of TL 1,894 (equivalent to $1,225 as at 31 I

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(Amounts expressed in thou

(equivalent to $1,517 as at 31 December 2010) principal and TL 97
reconciliation periods. Inteltek has initiated a lawsuit on 21 Februar
the decision. The Supreme Court ruled to reverse the judgement of
still pending.

Since it is not virtually certain that an inflow of economic benefits
year ended 31 December 2010 (31 December 2009: None).

Dispute on over assessment following the settlement on VAT fine

On 9 February 2009, the Company initiated a lawsuit claiming canc
erroneously calculated after settlement with the Tax Office regardin
rejected the Company s injunction request. The Company objected

Since it is not virtually certain that an inflow of economic benefits
year ended 31 December 2010 (31 December 2009: None).

Dispute on Iranian GSM tender process

The Company has initiated an arbitration case against Islamic Repu
Investments and demanded its sustained loss, on 11 January 2008 a
process is still pending.

Besides, related with GSM tender process, Eastasia one of the partn
initiated an arbitration process against IEDC, another partner of the
compensation for damages for the aforementioned breach. The arbit

Dispute on Turk Telekom Transmission Tariffs

On 19 January 2007, the Company initiated a lawsuit against Turk
1 July 2005. The Company requested a nominal amount of TL 8,13
favor of the Company. The court ruled to obtain supplementary exp

Since it is not virtually certain that an inflow of economic benefits
year ended 31 December 2010 (31 December 2009: None).

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(Amounts expressed in thou

Dispute on the decision of CMB regarding Audit Committee Mem

On 21 July 2006, Alexey Khudyakov was appointed to the audit co
Khudyakov s current status, as an observer member on the audit co
CMB. The CMB has stated that steps must be taken urgently in orde
execution and to annul the decision of the CMB.

On 18 January 2008, Ankara 14th Administrative Court rejected the
appeal request. The Company applied for the correction of the decis

On 15 October 2008, the CMB decided on an administrative fine an
of CMB dated 26 January 2007 and required the Company to inform
Administrative Court. The Court rejected the Company s suspensio

Dispute on Mobile Number Portability

On 29 March 2007, the Company initiated a lawsuit against the ICT
the ICTA on 1 February 2007 on the ground that vested rights of th
Court rejected the case. The Company appealed the decision. The a

Dispute on Turk Telekom Interconnection Costs

On 8 April 2009, Turk Telekom initiated a lawsuit for damages aga
fees to operators than the fees applied to the Company s subscriber
accrued interest starting from 2001 and TL 10 (equivalent to $6 as a
of decreasing traffic volume of Turk Telekom and subscriber lost d

Based on the management opinion, the probability of an outflow of
in the consolidated financial statements as at and for the year ended

Dispute on Avea Interconnection Costs

On 4 November 2010, Avea initiated a lawsuit on the ground that o
on-net tariffs of the Company cannot be under the interconnection f
31 December 2010) material compensation by reserving its right fo

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As a

(Amounts expressed in thou

The Company has accrued provision amounting to TL 1,000 (equiv

Dispute on Campaigns

On 21 May 2008, ICTA decided that the Company damaged the sub
requested TL 32,088 (equivalent to $20,755 as at 31 December 201
The lawsuit is still pending. However, the Company benefited from
31 December 2010) on 1 August 2008.

Since it is not virtually certain that an inflow of economic benefits w
year ended 31 December 2010 (31 December 2009: None).

Dispute on Payment Request of Savings Deposits Insurance Fund

On 26 July 2007, Savings Deposits Insurance Fund (SDIF) reque
that the stated amount is recorded as receivable from the Company
filed a lawsuit for the injunction and cancellation of the SDIF s req
accepted the Company s claim and cancelled the aforementioned re

SDIF issued payment orders for the above mentioned amount and, o
6 February 2008, the Court accepted the Company s injunction req
decision. The appeal process is pending.

