

TURKCELL ILETISIM HIZMETLERI A S
Form 6-K
November 08, 2006

REPORT OF FOREIGN PRIVATE ISSUER

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

Report on Form 6-K dated November 8, 2006

TURKCELL ILETISIM HIZMETLERI A.S.

Turkcell Plaza

Mesrutiyet Caddesi No.153

34430 Tepebasi

Istanbul, Turkey

(Address of Principal Executive Offices)

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

Form 20-F: Form 40-F:

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

Yes: No:

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contained in this form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes: No:

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Enclosures: Consolidated financial statements prepared in accordance with IFRS for the nine month period ended September 30, 2006

TURKCELL ILETISIM HIZMETLERI AS AND ITS SUBSIDIARIES

CONSOLIDATED INTERIM BALANCE SHEET

As at 30 September 2006

(Amounts expressed in thousands of US dollars unless otherwise indicated except share amounts)

| | Note | 30 September 2006 | 31 December 2005 |
|---|-----------|----------------------|---------------------|
| Assets | | | |
| Property, plant and equipment | 10 | 1,870,537 | 2,142,710 |
| Intangible assets | 11 | 1,120,195 | 1,298,055 |
| Investments in equity accounted investees | 12 | 483,369 | 290,412 |
| Other investments | 13 | 32,950 | 29,395 |
| Due from related parties | 29 | 73,298 | 80,894 |
| Other non-current assets | | 14,569 | 16,476 |
| Deferred tax assets | 14 | 1,154 | 2,940 |
| Total non-current assets | | 3,596,072 | 3,860,882 |
| Inventories | | 9,719 | 8,910 |
| Other investments, including derivatives | 13 | 76,325 | 23,287 |
| Due from related parties | 29 | 63,204 | 66,312 |
| Trade receivables and accrued income | 15 | 366,284 | 321,102 |
| Other current assets | 16 | 243,075 | 126,451 |
| Cash and cash equivalents | 17 | 985,071 | 808,153 |
| Total current assets | | 1,743,678 | 1,354,215 |
| Total assets | | 5,339,750 | 5,215,097 |
| Equity | | | |
| Share capital | 18 | 1,636,204 | 1,438,966 |
| Share premium | 18 | 434 | 434 |
| Reserves | 18 | (224,609) | 84,590 |
| Retained earnings | 18 | 2,105,206 | 2,102,537 |
| Total equity attributable to equity holders of the Company | | 3,517,235 | 3,626,527 |
| Minority interest | 18 | 69,435 | 63,794 |
| Total equity | | 3,586,670 | 3,690,321 |
| Liabilities | | | |
| Loans and borrowings | 20 | 102,547 | 79,165 |
| Employee benefits | 21 | 15,883 | 16,600 |
| Other non-current liabilities | | 9,134 | 6,417 |
| Deferred tax liabilities | 14 | 194,246 | 89,964 |
| Total non-current liabilities | | 321,810 | 192,146 |
| Loans and borrowings | 20 | 542,592 | 578,105 |
| Income taxes payable | 9 | 233,052 | 60,864 |
| Trade and other payables | 24 | 513,672 | 530,875 |
| Due to related parties | 29 | 6,333 | 6,180 |
| Deferred income | 22 | 112,130 | 123,613 |

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| | | | |
|-------------------------------------|----|------------------|------------------|
| Provisions | 23 | 23,491 | 32,993 |
| Total current liabilities | | 1,431,270 | 1,332,630 |
| Total liabilities | | 1,753,080 | 1,524,776 |
| Total equity and liabilities | | 5,339,750 | 5,215,097 |

The notes on pages 6 to 71 are an integral part of these consolidated interim financial statements.