Based on the management opinion, the probability of an outflow of
in the consolidated financial statements as at and for the year ended

Dispute on the Discounts which are paid over the Treasury Share

At the end of 2006, Tax Auditors of the Company claimed that gros
recorded these discounts in a separate line item as sales discounts.

Starting from 1 January 2007, the Company started to deduct discou
decided that, it has paid excess treasury share and universal service

Through the letter dated 23 February 2007, the Company requested
amounting to TL 5,020 (equivalent to $3,247 as at 31 December 20

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(Amounts expressed in thou

(equivalent to $3,315 as at 31 December 2010) and interest accrued
days. Since Turkish Treasury and Turkish Ministry have not made a
31 December 2007, the Company deducted TL 51,254 (equivalent t

Turkish Treasury sent a letter to the Company dated 17 July 2007 a
Accordingly, the Company is asked to return TL 2,960 (equivalent
Company has not made the related payment and continued to deduc
for the year 2006.

Management believes that the Company has the legal right to make
respect to this matter in its consolidated financial statements as at a

According to the 51st article which is headed Applicable Law and
arbitration and three arbitrator which are selected within the scope o
shall primarily resolved by negotiations at the License Coordination
regarding the arising dispute, structure and reasons of the dispute a
notification date, dispute shall be resolved by arbitration.

The Company filed two lawsuits before ICC claiming that the Com
concession agreement, respectively, on discounts granted to distrib
Awards, the Company is not under obligation of paying Treasury S
Agreement dated March 10, 2006. ICTA filed lawsuits for cancella

Dispute on payments of additional treasury share payment for the

Turkish Treasury, through a letter which is based on the Report of t
9 March 2006, requested additional treasury share payment regardi
obtain a declaratory judgment on the Company is not obliged to pa
the exchange differences arising from roaming revenue. The case is

ICTA, through a letter dated 14 May 2010 which is based on the Re
to 9 March 2006, requested additional treasury share payment of T
(equivalent to $7,873 as at 31 December 2010) on the ground that t
entirely.

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On 26 May 2010, the Company, in order to provide the suspension
grounds that the payment of additional treasury share payment of T
(equivalent to $7,873 as at 31 December 2010) is a pending case be
an objection to the preliminary injunction and this objection has bee
Controller s Board following the examinations covering the period
$46,913 as at 31 December 2010) and conventional penalty of TL 2
as at 31 December 2010) of the aforementioned amount.

On 13 December 2010, the Company, in order to provide the suspen
grounds that the payment of treasury share of TL 70,992 (equivalen
31 December 2010) is a pending case before ICC Arbitration Court

Based on the management opinion, the probability of an outflow of
in the consolidated financial statements as at and for the year ended

The company filed a lawsuit before ICC on 12 January 2011 regard
Company and the conventional penalty of TL 205,594 (equivalent t

Dispute on treasury share amounts which are absorbed due to ret

In consequence of collection of treasury share from the Company w
procedure amendments of ICTA on both interconnection fees and s
share which collected from diminishing returns are unlawful and de
claimed payment of TL 1,600 (equivalent to $1,035 as at 31 Decem
ICTA due to its administrative act leading to this case and against T
still pending.

Since it is not virtually certain that an inflow of economic benefits v
for the year ended 31 December 2010 (31 December 2009: None).

Dispute with the Ministry of Industry and Trade

Ministry of Industry and Trade notified the Company that the Comp
administrative fine of TL 68,201 (equivalent to $44,114 as at 31 De

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(Amounts expressed in thou

the cancellation of the payment order and related decision of the Mi
payment order on 8 June 2010. Ministry of Industry and Trade appe

On 14 December 2009, the Company filed a lawsuit for the injuncti
respect to the decision of Ministry of Industry and Trade. The Cour
Administrative Court accepted the objection of the Company and de

Based on the management opinion, the probability of an outflow of
in the consolidated financial statements as at and for the year ended

Penalty of ICTA on Value Added Services

On 1 March 2010, ICTA decided to initiate an investigation against
revoked by The Ministry of Industry and Trade on the ground that t
and this is contrary to the article 11/A of the law numbered 4077. T
ICTA.

On 13 January 2011, ICTA decided to apply administrative fine of
following the notification of the decision of ICTA, 25% discount w
consolidated financial statements as at and for the year ended 31 De

Dispute of Astelit with its Distributor

Astelit and one of its distributors had an agreement for the sale of A
days after delivery and proceeds from such sale had to be transferre
the relationship under this agreement, the distributor began to viola

Despite the distributor is factually a debtor under the agreement, the
31 December 2010), which is allegedly the sum of advance paymen
indebtedness in the amount of HRV 35,292 (equivalent to $4,433 as

As a result of consideration of two claims, the Court of First Instanc
Kiev Economic Court of Appeal repealed the decision of the Court
HRV 106,443 (equivalent to $13,369 as at 31 December 2010). The

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appellate court s ruling. Thereafter, Astelit management has filed a
jurisdiction against the resolution of the Higher Economic Court of

In December 2009 the Supreme Court of Ukraine has revoked the p
new legal proceedings. New legal proceedings have started in Febru
institute of judicial expertise in order to define real indebtedness. Th

Management believes that such conclusion of the courts has no prop
not recorded any accruals with respect to this matter in its consolida

Dispute of Astelit related to Withholding Tax on Interest Expense

Ukranian Tax Administration sent a tax notice to Astelit stating tha
2009. According to Ukrainian legislation and Convention on avoidi
imposed Astelit to pay additional HRV 11,651 (equivalent to $1,46
30 November 2010. Tax Inspection appealed the case on 27 Decem
years 2009 and 2010 in the consolidated financial statements as at a

Dispute on VAT and SCT on Roaming Services

On 21 October 2009, based on the Tax Investigation Reports dated
VAT and SCT should be calculated on charges paid to international
and requested TL 255,298 (equivalent to $165,135 as at 31 Decemb
date. The Company filed a lawsuit for the cancellation of the aforen
withdrawn from the lawsuits.

As a result of the settlement made with Ministry of Finance Settlem
31 December 2010) and late payment interest expense was settled a
2010.

Dispute on VAT and SCT regarding Shell & Turcas Petrol A.S Co

Turkcell and Shell&Turcas Petrol A.S. signed an agreement on 27 N
from Shell&Turcas Petrol AS.

As a result of the tax investigation, Tax Controllers notified that VA
communication tax amounting to TL 1,214 (equivalent to $785 as a
amounting to TL 874 (equivalent to $565 as at 31 December 2010)

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(Amounts expressed in thou

penalty of TL 1,315 (equivalent to $851 as at 31 December 2010). C
to accept the case. Tax Administration appealed the decisions. Base
consolidated financial statements as at and for the year ended 31 De

Lawsuit initiated by Mep Iletisim AS

On 31 December 2008, Mep Iletisim AS, which is former distributo
that it has a loss of TL 64,000 (equivalent to $41,397 as at 31 Decer
31 December 2010) and remaining amount to be reserved. The case

Based on the management opinion, the probability of an outflow of
in the consolidated financial statements as at and for the year ended

Investigation of ICTA on the wrongful declarations of the Compa

ICTA decided to initiate an investigation based on the reason that th
and wrong, the Company is not in a helpful approach regarding the
ICTA. Investigation report has been sent to the Company. The Com
2011, no penalty has been charged for the Company.

Based on the management opinion, the probability of an outflow of
in the consolidated financial statements as at and for the year ended

Decisions of ICTA on tariff plans

On 15 November 2009, ICTA notified that the Company has chang
On 1 February 2010, the Company initiated a lawsuit for the cancel
pending.