TURKCELL ILETISIM HIZMETLERI AS AND ITS SUBSIDIARIES

CONSOLIDATED INTERIM INCOME STATEMENT

For the nine and three months ended 30 September 2006

(Amounts expressed in thousands of US dollars unless otherwise indicated except share amounts)

| | Note | Nine months ended | | Three months ended | |
|---|------|----------------------|----------------------|----------------------|----------------------|
| | | 30 September 2006 | 30 September 2005 | 30 September 2006 | 30 September 2005 |
| Revenue | 6 | 3,496,941 | 3,451,376 | 1,199,393 | 1,384,403 |
| Direct cost of revenue | | (1,965,853) | (2,029,541) | (651,501) | (771,121) |
| Gross profit | | 1,531,088 | 1,421,835 | 547,892 | 613,282 |
| Other income | | 10,596 | 9,117 | 480 | (619) |
| Selling and marketing expenses | | (615,657) | (485,244) | (212,702) | (174,359) |
| Administrative expenses | | (125,718) | (112,408) | (40,173) | (40,054) |
| Other expenses | | (8,612) | (5,713) | (1,923) | (484) |
| Results from operating activities | | 791,697 | 827,587 | 293,574 | 397,766 |
| Finance income | 8 | 121,015 | 109,446 | 40,533 | 27,545 |
| Finance expenses | 8 | (65,974) | (151,036) | 42,782 | (32,563) |
| Net finance costs | | 55,041 | (41,590) | 83,315 | (5,018) |
| Share of profit of equity accounted investees | | 62,268 | 46,203 | 26,503 | 19,989 |
| Profit before loss on net monetary position | | 909,006 | 832,200 | 403,392 | 412,737 |
| Loss on net monetary position, net | | | (10,276) | | (16,060) |
| Profit before income tax | | 909,006 | 821,924 | 403,392 | 396,677 |
| Income tax expense | 9 | (361,249) | (275,589) | (108,922) | (123,695) |
| Profit for the period | | 547,757 | 546,335 | 294,470 | 272,982 |
| Attributable to: | | | | | |
| Equity holders of the Company | | 585,859 | 552,740 | 311,814 | 278,750 |
| Minority interest | | (38,102) | (6,405) | (17,344) | (5,768) |
| Profit for the period | | 547,757 | 546,335 | 294,470 | 272,982 |
| Basic and diluted earnings per share (in full US Dollars) | 19 | 0.266300 | 0.251245 | 0.141734 | 0.126705 |

The notes on pages 6 to 71 are an integral part of these consolidated interim financial statements.

TURKCELL ILETISIM HIZMETLERI AS AND ITS SUBSIDIARIES**CONSOLIDATED INTERIM STATEMENT OF RECOGNIZED INCOME AND EXPENSE**

For the nine and three months ended 30 September 2006

(Amounts expressed in thousands of US dollars unless otherwise indicated except share amounts)

| | Nine months ended | | Three months ended | |
|--|----------------------|----------------------|----------------------|----------------------|
| | 30 September 2006 | 30 September 2005 | 30 September 2006 | 30 September 2005 |
| Effect of indexation for hyperinflation | | 2,521 | | 91,441 |
| Foreign exchange translation differences | (352,682) | (12,051) | 188,159 | (4,365) |
| Change in fair value of available-for-sale financial assets | (303) | 644 | (70) | 644 |
| Net income/(loss) recognized directly in equity | (352,985) | (8,886) | 188,089 | 87,720 |
| Profit for the period | 547,757 | 546,335 | 294,470 | 272,982 |
| Total recognized income for the period | 194,772 | 537,449 | 482,559 | 360,702 |
| Attributable to: | | | | |
| Equity holders of the Company | 232,874 | 543,854 | 499,903 | 366,470 |
| Minority interest | (38,102) | (6,405) | (17,344) | (5,768) |
| Total recognized income for the period | 194,772 | 537,449 | 482,559 | 360,702 |

The notes on pages 6 to 71 are an integral part of these consolidated interim financial statements.

TURKCELL ILETISIM HIZMETLERI AS AND ITS SUBSIDIARIES

CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

For the nine months ended 30 September 2006

(Amounts expressed in thousands of US dollars unless otherwise indicated except share amounts)