Amount to be reimbursed to the subscribers is calculated as TL 15,6
financial statements as at and for the year ended 31 December 2009

On 17 May 2010, ICTA decided to impose TL 802 (equivalent to $
of Turkcell contradicts the board decision which sets lower limit to
Therefore, 25% discount was applied and TL 601 (equivalent to $3

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(Amounts expressed in thou

2010 in request for the cancellation of fine. The Court overruled the
objection request of the Company. The lawsuit is still pending.

On 8 March 2010, ICTA informed the Company that an investigatio
penalty amounted TL 26,483 (equivalent to $17,130 as at 31 Decem
the notification of the decision of ICTA. Therefore, 25% discount w
2010. The Company initiated a lawsuit to suspend the execution of
request and the Company objected to this decision. On 17 February
request for full refund of the amount paid to ICTA. ICTA reimburse

Amount to be reimbursed to the subscribers is calculated as TL 13,4
consolidated financial statements as at and for the year ended 31 De

Decision of ICTA regarding telephone directory and unknown nu

On 7 July 2010, ICTA decided to fine the Company by TL 401 (equ
and equipment which make available the telephone directory and un
that ownership of the whole system related to telephone directory an
following the notification of the decision of ICTA. Therefore, 25%

The Company filed a lawsuit on 22 September 2010 for the suspens
Company and the Company objected to this decision however the c

Since it is not virtually certain that an inflow of economic benefits w
year ended 31 December 2010 (31 December 2009: None).

Investigation of the Competition Board regarding applications to

On 11 November 2009, Competition Board decided to initiate an in
violates the related clauses of the Competition Act numbered 4054.
took place as an on-site examination and inspection in March 2010.
context of this file. Besides, the Company s action concerning abus
other subscriber services by obstructing the activity of Avea is exam
submitted to the Company in August 2010 and the Company submi
February 2011 and the Company will submit its written defence to

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(Amounts expressed in thou

Investigation of ICTA based on the complaint of a subscriber

ICTA decided to initiate an investigation through its decision dated information and documents from the Company. The Company prov has submitted its defence statement to ICTA within the due date.

On 13 January 2011, ICTA decided to impose administrative fine to subscribers suffer and TL 2,005 (equivalent to $ 1,297 as at 31 Dec following the notification of the decision of ICTA, 25% discount w consolidated financial statements as at and for the year ended 31 De cancellation of the administrative fine.

Investigation on breaching confidentiality of personal data and re

ICTA decided to launch preliminary investigation on breaching con unlawful wiretapping. ICTA authorities made an on-site inspection detailed examination of the matter. Information and documents dem The Company submitted its written defence within due date.

Dispute on treasury share in accordance with the amended license

Based on the law enacted on 3 July 2005 with respect to the regulat According to this new regulation, accrued interest charges for the la revenue. Calculation method of gross revenue for treasury share stip with the claim of amendment of its license agreement in complianc between 21 July 2005 and 10 March 2006, when the amendment in

On 9 June 2008, the Company filed a lawsuit before Administrative $66,397 as at 31 December 2010) and interest amounting to TL 68, Court rejected the case and the Company appealed the decision. Th

Since it is not virtually certain that an inflow of economic benefits w year ended 31 December 2010 (31 December 2009: None).

Based on the 9th article of the license agreement dated 10 March 20 However, in the previous license agreement, the Company was obli

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(Amounts expressed in thou

service fund and other indirect taxes from the calculation base whe
Therefore, on 12 April 2006, the Company has initiated a lawsuit f
case. The Company appealed the decision. Appeal process is still p

Dispute on ICTA fee payment based on the amended license agre

On 21 June 2006, ICTA notified the Company that the ICTA fee fo
license agreement dated 10 March 2006 instead of the previous lic
additional TL 4,011 (equivalent to $2,594 as at 31 December 2010)
cancellation of the aforesaid decision of ICTA on 28 August 2006.
ICTA. The ICTA appealed the decision. Appeal process is still pen
31 December 2010) on 8 February 2010 and recorded income in the
Company initiated a lawsuit for the accrued interest amounting to T