| | Nine months ended 30 September | |
|---|-----------------------------------|------------------|
| | 2006 | 2005 |
| Cash flows from operating activities | | |
| Profit for the period | 547,757 | 546,335 |
| Adjustments for: | | |
| Depreciation | 397,280 | 394,884 |
| Amortization of intangibles | 167,881 | 164,203 |
| Foreign exchange gain, net | 12,764 | 10,276 |
| Net finance costs | (60,832) | (48,660) |
| Income tax expense | 361,249 | 275,589 |
| Share of profit of equity accounted investees | (68,712) | (46,203) |
| Effect of indexation for hyperinflation | | (38,416) |
| Change in minority interest | 61,272 | 20,493 |
| Translation reserve | (27,123) | |
| Net gain/(loss) on remeasurement of investments | (2,579) | 644 |
| | 1,388,957 | 1,279,145 |
| Change in trade receivables | (76,447) | (100,116) |
| Change in due from related parties | 25,424 | 33,218 |
| Change in inventories | (1,733) | 2,983 |
| Change in other current assets | (132,787) | 195,533 |
| Change in trading securities | | (1,788) |
| Change in other non-current assets | 454 | (3,600) |
| Change in due to related parties | 794 | (2,888) |
| Change in trade payables | 60,007 | (413,217) |
| Change in other current liabilities | (29,291) | (7,376) |
| Change in other non-current liabilities | 3,382 | (308) |
| Change in employee benefits | 1,005 | 2,630 |
| Change in provisions | (7,369) | (5,282) |
| | 1,232,396 | 978,934 |
| Interest paid | (44,265) | (80,523) |
| Income taxes paid | (62,755) | (99,991) |
| Net cash from operating activities | 1,125,376 | 798,420 |
| Cash flows from investing activities | | |
| Acquisition of property, plant and equipment | (291,207) | (499,480) |
| Acquisition of intangibles | (102,876) | (62,156) |
| Acquisition of equity accounted investees and other investments | (152,466) | |
| Acquisition of minority shares | (17,529) | |
| Interest received | 109,383 | 107,376 |
| Acquisition of available-for-sale financial assets | (52,617) | (12,667) |
| Proceeds from sale of available-for-sale financial assets | 6,712 | |
| Acquisition of held-to-maturity investments | (6,015) | |
| Proceeds from sale of held-to-maturity investments | 9,218 | 45,431 |
| Net cash used for investing activities | (497,397) | (421,496) |

| | | |
|---|------------------|------------------|
| Cash flows from financing activities | | |
| Proceeds from issuance of loans and borrowings | 847,690 | 245,816 |
| Repayment of borrowings and finance lease liabilities | (859,658) | (538,591) |
| Dividends paid | (342,166) | (182,176) |
| Net cash used in financing activities | (354,134) | (474,951) |
| Effects of foreign exchange rate fluctuations on balance sheet items | (84,163) | (11,729) |
| Net increase in cash and cash equivalents | 189,682 | (109,756) |
| Cash and cash equivalents at 1 January | 808,153 | 764,931 |
| Effect of exchange rate fluctuations on cash and cash equivalents | (12,764) | (10,276) |
| Cash and cash equivalents at 30 September | 985,071 | 644,899 |

The notes on pages 6 to 71 are an integral part of these consolidated interim financial statements.

TURKCELL ILETISIM HIZMETLERI AS AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

As at 30 September 2006 and for the nine and three months ended 30 September 2006 and 2005

(Amounts expressed in thousands of US dollars unless otherwise indicated except share amounts)

Notes to the consolidated interim financial statements

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1. Reporting entity

Turkcell Iletisim Hizmetleri Anonim Sirketi (the Company) was incorporated in Turkey on 5 October 1993 and commenced its operations in 1994. It is engaged in establishing and operating a Global System for Mobile Communications (GSM) network in Turkey and regional states.

In April 1998, the Company signed a license agreement (the License) with the Ministry of Transportation and Communications of Turkey (the Turkish Ministry), under which it was granted a 25 year GSM license in exchange for a license fee of \$500,000. The License permits the Company to operate as a stand-alone GSM operator and frees it from some of the operating constraints in the Revenue Sharing Agreement, which was in effect prior to the License. Under the License, the Company collects all of the revenue generated from the operations of its GSM network and pays the Undersecretariat of Treasury (the Turkish Treasury) an ongoing license fee equal to 15% of its gross revenue from Turkish GSM operations. The Company continues to build and operate its GSM network and is authorized to, among other things, set its own tariffs within certain limits, charge peak and off-peak rates, offer a variety of service and pricing packages, issue invoices directly to subscribers, collect payments and deal directly with subscribers.

On 25 June 2005, the Turkish government declared that GSM operators are required to pay 10% of their existing monthly ongoing license fee to the Turkish Ministry as a universal service fund contribution in accordance with Law No 5369. As a result, starting from 30 June 2005, the Company pays the 90% of the ongoing license fee to the Turkish Treasury and 10% to the Turkish Ministry as universal service fund.

In July 2000, the Company completed an initial public offering with the listing of its ordinary shares on the Istanbul Stock Exchange and American Depositary Shares, or ADSs, on the New York Stock Exchange.

Two significant founding shareholders, Sonera Holding BV and the Cukurova Group own approximately 37.1% and 27.1%, respectively, of the Company's share capital, and are ultimate counterparties to a number of transactions that are discussed in the related party footnote. On 28 November 2005, upon completion of a series of transactions, Alfa Group acquired 13.2% indirect ownership in the Company through its Altimo subsidiary, one of Russia's leading private telecommunications investors.

The consolidated interim financial statements of the Company as at 30 September 2006 and for the nine and three months ended 30 September 2006 and 2005 comprise the Company and its fifteen subsidiaries (together referred to as the Group) and the Group's interest in one associate and one joint venture. The Company's, subsidiaries', associate's and joint ventures' separate interim financial statements are prepared as at 30 September 2006 and for the nine and three months ended 30 September 2006 and 2005.

2. Basis of preparation

(a) Statement of compliance

The consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and its interpretations adopted by the International Accounting Standards Board (IASB). The Group's first consolidated interim financial statements were reported for the three months ended 31 March 2006. At interim financial statements prepared as at 30 September 2006, 30 June 2006 and 31 March 2006 International Financial Reporting Standard No. 1 (IFRS 1) *First-time Adoption of IFRS* has been applied.

An explanation of how the transition to IFRSs has affected the reported financial position, financial performance and cash flows of the Group is provided in note 32. This note includes reconciliations of equity and income statement for comparative periods reported under generally accepted accounting principals in United States of America (USGAAP) (previous GAAP) to those reported for those periods under IFRSs.

The Group's interim financial statements were authorized for issue by the Board of Directors on 8 November 2006.

(b) Basis of measurement

The accompanying consolidated interim financial statements are based on the statutory records, with adjustments and reclassifications for the purpose of fair presentation in accordance with IFRSs. They are prepared on the historical cost basis adjusted for the effects of inflation during the hyperinflationary period lasted by 31 December 2005, except that the following assets and liabilities are stated at their fair value: derivative financial instruments, financial instruments held for trading and financial instruments classified as available-for-sale. The methods used to measure fair value are further discussed in note 4.

Financial statements for the year ended 31 December 2005 were restated for the changes in the general purchasing power of the functional currency based on International Accounting Standard No. 29 (IAS 29) *Financial Reporting in Hyperinflationary Economies* . IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date and that corresponding figures for previous periods be restated in the same terms. One characteristic that necessitates the application of IAS 29 is a cumulative three-year inflation rate approaching or exceeding 100%. Three years inflation rate in Turkey was 36% as at 31 December 2005, based on the Turkish nation-wide wholesale price indices announced by the State Statistics Association (SSA). However, IAS 29 does not establish the rate of 100% as an absolute rate at which hyperinflation is deemed to arise. It is a matter of judgment when restatement of financial statements in accordance with IAS 29 becomes necessary. Moreover, hyperinflation is also indicated by characteristics of the economic environment of a country.

As hyperinflationary conditions in Turkey no longer existed starting from 1 January 2006, New Turkish Lira (TRY) has been treated as a more stable currency since that time and the financial statements of the Company and those of the subsidiaries located in Turkey and Turkish Republic of Northern Cyprus prepared in accordance with IFRSs are not required to be adjusted for hyperinflationary accounting.

(c) Functional and presentation currency

The consolidated interim financial statements are presented in US Dollars, rounded to the nearest thousand. Moreover, all financial information expressed in TRY, Euros (EUR) and Swedish Krona (SEK) have been rounded to the nearest thousand. The Company's and its consolidated subsidiaries located in Turkey and Northern Cyprus functional currency is TRY. Functional currencies of Euroasia Telecommunications Holding BV (Euroasia) and LLC Astelit (Astelit) is Ukrainian Hryvnia and functional currency of East Asian Consortium BV (Eastasia) is EUR.

(d) Use of estimates and judgments

The preparation of interim financial statements in conformity with International Accounting Standard No. 34 (IAS 34) *Interim Financial Reporting* requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Management discussed with the Audit Committee the development, selection and disclosure of the Company's critical accounting policies and estimates and the application of these policies and estimates. Detailed analysis is provided with respect to accounting estimates and judgements of bad debts, useful life or expected pattern of consumption of the future economic benefits embodied in,depreciable assets below:

Key sources of estimation uncertainty

In note 25, detailed analysis is provided for the foreign exchange exposure of the Company and risks in relation to foreign exchange movements.