Since it is not virtually certain that an inflow of economic benefits
financial statements as at and for the year ended 31 December 201

Penalty issued to Superonline regarding trenching activities

On 13 January 2011 Ankara Municipality issued a penalty of TL 8,
activities. Based on the management opinion, the probability of an
provision is recognized in the consolidated financial statements as a

Dispute with Avea on SMS interconnection termination fees

On 22 December 2006, Avea initiated a lawsuit against the Compa
would not charge any SMS interconnection termination fees, the C
assumed liabilities for the SMS terminating on Avea s network an
Avea requested provisions of Interconnection Agreement regardin
(equivalent to $4,191 as at 31 December 2010) for the period betw
decided in favor of Avea. The Company has appealed the decision.
31 December 2010), late payment interest of TL 5,103 (equivalent
on 30 March 2009.

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(Amounts expressed in thou

In line with the court decision stating that charging SMS interconne
revenue nor SMS interconnection expense has been recognized fror

Moreover, the Company applied to ICTA for the determination SM
interconnection termination fees announced by ICTA until January

Since it is not virtually certain that an inflow of economic benefits v
year ended 31 December 2010 (31 December 2009: None).

Dispute with T-Medya

Arbitration procedures regarding three real estates which are in the
2010 against T-Medya who is the lessee of the real estates and delir
the amount of TL 8,914 (equivalent to $5,766 as at 31 December 20

A bad debt reserve for the receivable amount of 8,755 TL (equivale
statements as at and for the year ended 31 December 2010 in accord

Investigation initiated by ICTA upon complaint of subscriber on i

On 30 December 2010, ICTA decided to initiate an investigation ag
order to investigate the billing and pricing problems arising from th
campaigns and the Company submitted its explanations on the issue

Investigation initiated by ICTA regarding Number Portability

On 26 January 2011 ICTA decided to initiate an investigation agair
out an inspection in the Company between 28 February and 2 Marc

Investigation initiated by ICTA upon complaint of subscriber of d

On 9 March 2011, ICTA decided to initiate an investigation against
inspection was carried out between 30 March and 1 April in the Cor

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Investigation initiated by ICTA regarding the Company s compat

On 26 January 2011, ICTA decided to initiate an investigation agai
Subscription Processes of End Users and ICTA s decision about I

Dispute with Turk Telekom with respect to numbers beginning wi

The Company filed a lawsuit on 25 April 2008 against Türk Teleko
and delay fee which has been collected by Turk Telekom within the
terminated at the numbers in form of 444 XX XX which are assi
in favor of the Company on 23 March 2011. The Court has not prep

Investigation of ICTA related with application of an article of the

The ICTA decided to initiate an investigation related with applicatio
decision dated 22 February 2011 and prepared an investigation repo
statement to ICTA within the due date.

33. Related parties

Transactions with key management personnel:

Key management personnel comprise the Group s directors and ke

As at 31 December 2010 and 2009, none of the Group s directors a

In addition to their salaries, the Group also provides non-cash benef
Group is required to contribute a specified percentage of payroll co

Total compensation provided to key management personnel is $11,

The Company has agreements or protocols with several of its share

Other related party transactions:

Due from related parties long term	
T-Medya	
Digital Platform Iletisim Hizmetleri AS (Digital Platform)	
Other	

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(Amounts expressed in thou

Receivables from T-Medya consists of receivables based on rent ag
long term is shown net of allowance for doubtful debts amounting t
ended 31 December 2010 is $5,897 (31 December 2009 and 2008: n

Due from related parties short term
System Capital Management (SCM)
Digital Platform
A-Tel
KVK Teknoloji Urunleri AS (KVK Teknoloji)
ADD Production Media AS. (ADD)
Kyisvstar GSM JSC (Kyivstar)
Other

Due from related parties short term is shown net of allowance for do
recognized for the years ended 31 December 2010 is $2,998 (31 De

Due to related parties short term
Hobim Bilgi Islem Hizmetleri AS (Hobim)
Intralot SA (Intralot)
KVK Teknoloji Urunleri AS (KVK Teknoloji)
Mapfre Genel Yasam Sigorta AS (Mapfre)
Kyisvstar GSM JSC (Kyivstar)
Other

Substantially, all of the significant due from related party balances i

Due from SCM, non-controlling shareholder of Euroasia, resulted fr

Due from Digital Platform, a company whose majority shares are ow
borrowing repayments and advances given for current and planned

Due from A-Tel, a 50-50 joint venture of the Company and SDIF m

Due from KVK Teknoloji, a company whose majority shares are ow

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Due from ADD, a company whose majority shares are owned by Cu

Due from Kyivstar, whose shares are owned by one of the sharehol
rendered to this company.

Due to Hobim, a company whose majority shares are owned by Cul

Due to Intralot, a company incorporated under the laws of Greece a
maintenance services.

Due to KVK, a company whose majority shares are owned by Cuku

Due to Mapfre, a company owned by one of the shareholders of the

Due to Kyivstar, whose shares are owned by one of the shareholder

The Group s exposure to currency and liquidity risk related to due

Transactions with related parties

All intragroup transactions have been eliminated and are not presen

Income from related parties
Sales to KVK Teknoloji
Simcard and prepaid card sales
Sales to Kyivstar
Telecommunications services
Sales to A-Tel
Simcard and prepaid card sales
Sales to Digital Platform
Call center revenues and interest charges
Finance income from SCM
Interest income
Sales to Teliasonera International
Telecommunications services
Sales to Millenicom Telekomunikasyon AS (Millenicom)
Telecommunications services
Sales to CJSC Ukrainian Radiosystems
Telecommunications services

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Related party expenses
Charges from ADD
Advertisement and sponsorship services
Charges from Kyivstar
Telecommunications services
Charges from A-Tel (*)
Dealer activation fees and others
Charges from KVK Teknoloji
Dealer activation fees and others
Charges from Hobim
Invoicing and archieving services
Charges from Teliasonera International
Telecommunications services
Charges from Millenicom
Telecommunications services
Charges from CJSC Ukrainian Radiosystems
Telecommunications services

* Charges from A-Tel have been eliminated to the exte
$31,618, $36,971 and $49,065, respectively.

The significant agreements are as follows:

Agreements with KVK Teknoloji:

KVK Teknoloji, incorporated on 23 October 2002, one of the Comp
shareholders. In addition to sales of simcards and scratch cards, the
protocols, each lasting for different periods pursuant to which KVK
agreements is to promote and increase handset sales with the Comp
in the prevailing market conditions. The prices of the contracts were
received, reflected in the Company s market share in new subscribe

The amount of handset sales to the subscribers of the Company perf
at 31 December 2010) which is paid to KVK Teknoloji in advance i
campaign period.

Agreements with Kyivstar:

Alfa Group, a minor shareholder of the Company, holds the majorit
Kyivstar.

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Agreements with A-Tel:

A-Tel is involved in the marketing, selling and distributing the Com
dealer of the Company for Muhabbet Kart (a prepaid card), and rec
simcards and scratch cards through an extensive network of newspa
campaigns and subscriber activations.