Critical accounting judgements in applying the Company's accounting policies

Certain critical accounting judgments in applying the Company's accounting policies are described below.

Trade and other receivables

The impairment losses in trade and other receivables are based on management's evaluation of the volume of the receivables outstanding, past experience and general economic conditions.

Useful life of assets

The useful economic lives of the Group's assets are determined by management at the time the asset is acquired and regularly reviewed for appropriateness. The Group defines useful life of its assets in terms of the assets' expected utility to the Group. This judgment is based on the experience of the Group with similar assets. In determining the useful life of an asset, the Group also follows technical and/or commercial obsolescence arising on changes or improvements from a change in the market. Life of the License is based on duration of license agreement.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated interim financial statements and in preparing an opening IFRS balance sheet as at 1 January 2005 for the purposes of the transition to IFRSs.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The interim financial statements of subsidiaries are included in the consolidated interim financial statements from the date that control commences until the date that control ceases.

(ii) Associates and joint ventures (equity accounted investees)

Associates are those entities in which the Company has significant influence, but not control, over the financial and operating policies. Joint ventures are those entities over whose activities the Company has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. Associates and joint ventures are accounted for using the equity method (equity accounted investees). The consolidated interim financial statements include the Company's share of the income and expenses of equity accounted investees, after adjustments to align the accounting policies with those of the Company, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Company's share of losses exceeds its interest in an equity accounted investee, carrying amount of that interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of an associate. The Company's equity accounted investees are Fintur Holdings B.V. (Fintur) and A-Tel Pazarlama ve Servis Hizmetleri AS (A-Tel).

(iii) Transactions eliminated on consolidation

Intragroup balances, and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated interim financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rate ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency, TRY, at the exchange rate ruling at that date. Foreign exchange differences arising on translation of foreign currency transactions are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments or a financial liability designated as a hedge of the net investment in a foreign operation.

(ii) Foreign operations

The assets and liabilities of foreign operations, including fair value adjustments arising on consolidation, are translated to US Dollars at foreign exchange rates ruling at the reporting date. The income and expenses of foreign operations are translated to US Dollars at rates approximating to the exchange rates ruling at the dates of the transactions. Since 1 January 2005, the Group's date of transition to IFRS, such differences have been recognized in the foreign currency translation reserve. When a foreign operation is disposed of, in part or in full, the relevant amount in the translation reserve is transferred to profit or loss. Foreign exchange differences arising on retranslation are recognized directly in a separate component of equity.

The income and expenses of foreign operations in hyperinflationary economies are translated to US Dollars at the exchange rate at the reporting date. Prior to translating the financial statements of foreign operations in hyperinflationary economies, its financial statements for the current period are restated to account for changes in the general purchasing power of the local currency. The restatement is based on relevant price indices at the reporting date.

(iii) Translation from functional to presentation currency

Items included in the financial statements of each company are measured using the currency of the primary economic environment in which the entities operate, normally, under their local currencies.

The consolidated interim financial statements are presented in US Dollars, which is the presentation currency of the Group. The Group uses US Dollars as the presentation currency for the convenience of investor and analyst community.

Assets and liabilities for each balance sheet presented (including comparatives) are translated to US Dollars at exchange rates at the balance sheet date. Income and expenses for each income statement (including comparatives) in hyperinflationary economies are translated to US Dollars at exchange rates at the balance sheet date. Income and expenses for each income statement (including comparatives) in non-hyperinflationary economies are translated to US Dollars at rates approximating to exchange rates at the dates of the transactions.

Foreign exchange differences arising on retranslation are recognised directly in a separate component of equity.

Prior to translating the financial statements in hyperinflationary economies, the financial statements, including comparatives, are restated to account for changes in the general purchasing power of the local currency. The resulting gain on net monetary position is recognized as a separate component of the income statement. The restatement is based on relevant price indices at the balance sheet date.

(iv) Net investment in foreign operations

Foreign exchange differences arising from the translation of the net investment in foreign operations are taken to translation reserve. They are transferred to the income statement upon disposal.

(c) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs, except as described below. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Accounting for finance income and expense is discussed in note 3(m).

Held-to-maturity investments

If the Group has the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

Available-for-sale financial assets

The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see note 3(h)(i)), and foreign exchange gains and losses on available-for-sale monetary items (see note 3(b)(i)), are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

Investments at fair value through profit or loss

An instrument is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

(ii) Derivative financial instruments

The Group holds derivative financial instruments to hedge its foreign currency risk exposures arising from operational, financing and investing activities. In accordance with its treasury policy, the Group engages in forward and option contracts. However, these derivatives do not qualify for hedge accounting and are accounted for as trading instruments.

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized in income statement.

(iii) Share capital

Ordinary shares

Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity.

Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity.

(d) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are stated at cost adjusted for the effects of inflation during the hyperinflationary period lasted by 31 December 2005 less accumulated depreciation (see below) and impairment losses (see note 3(h)).

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the item will flow to the Group and the cost of the item can be measured reliably. All other costs are

recognised in the income statement as an expense as incurred.

(iii) Depreciation

Depreciation is recognized in the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The estimated useful lives for current and comparative periods are as follows:

| | | |
|----------------------------------|----|----------|
| Buildings | 25 | 50 years |
| Network infrastructure | 5 | 8 years |
| Equipment, fixtures and fittings | 4 | 5 years |
| Motor vehicles | 4 | 5 years |
| Leasehold improvements | | 5 years |

Depreciation methods, useful lives and residual values are reassessed at the reporting date. Estimates in respect of certain items of operational plant and equipment were revised in 2006.

(e) Intangible assets

Intangible assets acquired by the Group are stated at cost adjusted for the effects of inflation during the hyperinflationary period lasted by 31 December 2005 less accumulated amortisation (see below) and impairment losses (see note 3(h)).

Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

(i) Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure including expenditure on internally generated goodwill and brands, is expensed as incurred.

(ii) Amortization

Amortisation is recognized the income statement on a straight line basis over the estimated useful lives of intangible assets unless such lives are indefinite from the date that they are available for use. Goodwill and intangible assets with an indefinite useful life are systematically tested for impairment at each balance sheet date. The estimated useful lives for the current and comparative periods are as follows:

| | | |
|--|---|----------|
| Computer software | 3 | 8 years |
| GSM and other telecommunications license | 4 | 25 years |
| Transmission lines | | 10 years |
| Central betting system operating right | 4 | 5 years |
| Customer base | | 2 years |

(f) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognized on the Group's balance sheet.

The Group adopted International Financial Reporting Interpretation Committee (IFRIC) 4, Determining whether an Arrangement Contains a Lease, which is mandatory for annual periods beginning on or after 1 January 2006, in its consolidated interim financial statements as at 30 September 2006.

(g) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of inventory is determined using the weighted average method and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. At 30 September 2006 and 31 December 2005, inventories consisted of simcards and scratch cards.

(h) Impairment

(i) Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Goodwill was tested for impairment at 1 January 2005, the date of transition to IFRS, even though no indication of impairment existed. As at 31 December 2005, the Company provided impairment for its only goodwill amounting to \$803 with respect to acquisition of the remaining 30% shares of Mapco Internet ve Iletisim Hizmetleri Pazarlama AS (Mapco) in June 2003.

(i) Employee benefits

(i) Retirement pay liability

In accordance with existing labor law in Turkey, the Company and its subsidiaries in Turkey are required to make lump-sum payments to employees who have completed one year of service and whose employment is terminated without cause, or who retire, are called up for military service or die. Such payments are calculated on the basis of 30 days' pay maximum TRY 1,857 as at 30 September 2006 (equivalent to \$1,240 at 30 September 2006) (31 December 2005: TRY 1,727 (equivalent to \$1,154 at 30 September 2006)) per year of employment at the rate of pay applicable at the date of retirement or termination. Reserve for retirement pay is computed and reflected in the consolidated interim financial statements on a current basis. The reserve has been calculated by estimating the present value of future probable obligation of the Group arising from the retirement of the employees. The calculation was based upon the retirement pay ceiling announced by the government.