Agreements with Digital Platform:

Digital Platform, a direct-to-home digital television service compan
Group. Digital Platform acquired the broadcasting rights for Turkis
were extended until 31 May 2010 with a new agreement dated 5 Ma

On 23 December 2005, Restructuring Framework Agreement an
framework of the agreement, Digital Platform will pay its liabilities
15 July 2011. On 4 June 2010, Digital Platform notified the Compa
Restructuring Framework Agreement and declared that Digital P
Framework Agreement . With the protocol dated 31 January 2011,
receivable balance from Digital Platform will be paid in 2 equal ins

The Company also has an agreement related to the corporate group
provided by the Company s subsidiary Global Bilgi Pazarlama Da

Agreements with SCM:

SCM, non-controlling shareholder of Euroasia, obtained loan from

Agreements with Teliasonera International:

Teliasonera International is the mobile operator that provides teleco
receiving call termination and international traffic carriage services

Agreements with Millenicom:

European Telecommunications Holding AG (ETH), a subsidiary
termination and international traffic carriage services to and from th

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Agreements with CJSC Ukrainian Radiosystem:

CJSC Ukrainian Radiosystems owned by Vimpelcom provides mob
services to and from the Astelit.

Agreements with ADD:

ADD, a media planning and marketing company, is a Turkish comp
media purchasing agreement with ADD, which was revised on 1 Se
expertise and bargaining power of ADD against third parties, regard
agreement was annulled effective from 2 August 2010 as a result of

Agreements with Hobim:

Hobim, one of the leading data processing and application service p
and archiving agreements with Hobim under which Hobim provides
invoices and subscription documents for an indefinite period of tim

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34. Group entities

The Group s ultimate parent company is Turkcell. Subsidiaries of t

Subsidiaries

Name	**Cour incorp**
Kibris Telekom	Turkish Repub
Global	
Turktell Bilisim Servisleri AS	
Superonline	
Turktell Uluslararasi Yatirim Holding AS	
Turkcell Kurumsal Satis ve Dagitim Hizmetleri AS	
Eastasia	
Turkcell Teknoloji Arastirma ve Gelistirme AS	
Kule Hizmet ve Isletmecilik AS*	
Sans Oyunlari Yatirim Holding AS	
Financell	
Rehberlik Hizmetleri AS	
Beltur BV	
Surtur BV	
Beltel	
Turkcell Gayrimenkul Hizmetleri AS	
LLC Global	
FLLC Global	Repu
UkrTower	
Talih Kusu Altyapi Hizmetleri AS	
Turkcell Europe GmbH	
Corbuss Kurumsal Telekom Servis Hizmetleri AS	
Belarusian Telecom	Repu
Inteltek	
Euroasia	
Astelit	
Azerinteltek	

* Brandname of Kule Hizmet ve Isletmecilik AS is Global Tow

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35. Subsequent events

On 23 March 2011, the Company s Board of Directors has propose $859,442 as at 31 December 2010, respectively), which represented $0.39 as at 31 December 2010) per share. This dividend proposal w

In the Ordinary General Assembly of Shareholders Meeting of Intel $10,831 as at 31 December 2010).

In March 2011, Fintur decided to distribute dividend amounting to S

In March 2011, A-Tel decided to distribute dividend amounting to T 11 April 2011.

According to contract which was signed between Fizy Medya İntern shares. Fizy s operations consists of providing all kind of advertisi accessing as well as downloading from the internet. Fizy restarted it

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REPORT OF INDE

To the Shareholders and

Board of Directors of Fintur Holdings B.V.

We have audited the consolidated balance sheets of Fintur Holdings
income, of comprehensive income, of changes in equity and of cash
the responsibility of the Group s management. Our responsibility is

We conducted our audits of these consolidated financial statements
standards require that we plan and perform the audit to obtain reaso
audit includes examining, on a test basis, evidence supporting the a
used and significant estimates made by management, as well as eva
our opinion.

In our opinion, the consolidated financial statements referred to abo
as at 31 December 2010 and 2009 and the results of their operations
Financial Reporting Standards as issued by the International Accou

Başaran Nas Bagimsiz Denetim ve

Serbest Muhasebeci Mali Mtişavirlik AŞ.

a member of

PricewaterhouseCoopers

Mert Tüten.SMMM Partner

Istanbul, 14 April 2011