(ii) Defined contribution plans

Obligations for contributions to defined contribution plans are recognised as an expense in the income statement as incurred. The Company initiated a defined contribution retirement plan for all eligible employees during 2005. Besides, Inteltek Internet Teknoloji Yatirim ve Danismanlik Ticaret AS (Inteltek) and Bilyoner Interaktif Hizmetler AS (Bilyoner), other consolidated subsidiaries, initiated a defined contribution retirement plan for all eligible employees during 2006. The assets of the plan are held separately from the interim financial statements of the Group. The Company, Inteltek and Bilyoner are required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Company, Inteltek and Bilyoner with respect to the retirement plan is to make the specified contributions.

(j) Provisions

A provision is recognised in the balance sheet if the Group has a present legal or constructive obligation as a result of a past event that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Onerous contracts

A provision for onerous contracts is recognized when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognizes any impairment loss on the assets associated with that contract.

(k) Revenue

Communication fees include all types of postpaid revenues from incoming and outgoing calls, additional services and prepaid revenues. Communication fees are recognized at the time the services are rendered.

With respect to prepaid revenues, the Group generally collects cash in advance by selling scratch cards to distributors. In such cases, the Group does not recognize revenue until the subscribers use the telecommunications services. Instead, deferred revenue is recorded under current liabilities.

Commission fees mainly comprised of net takings earned to a maximum of 12% of gross takings, as a head agent of fixed odds betting games and 4.3% commission recognized based on the para-mutual and fixed odds betting games operated on Central Betting System. Commission revenues are recognized at the time all the services related with the games are fully rendered. Under the head agency agreement, Inteltek is obliged to undertake any excess payout, which is presented on net basis with the commission fees.

Monthly fixed fees represent a fixed amount charged to postpaid subscribers on a monthly basis without regard to the level of usage. Fixed fees are recognized on a monthly basis when billed.

Simcard sales are recognized net of returns, discounts and rebates upon initial entry of a new subscriber into the GSM system only to the extent of direct costs. Excess simcard and prepaid simcard sales, if any, are deferred and amortized over the estimated effective subscriber life.

Call center revenues are recognized at the time the services are rendered.

(l) Lease payments

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized in the income statement as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

(m) Finance income and expenses

Finance income comprises interest income on funds invested, dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, foreign currency gains, and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues, using the effective interest method. Dividend income is recognised on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, dividends on preference shares classified as liabilities, foreign currency losses, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognised on financial assets, and losses on hedging instruments that are recognised in profit or loss. All borrowing costs are recognised in profit or loss using the effective interest method.

(n) Transactions with related parties

A related party is essentially any party that controls or can significantly influence the financial or operating decisions of the Group to the extent that the Group may be prevented from fully pursuing its own interests. For reporting purposes, investee companies and their shareholders, key management personnel, shareholders of the Group and the companies that the shareholders have a relationship with are considered to be related parties.

(o) Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

Information as to the calculation of income tax expense in the income statement for the interim periods presented is included in note 9.

(p) Earnings per share

The Group presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is equal to basic EPS because the Group do not have any convertible notes or share options granted to employees.

(q) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the period ended 30 September 2006, and have not been applied in preparing these consolidated financial statements:

IFRS 7 Financial Instruments: Disclosures and the Amendment to IAS 1 Presentation of Financial Statements: Capital Disclosures require extensive disclosures about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the nature and extent of risks. IFRS 7 and amended IAS 1, which become mandatory for the Group's 2007 financial statements, will require extensive additional disclosures with respect to Group's financial instruments and share capital.

IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies addresses the application of IAS 29 when an economy first becomes hyperinflationary and in particular the accounting for deferred tax. IFRIC 7, which becomes mandatory for the Group's 2007 financial statements, is not expected to have any impact on the consolidated financial statements.

IFRIC 9 Reassessment of Embedded Derivatives requires that a reassessment of whether embedded derivative should be separated from the underlying host contract should be made only when there are changes to the contract. IFRIC 9, which becomes mandatory for the Group's 2007 financial statements, is not expected to have any impact on the consolidated financial statements.

IFRIC 10 Interim Financial Reporting and Impairment prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. IFRIC 10 will become mandatory for the Group's 2007 financial statements, and will apply to goodwill, investments in equity instruments, and financial assets carried at cost prospectively from the date that the Group first applied the measurement criteria of IAS 36 and IAS 39 respectively (i.e., 1 January 2005). The adoption of IFRIC 10 is not expected to have any impact on the consolidated financial statements.

4. Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining 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 recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arms length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of items of plant, equipment, fixtures and fittings is based on the quoted market prices for similar items.

(ii) Intangible assets

The fair value of patents and trademarks acquired in a business combination is based on the discounted estimated royalty payments that have been avoided as a result of the patent or trademark being owned. The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

(iii) Inventory

The fair value of inventory acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventory.

(iv) Investments in equity and debt securities

The fair value of financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets is determined by reference to their quoted bid price and over the counter market price at the reporting date. The fair value of held-to-maturity investments is determined for disclosure purposes only.

(v) Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

(vi) Derivatives

The fair value of forward exchange contracts and option contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds) or option pricing models.

(vii) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases, the market rate of interest is determined by reference to similar lease agreements.

5. Acquisitions of subsidiaries and minority interests

Business combination

During August 2006, the Company acquired 50% shares of A-Tel for a consideration of TRY 218,715 (equivalent to \$146,093 and \$150,000 at 30 September 2006 and 9 August 2006, respectively). The Company made the related payment on 9 August 2006 and the results of A-Tel's operations have been included in the consolidated financial statements since that date. A-Tel is involved in the marketing, selling and distributing the Company's prepaid systems. A-Tel acts as the only dealer of the Company for Muhabbet Kart (a prepaid card), and receives dealer activation fees and simcard subsidies for the sale of Muhabbet Kart. In addition to the sales of simcards and scratch cards through an extensive network of newspaper kiosks located throughout Turkey, the Company has entered into several agreements with A-Tel for sale of campaigns and for subscriber activations. Since 1999, the business cooperation between the Company and A-Tel has provided important support to the Company's sales and marketing activities. With the brand name Muhabbet Kart, A-Tel has proved success in a competitive environment through well structured campaigns. With the acquisition of 50% stake in A-Tel, management believes that the Company will be better positioned in the changing competitive environment and achieve increased benefits by optimizing sales and marketing efforts. A-Tel is a joint venture and its remaining 50% shares are held by Turkey's Savings and Deposit Insurance Fund (the SDIF).

At 30 September 2006, management has not yet completed the evaluation of the fair value of identifiable assets and liabilities of A-Tel and its allocation of the purchase price. The Company has a period up to one year to complete purchase price allocation effective from August 2006, which is the date of acquisition. Therefore, final purchase accounting adjustments may differ from the Company's initial estimates and the allocation of purchase price is subject to refinement. A-Tel is accounted for under equity method and results of the operations for the two months period ended 30 September 2006 are included in the accompanying interim consolidated financial statements using ownership rate of 50% as at and for the nine months ended 30 September 2006. Besides, during September 2006, A-Tel's General Assembly decided to distribute dividends and accordingly the Company reduced the carrying value of its investment in A-Tel by the dividends declared of TRY 30,300 (equivalent to \$20,239 at 30 September 2006). On 16 October 2006, such dividend is collected by the Company.

Acquisition of minority interests

In February 2006, the Company acquired an additional 15 percent interest in Eastasia for EUR 13,651 (equivalent to \$14,170 at 30 September 2006) in cash, increasing its ownership from 85 to 100 percent. The Group recognised a decrease in minority interests of \$16,624.

In June 2006, the Company acquired additional 0.22 percent interest in Euroasia for \$550 in cash by direct acquisition of Eurocorp shares. In addition, in January, June and August 2006, the Company has made contributions to capital increase of Euroasia for \$30,600, \$22,000, and \$27,500, respectively. As Eurocorp did not participate in these capital increases, ownership of the Company increased from 54.18% to 54.79%. The Group recognised a decrease in minority interests of \$905.

In May 2006, the Company acquired an additional 40 percent interest in Interaktif Cocuk Programlari Yapimciligi ve Yayinciligi AS (Digikids) for no consideration, increasing its ownership from 60 to 100 percent. The Group does not recognise a decrease in minority interests because of its negative net assets.

6. Revenue

Revenue for the nine and three months ended 30 September 2006 and 2005 comprised of the following:

| | Nine months ended | | Three months ended | |
|-------|------------------------------|------------------------------|------------------------------|------------------------------|
| | 30 September 2006 | 30 September 2005 | 30 September 2006 | 30 September 2005 |
| <hr/> | | | | |